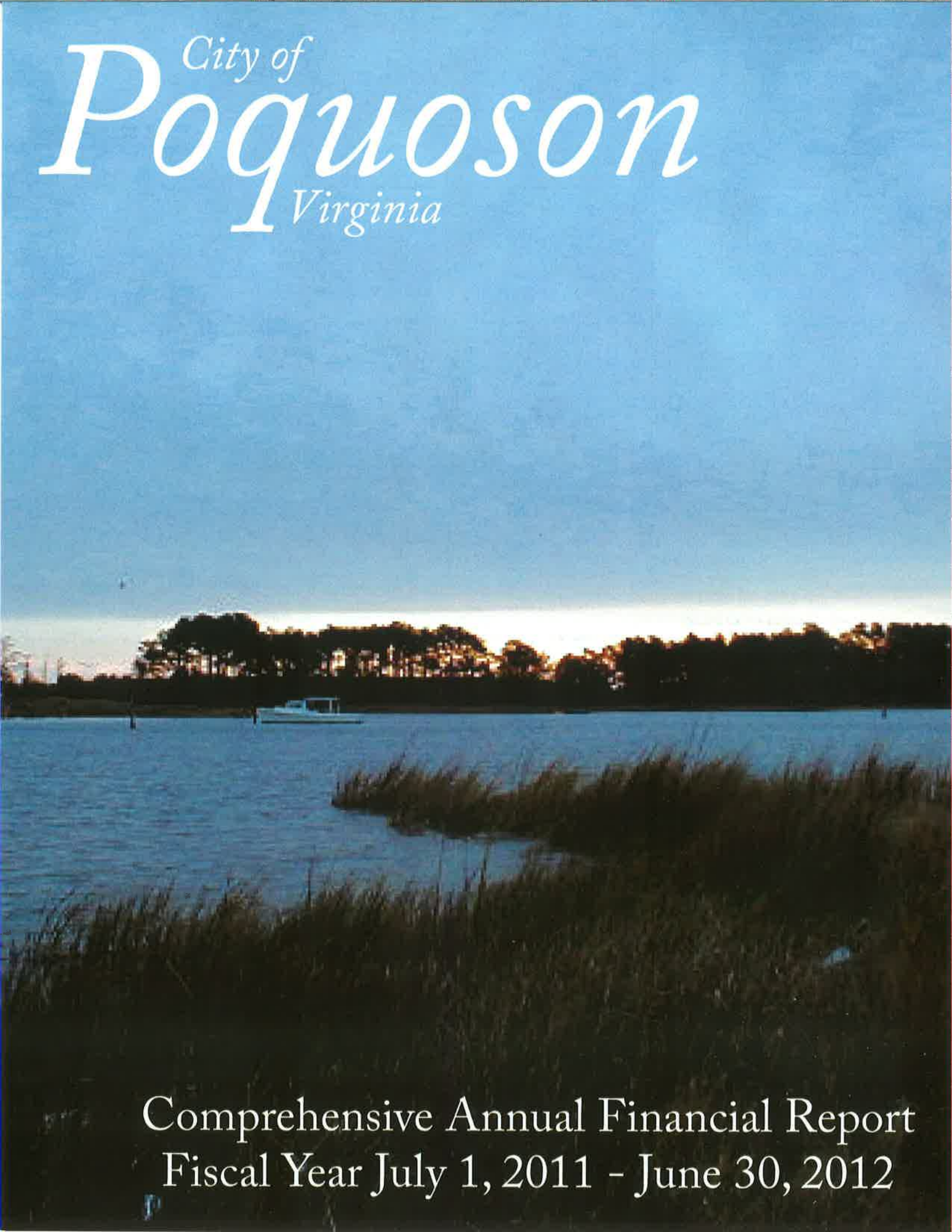
City of Poquoson Virginia



Comprehensive Annual Financial Report
Fiscal Year July 1, 2011 - June 30, 2012

Comprehensive Annual Financial Report

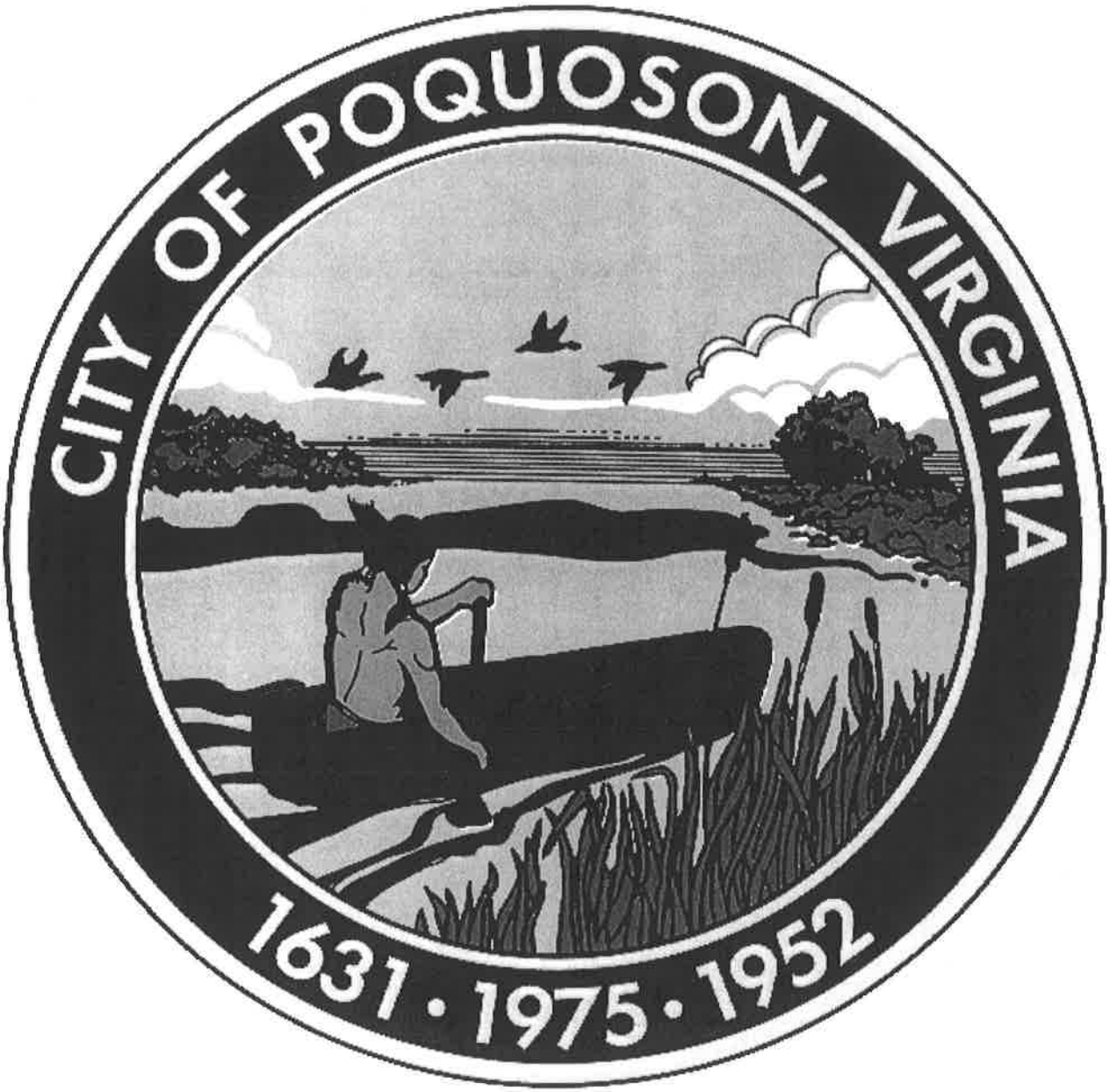
City of Poquoson, Virginia

Fiscal Year Ended June 30, 2012

Prepared by:

The Department of Finance

Theresa S. Owens, CPA, Director of Finance



Introductory Section

This page left blank intentionally

City of Poquoson

Government Officials

City Council

W. Eugene Hunt, Jr., Mayor
Carey L. Freeman, Vice Mayor
Traci-Dale Crawford
Herbert R. Green, Jr.
Frank A. Kreiger
Charles M. Southall, III
Raymond E. Vernall

City Officials

J. Randall Wheeler, City Manager
Theresa S. Owens, CPA, Director of Finance
Steven D. Clarke, Treasurer
Graham P. Wilson, Commissioner of the Revenue
D. Wayne Moore, City Attorney
Judy F. Wiggins, City Clerk

School Board

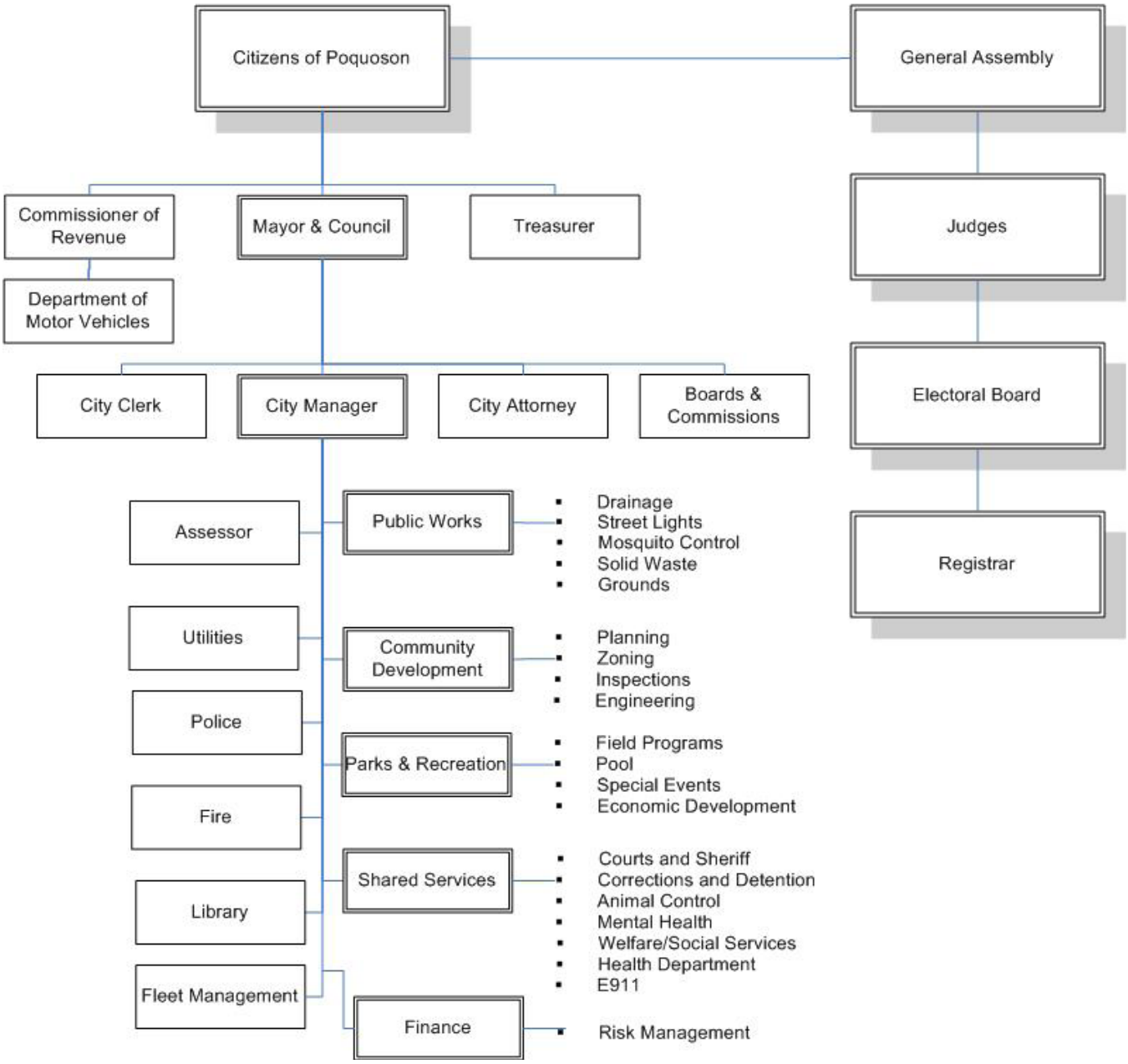
R. Scott Diggs, Chair
Gary W. Carter, Jr., Vice Chair
Robin C. Sydnor
Steven S. Kast
Beth A. Wilson
David A. Hur
Allan Melton

School Officials

Jennifer Parrish, Ed.D., Superintendent
Linda Reviea, Ed.D., Deputy Superintendent
Bill Bowen, Executive Director of Business and Finance
Steven Pappas, Executive Director of Operations

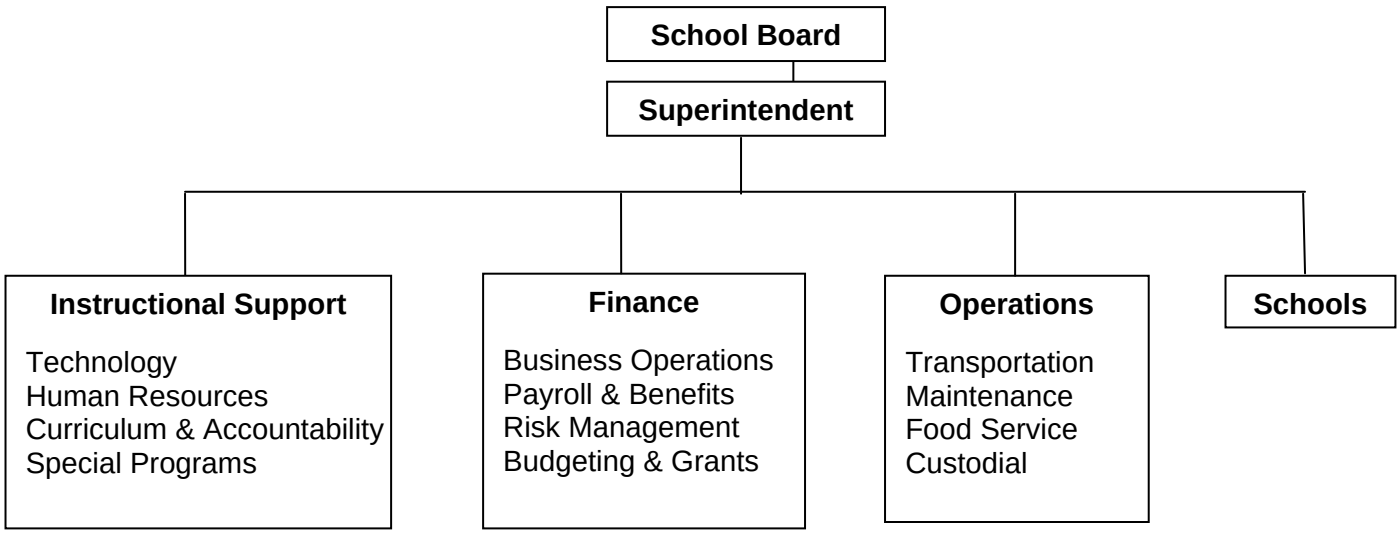
CITY OF POQUOSON, VIRGINIA

CITY GOVERNMENT ORGANIZATION CHART



Poquoson City Public Schools

A Component Unit of the City of Poquoson



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Poquoson Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

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

City of Poquoson
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2012

Table of Contents

		Page
Introductory Section		
Government Officials		*i*
City Government Organization Chart		*ii*
School Board Organization Chart		*iii*
Certificate of Achievement for Excellence in Financial Reporting		*iv*
Table of Contents		*v - vii*
Letter of Transmittal to City Council		*viii - xiii*
Financial Section	**Exhibit**	**Page**
Independent Auditors' Report		1 - 2
Management's Discussion and Analysis		3 - 16
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	A	17
Statement of Activities	B	18
Governmental Funds Financial Statements		
Balance Sheet - Governmental Funds	C	19
Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Assets	C	20
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	D	21
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to Statement of Activities	D	22
Statement of Net Assets - Proprietary Funds	E	23
Statement of Revenue, Expenses, and Changes in Fund Net Assets - Proprietary Funds	F	24
Statement of Cash Flows - Proprietary Funds	G	25
Statement of Fiduciary Assets and Liabilities	H	26
Combining Statement of Net Assets - Component Units	I	27
Combining Statement of Activities - Component Units	J	28
Notes to Basic Financial Statements		29 - 60
Required Supplementary Information		
Budgetary Comparison Schedule - General Fund (Budget Basis)	K	61 - 66
Schedules of Funding Progress and Employer Contributions (Unaudited) - Virginia Retirement System	L	67
Other Post Employment Benefits	M	68
Notes to Required Supplementary Information		69

Table of Contents *(Continued)*

	Schedule	Page
Financial Section *(Continued)*		
Other Supplementary Information		
Combining Balance Sheet - Component Unit - School Board	1	70
Reconciliation of Combining Balance Sheet - Component Unit - School Board to Statement of Net Assets - Component Unit - School Board	1	71
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Component Unit - School Board	2	72
Reconciliation of Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Component Unit - School Board to Statement of Activities Component Unit - School Board	2	73
Budgetary Comparison Schedule - General Fund - School Board	3	74
Schedule of Changes in Capital Assets by Function and Activity - School Board	4	75
Schedule of Changes in Assets and Liabilities - Agency Funds Discretely Presented Component Unit - School Board	5	76
Statement of Changes in Assets and Liabilities - Library Agency Fund	6	77
Statement of Cash Flows - Component Unit - Economic Development Authority	7	78

Statistical Section	Table	Page
Statistical Section Overview		79
Net Assets by Component - Last Ten Fiscal Years	1	80
Change in Net Assets - Last Ten Fiscal Years	2	81 - 82
Fund Balances - Governmental Funds - Last Ten Fiscal Years	3	83
Changes in Fund Balances - Governmental Funds - Last Ten Fiscal Years	4	84
Assessed Value and Esimated Actual Value of Taxable Real Property – Last Ten Fiscal Years	5	85
Property Tax Levies and Collections - Last Ten Fiscal Years	6	86
Principal Taxpayers - 2012 and Nine Years Ago	7	87
Computation of Legal Debt Margin - Last Ten Fiscal Years	8	88
Ratios of Outstanding Debt by Type - Last Ten Fiscal Years	9	89
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita - Last Ten Fiscal Years	10	90
Demographic Statistics - Last Ten Fiscal Years	11	91
Principal Employers in Poquoson - 2012 and Nine Years Ago	12	92
Full-time Equivalent City Government Employees by Function / Program - Last Ten Fiscal Years	13	93
Operating Indicators by Function / Program - Last Ten Fiscal Years	14	94
Capital Assets Statistics by Function / Program - Last Ten Fiscal Years	15	95

Table of Contents *(Continued)*

	Page
Compliance Section	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	96 - 97
Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	98 - 99
Schedule of Expenditures of Federal Awards	100
Notes to Schedule of Expenditures of Federal Awards	101
Schedule of Findings and Questioned Costs	102
Summary Schedule of Prior Year Findings	103

This page left blank intentionally

CITY OF POQUOSON

500 City Hall Avenue, Poquoson, Virginia 23662-1996

City Manager's Office **(757)868-3000** **Fax (757)868-3101**

December 4, 2012

To the Honorable Mayor Hunt, Members of City Council,
and the Citizens of the City of Poquoson:

We are pleased to submit to you the Comprehensive Annual Financial Report of the City of Poquoson (City) for the fiscal year ended June 30, 2012. An audited annual financial report is required in accordance with Article V, Section 11 of the Poquoson City Charter and is presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with Government Auditing Standards and the Auditor of Public Accounts of the Commonwealth of Virginia by a firm of licensed certified public accountants.

Management assumes full responsibility for the reliability of the information contained in this report, based upon a comprehensive framework of internal controls that has been established for this purpose. Because the cost of internal controls should not outweigh their benefits, the City of Poquoson's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements are free from material misstatement.

Cherry, Bekaert & Holland, L.L.P., Certified Public Accountants, have issued an unqualified opinion on the City's financial statements for the year ended June 30, 2012. The unqualified report of Cherry, Bekaert & Holland, L.L.P., the highest possible result of the audit process, is located at the front of the financial section of this report.

The independent audit of the financial statements of the City of Poquoson was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies and a state compliance audit. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the City's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Poquoson's MD&A can be found immediately following the report of the independent auditors.

Profile of the City of Poquoson

The City of Poquoson, which had been a part of York County for many years, became a town in 1952 and an independent city in 1975 upon referendum of the citizens. Certain municipal functions continue to be shared with York County.

The City is organized under the Council-Manager form of government. The Poquoson City Council is comprised of seven members who are elected by voters on a non-partisan basis and serve four year staggered terms. The City is divided into three precincts, with each precinct entitled to two representatives. The City Mayor is elected at large. Persons elected to City Council take office on the first day of January following the election.

The City Council is the policy determining body of the City. Its responsibilities include: adoption of the City budget; creation, combination or elimination of City departments; approval of all tax levies; approval of amendments, supplements or repeals to ordinances and the City Code; and appointment of the City Manager, City Clerk, City Attorney and various local boards, commissions and committees. The Manager serves at the pleasure of Council, carries out its policies, directs business procedures and has the power of appointment and removal of all heads of departments (except Constitutional Officers) as well as all other employees of the City.

Virginia State statutes put Virginia schools under the dual control of the State Education Board and a local school board. The State Education Board provides operational procedures, standards of education and state school and formulas for partial funding. The City must provide all capital improvement funds, pay debt on school projects and provide any additional operating funds required, but not provided by the State Education Board. The City Council's authority is limited to appointing local school board members and appropriating funds by state established categories. Local school boards do not have taxing or bond issuance authority.

The City of Poquoson provides a full range of services, including police and fire protection; the maintenance of highways, streets, and other infrastructure; and recreational activities, library services, community development activities, and cultural events. The City also owns and operates sewage facilities; picks up trash, recycling, landscaping and bulky items; owns and operates a City pool; and manages various paid recreational activities. In addition to general governing activities, the governing body has significant financial influence over the Schools and the Economic Development Authority (EDA), both of which are reported separately within the City of Poquoson's financial statements. Additional information on these two legally separate entities can be found in Note 1 in the notes to basic financial statements starting on page 29.

The annual budget serves as the foundation for the City of Poquoson's financial planning and control. All agencies and departments of the City of Poquoson are required to submit requests for appropriation to the City Manager in January. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager presents a proposed budget to City Council for review in April. The Council is required to hold public hearings on the proposed budget and must adopt a final budget no later than May 31. The appropriated budget is prepared by fund and department. The City Manager may make transfers of appropriations within a department. Transfers of appropriations between departments and additional appropriations require approval of City Council. The City also maintains an encumbrance accounting system as one method of maintaining budgetary control. Encumbrances are included as budgetary expenditures and therefore do not lapse after year-end. The budget-to-actual comparison for the General Fund starts on page 61 of the report.

Local Economy

The City is located in the southeastern part of the state in the Hampton Roads area. The region is the 27th largest metropolitan statistical area in the country. The City of Poquoson is a suburban community in the Hampton Roads area and residents often work in neighboring cities and typically have the region's highest median income. The City of Poquoson occupies a land area of 14.7 square miles, and serves an estimated population of 12,240.

Although the City continues to feel the impact of the national and state economic downturns, the City's unemployment rate has decreased slightly from the high of 6% in 2010 to a current rate of 5.5%. This is well below the current national average of 8.7% and the state average of 6.1%.

In 2012, the City's existing businesses have invested in the community to include the remodeling of a convenience store and gas pumps and Tropical Smoothie and the construction and opening of the City's first Wendy's, the restaurant Surfrider and other new businesses. The existing marinas have also made improvements to the facilities drawing in more boats and an increase in the customer base.

In March 2012, the City received from Moody's and Standard & Poor inaugural bond rating "Aa3" and "AA+" respectively.

Moody's issues ratings ranging from Aaa to C to designate the relative investment qualities of bonds. The "Aa" rating is the second of nine such ratings and Moody's describes it as "obligation rated Aa are judged to be of high quality and are subject to very low credit risk". Moody's appends numerical modifiers 1, 2, and 3 to each generic rating category from Aa through Caa. The modifier 1 indicates the issuer ranks in the high end of its generic category while the modifier 3 indicates a ranking in the lower end the generic category.

Standard & Poor's issues rating ranging from AAA to D to designate the relative investment qualities of bonds. The "AA" is the second major rating category of ten such categories. Standard & Poor describes its "AA" as "an obligation rated AA differs from the highest-rated obligation only to a small degree. The obligor's capacity to meet its

financial commitment on the obligation is very strong. The rating from "AA" to "CCC" may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories."

Long-term Financial Planning

Budgets and Capital Improvement Plans are adopted annually, taking into consideration input from all organizational levels of the City. The Planning Commission recommends adoption of the Capital Improvement Plan; the document then goes to City Council for final approval. Approved capital projects are included in the annual budget document to the extent funds are available. The long-term revenue, expenditure and service implication of continuing or ending existing programs or adding new programs, services, and debt are considered while formulating budgets annually. The City assesses the condition of all major capital assets, including buildings, roads, sewer lines, vehicles, and equipment annually.

Relevant Financial Policies

In October 2009, the City formally adopted a series of financial policy guidelines and in June 2011 modified these policies to incorporate GASB 54. The policies include debt policies as well as fund balance policies. The City believes that sound financial management principles require that sufficient funds be retained by the City to provide a stable financial base at all times, therefore one of the fund balance policies adopted included maintaining a minimum unobligated fund balance of 12%-15% of the current year budgeted expenditures.

Using regular financial reports at public meetings, the City recognizes the need to monitor revenue estimates to identify any shortfalls and potential trends that would significantly affect the various revenue sources in the current budget. A significant emphasis is placed on controlling departmental expenditures through accounts payable and purchasing policies and procedures.

Major Initiatives

In 2012, the City developed and implemented a comprehensive outreach campaign entitled ***"Poquoson Is The Place"*** to increase awareness of Poquoson as a wonderful place to live and in which to do business. The campaign folder cites Poquoson as the place to ***"Live, Grow, Work, And Play"*** and provides one-page informational overviews of the City's business-friendly focus, single and multi-family residential availability, community engagement opportunities, and its outstanding public school system. The City hosted both a residential realtor event and a commercial developer event in the City to help kick-off the campaign. Both were met with very positive responses.

Throughout fiscal year 2012, the City of Poquoson adopted several measures to encourage new development throughout the City. The most prominent measures affect the area known as the Big Woods, which consists of approximately 60 forested acres surrounding Victory Boulevard on the north and south and abutting the City line with York County to the west.

In September 2011, the City Council voted unanimously to re-establish a residential component to the City's Village Commercial zoning district. The Village Commercial district concept was developed to establish a mixed use commercial core in the City that would not directly compete with the more intense commercial uses found on the Wythe Creek Road corridor and to make the village commercial concept more financially viable for developers by allowing for more diverse uses.

In January 2012, the City Council voted unanimously to establish a Technology Zone Overlay district. This district allows technology businesses to benefit from a 30% business tax reduction for three (3) years, provided they meet certain eligibility requirements.

In February 2012, the City modified lot area requirements in its Research and Development district. This district, located in the Big Woods promotes campus style research parks. This amendment eliminated the need for a minimum lot area and allows for approximately 30 additional parcels to potentially be developed.

During the fiscal year 2012, the City continued implementing the Sanitation Sewer Evaluation Study plan (SSES) as required in order to be in full compliance with the Hampton Roads-wide consent order on sanitary sewer overflows. The first phase is a three year plan to determine action needing to take place to control sewer overflows. The City will complete this phase of the plan November 2013. Also included in the SSES work was the completion of the hydraulic model of the sanitary sewer system which is used to forecast peak flows during 10-year rain events and to measure performance on the improvements to the system.

During the fiscal year 2011, the City began the planning stages for constructing Phase I of the City's Public Works compound. Construction of the building began in November 2011 and was completed in April 2012.

The City experienced a fire on Thanksgiving Day 2011 and the trailer that houses the administration of public works, utilities and fleet was completely destroyed. In June 2012 the City began construction of a replacement building and by Thanksgiving 2012 the building was completed and occupied by the departments.

In August 2011, Hurricane Irene hit the City and caused damages to properties located within the City. While City property had little damage, services were needed for the citizens. These services included emergency protective measures before, during and after the storm and debris removal. The City qualified for funding from Federal Emergency Management Agency (FEMA) and the Virginia Department of Emergency Management (VDEM). The total cost of the storm was approximately $245,400. FEMA reimbursed the City approximately $177,500. The VDEM reimbursement was approximately $36,800. The remaining costs were the responsibility of the City.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Poquoson for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011. This was the twenty-fourth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both GAAP and applicable legal requirements.

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

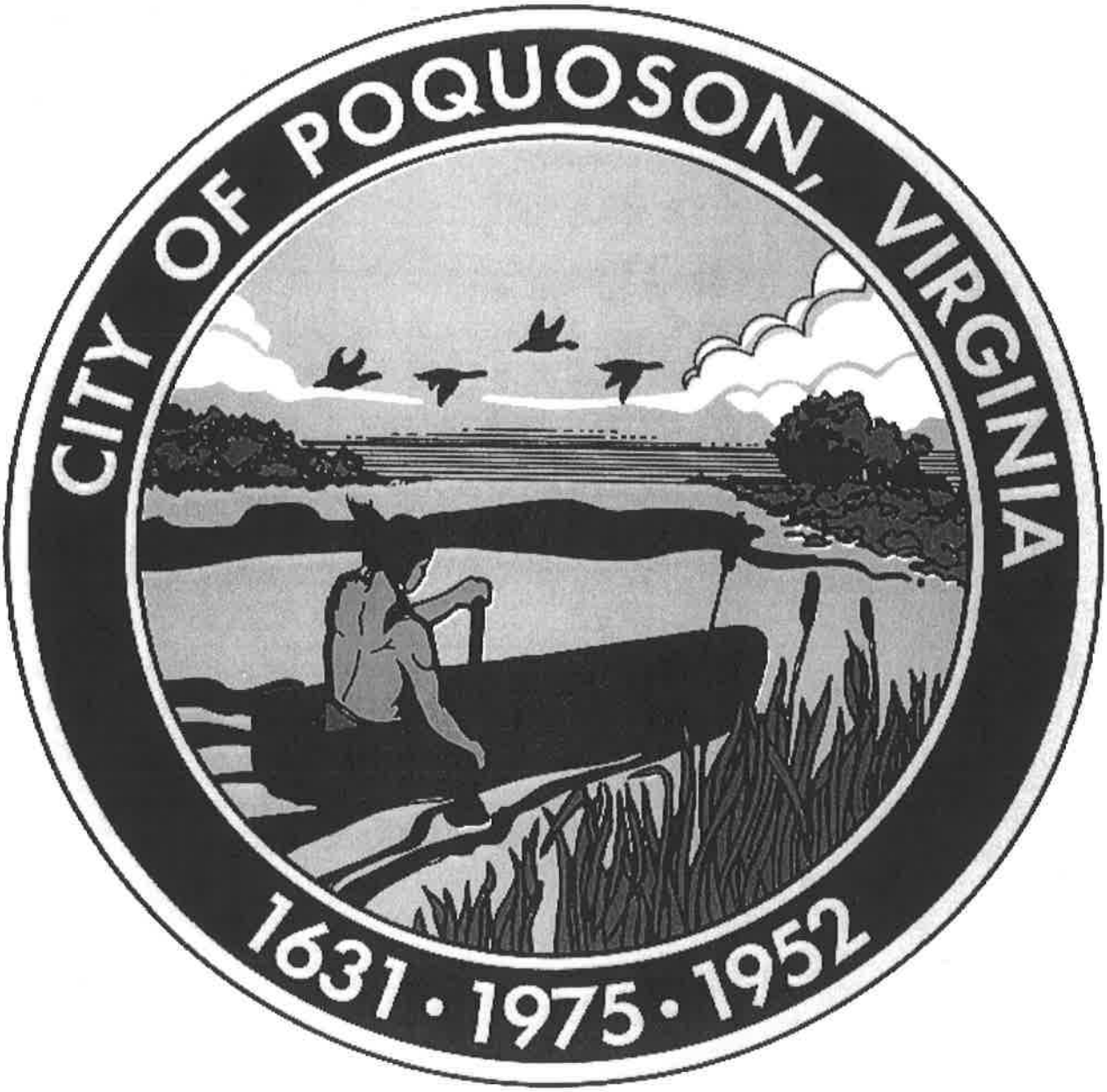
The City also received the GFOA's Award for Distinguished Budget Presentation for its Annual Appropriated Budget for FY 2012. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories including policy documentation, financial planning, and organization.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department, the School Board Finance Department, the Commissioner's office and the Treasurer's office. Credit also must be given to City Council for their unfailing support for maintaining the highest standards in the management of the City finances.

Respectfully submitted,

James R. Wheeler
City Manager

Theresa S. Owens, CPA
Director of Finance



Financial Section

CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditors' Report

Honorable Mayor and Members of City Council
City of Poquoson, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Poquoson, Virginia (the "City"), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Poquoson, Virginia'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 the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Poquoson, Virginia as of June 30, 2012, 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 December 4, 2012 on our consideration of the City of Poquoson, Virginia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 16, the budgetary comparison schedule for the general fund on pages 61 through 66, and the schedules of funding progress and employer contributions on pages 67 through 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Poquoson, Virginia's basic financial statements as a whole. The introductory section, combining and individual non-major fund statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is also presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is also not a required part of the basic financial statements. The combining and individual non-major fund statements and schedules, and the schedule of expenditures of federal awards, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Cherry, Bekaert & Holland, L.L.P.

Virginia Beach, Virginia
December 4, 2012

City of Poquoson, Virginia

500 City Hall Avenue
Poquoson, Virginia 23662

Management's Discussion and Analysis
Financial Highlights
Overview of the Financial Statements
Government-Wide Financial Analysis
Financial Analysis of the Government's Funds
General Fund Budgetary Highlights
Capital Asset and Debt Administration
Economic Factors and Next Year's Budgets and Rates
Requests for Information

Management's Discussion and Analysis

Fiscal Year July 1, 2011 - June 30, 2012

As management of the City of Poquoson, we offer readers of the City of Poquoson's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which can be found on pages viii through xiii of this report.

Financial Highlights

- The assets of the City of Poquoson exceeded its liabilities as of June 30, 2012 by $28.6 million (net assets). Of this amount, $5.6. million (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by $0.44 million.
- As of June 30, 2012, the City's governmental funds reported combined ending fund balances of $6.8 million, of which $5.6 million is available to spend at the City's discretion.
- As of June 30, 2012, unassigned fund balance for the General Fund was $4.5 million, or 21% of total General Fund expenditures.
- The City of Poquoson's total debt outstanding at June 30, 2012 was $37.8 million.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to the City of Poquoson's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, the City presents financial information with two different perspectives. With GASB Statement No. 34 the City presents government-wide financial statements, which provide both long-term and short-term information about the City's overall financial status and the fund financial statements, which presents fund-type information on a current financial resource basis.

Government-Wide Financial Statements. The g*overnment-wide financial statements* are designed to provide readers with a broad overview of the City of Poquoson's finances in a manner similar to a private-sector business.

The s*tatement of net assets* presents information on all of the City of Poquoson's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Poquoson is improving or deteriorating.

The s*tatement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Poquoson that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Poquoson include general government and administration; judicial; public safety; public works; health and welfare; recreation and cultural; community development; and grants. The business-type activities of the City of Poquoson include a Sewer Operations Fund, a Parks and Recreation Fund, and a Solid Waste Fund.

The government-wide financial statements include not only the City of Poquoson itself (known as the primary government), but also a legally separate school system, Poquoson Public Schools, and a legally separate Poquoson Economic Development Authority (EDA) for which the City of Poquoson is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on Exhibits A and B of this report.

Fund Financial Statements. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Poquoson uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Poquoson can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

The City of Poquoson maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund (including the Grant Fund), the Debt Service Fund, and the Capital Projects Fund.

The governmental funds financial statements can be found on Exhibits C and D of this report.

The City of Poquoson adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget on Exhibit K.

Proprietary Funds. The City of Poquoson maintains two different types of proprietary funds. Enterprise funds provide both long-term and short-term information on business-type activities in the government-wide financial statements. The City of Poquoson uses enterprise funds to account for its Sewer Operations Fund, Parks and Recreation Fund, and Solid Waste Fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Poquoson's departments. The City of Poquoson uses an internal service fund to account for its fleet of vehicles. Because this service predominantly benefits governmental rather than business-type functions, the Fleet fund has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on Exhibits E, F and G of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of the Friends of the Library, a party outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Poquoson's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The fiduciary fund statement can be found on Exhibit H of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-60 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary and other supplementary information concerning the City of Poquoson including financial information on the Poquoson Public School component unit. Supplementary information can be found on pages 61-69 of this report.

Government-Wide Financial Analysis

Summary of Statement of Net Assets
June 30, 2012

	Governmental Activities		Business-Type Activities		Total	
	FY 2012	**FY 2011**	**FY 2012**	**FY 2011**	**FY 2012**	**FY 2011**
Current and other assets	$8,293,755	$8,187,695	$906,755	$897,805	$9,200,510	$9,085,500
Capital assets	47,137,877	48,082,237	14,065,825	14,448,633	61,203,702	62,530,870
Total assets	**$55,431,632**	**$56,269,932**	**$14,972,580**	**$15,346,438**	**$70,404,212**	**$71,616,370**
Current and other liabilities	$2,242,670	$2.575,831	$584,643	$962,030	$2,827,313	$3,537,861
Long-term liabilities	30,242,003	30,198,730	8,705,062	8,811,506	38,947,065	38,990,266
Total liabilities	**$32,484,673**	**$32,774,561**	**$9,289,705**	**$9,773,536**	**$41,774,378**	**$42,528,127**
Net assets:						
Invested in capital assets, Net of related debt	16,838,143	17,593,261	5,094,194	5,073,709	21,932,337	22,666,970
Restricted	1,037,956	-	-	-	1,037,956	-
Unrestricted	5,070,860	5,902,110	588,681	499,193	5,659,541	6,401,303
Total net assets	**$22,946,959**	**$23,495,371**	**$5,682,875**	**$5,572,902**	**$28,629,834**	**$29,068,273**

Net assets serve as a useful indicator of a government's financial position. The City's combined net assets total $28.6 million, excluding discretely presented component units. By far, the largest portion of this represents investments in capital assets, such as land, buildings, machinery, and equipment. Capital assets net of related debt total $21.9 million. The City of Poquoson uses these capital assets to provide services to citizens; and thus these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate liabilities. Total net assets of $5.6 million are unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Poquoson is able to report positive balances in both categories of net assets, for the governmental and business-type activities.

Governmental Activities. The government's net assets decreased by $0.44 million during FY 2012. The governmental activities decreased by $0.55 million and the business-type activities increased by $0.11million. The decrease in the governmental activities is due to an increase in depreciation expense on assets purchased in prior years. The increase of the net assets of the business-type activities is due to less than expected expenditures in the Sewer Fund.

Summary of Changes in Net Assets
June 30, 2012

	Governmental Activities		Business-Type Activities		Total	
	FY 2012	**FY 2011**	**FY 2012**	**FY 2011**	**FY 2012**	**FY 2011**
Revenues:						
Program revenues:						
Charges for services	$759,166	$656,645	$2,476,683	$2,476,935	$3,235,849	$3,133,580
Operating grants and contributions	1,575,285	1,881,297	-	-	1,575,285	1,881,297
Capital grants and contributions	732,846	419,225	-	-	732,846	419,225
General revenues:						
Real estate and personal property taxes	18,228,029	18,235,363	-	-	18,228,029	18,235,363
Other local taxes	2,529,995	2,464,223	-	-	2,529,995	2,464,223
Reimbursements from other agencies	58,458	75,318	-	-	58,458	75,318
Miscellaneous	196,203	(56,535)	128,520	132,530	324,723	75,995
Gain on disposal of capital assets	-	11,463	-	-	-	11,463
Unrestricted investment earnings	181,274	183,284	32,131	29,476	213,405	212,760
Total revenues	**$24,261,256**	**$23,870,283**	**$2,637,334**	**$2,638,941**	**$26,898,590**	**$26,509,224**
Expenses:						
General government	3,058,270	2,328,395	-	-	3,058,270	2,328,395
Public safety & judicial	6,296,795	6,147,949	-	-	6,296,795	6,147,949
Public works	1,875,113	1,883,380	-	-	1,875,113	1,883,380
Health and welfare	913,826	817,008	-	-	913,826	817,008
Education	9,510,584	9,080,484	-	-	9,510,584	9,080,484
Parks, recreation, cultural	1,248,643	1,224,910	-	-	1,248,643	1,224,910
Community development	567,672	488,893	-	-	567,672	488,893
Interest and fees on long-term debt	1,219,966	1,213,782	-	-	1,219,966	1,213,782
Sewer	-	-	1,447,681	2,057,173	1,447,681	2,057,173
Parks and recreation	-	-	455,199	450,025	455,199	450,025
Solid waste	-	-	743,280	791,114	743,280	791,114
Total expenses	**24,690,869**	**23,184,801**	**2,646,160**	**3,298,312**	**27,337,029**	**26,483,113**
Change in net assets before transfers	**(429,613)**	**685,482**	**(8,826)**	**(659,371)**	**(438,439)**	**46,081**
Transfers	**(118,799)**	**80,400**	**118,799**	**(49,200)**	**-**	**31,200**
Increase (Decrease) in net assets	**(548,412)**	**765,882**	**109,973**	**(708,571)**	**(438,439)**	**77,281**
Net assets, beginning of year	**23,495,371**	**22,729,489**	**5,572,902**	**6,281,473**	**29,068,273**	**29,010,962**
Net assets, end of year	**$22,846,959**	**$23,495,371**	**$5,682,875**	**$5,572,902**	**$28,629,834**	**$29,088,243**

The City's largest revenue source is general property taxes.

	FY 2012	FY 2011
Real estate tax revenue	$13,623,706	$13,643,196
Public service corporation taxes	188,519	139,840
Personal property taxes	2,394,121	2,357,359
Penalties and interest	154,725	156,516
Total	**$16,361,071**	**$16,296,911**

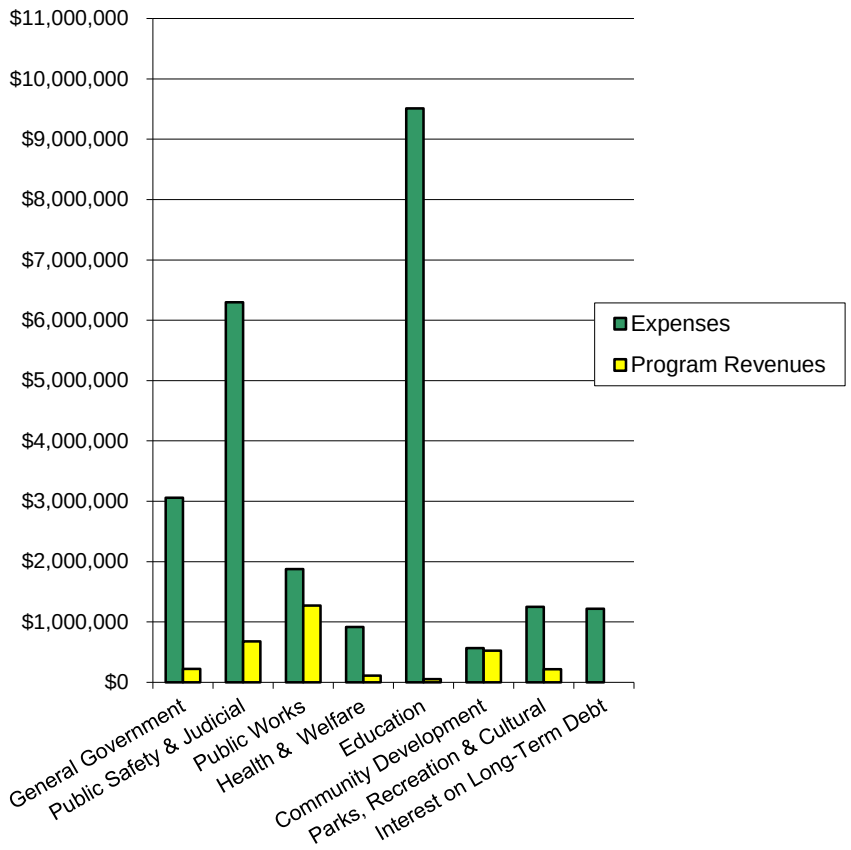
Real estate revenue was about equal in FY 2012 as compared to FY 2011, this was due to a decrease in assessments and the equalization of the tax rate. The City's real estate property tax assessments were $1,519,389,627 and $1,728,246,736 for FY 2012 and FY 2011, respectively. The City's real estate tax rate was $0.92 and $0.81 per $100 of assessed value in FY 2012 and FY 2011 respectively.

The City's personal property tax assessments were $131,995,740 and $127,720,810 for FY 2012 and FY 2011 respectively. In FY 2012 and FY 2011 the City's personal property tax rate was $4.15 per $100 of assessed value for vehicles, $1.50 per $100 of assessed value for recreational vehicles and boats and in the first half of FY 2013, $0.81 per $100 of assessed value for mobile homes and in the second half $0.92 per $100 of assessed value for mobile homes. Under the provisions of the Personal Property Tax Relief Act (PPTRA), the state's share of local personal property tax was $1,923,431 for FY 2012 and FY 2011, and is classified as personal property taxes on the statement of activities.

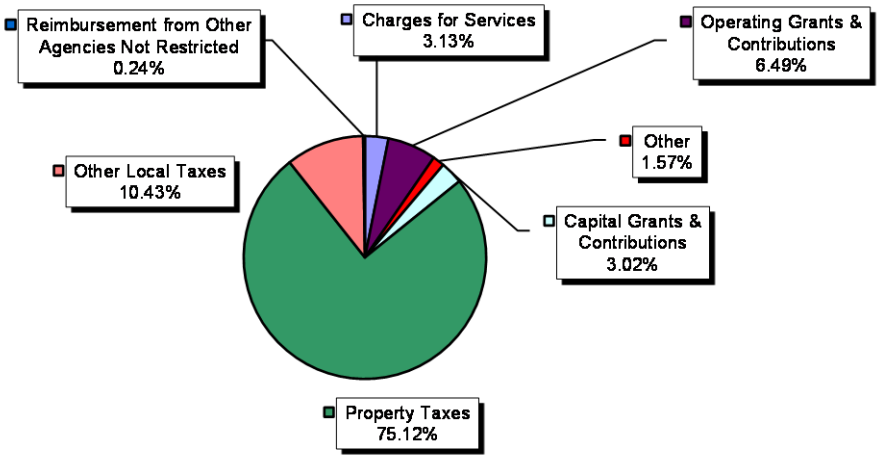
Other local taxes were $2.5 million for FY 2012 and FY 2011, and consisted of meals taxes, consumers' utilities taxes, franchise license taxes, motor vehicle license taxes and a variety of other taxes.

For FY 2012, expenses for governmental activities totaled $24.7 million, including an expense of $9.5 million to the component unit, Poquoson City School System. For FY 2011, expenses for governmental activities totaled $23.2 million, including a net payment of $9.1 million to the to the component unit, Poquoson City School System.

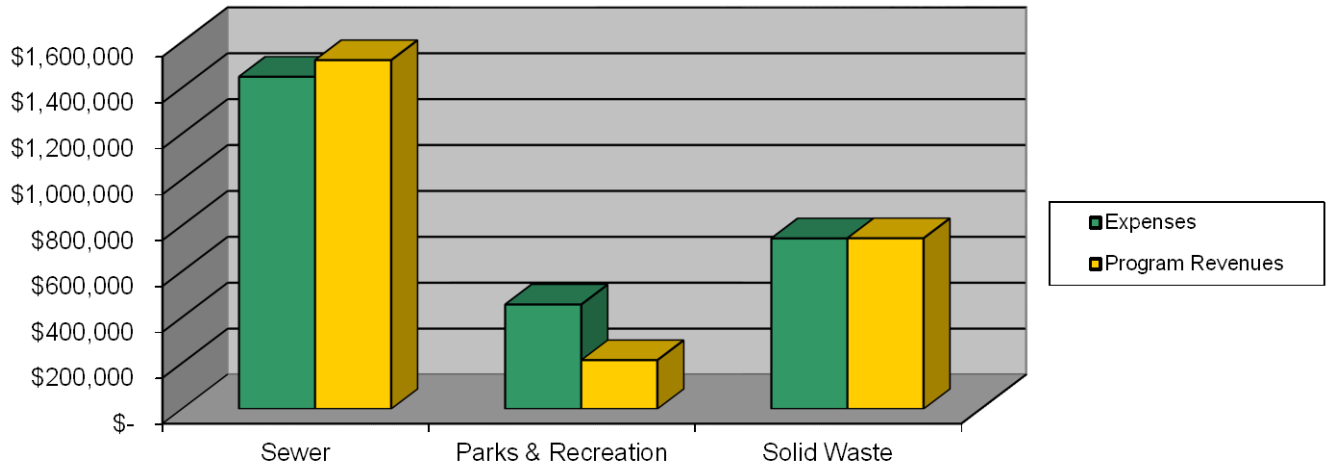
Expenses and Program Revenues - Governmental Activities



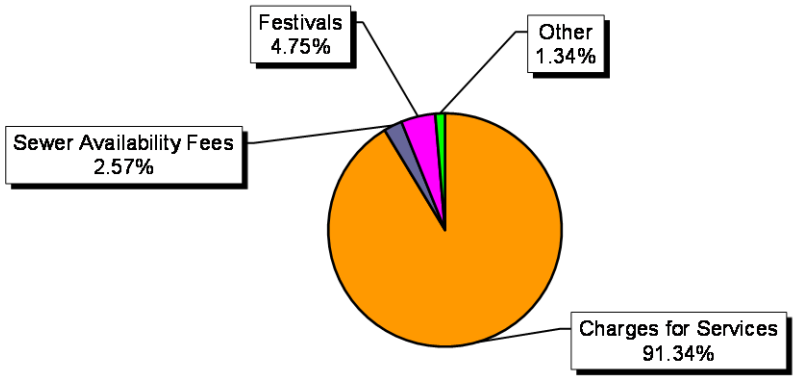
Revenues by Sources - Governmental Activities



Expense and Program Revenues - Business-Type Activities



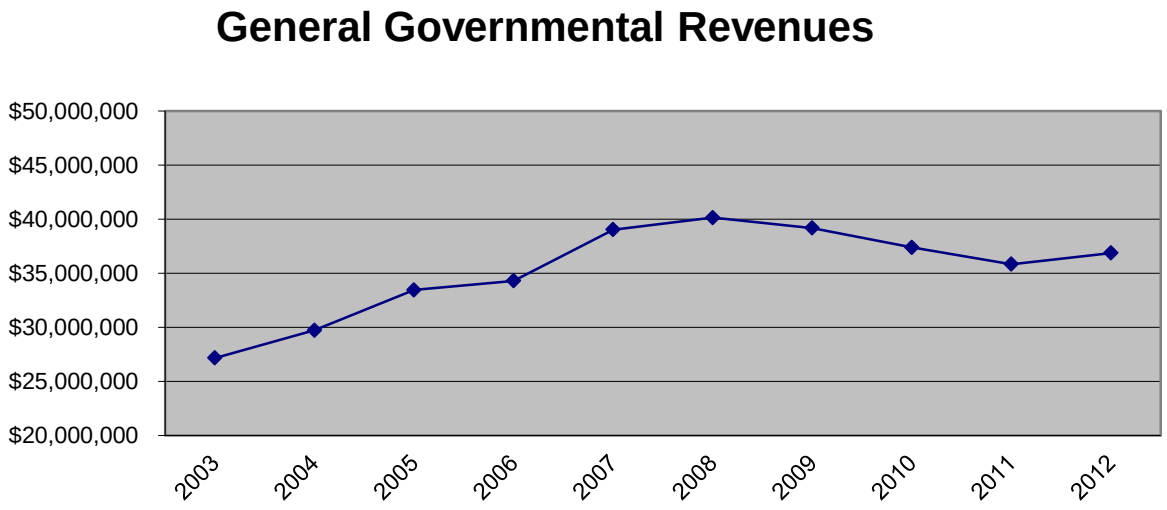
Revenues by Source - Business-Type Activities

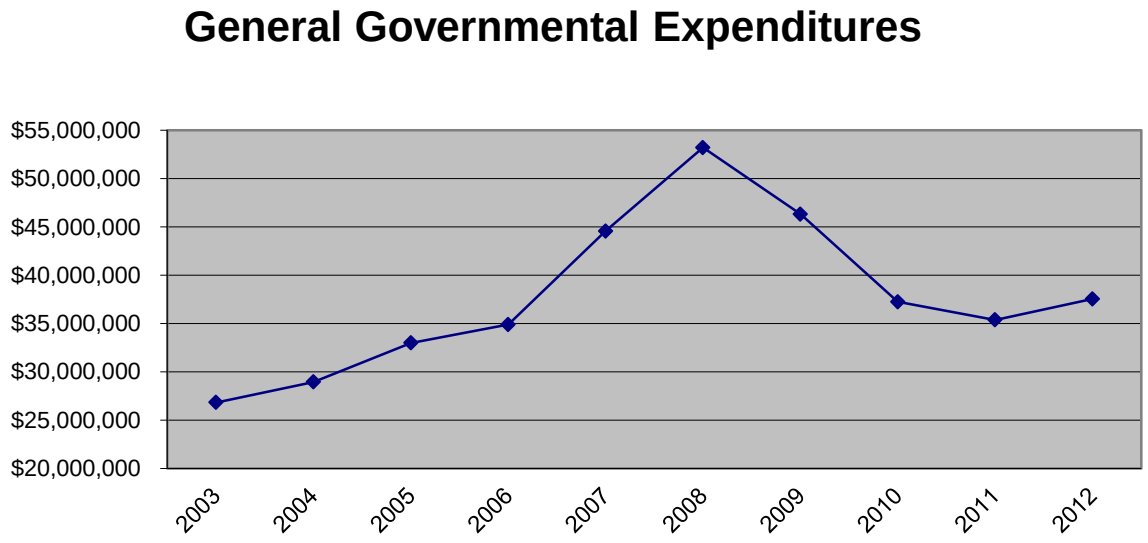


Business-Type Activities. Business-type activities decreased the City's net assets before transfers by less than $10,000 and increased the net assets by $.11 million after transfers. In order to keep all of the business type activities rates as low as possible, a portion of the fund's net assets have been used and a transfer from the General Fund has been used to offset the deficit.

Financial Analysis of the Government's Funds

Below is a summary of general governmental revenues and expenditures over a ten-year period. Amounts include the City's General, Debt Service, and Capital Projects Funds, and the school's General and Special Revenue Funds.





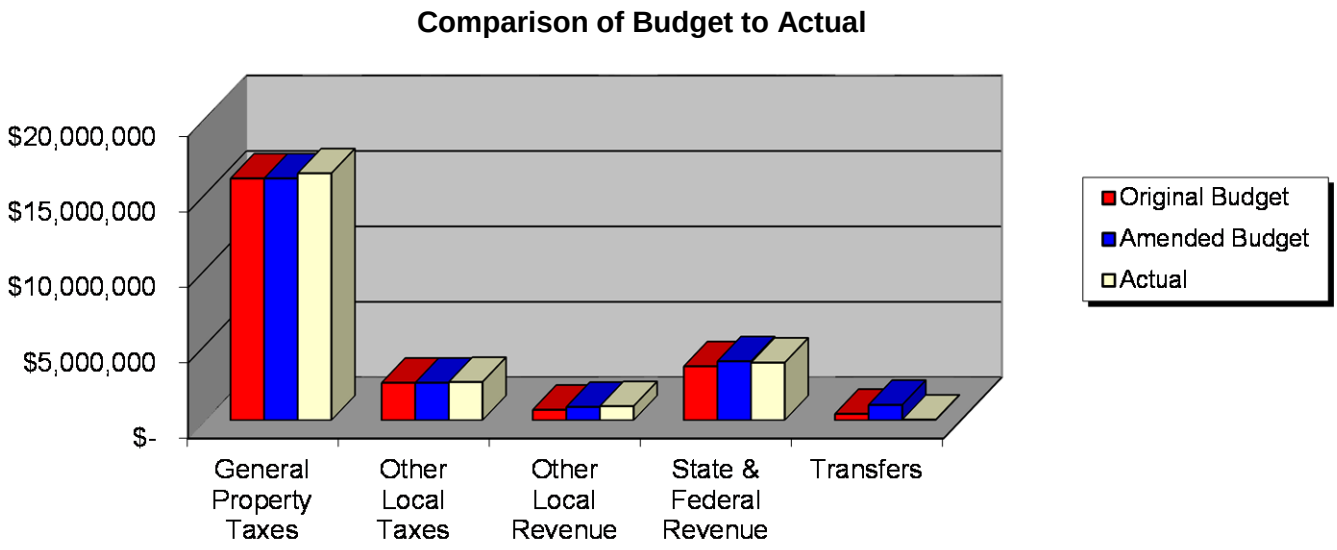
General Fund Budgetary Highlights

The City of Poquoson uses fund accounting and budgeting to ensure and demonstrate compliance with finance-related legal requirements. The General Fund budgetary comparison to actual can be found on Exhibit K. The City records actual revenues and expenditures using generally accepted accounting principles (GAAP) with the exception of encumbrances, which are included as budgetary expenditures. At the end of Exhibit K, the non-GAAP budgetary expenditures are reconciled to the GAAP statements. The budget differences of $1.1 million between the original budget and the final amended budget can be briefly summarized as follows:

- $.03 million additional transfer to the schools for the prior year unspent transfer to support an early retirement incentive program to offset various revenue reductions from the state.
- $.13 million re-appropriation of restricted revenue received for the Police Department, Fire Department and Library.
- $.10 million appropriation for various grants for public safety.
- $.29 million appropriation for employee compensation and school contribution for employee compensation.
- $.24 million appropriation for public assistance after hurricane Irene.
- $.07 million appropriation for economic development initiative.
- $.16 million appropriation for insurance recovery due to fire.
- $.02 million appropriation for donations received for various departments.

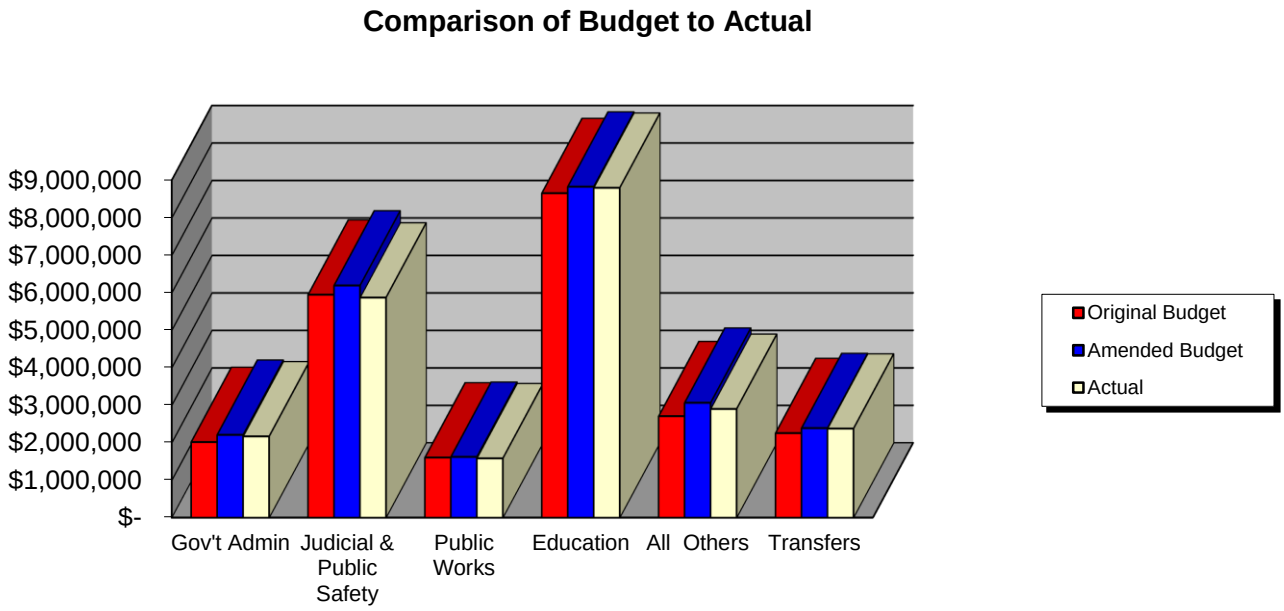
The charts on the following page show the original approved budget, the final amended budget, and actual amounts for both revenues and expenditures in the General Fund.

General Fund Revenue



The City's actual general fund revenues of $23.7 million surpassed the original budget by $.49 million and show a decrease of $.63 million from the amended budget. The City saw an increase in personal property tax assessments for calendar year 2012, therefore the June personal property tax revenue was approximately $.1 million higher than originally budgeted. The City also saw increases in public service corporations and real estate tax collections amounting to $.23 million from the original budget. Increases were also seen in other local taxes and charges for services amounting to $.14 million.

General Fund Expenditures



As reflected above, actual General Fund expenditures were $23.7 million. The increase in expenditures is a result of hurricane Irene, replacement of assets due to fire at the public works administration building, employee and school supplemental appropriations.

The budgetary comparison can be found on Exhibit K. For budgetary purposes, the City includes encumbrances outstanding at year-end in expenditures, which is not in accordance with generally accepted accounting principals (GAAP). A reconciliation of budgetary basis to GAAP is also shown on Exhibit K.

Capital Projects Fund

The Capital Projects Fund is used by the City to account for the acquisition and construction of major capital projects and large equipment purchases for the general government.

The major sources of funding for the Capital Projects are transfers from the General Fund and debt proceeds. The Capital Projects Fund also received state funding for street projects.

During FY 2012, capital projects of $.1.1 million included the construction costs for a new public works storage building, completion of a fire boat and highway and drainage improvements.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounted to $61.2 million (net of accumulated depreciation). The investment in capital assets includes land, construction in progress, buildings, infrastructure, machinery and equipment, sewer system, and allocated school buildings. The City owns roads, streetlights, and other infrastructure, but has only capitalized these assets placed in service since July 1, 2002. Infrastructure was capitalized beginning in FY 2007. The School Board component unit owns their school buildings; however, the City has issued the debt and/or provided the resources to build and renovate school buildings. Thus the State Code allows the schools to allocate a portion of their asset to the City, if the City has outstanding debt on the school building.

The following table summarizes capital assets, net of depreciation:

	Governmental Activities		Business-Type Activities		Total	
	FY 2012	**FY 2011**	**FY 2012**	**FY 2011**	**FY 2012**	**FY 2011**
Land	$3,014,479	$3,014,479	$243,216	$243,216	$3,257,695	$3,257,695
Construction in progress	385,915	501,061	-	-	385,915	501,061
Buildings	6,731,580	6,566,132	-	1,572	6,731,580	6,567,704
Infrastructure	7,111,437	7,272,981	-	-	7,111,437	7,272,981
Land Improvements	1,490,174	1,672,874	-	-	1,490,174	1,672,874
Machinery and equipment	2,732,881	2,669,377	258,662	189,719	2,991,077	2,859,096
Sewer system	-	-	13,385,773	13,949,397	13,385,773	13,949,397
Sewer easement			7,000	7,000	7,000	7,000
Intangible	-	-	171,640	57,729	171,640	57,729
Allocated school buildings	25,671,411	26,385,333	-	-	25,671,411	26,385,333
Total	**$47,137,877**	**$48,082,237**	**$14,065,825**	**$14,448,633**	**$61,203,702**	**$62,530,870**

Debt Administration. Total outstanding general obligation debt at June 30, 2012 was $37.8 million of which $29.2 million is considered to be net direct tax supported debt. Included in the total debt are $27.4 million in bonds and leases, and $1.8 million in State Literary Loans. The remaining $8.6 million are bonds for the sewer system that are essentially paid for by revenues in the Sewer Operations Fund.

State statutes limit the amount of general obligation debt a government may issue up to 10% of its total assessed valuation of real estate and public service corporations. The June 30, 2012 debt limitation for the City of Poquoson is $152 million, which is significantly in excess of the City of Poquoson's $37.8 million outstanding net direct bonded debt.

Net Direct Tax Supported Debt
General Governmental Activities

	FY 2012	**FY 2011**
Net direct bonded debt	$29,183,413	$30,490,882
Ratio of outstanding direct debt to assessed value	1.92%	1.76%
Net debt per capita	$2,384	$2,510

More detailed information on the City of Poquoson's long-term debt activity and capital asset activity can be found in Notes 8, 9 and 10 of this report.

Economic Factors and Next Year's Budgets and Rates

The FY 2013 budget was prepared with economic trends and factors within the City taken into account:

- The FY 2013 budget was developed using the current real estate tax rate and little growth.
- The FY 2013 adopted budget includes a real estate tax rate of $0.92 per $100 of assessed value and personal property tax rate of $4.15.
- The FY 2013 adopted budget includes rate increases for both the Sewer Operations and Solid Waste Funds to make them self-supporting.
- The FY 2013 also included increased rates in both meals tax and cigarette tax as well as decrease in boat tax.
- In FY 2013 expenditure increases included health insurance, retirement costs and corrections and detentions.

Taking the previous factors into account, the FY 2013 budget was a decrease of less than 1%.

Requests for Information

This financial report is designed to provide a general overview of the City of Poquoson's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Theresa S. Owens, CPA
Director of Finance
500 City Hall Avenue
Poquoson, Virginia 23662

Basic Financial Statements

This page left blank intentionally

Statement of Net Assets

June 30, 2012

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Assets				
Cash and investments	$ 5,907,315	$ 472,465	$ 6,379,780	$ 2,605,526
Property taxes receivable, net	501,874	-	501,874	-
Other receivables, net	293,669	425,907	719,576	9,889
Due from component units	29,910	-	29,910	-
Due from other governments	1,294,431	-	1,294,431	711,359
Inventory	12,733	6,190	18,923	10,345
Notes receivable	253,823	2,193	256,016	-
Capital assets				
Land and construction-in-process	3,400,394	243,216	3,643,610	3,074,852
Other capital assets, net	43,737,483	13,822,609	57,560,092	5,234,243
Capital assets, net	47,137,877	14,065,825	61,203,702	8,309,095
Total assets	$ 55,431,632	$ 14,972,580	$ 70,404,212	$ 11,646,214
Liabilities				
Accounts payable and accrued liabilities	$ 1,151,282	$ 139,329	$ 1,290,611	$ 2,352,763
Bank overdraft	-	87,611	87,611	-
Accrued interest	355,600	55,089	410,689	-
Line of credit	-	-	-	1,796,527
Due to primary government	-	-	-	29,910
Noncurrent liabilities				
Due within one year	735,788	302,614	1,038,402	85,010
Due in more than one year	30,077,454	8,695,153	38,772,607	314,856
Other post employment benefit obligation	164,549	9,909	174,458	143,250
Total liabilities	32,484,673	9,289,705	41,774,378	4,722,316
Net Assets				
Invested in capital assets, net of related debt	16,838,143	5,094,194	21,932,337	6,512,568
Restricted	1,037,956	-	1,037,956	-
Unrestricted	5,070,860	588,681	5,659,541	411,330
Total net assets	22,946,959	5,682,875	28,629,834	6,923,898
	$ 55,431,632	$ 14,972,580	$ 70,404,212	$ 11,646,214

The accompanying notes are an integral part of the basic financial statements.

Statement of Activities

Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues: Charges For Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net Revenues (Expenses) and Changes in Net Assets: Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Units
Primary Government								
Government activities								
General government and administration	$ 3,058,270	$ 223,152	$ -	$ -	$ (2,835,118)	$ -	$ (2,835,118)	$ -
Public safety and judicial	6,296,795	112,011	358,374	207,675	(5,618,735)	-	(5,618,735)	-
Public works	1,875,113	-	775,000	496,197	(603,916)	-	(603,916)	-
Health and welfare	913,826	-	107,718	-	(806,108)	-	(806,108)	-
Education	9,510,584	49,188	-	-	(9,461,396)	-	(9,461,396)	-
Parks, recreation, cultural	1,248,643	74,609	139,634	-	(1,034,400)	-	(1,034,400)	-
Community development	567,672	300,206	194,559	28,974	(43,933)	-	(43,933)	-
Interest and fees on long-term debt	1,219,966	-	-	-	(1,219,966)	-	(1,219,966)	-
Total governmental activities	24,690,869	759,166	1,575,285	732,846	(21,623,572)	-	(21,623,572)	-
Business-type activities								
Sewer	1,447,681	1,520,017	-	-	-	72,336	72,336	-
Parks and recreation	455,199	212,730	-	-	-	(242,469)	(242,469)	-
Solid waste	743,280	743,936	-	-	-	656	656	-
Total business-type activities	2,646,160	2,476,683	-	-	-	(169,477)	(169,477)	-
Total primary government	$ 27,337,029	$ 3,235,849	$ 1,575,285	$ 732,846	(21,623,572)	(169,477)	(21,793,049)	-
Component Units								
Poquoson Public Schools	$ 21,198,832	$ 338,304	$ 12,199,311	$ -	-	-	-	(8,661,217)
Economic Development Authority	72,260	40,251	-	-	-	-	-	(32,009)
Total component units	$ 21,271,092	$ 378,555	$ 12,199,311	$ -	-	-	-	(8,693,226)
General Revenues								
Real estate and personal property taxes					18,228,029	-	18,228,029	-
Other local taxes					2,529,995	-	2,529,995	-
Payments from the City of Poquoson					-	-	-	9,056,187
Reimbursements from other agencies not restricted to specific programs					58,458	-	58,458	-
Miscellaneous					196,203	128,520	324,723	-
Unrestricted investment earnings					181,274	32,131	213,405	-
Transfers					(118,799)	118,799	-	-
Total general revenues, transfers and miscellaneous					21,075,160	279,450	21,354,610	9,056,187
Change in net assets					(548,412)	109,973	(438,439)	362,961
Net assets, beginning of year					23,495,371	5,572,902	29,068,273	6,572,937
Net assets, end of year					$ 22,946,959	$ 5,682,875	$ 28,629,834	$ 6,935,898

The accompanying notes are an integral part of the basic financial statements.

Balance Sheet - Governmental Funds

June 30, 2012

Assets	General	Debt Service	Capital Projects	Total Governmental Funds
Cash and cash investments	$ 4,351,783	$ 2,718	$ 1,503,997	$ 5,858,498
Property taxes receivable, net	501,874	-	-	501,874
Other receivables	293,461	-	-	293,461
Notes receivable	253,823	-	-	253,823
Due from component units	29,910	-	-	29,910
Due from other governmental units	1,280,959	-	13,472	1,294,431
Inventory	651	-	-	651
Total assets	$ 6,712,461	$ 2,718	$ 1,517,469	$ 8,232,648
Liabilities				
Accounts payable and accrued liabilities	$ 742,935	$ -	$ 281,999	1,024,934
Deferred revenue	361,720	-	-	361,720
Total liabilities	1,104,655	-	281,999	1,386,654
Fund Balances				
Fund balances:				
Nonspendable	254,474	-	-	254,474
Restricted	175,850	-	862,106	1,037,956
Assigned	679,065	2,718	373,364	1,055,147
Unassigned	4,498,417	-	-	4,498,417
Total fund balances	5,607,806	2,718	1,235,470	6,845,994
Total liabilities and fund balances	$ 6,712,461	$ 2,718	$ 1,517,469	$ 8,232,648

The accompanying notes are an integral part of the basic financial statements.

June 30, 2012

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

Total fund balances - governmental funds	$ 6,845,994
Amount reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation.	47,120,283
Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures, and therefore, are deferred in the funds.	361,720
Internal service funds are used by management to charge the costs of fleet management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	44,452
Other liabilities not paid from current-period revenues are not reported in funds for:	
Accrued interest	(355,600)
Accrued compensated absences	(500,849)
Accrued termination benefits	(108,805)
Other post employment benefit obligation	(160,502)
Long-term liabilities, including bonds payable, net of capitalized bond issuance costs and deferred bond issuance charges, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(30,299,734)
Total net assets - governmental activities	$ 22,946,959

The accompanying notes are an integral part of the basic financial statements.

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2012

	General	Debt Service	Capital Projects	Total Governmental Funds
Revenues				
General property taxes	$ 16,361,071	$ -	$ -	$ 16,361,071
Other local taxes	2,529,995	-	-	2,529,995
Permits, privilege fees and regulatory licenses	97,314	-	-	97,314
Fines and forfeitures	43,603	-	-	43,603
Revenue from use of money and property	181,329	-	1,981	183,310
Charges for services	395,096	-	-	395,096
Intergovernmental	3,809,300	-	703,871	4,513,171
Miscellaneous	209,571	-	5,977	215,548
Total revenues	23,627,279	-	711,829	24,339,108
Expenditures				
General government administration	2,175,864	-	-	2,175,864
Public safety and judicial	5,909,331	-	-	5,909,331
Public works	1,596,143	-	-	1,596,143
Health and welfare	897,082	-	-	897,082
Parks, recreation, and cultural	1,057,553	-	-	1,057,553
Community development	577,990	-	-	577,990
Nondepartmental	359,518	-	-	359,518
Education	8,796,662	-	-	8,796,662
Capital outlay	-	-	1,119,347	1,119,347
Debt service:				
Principal retirement	-	867,647	-	867,647
Interest and fiscal charges	-	1,266,380	-	1,266,380
Bond issuance costs	-	301,774	8,857	310,631
Total expenditures	21,370,143	2,435,801	1,128,204	24,934,148
Excess (deficiency) of revenues over expenditures	2,257,136	(2,435,801)	(416,375)	(595,040)
Other financing sources (uses)				
Transfers in	32,500	2,039,547	181,760	2,253,807
Transfers out	(2,372,606)	-	-	(2,372,606)
Issuance of debt:				
Bonds issued	-	-	600,000	600,000
Refunding bonds issued	-	11,060,000	-	11,060,000
Premium on refunding bonds sold	-	1,438,794	-	1,438,794
Payment of refunded bonds	-	(12,099,822)	-	(12,099,822)
Total other financing sources (uses)	(2,340,106)	2,438,519	781,760	880,173
Net change in fund balances	(82,970)	2,718	365,385	285,133
Fund balances, July 1, 2011	5,690,776	-	870,085	6,560,861
Fund balances, June 30, 2012	$ 5,607,806	$ 2,718	$ 1,235,470	$ 6,845,994

The accompanying notes are an integral part of the basic financial statements.

Year Ended June 30, 2012

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

Net change in fund balances - total governmental funds	$	285,133
Amount reported for governmental activities in the statement of net assets are different because:		
Because some revenues will not be collected for several months after the City's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues decreased by this amount this year.		(56,475)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay		919,245
Depreciation expense		(1,857,548)
Loss on disposal of capital assets		(3,142)
Proceeds from bond issuance provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Debt issued		(11,660,000)
Premiums on debt issued, net		(1,379,855)
Deferred refunding charge, net		261,628
Repayment of debt principal		12,967,469
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These activities consist of the changes in:		
Accrued interest		36,477
Compensated absences		(34,445)
Other post-employment benefits liability		(39,123)
Accrued termination benefits		24,515
Internal service fund is used by management to charge the cost of fleet management to individual departments. The net loss of the fleet management fund is reported with governmental activities.		(12,291)
Change in net assets - governmental activities	$	(548,412)

The accompanying notes are an integral part of the basic financial statements.

Statement of Net Assets - Proprietary Funds

June 30, 2012

	Business-Type Activities Proprietary Funds				Governmental Activities - Internal Service Funds
Assets	Sewer Operation	Parks and Recreation	Solid Waste	Total	
Current assets					
Cash and investments	$ 396,782	$ -	$ 75,683	$ 472,465	$ 48,817
Accounts receivable	265,176	6,500	154,231	425,907	208
Note receivable	2,193	-	-	2,193	-
Inventory	-	-	6,190	6,190	12,082
Total current assets	664,151	6,500	236,104	906,755	61,107
Noncurrent assets					
Capital assets					
Land	214,666	28,550	-	243,216	-
Buildings	-	254,179	9,943	264,122	41,742
Sewer system	22,354,475	-	-	22,354,475	-
Equipment	476,424	152,756	438,320	1,067,500	45,910
Less - accumulated depreciation	(9,223,442)	(355,572)	(284,474)	(9,863,488)	(70,058)
Total capital assets (net of accumulated depreciation)	13,822,123	79,913	163,789	14,065,825	17,594
Total noncurrent assets	13,822,123	79,913	163,789	14,065,825	17,594
	$ 14,486,274	$ 86,413	$ 399,893	$ 14,972,580	$ 78,701
Liabilities					
Current liabilities					
Vouchers and accounts payable	$ 36,643	$ 45,020	$ 40,227	$ 121,890	$ 8,919
Bank overdraft	-	87,611	-	87,611	-
Accrued payroll	7,500	7,456	2,483	17,439	8,625
Accrued interest	55,089	-	-	55,089	-
Compensated absences	1,422	1,125	67	2,614	1,266
Bonds payable, current portion	300,000	-	-	300,000	-
Total current liabilities	400,654	141,211	42,777	584,643	18,809
Noncurrent liabilities					
Compensated absences	12,795	10,120	607	23,522	11,393
Bonds payable, less current portion	8,671,631	-	-	8,671,631	-
Other post employment benefit obligation	5,024	3,629	1,256	9,909	4,047
Total noncurrent liabilities	8,689,450	13,749	1,863	8,705,062	15,440
Total liabilities	9,090,104	154,961	44,640	9,289,705	34,249
Net Assets					
Invested in capital assets, net of related debt	4,850,492	79,913	163,789	5,094,194	17,594
Unrestricted (deficit)	545,678	(148,461)	191,464	588,681	26,858
Total net assets (deficit)	5,396,170	(68,548)	355,253	5,682,875	44,452
Total liabilities and net assets	$ 14,486,274	$ 86,413	$ 399,893	$ 14,972,580	$ 78,701

The accompanying notes are an integral part of the basic financial statements.

Statement of Revenue, Expenses, and Changes in Fund Net Assets - Proprietary Funds

Year Ended June 30, 2012

	Proprietary Fund Types				Governmental Activities - Internal Service Funds
	Sewer Operation	Parks and Recreation	Solid Waste	Total	
Operating revenues					
Charges for services	$ 1,452,217	$ 212,730	$ 743,936	$ 2,408,883	$ 710,973
Festivals	-	125,218	-	125,218	-
Miscellaneous	2,049	1,253	-	3,302	-
Total operating revenues	1,454,266	339,201	743,936	2,537,403	710,973
Operating expenses					
Personnel services	253,527	164,438	67,443	485,408	208,405
Contractual services	140,304	231,942	139,908	512,154	46,292
Materials and supplies	67,328	25,372	45,735	138,435	439,550
Utilities	63,359	7,124	99	70,582	10,028
Depreciation and amortization	569,110	16,714	27,700	613,524	2,915
Other charges	34,888	9,609	19,190	63,687	16,074
Waste disposal	-	-	443,205	443,205	-
Total operating expenses	1,128,516	455,199	743,280	2,326,995	723,264
Operating income (loss)	325,750	(115,998)	656	210,408	(12,291)
Nonoperating revenues (expenses)					
Interest income	31,633	-	498	32,131	-
Interest and fiscal charges	(319,165)	-	-	(319,165)	-
Sewer availability fees	67,800	-	-	67,800	-
Net nonoperating revenues (expenses)	(219,732)	-	498	(219,234)	-
Income (loss) before transfers	106,018	(115,998)	1,154	(8,826)	(12,291)
Transfers					
Transfers in	-	79,199	72,100	151,299	-
Transfers out	(32,500)	-	-	(32,500)	-
Net transfers	(32,500)	79,199	72,100	118,799	-
Change in net assets	73,518	(36,799)	73,254	109,973	(12,291)
Net assets (deficit), July 1, 2011	5,322,652	(31,749)	281,999	5,572,902	56,743
Net assets (deficit) June 30, 2012	$ 5,396,170	$ (68,548)	$ 355,253	$ 5,682,875	$ 44,452

The accompanying notes are an integral part of the basic financial statements.

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2012

	Proprietary Fund Types				Internal Service Fund
	Sewer Operation	Parks and Recreation	Solid Waste	Total	
Cash flows from operating activities					
Received from customers and users	$ 1,455,862	$ 332,701	$ 738,652	$ 2,527,215	$ 711,017
Payments to suppliers for goods and services	(395,187)	(243,584)	(660,679)	(1,299,450)	(514,842)
Payments to employees	(256,608)	(168,291)	(67,166)	(492,065)	(209,090)
Net cash provided by (used in) operating activities	804,067	(79,174)	10,807	735,700	(12,915)
Cash flows from noncapital financing activities					
Transfers to other funds	(32,500)	-	-	(32,500)	-
Transfers from other funds	-	79,173	72,100	151,273	
Net cash provided by (used in) noncapital financing activities	(32,500)	79,173	72,100	118,773	-
Cash flows from capital and related financing activities					
Principal paid on capital debt	(8,150,933)	-	-	(8,150,933)	-
Proceeds from capital debt	7,692,541	-	-	7,692,541	-
Sewer availability fees	67,800	-	-	67,800	-
Interest paid on capital debt	(261,857)	-	-	(261,857)	-
Acquisition and construction of capital assets	(109,318)	-	(123,606)	(232,924)	(14,022)
Net cash provided by (used in) capital and related financing activities	(761,767)	-	(123,606)	(885,373)	(14,022)
Cash flows from investing activities					
Interest received	31,633	-	498	32,131	-
Net increase (decrease) in cash and investments	41,433	(1)	(40,201)	1,231	(26,937)
Cash and investments, beginning of year	355,350	-	115,884	471,234	75,756
Cash and investments, end of year	$ 396,783	$ (1)	$ 75,683	$ 472,465	$ 48,819
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	$ 325,750	$ (115,998)	$ 656	$ 210,408	$ (12,291)
Adjustments					
Depreciation and amortization	569,110	16,714	27,700	613,524	2,915
Changes in assets and liabilities					
Receivables, net	1,596	(6,500)	(5,284)	(10,188)	44
Inventories	-	-	2,469	2,469	13,212
Vouchers and accounts payable	(85,193)	3,805	(12,810)	(94,198)	(7,403)
Accrued compensated absences	(5,058)	1,672	(2,497)	(5,883)	(8,793)
Other post employment benefits liability	943	628	296	1,867	86
Bank overdraft	-	24,358	-	24,358	-
Accrued payroll	(3,081)	(3,853)	277	(6,657)	(685)
Net cash provided by (used in) operating activities	$ 804,067	$ (79,174)	$ 10,807	$ 735,700	$ (12,915)

The accompanying notes are an integral part of the basic financial statements.

Statement of Fiduciary Assets and Liabilities

June 30, 2012

	Library Agency Fund
Assets	
Cash and cash equivalents	$ 38,258
Liabilities	
Amounts held in trust for library building	$ 38,258

The accompanying notes are an integral part of the basic financial statements.

Combining Statement of Net Assets - Component Units

June 30, 2012

	Poquoson Public Schools	Economic Development Authority	Total
Assets			
Cash and cash equivalents	$ 2,594,933	$ 10,593	$ 2,605,526
Accounts receivable	-	9,889	9,889
Due from other governments	711,359	-	711,359
Inventory	10,345	-	10,345
Land	450,876	2,623,976	3,074,852
Other capital assets, net	4,938,044	296,199	5,234,243
Total assets	$ 8,705,557	$ 2,940,657	$ 11,646,214
Liabilities			
Vouchers and accounts payable	$ 2,348,938	$ 3,825	$ 2,352,763
Bank overdraft	-	-	-
Line of credit	-	1,796,527	1,796,527
Compensated absences, current	85,010	-	85,010
Due to primary government	29,910	-	29,910
Compensated absences, noncurrent	314,856	-	314,856
Other post employment benefit obligation	143,250	-	143,250
Total liabilities	2,921,964	1,800,352	4,722,316
Net Assets			
Invested in capital assets, net of related debt	5,388,920	1,123,648	6,512,568
Unrestricted	394,673	16,657	411,330
Total net assets	5,783,593	1,140,305	6,923,898
Total liabilities and net assets	$ 8,705,557	$ 2,940,657	$ 11,646,214

The accompanying notes are an integral part of the basic financial statements.

Combining Statement of Activities - Component Units

Year Ended June 30, 2012

		Program Revenues			Net Revenues (Expenses) and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Contributions	Poquoson Public Schools	Economic Development Authority	Total
Poquoson Public Schools							
Education	$ 21,198,832	$ 338,304	$ 12,199,311	$ -	$ (8,661,217)	$ -	$ (8,661,217)
							-
Economic Development Authority							-
Economic Development	72,260	40,251	-	-	-	(32,009)	(32,009)
Total component units	$ 21,271,092	$ 378,555	$ 12,199,311	$ -	(8,661,217)	(32,009)	$ (8,693,226)
		General revenues					
		City of Poquoson			9,032,187	12,000	9,044,187
		Total general revenues			9,032,187	12,000	9,044,187
		Change in net assets			370,970	(20,009)	350,961
		Net assets, beginning of year			5,412,623	1,160,314	6,572,937
		Net assets, end of year			$ 5,783,593	$ 1,140,305	$ 6,923,898

The accompanying notes are an integral part of the basic financial statements.

1. Summary of Significant Accounting Policies

The accounting policies of the City of Poquoson, Virginia (City) and its component units conform to accounting principles generally accepted in the United States of America as applicable to government units. The following is a summary of the more significant accounting policies:

Financial Reporting Entity

The City of Poquoson, Virginia is a municipality governed by an elected seven-member council. The reporting entity of the City has been determined in accordance with accounting principles generally accepted in the United States of America established by the Governmental Accounting Standards Board (GASB) and the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia. As required by those principles, these financial statements present the City of Poquoson, Virginia (Primary Government) and its discretely presented component units, the City of Poquoson School Board (School Board) and the Economic Development Authority (EDA).

The City's reporting entity consists of the Primary Government as well as its component units, which are legally separate entities for which a Primary Government is financially accountable. Financial accountability ordinarily involves meeting both of the following criteria: (a) the Primary Government is accountable for the component unit and (b) the Primary Government is able to impose its will upon the component unit (or there is a possibility that the component unit may provide specific financial benefits or impose specific financial burdens on the Primary Government).

The School Board is responsible for elementary and secondary education in the City. The members of the School Board are appointed by the City Council. The School Board is fiscally dependent upon the City because the City's governing body, City Council, levies the necessary taxes, approves the issuance of bonds, and provides the financial resources to be used for acquisition or construction of School Board facilities and to provide funding for the operations. Therefore, the School Board is included in the component unit column of the City's financial statements because of the significance of its financial relationship with the City. Furthermore, the School Board meets the criteria for discrete presentation and is, therefore, presented in a separate component unit's column in the basic financial statements to emphasize that it is legally separate from the City. The School Board does not issue separate financial statements.

The Economic Development Authority is a legally separate corporation established under the Industrial Development and Revenue Bond Act of the Commonwealth of Virginia, together with ordinances adopted by the City Council. The EDA was established to promote industry, to develop trade within the City, and to attract institutions of higher education to locate or remain in the City. The EDA is also included in the component unit's column of the City's financial statements because the City is able to impose its will on the EDA by appointment of the governing body. In addition, the City Council funds a portion of the EDA's operating budget. Therefore, the EDA is financially dependent on the City. The EDA does not issue separate financial statements.

The entities described in Note 16, Related Party Transactions, are excluded from the City's Comprehensive Annual Financial Report, as the City does not have financial accountability over their activities.

1. Summary of Significant Accounting Policies *(Continued)*

Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*, as are the proprietary fund financial statements. The agency fund financial statements have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 45 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

1. Summary of Significant Accounting Policies *(Continued)*

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Under GASB 54 guidance, the Grant Fund is consolidated in the General Fund.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Capital Projects Fund* accounts for financial resources to be used for the acquisition or construction of major City or School Board capital facilities, other than those financed by proprietary funds.

The City reports the following major proprietary funds:

The *Sewer Operations Fund* provides maintenance to the sewer lines and pump stations and derives the majority of its revenue through user charges and fees.

The *Parks and Recreation Fund* accounts for the operation of the City's pool and parks and derives its primary revenue from user fees for recreational programs.

The *Solid Waste Fund* accounts for the collection, disposal, and recycling of household and municipal solid waste, bulky items, and landscaping debris and derives its primary revenue from user fees.

Additionally, the City reports the following proprietary Fund type:

Internal Service Fund consists of the fleet management fund which accounts for the operation of the City's central automotive maintenance service facility. The fleet management fund provides services to all City and School Board departments and / or other governmental units on a cost-reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. As permitted under Governmental Accounting Standards, the City has elected not to apply private-sector standards issued after November 30, 1989.

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary Fund - Agency Fund Types

The Fiduciary Fund is used to account for assets held by the City as an agent for a private organization. Fiduciary funds are not included in the government-wide financial statements since they are used to report assets held in trust for others and therefore cannot be used to support the City's own programs. The Fiduciary Fund type consists of the Agency Fund that accounts for monies donated by the Friends of the Library for furnishings and supplies for the library.

1. Summary of Significant Accounting Policies *(Continued)*

Component Unit – Economic Development Authority

The Economic Development Authority, a legally separate organization, was established under the Industrial Development and Revenue Bond Act of the Code of Virginia and ordinances adopted by the City Council. City Council also appoints the EDA Board. The EDA is responsible for promoting industry and developing trade by inducing private enterprises to remain or relocate in the City. Its income is derived from appropriations from the City, fees and land sales, and rental of property. The EDA does not issue separate financial statements and, consequently, has been included in the financial statements as a component unit.

Component Unit - School Board

There are no separate financial statements issued for the School Board and, consequently, combining statements that contain fund type data are included in the City's financial statements. Following are the School Board's funds.

School Board General Fund

The General Fund is the general operating fund of the School Board. It is used to account for the general operation and administration costs of the school system. It receives funds transferred to it by the City's General Fund. It also derives revenue from state and federal funds allocated specifically for the operation of the school system.

School Board Special Revenue Fund

The Special Revenue Fund is used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative action. Accordingly, the Special Revenue Fund is used to account for operations of the various school cafeterias. Cafeteria revenue is comprised of federal grants and charges to students for meals and, accordingly, is restricted as to the purpose for which they may be used.

School Board Agency Funds

The Agency Funds account for assets held in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds. The Poquoson Instructional Support Fund accounts for monies donated for support of several after school programs such as Odyssey of the Mind. The School Activities Fund is used to account for the funds of various student activities in each of the schools.

Budgeting and Budgetary Accounting

Budgets are employed by the Primary Government as a financial control device for the General Fund, Debt Service Fund, Capital Projects Fund, Grant Fund and Proprietary Funds. An annual appropriated budget is legally adopted for the General Fund through ordinances passed by City Council.

Annual budgets prepared by management are utilized for the Debt Service Fund, Grant Fund and Proprietary Funds. Program and project budgets are utilized to control expenditures in the Capital Projects Fund. Therefore, the Debt Service Fund, Grant Fund, Capital Projects and Proprietary Funds are not included in the budget and actual comparisons.

1. Summary of Significant Accounting Policies *(Continued)*

The School Board approves the annual operating budget for its General Fund. An annual operating budget is not adopted for the School Board Special Revenue Fund; therefore, it is not included in the budget and actual comparison of the component unit.

For the School Board General Fund, the Superintendent has authorization to transfer funds within categories, but must obtain authorization from the School Board for transfers between categories. City Council appropriates local funds. The School Board must authorize any increase in grant funds.

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America except that encumbrances are included as budgetary expenditures. Budgeted amounts reflected in the Primary Government are as originally adopted and amended by City Council.

Supplemental budget appropriations were approved during the fiscal year ended June 30, 2012, for an increase in appropriations in the amount of $1,119,083 and $2,332,912 for the Primary Government General Fund and School Board General Fund, respectively.

For the General Fund, the City Manager is authorized to transfer budgeted amounts between line items of departments. Revisions that alter the total appropriations for a department must be approved by City Council. Therefore, the level of control at which expenditures may not exceed appropriations is the total expenditure level of each department. Unencumbered appropriations lapse at year-end.

Cash and Cash Equivalents

For purposes of the statements of cash flows for all proprietary fund types the City considers all highly liquid investments, which, when purchased, had a maturity of three months or less, to be cash equivalents.

Investments

Investments consist of the State Treasurer's Local Government Investment Pool (LGIP), federal government obligations, money market funds, and the State Non-Arbitrage Program (SNAP). Investments with a maturity date of one year or less are stated at amortized cost. All other investments are stated at fair value. The City considers investments with a maturity date of three months or less when purchased to be cash and cash equivalents.

Capital Assets

Capital outlays are recorded as expenditures of the governmental funds, and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met.

Capital outlays of the proprietary funds and the EDA are recorded as capital assets and depreciated over their estimated useful lives on a straight-line basis on both the fund's basis and the government-wide basis. For assets constructed, interest expense is capitalized on proprietary fund type assets financed with tax-exempt debt. The amount of interest expense capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project against interest income earned on invested proceeds over the same period.

1. Summary of Significant Accounting Policies *(Continued)*

Capital Assets *(Continued)*

The City's capitalization policy threshold is $5,000. All capital assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated assets are valued at their estimated fair market value on the date donated. Assets acquired under capital leases are capitalized at the net present value of all lease payments.

The estimated useful lives of capital assets are as follows:

	Years
Buildings	40
Infrastructure	20 - 50
Machinery and equipment	3 - 50

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, or 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 current year's operations.

Allowance for Uncollectible Accounts

The City (Primary Government) calculates its allowance for uncollectible property taxes receivable using historical collection data. At June 30, 2012, the allowance approximated $305,000 in the General Fund. All other receivables have experienced a high collection rate; therefore, an allowance for doubtful accounts has not been established by City management for other receivables.

Inventory

Inventory in the Special Revenue Fund of the School Board consist principally of items held for resale and are valued at cost (first-in, first-out method).

Inventory in the Fleet Management Fund (Internal Service Fund) consists of supplies held for future use and is valued at average cost (weighted average method).

Inventory is recognized as expenditures when consumed.

1. Summary of Significant Accounting Policies *(Continued)*

Compensated Absences

City employees are granted vacation and sick pay in varying amounts based on years of service. Employees may accumulate, subject to certain limitations, unused vacation and sick pay earned and, upon retirement, termination or death, may be compensated for certain amounts at specified rates. The cost of accumulated vacation and sick pay expected to be paid from future expendable resources, both the current and noncurrent portions, is accounted for as a liability in the government-wide financial statements and proprietary fund financial statements, and charged to the general governmental fund, sewer fund, parks and recreation fund, solid waste fund and internal service fund based upon employees' duties. Compensated absences are reported in governmental funds only if they have matured (i.e. unused reimbursable leave still outstanding following an employee's resignation or retirement).

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

Sewer Availability Fees

Amounts charged customers to connect to the City's sewer system are recognized as nonoperating revenue.

Deferred Revenue

Deferred revenue in the governmental fund types consists of revenue that is measurable but not available for use during the current period. Property taxes receivable at June 30, not collected within 45 days after that date are reported as deferred revenue in the accompanying combined financial statements.

Fund Balances/Net Assets

Fund balances have been classified to reflect the limitations and restrictions placed on the respective funds as follows:

Nonspendable – includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact.

Restricted – includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers or through enabling legislation.

Committed – includes amounts that can be used only for the specific purposes determined by a formal action (ordinance) of City Council. The committed amounts cannot be used for any purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit these amounts.

Assigned – includes amounts that are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by City Council's delegation of this authority to the City Manager or Superintendent of Schools or State Statute.

Unassigned – is the residual classification for the City's general fund and includes all spendable amounts not contained in other classifications.

1. Summary of Significant Accounting Policies (Continued)

The City's policy is to apply expenditures against restricted resources first when either restricted or unrestricted amounts are available. Within unrestricted fund balance, it is the City's policy to apply expenditures against committed amounts first, followed by assigned, and then unassigned amounts. It is possible for the non-general funds to have negative unassigned fund balance when nonspendable and restricted amounts exceed the positive fund balance for that fund.

The General Fund unassigned target is at least 12%-15% of the Fund's operating expenditures.

Net Assets in government-wide financial statements are classified as invested in capital assets, net of related debt, restricted and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, laws and regulations of other governments or imposed by law through State statute.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and liabilities for the reported periods. Actual results could differ from those estimates and assumptions.

Credit Risk

The assessed value of real estate for the City's ten largest taxpayers comprises 2.63% of the City's real estate tax base. Concentration of credit risk with respect to receivables is limited due to the large number of customers comprising the City's customer base.

2. Deposits and Investments

Deposits

At year-end, the carrying value of the City's deposits with banks and savings institutions was $4,611,278 including agency fund cash of $38,258. All cash of the City is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. Seq. of the Code of Virginia (Act) or covered by federal depository insurance.

Under this Act, banks holding public deposits in excess of the amounts insured by the FDIC must pledge collateral equal to 50% of such deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

However, all qualified bank's public deposits are considered 100% "insured" because the Act provides for additional assessments to be made. This means that if a qualified bank were to fail, all collateral in the pool would be used to recover the public deposits held at that bank. In addition, if the collateral were inadequate to cover all public deposits, additional amounts would be assessed on a pro rata basis to each member of the pool. Therefore, the Act ensures that there will be no loss of public funds and that makes the pool similar to depository insurance. At June 30, 2012, no balances of the Primary Government were uninsured or uncollateralized in banks or savings institutions because of failure of the institutions to qualify under the Act.

The carrying amount of deposits for the School Board was $2,621,026 and the bank balance was $3,361,878. The bank balance was covered by Federal Depository Insurance Corporation or collateralized in accordance with the Act. At June 30, 2012, no balances of the component unit were uninsured or uncollateralized in banks or savings institutions because of failure of the institutions to qualify under the Act.

Investments

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, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). LGIP is managed in accordance with the "2a-7 like pool" risk limiting requirements of GASB Statement No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" with portfolio securities valued by the amortized cost method. The fair value of the LGIP is the same as the value of the pool shares. Investments with a maturity date of one year or less are stated at amortized cost. All other investments are stated at fair value. As of June 30, 2012, the City had $532,489 invested in the State Non-Arbitrage Program (SNAP). SNAP funds are rated AAAm by Standard & Poor's. LGIP funds are rated AAAm by Standard & Poor's.

2. Deposits and Investments *(Continued)*

Investment Policy

In accordance with the Code of Virginia and other applicable laws and regulations, the City's investment policy (Policy) permits investments in U.S. government obligations, obligations of the Commonwealth of Virginia or political subdivisions thereof, prime quality commercial paper, and certain corporate notes, bankers acceptances, repurchase agreements, negotiable certificates of deposit, bank deposit notes, mutual funds that invest exclusively in securities specifically permitted under the Policy, and the State Treasurer's Local Government Investment Pool (Virginia LGIP, a 2a-7 like pool).

The policy establishes limitations on the holdings on non-U.S. government obligations. The maximum percentage of the portfolio (book value at the date of acquisition) permitted in each security is as follows:

Commonwealth of Virginia LGIP	100% maximum
Repurchase Agreements	50% maximum
Bankers' Acceptances	40% maximum
Commercial Paper	20% maximum
Negotiable Certificates of Deposit / Bank Notes	20% maximum
Municipal Obligations	20% maximum
Corporate Notes	10% maximum
Bank Deposits	15% maximum

For the purposes of this Policy, assets of the City shall be segregated into three categories based on expected liquidity needs and purposes: short-term operating funds, the core portfolio and bond proceeds.

Short-term Operating Funds

Assets categorized as short-term funds will be invested in permitted investments maturing in twelve months or less. The average weighted maturity of the short-term assets will not exceed 180 days. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio will be continuously invested in readily available funds such as the LGIP, money market mutual funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

Core Portfolio

The general fund core portfolio will be invested in permitted investments with a stated maturity of no more than three years from the date of purchase.

Bond Proceeds

Proceeds from the sale of bonds will be invested in compliance with the specific requirements of the bond covenants without further restriction as to the maximum term to maturity of securities purchased. However, in no case will bond proceeds be invested in securities with a term to maturity that exceeds the expected disbursement date of those funds.

2. Deposits and Investments *(Continued)*

Credit Risk

As required by state statute, the Policy requires that commercial paper have a short-term debt rating of no less than "A-1" (or its equivalent) from at least two of the following; Moody's Investors Service, Standard & Poor's and Fitch Investor's Service. Corporate notes, negotiable certificates of deposit and bank deposit notes maturing in less than one year must have short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investor Service. Notes having a maturity of greater than one year must be rated "AA" by Standard & Poor's and "Aa" by Moody's Investor Service.

Although state statute does not impose credit standards on repurchase agreement counterparties, bankers' acceptances or money market mutual funds, the City has established stringent credit standards for these investments to minimize portfolio risk. The City's investments held by Scott & Stringfellow are rated AAA by Standard & Poor's.

Concentration of Credit Risk

The Policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. No more than 5% of the City's portfolio will be invested in the securities of any single issuer with the following exceptions:

U.S. Treasury	100% maximum
Commonwealth of Virginia LGIP	100% maximum
Each Money Market Fund	50% maximum
Each Repurchase Agreement Counterparty	25% maximum

Interest Rate Risk

As means of limiting exposure to fair value losses arising from rising interest rates, the City's policy limits investment of operating funds to investments with a stated maturity of no more than three years from the date of purchase.

Proceeds from the sale of bonds must be invested in compliance with the specific requirements of the bond covenants and may be invested in securities with longer maturities.

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 an outside party. The Policy requires that all investment securities purchased by the City or held as collateral on deposits or investments shall be held by the City or by a third-party custodial agent who may not otherwise be counterparty to the investment transaction. As of June 30, 2012, with the exception of the Virginia LGIP, all of the City's investments are held in a bank's trust department in the City's name.

2. Deposits and Investments *(Continued)*

The carrying values and weighted average maturity of the City's investments were as follows:

	Investment Maturities (in years)		
	Fair Value	Less Than 1 year	1 - 3 years
Money market funds, Virginia LGIP	$ 400,288	$ 400,288	$ -
Money market funds, Scott & Stringfellow	476,281	476,281	-
Money market funds, RBC Dain Rauscher	296,180	296,180	-
Virginia SNAP Accounts	532,489	-	532,489
Total investments	1,705,238	$ 1,172,749	$ 532,489
Reconciliation to total cash and investments			
Add:			
Cash on hand and in banks	7,318,326		
Total cash and investments	9,023,564		
Less:			
Cash held in fiduciary funds	38,258		
Total cash and investments, Exhibit A, Primary Government and Component Units	$ 8,985,306		

3. Property Taxes Receivable

Real estate taxes are levied based on the assessed value of the property on each July 1 and attach as an enforceable lien on property as of July 1. Personal property taxes are levied based on the assessed value of the property on each January 1. Real estate and personal property taxes are payable in two installments on December 5th and June 5th. The City bills and collects its own property taxes.

	Governmental Activities	Business-Type Activities	Total
Real estate taxes	$ 432,418	$ -	$ 432,418
Personal property taxes	374,456	-	374,456
Accounts receivable	293,669	425,906	719,575
	1,100,543	425,906	1,526,449
Less - allowance for uncollectible accounts	(305,000)	-	(305,000)
Receivables, net	$ 795,543	$ 425,906	$ 1,221,449

4. Notes Receivable

A $100,000 note receivable in the General Fund represents a deed of trust note to a business for relocation expenses. As an incentive to move to the City, the City advanced the business moving expenses. The $100,000 note bears interest at 6%. Beginning December 1, 2008, one-fifth of the principal balance and accrued interest will be forgiven each year once the business meets various conditions outlined in the agreement. Failure to meet the conditions shall be considered a default under this agreement.

A $192,279 note receivable in the General Fund represents a deed of trust note to Poquoson Historical and Cultural Museum Foundation. The $192,279 note bears interest at 7.25%. Beginning June 1, 2009, interest only is due and payable each June 1 and December 1 thereafter. In all events the accrued interest and unpaid principal is due in full on December 1, 2018. As of June 30, 2012 the balance was $153,823.

5. Due From Other Governments

Due from other governments consists of the following:

Primary Government

Commonwealth of Virginia	General Fund
Comprehensive Services Act	$ 49,268
Sales tax	50,737
Division of Motor Vehicles reimbursement	7,885
Compensation Board	18,238
Public Assistance	24,363
Communications Sales and Use tax	34,980
Fire Fund Program	4,590
Mobil Home Titling Tax	1,855
PPTRA	884,118
Virginia Port Authority	9,488
Virginia Department of Transportation	3,984
Total due from the Commonwealth of Virginia	1,089,506
Federal Government	
Plum Tree Island	2,511
DUI Grants - Selective Enforcement	2,350
Byrne Justice Grant	2,758
Citizen Corp 2010	4,062
FEMA Public Assistance	177,546
DHS Communications Grant	15,698
Total due from the federal government	204,925
Total due from other governments	$ 1,294,431

Component Unit - School Board

Commonwealth of Virginia	
State sales tax	$ 174,279
State technology reimbursement	176,388
Total due from the Commonwealth of Virginia	350,667
Federal Government	
Department of Education Program	
Title I	38,132
Title II	44,063
Title VI-B	157,499
Various grants	120,998
Total due from the federal government	360,692
Total due from the other governments	$ 711,359

6. Receivables and Payables - Component Units

Details of the receivables and payables between the Primary Government and component units at June 30, 2012, are as follows:

Primary Government Receivable	Component Unit Payable	Amount
Due from School Board	Due to Primary Government	$ 29,910

7. Capital Assets

A summary of changes in capital assets for the Primary Government follows:

	Balance July 1, 2011	Increases	Decreases	**Balance June 30, 2012**
Capital assets not being depreciated				
Land	$ 3,014,479	$ -	$ -	$ 3,014,479
Construction-in-process	501,061	262,396	377,542	385,915
Total capital assets not being depreciated	3,515,540	262,396	377,542	3,400,394
Other capital assets				
Buildings	9,537,843	489,720	-	10,027,563
Infrastructure	39,064,442	-	-	39,064,442
Land improvements	2,606,232	-	-	2,606,232
Machinery and equipment	6,342,294	544,671	105,075	6,781,890
Total other capital assets	57,550,811	1,034,391	105,075	58,480,127
Less - accumulated depreciation				
Buildings	2,971,711	324,272	-	3,295,983
Infrastructure	31,791,461	161,544	-	31,953,005
Land improvements	933,358	182,700	-	1,116,058
Machinery and equipment	3,672,917	478,025	101,933	4,049,009
Total accumulated depreciation	39,369,447	1,146,541	101,933	40,414,055
Other capital assets, net	18,181,364	(112,150)	3,142	18,066,072
	21,696,904	150,246	380,684	21,466,466
Allocation of School Board Assets				
Buildings	29,014,157	-	-	29,014,157
Less - accumulated depreciation				
Buildings	2,628,824	713,922	-	3,342,746
Total allocated to City	26,385,333	(713,922)	-	25,671,411
Total	$ 48,082,237	$ (563,676)	$ 380,684	$ 47,137,877

7. Capital Assets *(Continued)*

Depreciation was charged to governmental functions as follows:

General Government Administration	$ 132,277
Public Safety	469,649
Public Works	317,789
Health and Welfare	15,524
Parks, Recreation, and Cultural	208,465
Community Development	2,837
Education	713,922
	$ 1,860,463

A summary of changes in capital assets for the enterprise funds is as follows:

	Balance July 1, 2011	Increases	Decreases	**Balance June 30, 2012**
Capital assets not being depreciated				
Land	$ 243,216	$ -	$ -	$ 243,216
Total capital assets not being depreciated	243,216	-	-	243,216
Other capital assets				
Buildings	264,122	-	-	264,122
Machinery and equipment	943,893	123,607	-	1,067,500
Sewer system	22,169,692	-	-	22,169,692
Sewer easement	7,000	-	-	7,000
Intangible	62,322	143,545	28,084	177,783
Total other capital assets	23,447,029	267,152	28,084	23,686,097
Less - accumulated depreciation				
Buildings	262,550	1,572	-	264,122
Machinery and equipment	754,174	55,130	-	809,304
Sewer system	8,220,295	563,624	-	8,783,919
Intangible	4,593	5,528	3,978	6,143
Total accumulated depreciation	9,241,612	625,854	3,978	9,863,488
Other capital assets, net	14,205,417	(358,702)	24,106	13,822,609
Total	$ 14,448,633	$ (358,702)	$ 24,106	$ 14,065,825

7. Capital Assets *(Continued)*

A summary of changes in capital assets for the Component Unit - School Board follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets not being depreciated				
Land	$ 450,876	$ -	$ -	$ 450,876
Other capital assets				
Buildings	39,425,141	40,122	-	39,465,263
Machinery and equipment	1,958,740	446,366	-	2,405,106
Total other capital assets	41,383,881	486,488	-	41,870,369
Less - accumulated depreciation				
Buildings	8,895,881	909,503	-	9,805,384
Machinery and equipment	1,323,257	132,273	-	1,455,530
Total accumulated depreciation	10,219,138	1,041,776	-	11,260,914
Other capital assets, net	31,164,743	(555,288)	-	30,609,455
Capital assets, net	31,615,619	(555,288)	-	31,060,331
Allocation to City				
Buildings	(29,014,157)	-	-	(29,014,157)
Less - accumulated depreciation	2,628,824	713,922	-	3,342,746
Total allocated to City	(26,385,333)	713,922	-	(25,671,411)
Total	$ 5,230,286	$ 158,634	$ -	$ 5,388,920

A summary of the changes in capital assets for the Economic Development Authority is as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets not being depreciated				
Land	$ 2,623,976	$ -	$ -	2,623,976
Other capital assets				
Buildings	185,542	-	-	185,542
Infrastructure	315,273	-	-	315,273
Total other capital assets	500,815	-	-	500,815
Less - accumulated depreciation				
Buildings	66,361	9,277	-	75,638
Infrastructure	114,648	14,330	-	128,978
Total accumulated depreciation	181,009	23,607	-	204,616
Other capital assets, net	319,806	(23,607)	-	296,199
Total	$ 2,943,782	$ (23,607)	$ -	$ 2,920,175

8. Long-term Obligations

Governmental Activities

Following is a summary of the changes in long-term liabilities for governmental activities and its Component Unit - School Board, respectively:

	Balance July 1, 2011	Increases	Decreases	**Balance June 30, 2012**	Amounts Due Within One Year
General obligations					
Debts payable					
General obligation bonds	$ 28,164,822	$ 11,660,000	$ 12,612,822	$ 27,212,000	$ 326,999
General obligation leases	241,240	-	77,647	163,593	80,437
State Literary Fund loans	2,084,820	-	277,000	1,807,820	277,000
Less refunding costs	(638,891)	(310,631)	(49,003)	(900,519)	-
Unamortized Premium	636,985	1,438,794	58,939	2,016,840	-
	30,488,976	12,788,163	12,977,405	30,299,734	684,437
Accrued benefits					
Accrued compensated absences	487,857	729,052	703,401	513,508	51,351
Total	$ 30,976,833	$ 13,517,215	$ 13,680,806	$ 30,813,242	$ 735,788
Component Unit - School Board					
Accrued benefits					
Accrued compensated absences	$ 395,520	$ 506,096	$ 501,750	$ 399,866	$ 85,010

The net OPEB obligation and compensated absences are generally liquidated by the fund for which the employee works.

8. Long-term Obligations *(Continued)*

Governmental Activities *(Continued)*

Outstanding general obligation bonds of the City's governmental activities are comprised of the following:

High School Serial Bonds of 1998 - $650,000 bonds issued and due in annual installments varying from $30,000 to $35,000 through July 2018, with interest payable semi-annually at rates varying from 3.60% to 5.10%.	$ 210,000
General Obligation Refunding Bonds, Series 2010 - $4,670,000 bonds issued and due in annual installments varying from $100,000 to $385,000 through June 2027, with interest paid semi-annually at 4.28%.	4,670,000
General Obligation Refunding Bonds, Series 2010 - $6,600,000 bonds issued and due in annual installments varying from $140,000 to $1,015,000 through June 2027, with interest paid semi-annually at 4.35%.	6,600,000
General Obligation Refunding Bonds, Series 2010 - $3,900,000 bonds issued and due in annual installments varying from $45,000 to $580,000 through June 2027, with interest paid semi-annually at 4.49%.	3,900,000
General Obligation Bonds, Series 2010 - $215,000 bonds issued and due in annual installments varying from $20,000 to $60,000 through June 2016, with interest paid semi-annually at 2.48%.	195,000
General Obligation Refunding Taxable Bonds, Series 2011B - $3,495,000 bonds issued and due in annual installments varying from $55,000 to $313,000 through February 2029, with interest payable semi-annually at 2.98%.	3,472,000
General Obligation Refunding Bonds, Series 2012 - $8,165,000 bonds issued and due in annual installments varying from $35,000 to $1,030,000 through February 2028, with interest payable semi-annually at rates from 2% to 5%.	8,165,000
Total general obligation bonds	$ 27,212,000

8. Long-term Obligations *(Continued)*

Governmental Activities *(Continued)*

Estimated annual debt service requirements to maturity for general obligation bonds for future years ending June 30, follows:

Year	Principal	Interest
2013	$ 326,999	$ 1,054,774
2014	473,000	1,138,781
2015	1,214,000	1,126,675
2016	1,536,001	1,092,111
2017	1,602,001	1,035,113
2018 – 2022	9,905,001	4,040,313
2023 – 2027	11,634,998	1,650,188
2028 – 2029	520,000	23,364
	$ 27,212,000	$ 11,161,319

In October 2004, the City of Poquoson entered into a capital lease to purchase two fire trucks, which were capitalized at a cost of $708,522. At June 30, 2012, accumulated depreciation under this lease totaled $184,213. The balance of this lease as of June 30, 2012, was $163,593. Future minimum lease payments under capital lease and present value of the minimum lease payments are as follows:

2013	$ 86,299
2014	86,299
Total minimum lease payments	172,598
Less - imputed interest	(9,005)
	163,593
Less - current portion	80,437
Long-term portion	$ 83,156

8. Long-term Obligations *(Continued)*

Governmental Activities *(Continued)*

Current Refunding

In September 2011, the City of Poquoson issued $2,895,000 of general obligation refunding bonds to currently refund $2,806,067 of general obligation refunding bonds. The refunded bonds were redeemed and the liability has been removed from the City's financial statements. The reacquisition price equaled the net carrying amount of the old debt. This current refunding resulted in an economic gain of $352,776. The refunding resulted in an overall decrease in debt service over the next 17 years of $449,831.

In May 2012, the City of Poquoson issued $8,165,000 of general obligation refunding bonds to currently refund $9,293,755 of general obligation bonds. The refunded bonds are considered to legally defeased and the liability has been removed from the City's financial statements. The reacquisition price exceeded the net carrying amount of the old debt by $232,972. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is the same as the old debt. The current refunding resulted in an overall decrease in debt service over the next 15 years of $109,682. This current refunding resulted in an economic gain of $389,387.

Outstanding literary loan funds of the Primary Governmental activities are comprised of the following issues:

Primary School Literary Fund Loan - $408,820 loan issued August 15, 1998, due in annual installments of $27,000 through August 2012, and a final payment of $30,820 due in August 2013, with interest at 3%.	$ 57,820
High School Literary Fund Loan - $5,000,000 loan issued November 17, 1998, due in annual installments of $250,000 through December 2019, with interest at 3%.	1,750,000
Total state literary fund loans outstanding	$ 1,807,820

Estimated state literary fund loans debt service requirements to maturity for future years ending June 30, follows:

Year	Principal	Interest
2013	$ 277,000	$ 54,235
2014	280,820	45,925
2015	250,000	37,500
2016	250,000	30,000
2017	250,000	22,500
2018 – 2019	500,000	22,500
	$ 1,807,820	$ 212,660

Debt Limit

The Commonwealth of Virginia imposes a legal limit on the general obligation debt that may be issued by the City to an amount equal to 10% of total assessed value of real property. As of June 30, 2012, the City's aggregate general obligation indebtedness, excluding proprietary fund debt, was $120,919,571 less than the allowable limit.

8. Long-term Obligations *(Continued)*

Overlapping Debt

There are no overlapping or underlying tax jurisdictions.

Business-type Activities

Following is a summary of debt transactions of the enterprise funds:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012	Amounts Due Within One Year
Enterprise Funds					
General obligation bonds	$ 9,425,933	$ 7,330,000	$ 8,150,933	$ 8,605,000	$ 300,000
Less refunding costs	(102,644)	(318,208)	(67,429)	(353,423)	-
Bond premium	51,635	680,749	12,330	720,054	-
	9,374,924	7,692,541	8,206,030	8,971,631	300,000
Accrued compensated absences	32,019	36,748	42,631	26,136	2,614
	$ 9,406,943	$ 7,729,289	$ 8,248,661	$ 8,997,767	$ 302,614

General long-term obligations and notes payable are comprised of the following:

General Obligation Refunding Sewer Bonds, Series 2010 - $740,000 bonds issued and due in annual principal installments varying from $10,000 to $80,000 through April 2022 with interest payable semi-annually at rates varying from 2.2% to 5.2%	675,000
General Obligation Sewer Bonds, Series 2010 - $600,000 bonds issued and due in February 2015, with interest payable semi-annually at a rate of 2.75%.	600,000
General Obligation Refunding Sewer Bonds, Series 2012 - $7,330,000 bonds issued and due in annual installments varying from $150,000 to $685,000 through February 2028, with interest payable semi-annually at rates from 3% to 5%.	7,330,000
Total general obligation bonds outstanding	$ 8,605,000

In May 2012, the City of Poquoson issued $7,330,000 of general obligation refunding bonds to currently refund $7,579,472 of general obligation bonds. The refunded bonds are considered to be legally defeased and the liability has been removed from the City's financial statements. The reacquisition price exceeded the net carrying amount of the old debt by $261,024. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is the same as the old debt. The current refunding resulted in an economic loss of $243,031. The refunding resulted in an overall increase in debt service over the next 15 years of $1,154,158.

8. Long-term Obligations *(Continued)*

Business-Type Activities *(Continued)*

Estimated debt service on the foregoing general obligation bonds recorded in the enterprise funds is payable during future fiscal years as follows:

Year	Principal	Interest
2013	$ 300,000	$ 250,440
2014	205,000	307,901
2015	880,000	302,036
2016	365,000	276,816
2017	445,000	262,071
2018 – 2022	2,580,000	956,531
2023 – 2027	3,145,000	391,500
2028	685,000	20,550
	$ 8,605,000	$ 2,767,845

The City anticipates that all amounts required for the payment of interest and principal on these bonds will be provided by the enterprise fund's revenue; however, the bonds are further collateralized by the full faith and credit of the City.

9. Current Liabilities - Component Unit - Economic Development Authority (EDA)

Line of Credit

The EDA uses a $2,300,000 line of credit with a bank to finance a variety of land purchases. The line of credit expires on March 31, 2013, and bears interest at 30-day LIBOR plus 1.75% with a floor of 2.5%, and is unsecured. Short-term activity was as follows:

	Balance July 1, 2011	Draws	Repayments	Balance June 30, 2012
Line of credit	$ 1,416,438	$ 380,089	$ -	$ 1,796,527

10. Conduit Debt Obligation

On July 1, 2001 and September 12, 2005, the EDA issued $10,000,000 and $5,000,000 YMCA Revenue Bonds, respectively, to finance the acquisition and construction of the Peninsula Metropolitan YMCA (YMCA). On July 13, 2004, the EDA issued $7,500,000 Hampton-Newport News Community Services Board (HNNCSB) revenue bonds to acquire the former Hampton Medical Center and to finance improvements. The costs of financing the projects, all expenses of issuing the bonds and the payments of bond principals and interest are the responsibility of the YMCA, the NSA, and the HNNCSB, respectively. The bonds provide that neither the EDA nor the City shall be obligated to pay the bonds or interest thereon or other costs incident thereto. At June 30, 2012, $15,900,374 remained outstanding.

11. Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

	General	Debt Service	Capital Projects	Total Governmental Funds
Nonspendable				
Notes Receivable	$ 254,474	$ -	$ -	$ 254,474
Total nonspendable	254,474	-	-	254,474
Restricted				
Asset Forfeiture	13,063	-	-	13,063
4 For Life	14,742	-	-	14,742
Fire	86,004	-	-	86,004
Heritage Park Contributions	16,060	-	-	16,060
Library Contributions	9,543	-	-	9,543
CDBG Program Revenue	36,438	-	-	36,438
Streets and Drainage	-	-	590,542	590,542
Contributions – Kids Island	-	-	1,227	1,227
Bond Proceeds	-	-	270,337	270,337
Total restricted	175,850	-	862,106	1,037,956
Assigned				
General Government & Administration	25,305	-	-	25,305
Public Safety & Judicial	11,846	-	-	11,846
Public Works	28,187	-	-	28,187
Health & Welfare	9,390	-	-	9,390
Parks, Recreational, & Cultural	10,772	-	-	10,772
Community Development	1,888	-	-	1,888
Non-departmental	14,261	-	-	14,261
Subsequent year's budget	577,416	-	-	577,416
Debt service	-	2,718	-	2,718
Capital projects	-	-	373,364	373,364
Total assigned	679,065	2,718	373,364	1,055,147
Unassigned	4,498,417	-	-	4,498,417
Total fund balances	$ 5,607,806	$2,718	$1,235,470	$ 6,845,994

12. Deferred Revenue

Deferred revenue for the Primary Government at June 30, 2012, consists of real and personal property taxes not collected within 45 days after June 30, 2012.

13. Contingency

The City receives grant funds, principally from the United States government, for various programs. Although the City has been audited in accordance with the provisions of OMB Circular A-133, these programs remain subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. In the opinion of management of the City, no material refunds will be required as a result of future disallowances of current or prior program expenditures.

14. Interfund Transfers

Interfund transfers for the year ended June 30, 2012 are as follows:

	Transfers In	Transfers Out
General Fund	$ 32,500	$ 2,372,606
Debt Service Fund	2,039,547	-
Capital Projects Fund	181,760	-
Parks and Recreation Fund	79,199	-
Sewer Operations Fund	-	32,500
Solid Waste Fund	72,100	-
	$ 2,405,106	$ 2,405,106

Purpose:

Transfers from General Fund:

$	2,039,547	Debt Service Fund: current year debt payments
$	79,199	Parks and Recreation Fund: fund deficit in field and pool activities
$	181,760	Capital Projects Fund: fund a capital project
$	72,100	Solid Waste Fund: fund deficit in bulky and landscaping programs

Transfers from Sewer Operations Fund:

$	32,500	General Fund: allocate administration costs paid out of General Fund for sewer services

15. Surety Bonds

The City maintained the following surety bond coverage's on certain employees of the Primary Government and component unit during the fiscal year ended June 30, 2012:

Description	Amount
Virginia Municipal Liability Pool - All City employees - employee dishonesty blanket bond	$ 1,000,000
Virginia Municipal Liability Pool	
Patricia McDowell, Clerk of the School Board	10,000
Linda Reviea, Deputy Clerk of the School Board	10,000
All School Board employees, blanket bond	1,000,000

The Commonwealth of Virginia maintained the following surety bond and blanket bond coverage on certain employees pursuant to Section 2.2-1840 of the Code of Virginia. The coverage with respect to the Treasurer does not extend to the loss of any City funds.

Description	Amount
Virginia Municipal Liability Pool - Surety, Faithful Performance of Duty Schedule, Position Bond:	
Treasurer and employees	$ 1,000,000
Commonwealth of Virginia Faithful Performance of Duty Bond	
Treasurer	500,000
Director of Finance	500,000
Commissioner of the Revenue	3,000

16. Related Party Transactions

The City's financial statements do not include certain public commissions and authorities created as separate governmental entities under the laws of the Commonwealth of Virginia. These agencies are separate legal entities having governmental character and sufficient autonomy in the management of their own affairs to distinguish them as separate from the administrative organization of the City, although certain members of their governing bodies are appointed by Council. These entities are the Hampton Roads Planning District Commission (HRPDC), the Virginia Peninsula's Public Service Authority (VPPSA), the Peninsula Council Workforce Development (PCWD), the Colonial Behavioral Health (CBH) and the Hampton Roads Partnership (HRPC). Expenditures of these agencies are financed by federal and state grants and fees, including contributions from the City. During the year ended June 30, 2012, the City provided support or paid for services to HRPDC of $30,363, VPPSA of $271,582, PCWD of $5,847, CBH of $144,210 and HRPC of $4,900.

In addition, a conglomerate of municipalities shares certain expenses for maintaining and operating a regional jail and juvenile detention center. During FY 2012, the City incurred expenses for the regional jail and juvenile detention center of $167,434 and $49,966, respectively. Notes issued by the regional jail are limited obligations payable from revenues received from the member jurisdictions. The City, along with three other member jurisdictions, have agreed to provide funding makeup support to cover any deficiencies in the regional jail's debt service fund based on each member's utilization rate.

16. Related-Party Transactions *(Continued)*

The City of Poquoson shares certain services and their associated costs with York County, including the Circuit Court, the Commonwealth's Attorney, Sheriff of York County and E911 operations. The City also shares social services with York County. During the year ended June 30, 2012, the City paid $932,740 to York County for these shared services.

The School Board's financial statements do not include the New Horizons Education Center. During the year ended June 30, 2012, the School Board provided support of $439,071 to the New Horizons Education Center.

17. Retirement Plan

A. Plan Description

The City contributes to the Virginia Retirement System (VRS), an agent multiple-employer public retirement system that acts as a common investment and administrative agent for political subdivisions in the Commonwealth of Virginia. In addition, professional and nonprofessional employees of the Poquoson School Board are covered by the VRS. Professional employees participate in a VRS statewide teacher cost-sharing pool and nonprofessional employees participate as a separate group in the agent multiple-employer retirement system.

VRS administers two defined benefit plans for the local government employees–Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.

- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years if service credit.

- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

17. Retirement Plan *(Continued)*

Retirees are eligible for an annual cost-of-living (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the report may be obtained from the VRS Web site at http://www.varetire.org/Pdf/Publications/2011-annual-report-pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, Virginia, 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. In addition, the City and School Board are required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City's and School Board's (non-professional employees) contribution rate for the year ended June 30, 2012, was 8.61% and 10.39%, respectively, of annual covered payroll.

The School Board's required employer contributions to the teacher cost-sharing pool for all professional employees for the fiscal years ended 2012, 2011 and 2010 were $1,067,773, $1,032,312, and $1,554,807, respectively. The School Board contributed 100% of required contributions to the pool for fiscal year ended 2012 and each of the two preceding years.

17. Retirement Plan *(Continued)*

C. Annual Pension Costs

For the Fiscal Year ended 2012, the City's annual pension cost of $437,713 was equal to the City's required and actual contributions. For the Fiscal Year ended 2012, the School Board's annual pension cost of $67,371 was equal to the School Board's required and actual contributions.

Three-Year Trend Information for the City of Poquoson

City of Poquoson

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	$ 437,713	100%	$ -
June 30, 2011	$ 422,972	100%	$ -
June 30, 2010	$ 428,677	100%	$ -

Component Unit - School Board (non-professional)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	$ 67,371	100%	$ -
June 30, 2011	$ 75,750	100%	$ -
June 30, 2010	$ 98,370	100%	$ -

The FY 2012 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7%, (b) projected salary increased ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% per year for employees eligible for enhances benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 members and 2.25% for Plan 2 members.. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%. The actuarial value of the City's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the mark value of assets over a five-year period. The City's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years decreasing by one each year in subsequent valuations until reaching 20 years..

D. Funded Status

As of June 30, 2011 for the City, the most recent actuarial valuation date, the plan was 80.21% funded. The actuarial accrued liability for benefits was $25,082,346, and the actuarial value of assets was $20,118,943, resulting in an unfunded actuarial accrued liability (UAAL) of $4,963,403. The covered payroll (annual payroll of active employees covered by the plan) was $4,935,789, and the ratio of the UAAL to the covered payroll was 100.56%.

As of June 30, 2011 for the School Board, the most recent actuarial valuation date, the plan was 71.09% funded. The actuarial accrued liability for benefits was $2,333,948, and the actuarial value of assets was $1,659,101, resulting in an unfunded actuarial accrued liability (UAAL) of $674,747. The covered payroll (annual payroll of active employees covered by the plan) was $549,819, and the ratio of the UAAL to the covered payroll was 122.72%.

18. Other Post Employment Benefit Obligation (OPEB)

Plan Description

The City and School Board administer a single-employer defined benefit post employment health care plan that covers all current retirees and covered dependents and will provide coverage for all future retirees and their covered dependents. Employees who are eligible for the health plan under normal retirement must have a combination of age (minimum 50 years) and years of service (minimum of 5 years) equal to 70. During the year, 122 employees were participating in the City's plan at a cost of $53,780 and 313 employees were participating in the School Board's plan at a cost of $54,114. Separate stand-alone statements are not issued for this plan.

Funding Policy

The City Council and the School Board have the authority to establish and amend the funding policy of their respective plans. The employer's contribution ranges from 0% - 100% of the premiums based on the retiree's years of continuous heath care coverage and the health care option selected by the retirees. The employer contributions are financed based on a pay-as-you-go basis. During the fiscal year ending 2012, the City and School Board made contributions amounting to $12,594 and $99,200, respectively.

Annual OPEB Cost and Net OPEB Obligation

The City's and the School's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), and amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's and the School's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the net OPEB obligation:

	City of Poquoson	Component Unit School Board
Annual required contribution	$ 53,780	$ 54,114
Interest on net OPEB obligation	5,335	7,540
Adjustment to ARC	(5,445)	(7,695)
Annual OPEB cost	53,670	53,959
Contributions made	(12,594)	(99,200)
Increase in net OPEB obligation	41,076	(45,241)
Net OPEB obligation - beginning of year	133,382	188,491
Net OPEB obligation - end of year	$ 174,458	$ 143,250

18. Other Post Employment Benefit Obligation *(Continued)*

Annual OPEB Cost and Net OPEB Obligation *(Continued)*

The City's and the School's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and 2012 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Credit	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	$ 53,670	$ (12,593)	23%	$ 174,458
June 30, 2011	$ 66,611	$ 11,189	-17%	$ 133,382
June 30, 2010	$ 59,873	$ (38,192)	64%	$ 55,582

Component Unit - School Board

Fiscal Year Ended	Annual OPEB Cost	Employer Credit	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	$ 53,959	$ (99,200)	184%	$ 143,250
June 30, 2011	$ 105,342	$ 5,612	-5%	$ 188,491
June 30, 2010	$ 77,655	$ (34,999)	45%	$ 77,537

Funded Status and Funding Progress

Based on the most recent actuarial valuation for the fiscal year ended June 30, 2012, the funded status of the plan was as follows:

	City of Poquoson	Component Unit School Board
Actuarial accrued liability (AAL)	$ 848,323	$ 503,390
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	$ 848,323	$ 503,390
Funded ratio (actuarial value of plan assets/AAL)	0%	0%
Covered payroll (active plan members)	$ 6,251,323	$ 11,631,825
UAAL as a percentage of covered payroll	13.57%	4.33%

18. Other Post Employment Benefit Obligation *(Continued)*

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented below, presents information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The OPEB liability was determined on the Projected Unit Credit cost actuarial method. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the City's and the School Board's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 2.5% per year, and an annual healthcare cost trend rate of 9.5% initially for the year ended June 30, 2012, reduced annually by increments, to an ultimate rate of 5% for the fiscal year ending June 30, 2021. In calculating the fiscal year annual required contribution the initial unfunded actuarial accrued liability, actuarial gains and actuarial losses were amortized over an open 30-year period as a level percentage of projected payroll.

Schedule of Funding Progress

City of Poquoson

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2011	$ -	$ 848,323	$ 848,323	0%	$ 6,251,323	13.57%
7/1/2010	$ -	$ 745,924	$ 745,924	0%	$ 5,561,270	13.41%
7/1/2009	$ -	$ 636,500	$ 636,500	0%	$ 5,675,321	11.20%

Component Unit - School Board

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2011	$ -	$ 503,390	$ 503,390	0%	$ 11,631,825	4.33%
7/1/2010	$ -	$ 781,287	$ 781,287	0%	$ 11,603,841	6.73%
7/1/2009	$ -	$ 681,279	$ 681,279	0%	$ 12,452,785	5.47%

19. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The risk of loss from certain acts of employees and certain elected officials is insured through commercial insurance as discussed in Note 15. Substantially all other risks are insured through participation in various public entity risk pools operating as common risk management and insurance programs for many local political subdivisions in the Commonwealth of Virginia. The City pays annual premiums to the pools for its general insurance coverage. The agreements of political subdivisions participating in the pools provide that the pools will be self-sustaining through member premiums but will reinsure through commercial companies for excess liability claims.

There have been no significant reductions in insurance coverage from the prior year, and settled claims have not exceeded the amount of insurance coverage in any of the past three years.

20. Commitments

The City entered into contracts for the construction of a public works administrative building. The contracts for elementary school and public works administrative building totaled $17,872,219 with $272,967 outstanding and $228,800 with $222,332 outstanding, respectively, at June 30, 2012.

21. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to assign that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the General Fund of the City. At June 30, 2012, the General Fund had outstanding encumbrances in the amount of $101,649.

While encumbrances do not constitute expenditures in accordance with accounting principles generally accepted in the United State of America, encumbrances outstanding at year-end do not lapse.

Encumbrance accounting is also employed as an extension of formal budgetary control in the School Board General Fund of the component unit. Again, encumbrances outstanding at year-end do not lapse.

* * * * *

Required Supplementary Information

This page left blank intentionally

Budgetary Comparison Schedule - General Fund (Budget Basis)

Year Ended June 30, 2012

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
Revenues and other financing sources				
Revenue from local sources				
General property taxes				
Real property taxes	$ 13,438,000	$ 13,438,000	$ 13,623,706	$ 185,706
Public service corporation property taxes	138,000	138,000	188,519	50,519
Personal property	2,290,000	2,290,000	2,394,121	104,121
Penalties and interest	157,000	157,000	154,725	(2,275)
Total general property taxes	16,023,000	16,023,000	16,361,071	338,071
Other local taxes				
Sales and use taxes	922,000	922,000	940,251	18,251
Meals taxes	510,000	510,000	578,581	68,581
Cigarette taxes	60,000	60,000	60,293	293
Consumers' utility taxes	280,000	280,000	284,289	4,289
Consumption tax	41,500	41,500	37,846	(3,654)
Business license taxes	400,000	400,000	416,863	16,863
Bank stock taxes	49,000	49,000	33,483	(15,517)
Recordation and wills taxes	190,000	190,000	158,706	(31,294)
Deeds of conveyance	25,000	25,000	19,683	(5,317)
Total other local taxes	2,477,500	2,477,500	2,529,995	52,495
Permits, privilege fees and regulatory licenses				
Animal license	4,500	4,500	5,367	867
Permits and other licenses	67,900	67,900	91,947	24,047
Total permits, privilege fees and regulatory licenses	72,400	72,400	97,314	24,914
Fines and forfeitures	53,100	53,100	43,603	(9,497)
Revenue from use of money and property				
Revenue from use of money	32,733	32,734	13,700	(19,034)
Revenue from use of property	163,800	163,800	167,573	3,773
Total revenue from use of money and property	196,533	196,534	181,273	(15,261)

Budgetary Comparison Schedule - General Fund (Budget Basis)

Year Ended June 30, 2012

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
Revenues and other financing sources *(Continued)*				
Charges for services				
Charges for sales of maps	-	-	189	189
Charges for copying	3,300	3,300	3,679	379
Charges for passport processing	20,000	20,000	40,282	20,282
Charges for library and fees	22,000	22,000	30,648	8,648
EMS revenue recovery	200,000	200,000	271,110	71,110
Charges for school grounds maintenance	53,500	53,500	49,188	(4,312)
Total charges for services	298,800	298,800	395,096	96,296
Miscellaneous revenue				
Miscellaneous	16,000	16,000	12,329	(3,671)
Insurance recoveries	-	155,760	156,044	284
Donations-Library	-	19,474	19,551	77
Donations-volunteer fire and rescue	-	2,000	2,000	-
Gain on sale of capital assets	-	13,000	14,357	1,357
Donations	50,000	50,000	5,290	(44,710)
Total miscellaneous revenue	66,000	256,234	209,571	(46,663)
Intergovernmental				
Revenue from the Commonwealth				
Noncategorical aid				
DMV reimbursement	105,000	105,000	96,449	(8,551)
Local Aid Contra Revenue	(42,000)	(42,000)	(42,611)	(611)
Mobile home titling taxes	2,000	2,000	4,619	2,619
Rolling stock tax	-	-	1	1
Personal property tax relief	1,923,435	1,923,435	1,923,431	(4)
Total noncategorical aid	1,988,435	1,988,435	1,981,889	(6,546)
Categorical aid				
Shared expenses				
Commissioner of the Revenue	96,383	96,383	96,543	160
Treasurer	86,188	86,188	86,355	167
Registrar/electoral board	34,414	34,414	40,254	5,840
Total categorical aid	216,985	216,985	223,152	6,167

Budgetary Comparison Schedule - General Fund (Budget Basis)

Year Ended June 30, 2012

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
Revenues and other financing sources *(Continued)*				
Other categorical aid				
State 599 police funds	233,207	233,207	233,204	(3)
Fire and EMS	39,168	39,168	44,581	5,413
Department of Emergency Services	2,000	2,000	2,000	-
Department of Emergency Services - Public Assistance	-	24,500	31,663	7,163
Street and highway maintenance	775,000	775,000	775,000	-
Litter control	-	5,000	5,000	-
Library	136,273	136,273	136,159	(114)
Comprehensive services	173,290	173,290	107,718	(65,572)
State drug seizure	-	2,751	3,834	1,083
Other state grants	-	5,893	15,726	9,833
Total other categorical aid	1,358,938	1,397,082	1,354,885	(42,197)
Total categorical aid	1,575,923	1,614,067	1,578,037	(36,030)
Total revenue from the Commonwealth	3,564,358	3,602,502	3,559,926	(42,576)
Revenue from the federal government				
FEMA-Public Assistance	-	183,750	189,559	5,809
Miscellaneous	5,500	117,037	59,815	(57,222)
Total revenue from the federal government	5,500	300,787	249,374	(51,413)
Other financing sources				
Transfer from sewer fund	130,000	130,000	32,500	(97,500)
Transfer from unapproprated fund	285,027	880,444	-	(880,444)
Total other financing uses	415,027	1,010,444	32,500	(977,944)
Total revenue and other financing sources	$ 23,172,218	$ 24,291,301	$ 23,659,723	$ (631,578)

Budgetary Comparison Schedule - General Fund (Budget Basis)

Year Ended June 30, 2012

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
Expenditures and other financing uses				
General government administration				
Legislative - City Council	$ 70,005	$ 70,005	$ 67,083	$ 2,922
General and financial administration				
City Manager	397,972	414,472	414,466	6
Legal services	110,150	110,150	102,197	7,953
Independent auditor	31,200	31,200	30,485	715
Commissioner of the Revenue	279,167	279,167	278,380	787
Assessor/equalization board	170,644	170,644	169,500	1,144
Treasurer	340,795	340,795	321,071	19,724
Finance	328,542	328,542	328,438	104
Technology	43,500	43,500	43,292	208
Risk management	82,492	258,492	256,586	1,906
Total general and financial administration	1,784,462	1,976,962	1,944,415	32,547
Board of elections - electoral board and registrar	160,413	160,413	153,747	6,666
Total general government administration	2,014,880	2,207,380	2,165,245	42,135
Judicial Administration				
Courts	241,118	241,118	233,522	7,596
Sheriff	167,000	167,000	169,177	(2,177)
Total judicial administration	408,118	408,118	402,699	5,419
Public Safety				
Law enforcement and traffic control - police department	2,339,077	2,437,355	2,304,530	132,825
Fire and rescue services - fire department	2,566,498	2,630,685	2,449,416	181,269
Correction and detention - regional operated institutions	204,130	224,130	222,806	1,324
Inspections - various	341,009	403,009	401,519	1,490
Other protection - animal control	85,445	86,845	86,627	218
Total public safety	5,536,159	5,782,024	5,464,898	317,126

Budgetary Comparison Schedule - General Fund (Budget Basis)

Year Ended June 30, 2012

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
Expenditures and other financing uses *(Continued)*				
Public works				
Maintenance of highways, streets, bridges and sidewalks				
General engineering/administration	100,271	100,271	100,238	33
Highways, streets, bridges and sidewalks	1,357,620	1,370,620	1,332,593	38,027
Street lights	75,000	79,000	78,936	64
Total maintenance of highways, streets, bridges, and sidewalks	1,532,891	1,549,891	1,511,767	38,124
Maintenance of general buildings and grounds	69,430	69,430	69,058	372
Total public works	1,602,321	1,619,321	1,580,825	38,496
Health and welfare				
Health				
Local health department	35,539	37,539	37,061	478
Mosquito control	234,816	234,816	234,357	459
Total health	270,355	272,355	271,418	937
Mental health and mental retardation - mental health	189,370	189,370	189,370	-
Welfare				
Social services	278,639	276,639	254,184	22,455
Comprehensive services	250,000	250,000	173,544	76,456
Total welfare	528,639	526,639	427,728	98,911
Total health and welfare	988,364	988,364	888,516	99,848
Education - School Board	8,653,353	8,826,375	8,796,662	29,713
Total education	8,653,353	8,826,375	8,796,662	29,713
Parks, recreation and cultural - supervision of parks and recreation	277,310	277,310	277,083	227
Library - administration	753,468	795,283	784,173	11,110
Total parks, recreation and cultural	1,030,778	1,072,593	1,061,256	11,337

Budgetary Comparison Schedule - General Fund (Budget Basis)

Year Ended June 30, 2012

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
Expenditures and other financing uses *(Continued)*				
Community development				
Planning	314,985	314,985	302,733	12,252
Economic development	82,089	155,209	129,020	26,189
Community development	141,185	146,186	142,409	3,777
Total community development	538,259	616,380	574,162	42,218
Nondepartmental - miscellaneous	40,000	34,000	33,705	295
Department of motor vehicles	106,440	106,440	100,851	5,589
Recovery - Hurricane Irene	-	245,000	239,223	5,777
Total nondepartmental	146,440	385,440	373,779	11,661
Other Financing Uses				
Transfers to Debt Service Fund	2,052,246	2,052,246	2,039,547	12,699
Transfers to Capital Projects Fund	50,000	181,760	181,760	-
Transfers to Solid Waste Fund	72,100	72,100	72,100	-
Transfers to Parks Recreation Fund	79,200	79,200	79,199	1
Total other financing uses	2,253,546	2,385,306	2,372,606	12,700
Total expenditures and other financing uses	$ 23,172,218	$ 24,291,301	$ 23,680,648	$ 610,653
Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses - budgetary basis	$ -	$ -	$ (20,925)	$ (20,925)
Less - Encumbrances outstanding June 30, 2011, actually expended as of June 30, 2012			(162,865)	
Add - Encumbrances outstanding June 30, 2012			101,649	
The Grant Fund is consolidated into the General Fund for reporting purposes:				
Investment Income			56	
Community Development Expenditures			(885)	
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses, GAAP basis			(82,970)	
Fund balances, July 1, 2011			5,690,776	
Fund balances, June 30, 2012			$ 5,607,806	

Schedules of Funding Progress and Employer Contributions (Unaudited)
Virginia Retirement System

Year Ended June 30, 2012

Schedules of Funding Progress

	Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as a Percentage of Covered Payroll
City Employees	6/30/11	$20,118,943	$25,082,346	$ 4,963,403	80.21%	$ 4,935,789	100.56%
	6/30/10	$19,603,136	$23,306,814	$ 3,703,678	84.11%	$ 5,022,695	73.74%
	6/30/09	$19,500,696	$21,541,226	$ 2,040,530	90.53%	$ 5,561,622	36.69%
School Board							
Non-professional Employees	6/30/11	$ 1,659,101	$ 2,333,948	$ 674,747	71.09%	$ 549,819	122.72%
	6/30/10	$ 1,637,087	$ 2,299,015	$ 661,928	71.21%	$ 631,722	104.78%
	6/30/09	$ 1,590,308	$ 2,120,722	$ 530,414	74.99%	$ 694,281	76.40%

Schedules of Employer Contributions

	Valuation Date	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Pension Obligation
City Employees	6/30/12	$ 719,375	100.00%	$ -
	6/30/11	$ 698,972	100.00%	$ -
	6/30/10	$ 740,737	100.00%	$ -
School Board				
Non-professional Employees	6/30/12	$ 67,371	100.00%	$ -
	6/30/11	$ 75,750	100.00%	$ -
	6/30/10	$ 98,370	100.00%	$ -

Schedules of Funding Progress and Employer Contributions (Unaudited)
Other Post Employment Benefits

Year Ended June 30, 2012

Schedules of Funding Progress

	Actuarial Valuation Date	Actuarial Value of Assets	Accrued Liability Projected Unit Credit	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as a Percentage of Covered Payroll
City of Poquoson	7/1/11	$ -	$ 848,323	$ 848,323	0.00%	$ 6,251,323	13.57%
	7/1/10	$ -	$ 745,924	$ 745,924	0.00%	$ 5,561,270	13.41%
	7/1/09	$ -	$ 636,500	$ 636,500	0.00%	$ 5,675,321	11.20%
Component Unit - School Board	7/1/11	$ -	$ 503,390	$ 503,390	0.00%	$ 11,631,825	4.33%
	7/1/10	$ -	$ 781,287	$ 781,287	0.00%	$ 11,603,841	6.73%
	7/1/09	$ -	$ 681,279	$ 681,279	0.00%	$ 12,452,785	5.47%

Schedules of Employer Contributions

	Actuarial Valuation Date	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Pension Obligation
City of Poquoson	7/1/11	$ 53,780	23.42%	$ 174,459
	7/1/10	$ 66,657	(16.79)%	$ 133,382
	7/1/09	$ 59,901	63.80%	$ 55,582
Component Unit - School Board	7/1/11	$ 54,114	183.32%	$ 143,250
	7/1/10	$ 105,407	(5.33)%	$ 188,491
	7/1/09	$ 77,684	45.00%	$ 77,537

1. Budgets and Budgetary Accounting

The City utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Between the first and thirtieth of April, the City Manager submits to City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

- The budget is formulated from estimates of revenues and expected expenditures from each department. The School Board is treated as a single expenditure line item.

- When the City Manager submits the proposed budget to City Council, he also recommends an appropriation ordinance and an ordinance levying the tax rates for the ensuing year.

- City Council then holds public hearings on the proposed budget. Notice of such public hearing must appear in a local newspaper not less than ten days prior to the hearing.

- The budget must be approved by a majority vote of City Council and legally adopted within 40 days of submission to City Council, but no later than May 31. If City Council does not adopt the proposed budget before May 31, the budget as submitted is automatically adopted.

- The City Manager is authorized to transfer budgeted amounts within departments. Expenditures over the original budget of any department must be approved by City Council.

Budgets for proprietary fund types are prepared on the accrual basis of accounting but are not legally adopted. The General Fund budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for the recognition of encumbrances as expenditures. Budgets for Capital Projects and debt service funds are not legally adopted budgets.

Therefore, the "actual" data included in statements comparing expenditures with budgets differs from the expenditures reported in accordance with generally accepted accounting principles by the amount of the reported encumbrances.

Beginning fund balances for budgetary basis presentation purposes are adjusted for the carryforward of prior year encumbrances. According to City Code, unexpended and unencumbered appropriations lapse at June 30 of each year. Appropriations that are encumbered at June 30 are carried forward into the following year's appropriations to allow for liquidation of the encumbrances.

Budgeting comparisons for the General Fund are shown as required supplementary information.

* * * * *

This page left blank intentionally

Other Supplementary Information

This page left blank intentionally

Combining Balance Sheet - Component Unit - School Board

June 30, 2012

	Governmental Activities		Total
Assets	General	Special Revenue	School Board
Cash and cash equivalents	$ 2,517,151	$ 77,782	$ 2,594,933
Due from other governmental units	711,359	-	711,359
Due from special revenue fund	29,081	-	29,081
Inventory	-	10,345	10,345
Total assets	$ 3,257,591	$ 88,127	$ 3,345,718
Liabilities			
Vouchers and accounts payable	$ 2,289,161	$ 59,777	$ 2,348,938
Due to primary government	29,910	-	29,910
Due to general fund	-	29,081	29,081
Total liabilities	2,319,071	88,858	2,407,929
Fund Balances			
Restricted	-	(731)	(731)
Assigned, education	938,520	-	938,520
Unassigned	-	-	-
Total fund balances	938,520	(731)	937,789
Total liabilities and fund balances	$ 3,257,591	$ 88,127	$ 3,345,718

Combining Balance Sheet - Component Unit - School Board

June 30, 2012

Reconciliation of Combining Balance Sheet - Component Unit - School Board to Statement of Net Assets - Component Unit - School Board

Total fund balances - Component Unit - School Board	$ 937,789
Amount reported for component unit activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation.	5,388,920
Noncurrent liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(543,116)
Total net assets - Component Unit - School Board	$ 5,783,593

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Component Unit - School Board

Year Ended June 30, 2012

	General Fund	Special Revenue	Total School Board
Revenues			
Charges for services	$ -	$ 338,303	$ 338,303
Intergovernmental			
Commonwealth of Virginia	10,190,949	8,123	10,199,072
Federal government	1,826,817	173,422	2,000,239
Local government	9,032,187	-	9,032,187
Total revenues	21,049,953	519,848	21,569,801
Expenditures			
Current			
Education	20,659,411	738,949	21,398,360
Total expenditures	20,659,411	738,949	21,398,360
Excess (deficiency) of revenues over expenditures	390,542	(219,101)	171,441
Other financing sources (uses)			
Transfers in	-	188,498	188,498
Transfers out	(188,498)	-	(188,498)
Total other financing sources, net	(188,498)	188,498	-
Net change in fund balance	202,044	(30,603)	171,441
Fund balance, July 1, 2011	736,476	29,872	766,348
Fund balance, June 30, 2012	$ 938,520	$ (731)	$ 937,789

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Component Unit - School Board

Year Ended June 30, 2012

Reconciliation of Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Component Unit - School Board to Statement of Activities - Component Unit

Net change in fund balances - total School Board funds	$ 171,441
Amount reported for governmental activities in the statement of net assets are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation. Also, in the statement of activities, the loss of disposal of assets is reported.	
Depreciation expense	(1,041,776)
Some expenses in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	
Other post employment benefit obligation	45,241
The City has a "tenancy in common" with the School Board whenever the City incurs "on-behalf" of debt for any school property owned by the School Board which is payable over more than one year. This amount is the applicable net book value change for the fiscal year.	1,200,410
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(4,346)
Change in net assets of governmental activities	$ 370,970

Budgetary Comparison Schedule - General Fund - School Board

Year Ended June 30, 2012

	General Fund			
	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Intergovernmental				
Commonwealth of Virginia	$ 10,104,740	$ 10,256,848	$ 10,190,949	$ (65,899)
Federal government	893,878	2,821,360	1,826,817	(994,543)
Local government	8,653,352	8,937,399	9,032,187	94,788
Miscellaneous	166,400	135,675	-	(135,675)
Total revenues	19,818,370	22,151,282	21,049,953	(1,101,329)
Expenditures				
Current				
Instruction	14,436,993	14,141,913	15,127,709	(985,796)
Division-wide	914,162	964,388	977,478	(13,090)
Transportation	770,250	819,545	822,856	(3,311)
Operation and maintenance	1,752,782	1,767,064	1,632,246	134,818
Food service	117,776	117,776	80,793	36,983
Technology	932,529	747,729	653,632	94,097
Grants	749,378	3,448,367	1,566,741	1,881,626
Total expenditures	19,673,870	22,006,782	20,861,455	1,145,327
Other financing sources (uses)				
Transfer out - special revenue fund	(144,500)	(144,500)	(188,498)	(43,998)
Total other financing sources (uses)	(144,500)	(144,500)	(188,498)	(43,998)
Excess of revenue and other financing sources over (under) expenditures and other financing uses - budgetary basis	$ -	$ -	$ -	$ -
Less - encumbrances oustanding June 30, 2011, actually expended as of June 30, 2012			(736,476)	
Add - encumbrances oustanding June 30, 2012			938,520	
Excess of revenue and other financing sources over (under) expenditures and other financing uses - GAAP basis			202,044	
Fund balance, June 30, 2011			736,476	
Fund balance, June 30, 2012			$ 938,520	

Schedule of Changes in Capital Assets by Function and Activity - School Board

Year Ended June 30, 2012

	Balance July 1, 2011	Additions	Deductions	**Balance June 30, 2012**
Education	$ 41,834,757	$ 486,488	$ -	$ 42,321,245
Less - accumulated depreciation	(10,219,138)	(1,041,776)	-	(11,260,914)
	31,615,619	(555,288)	-	31,060,331
Allocation of assets to City, net	(26,385,333)	713,922	-	(25,671,411)
	$ 5,230,286	$ 158,634	$ -	$ 5,388,920

Schedule of Changes in Assets and Liabilities - Agency Funds
Discretely Presented Component Unit - School Board

Year Ended June 30, 2012

(School Activity Funds and Instructional Support Fund)

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Assets				
Cash and cash equivalents	$ 357,774	$ 803,661	$ 799,380	$ 362,055
Liabilities				
Due to students	$ 357,774	$ 803,661	$ 799,380	$ 362,055

Statement of Changes in Assets and Liabilities - Library Agency Fund

Year Ended June 30, 2012

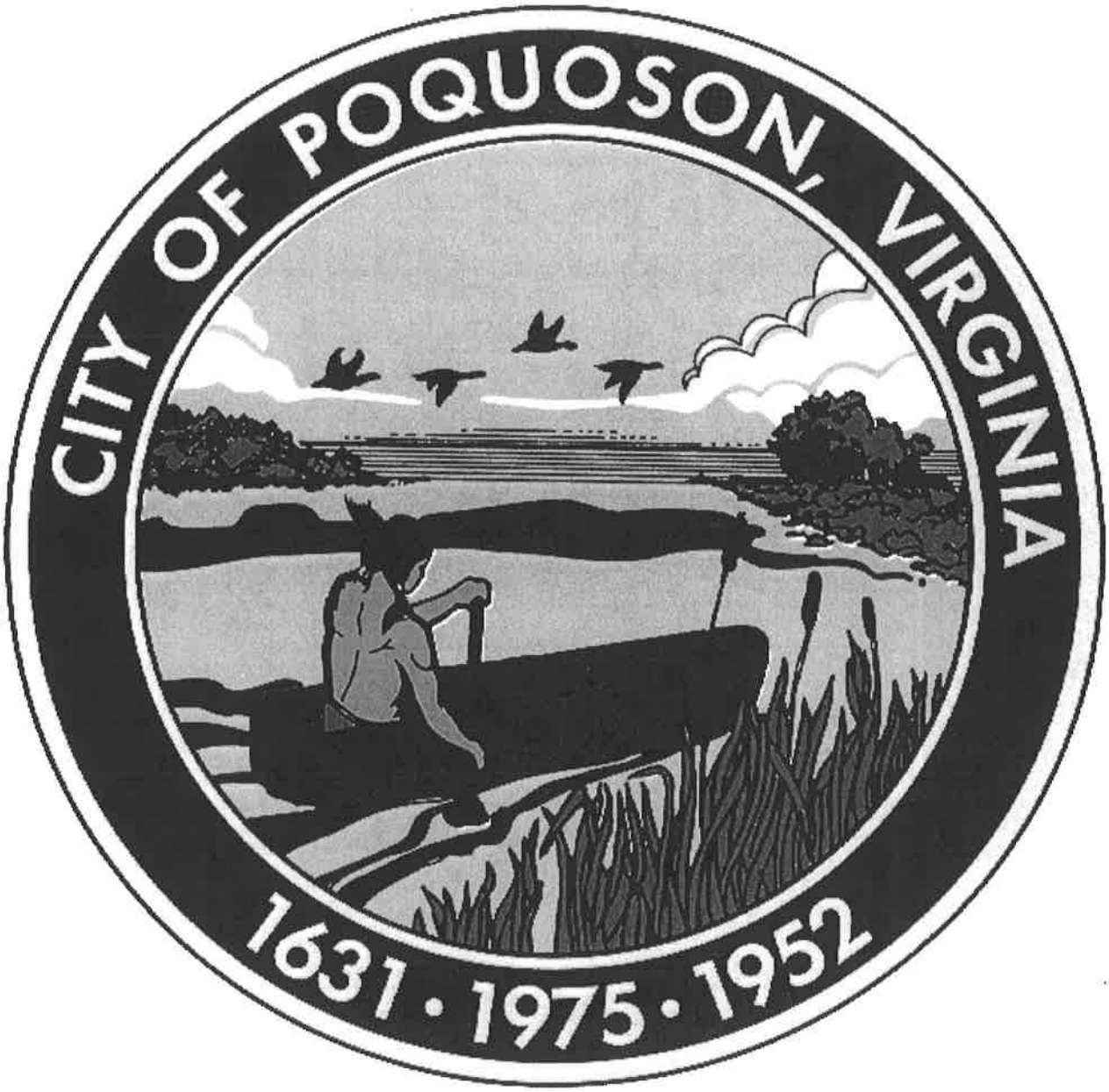
	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Assets				
Cash and cash equivalents	$ 38,200	$ 58	$ -	$ 38,258
Liabilities				
Amounts held for others	$ 38,200	$ 58	$ -	$ 38,258

Statement of Cash Flows - Component Unit - Economic Development Authority

Year Ended June 30, 2012

Cash flows from operating activities		
Received from customers and users	$	30,849
Payments to suppliers for goods and services		(2,046)
Net cash provided by operating activities		28,803
Cash flows from capital and related financing activities		
Interest paid on capital debt		(42,835)
Purchase of capital assets		-
City appropriations		12,000
Proceeds from line of credit		380,088
Net cash used in capital and related financing activities		349,253
Net increase in cash and cash equivalents		378,056
Cash and cash equivalents, beginning of year		(367,463)
Cash and cash equivalents, end of year	$	10,593
Reconciliation of operating income to net cash provided by operating activities		
Operating income (loss)	$	10,826
Adjustments		
Depreciation and amortization		23,608
Changes in assets and liabilities		
Accounts receivable		(9,402)
Accounts payable		3,771
Net cash provided by operating activities	$	28,803

This page left blank intentionally



Statistical Section

This page left blank intentionally

Statistical Section Overview

June 30, 2012

This part of the City of Poquoson's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the City's overall financial health.

Contents

Financial Trends **Tables 1 - 4**

These tables contain trend information to help the reader understand how the City's financial performance and well-being has changed over time.

Revenue Capacity **Tables 5 - 7**

These tables contain information to help the reader assess the factors affecting the City's ability to generate its property taxes.

Debt Capacity **Tables 8 - 10**

These tables present information to help the reader assess the affordability of the City's current levels of outstanding debt and its ability to issue additional debt in the future.

Demographic and Economic Information **Tables 11 - 12**

These tables offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.

Operation Information **Tables 13 - 15**

These tables contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.

Sources: Unless otherwise noted, the information in these tables is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement 34 in FY 2003; tables presenting information relating to GASB Statement 34 include information beginning in that year.

* * * * *

City of Poquoson, Virginia **Table 1**

Net Assets by Component (unaudited)

Last Ten Fiscal Years	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Governmental activities										
Invested in capital assets, net of related debt	$ 16,838,143	$ 17,593,261	$ 17,493,727	$ 18,654,461	$ 12,045,582	$ 17,183,471	$ 10,104,292	$ 7,579,069	$ 6,026,883	$ 5,133,636
Restricted	1,037,956	-	-	-	-	-	-	-	-	-
Unrestricted	5,070,860	5,902,110	5,235,762	4,668,824	9,164,683	3,057,158	5,044,143	5,765,548	4,925,489	4,959,729
Total governmental activities	$ 22,946,959	$ 23,495,371	$ 22,729,489	$ 23,323,285	$ 21,210,265	$ 20,240,629	$ 15,148,435	$ 13,344,617	$ 10,952,372	$ 10,093,365
Business-type activities										
Invested in capital assets - net of related debt	$ 5,094,194	$ 5,073,709	$ 4,923,135	$ 5,595,258	$ 5,518,765	$ 5,516,767	$ 5,502,835	$ 5,164,685	$ 5,232,966	$ 4,693,016
Restricted - debt service	-	-	-	-	-	-	-	-	-	598,114
Restricted - sewer improvements	-	-	-	-	-	-	-	-	71,623	-
Unrestricted	588,681	499,193	1,358,338	1,038,282	1,454,510	1,808,221	1,690,392	1,854,439	1,459,144	1,704,131
Total business-type activities	$ 5,682,875	$ 5,572,902	$ 6,281,473	$ 6,633,540	$ 6,973,275	$ 7,324,988	$ 7,193,227	$ 7,019,124	$ 6,763,733	$ 6,995,261
Primary government										
Invested in capital assets - net of related debt	$ 21,932,337	$ 22,199,083	$ 22,416,862	$ 24,249,719	$ 17,564,347	$ 22,700,238	$ 15,607,127	$ 12,743,754	$ 11,259,849	$ 9,826,652
Restricted	1,037,956	-	-	-	-	-	-	-	-	-
Restricted - debt service	-	-	-	-	-	-	-	-	-	598,114
Restricted - sewer improvements	-	-	-	-	-	-	-	-	71,623	-
Unrestricted	5,659,541	6,401,303	6,594,100	5,707,106	10,619,193	4,865,379	6,734,535	7,619,987	6,384,633	6,663,860
Total primary government	$ 28,629,834	$ 28,600,386	$ 29,010,962	$ 29,956,825	$ 28,183,540	$ 27,565,617	$ 22,341,662	$ 20,363,741	$ 17,716,105	$ 17,088,626

City of Poquoson, Virginia **Table 2**

Change in Net Assets (unaudited)

Last Ten Fiscal Years	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Expenses										
Governmental activities										
General government	$ 3,058,270	$ 2,328,395	$ 2,960,944	$ 2,735,018	$ 1,415,530	$ 4,532,796	$ 2,379,161	$ 1,846,634	$ 1,569,814	$ 1,480,465
Public safety and judicial	6,296,795	6,147,949	6,016,699	5,844,764	6,668,792	5,514,359	4,896,621	4,931,153	4,101,007	3,968,182
Public works	1,875,113	1,883,380	950,043	1,780,286	1,587,249	1,511,607	1,327,111	1,694,612	1,659,214	1,472,320
Health and welfare	913,826	817,008	1,022,735	1,162,301	1,081,767	862,689	821,356	840,310	650,092	605,334
Education	9,510,584	9,080,484	10,906,525	8,364,349	8,405,003	8,126,211	7,426,666	7,087,769	6,965,522	6,459,434
Parks and recreation	1,248,643	1,224,910	859,051	1,389,000	1,249,535	18,006	1,030,174	1,343,537	839,537	775,359
Community development	567,672	488,893	547,051	1,272,635	2,327,008	1,081,786	817,214	563,788	636,477	514,618
Interest on long-term debt	1,219,966	1,213,782	1,100,826	1,263,686	1,399,427	1,246,037	462,508	500,461	525,850	561,580
Total governmental activities	24,690,869	23,184,801	24,363,874	23,812,039	24,134,311	22,893,491	19,160,811	18,808,264	16,947,513	15,837,292
Business-type activities										
Sewer	1,447,681	2,057,173	1,685,334	1,534,743	1,604,560	1,596,599	1,554,446	1,537,870	1,609,179	1,657,238
Parks and recreation	455,199	450,025	401,006	463,662	463,668	473,754	587,701	545,799	524,504	543,327
Solid waste	743,280	791,114	766,921	768,565	904,411	595,209	528,325	475,269	446,172	430,223
Total business-type activities	2,646,160	3,298,312	2,853,261	2,766,970	2,972,639	2,665,562	2,670,472	2,558,938	2,579,855	2,630,788
Total expenses	$ 27,337,029	$ 26,483,113	$ 27,217,135	$ 26,579,009	$ 27,106,950	$ 25,559,053	$ 21,831,283	$ 21,367,202	$ 19,527,368	$ 18,468,080
Program revenues										
Governmental activities										
Charges for services										
General government	$ 223,152	$ 223,887	$ 254,482	$ 274,901	$ 157,130	$ 100,055	$ 104,747	$ 100,546	$ 92,864	$ -
Public safety and judicial	112,011	300,870	103,169	108,456	102,452	185,842	163,397	118,496	95,621	105,102
Education	49,188	36,347	-	-	-	-	-	-	21,800	21,200
Parks and recreation	74,609	61,820	217,372	55,288	69,952	72,253	24,367	24,543	25,849	22,835
Community development	300,206	33,721	22,614	22,741	36,230	51,543	53,397	-	109,087	40,392
Nondepartmental	-	-	-	-	-	-	-	-	-	60,266
Operating grants and contributions	1,575,285	1,881,297	1,986,470	1,658,180	2,290,305	2,094,100	2,122,034	2,705,293	1,718,011	1,326,011
Capital grants and contributions	732,846	419,225	330,892	2,873,294	1,745,973	1,260,858	342,400	1,187,904	193,425	694,324
Total governmental activities	3,067,297	2,957,167	2,914,999	4,992,860	4,402,042	3,764,651	2,810,342	4,136,782	2,256,657	2,270,130
Business-type activities										
Charges for services										
Sewer	1,520,017	1,531,319	1,487,157	1,528,438	1,514,893	1,803,913	1,413,403	1,271,539	1,216,215	1,151,403
Solid waste	212,730	189,782	743,965	586,277	511,173	329,172	315,082	340,230	325,361	300,715
Parks and recreation	743,936	755,834	179,070	171,459	177,858	209,147	334,911	325,319	325,083	331,999
Total business-type activities	2,476,683	2,476,935	2,410,192	2,286,174	2,203,924	2,342,232	2,063,396	1,937,088	1,866,659	1,784,117
Total program revenues	$ 5,543,980	$ 5,434,102	$ 5,325,191	$ 7,279,034	$ 6,605,966	$ 6,106,883	$ 4,873,738	$ 6,073,870	$ 4,123,316	$ 4,054,247
Governmental activities, net expense	$ (21,623,572)	$ (20,227,634)	$ (21,448,875)	$ (18,819,179)	$ (19,732,269)	$ (19,128,840)	$ (16,350,469)	$ (14,671,482)	$ (14,690,856)	$ (13,567,162)
Business-type activities, net expense	(169,477)	(821,377)	(443,069)	(480,796)	(768,715)	(323,330)	(607,076)	(621,850)	(713,196)	(846,671)
Total primary government, net expenses	$ (21,793,049)	$ (21,049,011)	$ (21,891,944)	$ (19,299,975)	$ (20,500,984)	$ (19,452,170)	$ (16,957,545)	$ (15,293,332)	$ (15,404,052)	$ (14,413,833)

City of Poquoson, Virginia

Table 2
(Continued)

Change in Net Assets (unaudited)

Last Ten Fiscal Years	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
General revenues and other changes in net assets										
Governmental activities:										
Taxes:										
Property taxes	$ 18,228,029	$ 18,235,363	$ 18,054,307	$ 17,989,555	$ 15,956,711	$ 15,636,708	$ 13,053,028	$ 12,489,445	$ 11,135,298	$ 10,796,813
Other taxes	2,529,995	2,464,223	2,451,932	2,537,554	2,613,195	2,541,189	2,792,592	2,635,723	2,524,964	2,442,485
Reimbursements from other agencies	58,458	75,318	102,239	95,694	1,367,713	1,970,935	2,035,707	1,830,047	2,012,657	1,669,092
Payments in lieu of taxes:										
Investment earnings	181,274	183,284	156,139	179,671	728,606	1,085,397	415,638	119,801	-	52,492
Miscellaneous	196,203	(25,102)	51,462	99,725	294,109	146,900	75,005	116,511	83,401	67,633
Gain on disposal of capital assets	-	-	-	-	-	-	-	-	-	-
Transfers	(118,799)	80,400	39,000	30,000	(258,430)	(270,005)	(217,683)	(127,800)	(102,200)	(74,000)
Total governmental activities	21,075,160	21,013,486	20,855,079	20,932,199	20,701,904	21,111,124	18,154,287	17,063,727	15,654,120	14,954,515
Business-type activities:										
Investment earnings	32,131	29,476	30,522	29,264	37,001	37,913	23,393	23,888	39,559	84,824
Miscellaneous	128,520	132,530	99,480	141,797	167,035	147,176	540,100	725,553	339,909	318,936
Loss on disposal of capital assets		-	-	-	(45,464)	-	-	-	-	-
Transfers	118,799	(49,200)	(39,000)	(30,000)	258,430	270,005	217,683	127,800	102,200	74,000
Total business-type activities	279,450	112,806	91,002	141,061	417,002	455,094	781,176	877,241	481,668	477,760
Total general revenues and other changes in net assets	$ 21,354,610	$ 21,126,292	$ 20,946,081	$ 21,073,260	$ 21,118,906	$ 21,566,218	$ 18,935,463	$ 17,940,968	$ 16,135,788	$ 15,432,275
Extraordinary item										
Governmental activities										
Hurricane Isabel	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (104,257)	$ -
Change in Net Assets										
Governmental activities	$ (548,412)	$ 785,852	$ (593,796)	$ 2,113,020	$ 969,635	$ 1,982,284	$ 1,803,818	$ 2,392,245	$ 859,007	$ 1,387,353
Business-type activities	109,973	(708,571)	(352,067)	(339,735)	(351,713)	131,764	174,100	255,391	(231,528)	(368,911)
Total primary government	$ (438,439)	$ 77,281	$ (945,863)	$ 1,773,285	$ 617,922	$ 2,114,048	$ 1,977,918	$ 2,647,636	$ 627,479	$ 1,018,442

City of Poquoson, Virginia **Table 3**

Fund Balances - Governmental Funds (unaudited)

Last Ten Fiscal Years

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
General fund:										
Non-Spendable	$ 253,823	$ 273,051	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Restricted	175,850	193,477	-	-	-	-	-	-	-	-
Committed		-	-	-	-	-	-	-	-	-
Assigned	679,065	447,892	-	-	-	-	-	-	-	-
Unassigned	4,499,068	4,776,356	-	-	-	-	-	-	-	-
Reserved for:										
Encumbrances & loans	-	-	347,863	392,810	276,571	180,562	125,336	71,459	125,653	114,656
Asset forfeiture	-	-	83,704	89,261	89,594	-	-	-	-	-
Fire department	-	-	100,858	69,671	-	-	-	-	-	-
Library	-	-	13,015	13,861	-	-	-	-	-	-
Heritage Park	-	-	6,060	-	-	-	-	-	-	-
Unreserved	-	-	4,338,582	3,389,561	3,571,770	4,858,261	4,550,535	4,764,304	4,015,477	4,239,425
Total general fund	$ 5,607,806	$ 5,690,776	$ 4,890,082	$ 3,955,164	$ 3,937,935	$ 5,038,823	$ 4,675,871	$ 4,835,763	$ 4,141,130	$ 4,354,081
All other governmental funds:										
Non-Spendable	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Restricted	862,106	478,967	-	-	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	376,082	391,118	-	-	-	-	-	-	-	-
Reserved for:										
Purchase of fire truck	-	-	-	-	-	-	-	339,000	-	-
Grants	-	-	-	32,077	27,168	9,738	(73,569)	52,055	-	-
Construction - bond principal	-	-	651,191	826,219	4,244,577	16,196,290	13,433,589	-	-	-
Construction - bond earnings	-	-	-	-	-	82,801	318,938	-	-	-
Encumbrances	-	-	-	-	-	-	-	-	-	-
Unreserved for:										
Designated	-	-	-	-	1,203,324	327,503	1,273,130	747,677	1,024,626	767,291
Unreserved and undesignated	-	-	258,713	470,991	258,724	385,137	80,000	-	-	-
Total all other governmental funds	$ 1,238,188	$ 870,085	$ 909,904	$ 1,329,287	$ 5,733,793	$ 17,001,469	$ 15,032,088	$ 1,138,732	$ 1,024,626	$ 767,291

Note: GASB 54 was implemented by the City of Poquoson in FY 2011. Data for this schedule prior to FY 2011 is not available.

Changes in Fund Balances - Governmental Funds (unaudited)

Last Ten Fiscal Years

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Revenues										
General property taxes	$ 16,361,071	$ 16,296,911	$ 16,023,837	$ 16,034,422	$ 16,127,168	$ 15,562,860	$ 13,012,958	$ 12,488,453	$ 11,226,560	$ 10,859,951
Other local taxes	2,529,995	2,464,223	2,451,932	2,537,554	2,613,195	2,541,189	2,792,592	2,635,722	2,524,964	2,442,485
Permits, privilege fees and regulatory licenses	97,314	78,464	70,947	83,775	98,233	162,218	173,401	172,455	173,525	116,843
Fines and forfeitures	43,603	54,907	54,836	46,859	38,201	73,942	37,283	30,583	24,605	27,970
Revenue from use of money and property	183,310	183,282	157,426	224,492	825,346	1,171,832	503,615	202,548	58,937	132,706
Charges for services	395,096	299,386	217,372	55,909	71,505	72,749	29,694	30,318	31,740	23,132
Intergovernmental	4,513,171	4,416,734	4,597,512	4,871,491	6,017,329	5,389,676	4,898,316	5,324,277	3,694,854	3,670,215
Miscellaneous	215,548	128,881	60,625	86,991	320,188	94,093	37,381	93,385	369,054	88,481
Total revenues	24,339,108	23,922,788	23,634,487	23,941,493	26,111,165	25,068,559	21,485,240	20,977,741	18,104,239	17,361,783
Expenditures										
Current										
General government and administration	2,175,864	2,106,211	1,924,481	2,324,651	2,018,674	1,938,236	1,754,223	1,543,930	1,330,271	1,273,661
Public safety and judicial	5,909,331	5,765,369	5,601,358	5,328,217	5,952,162	5,235,778	4,857,162	4,440,330	4,007,945	3,774,685
Public works	1,596,143	1,516,878	1,530,904	1,535,411	1,503,219	1,428,384	1,232,132	1,284,108	1,125,448	1,013,082
Health and welfare	897,082	802,490	1,016,083	1,131,499	1,067,418	843,523	802,295	819,499	657,485	601,282
Parks, recreation, and cultural	1,057,553	1,016,944	1,003,795	1,169,328	1,175,226	1,034,306	935,543	830,797	763,681	763,866
Community development	577,990	490,912	529,529	1,236,529	2,222,658	1,544,499	640,718	507,520	535,757	452,374
Nondepartmental	359,518	112,981	329,279	134,282	218,133	173,643	140,315	127,144	115,105	78,254
Education	8,796,662	8,578,675	8,008,392	8,078,598	8,147,463	7,880,000	7,555,104	7,311,063	6,728,536	6,901,085
Industrial Development Authority	-	-	40,000	51,250	110,000	123,861	147,530	59,900	95,000	-
Capital outlays	1,119,347	814,871	838,069	7,085,050	14,035,793	8,460,299	2,447,596	2,338,525	986,129	993,632
Debt service										
Principal retirement	867,647	896,963	1,358,073	1,414,131	1,495,455	1,092,106	1,058,843	1,066,793	983,418	4,320,579
Bond issuance costs	310,631	43,263	234,339	139,699	-	-	-	500	2,000	17,300
Interest and fiscal charges	1,266,380	1,136,670	1,201,041	1,244,582	1,258,222	1,038,815	462,632	497,733	522,623	595,909
Total expenditures	24,934,148	23,282,227	23,615,343	30,873,227	39,204,423	30,793,450	22,034,093	20,827,842	17,853,398	20,785,709
Excess (deficiency) of revenue over expenditures	(595,040)	640,561	19,144	(6,931,734)	(13,093,258)	(5,724,891)	(548,853)	149,899	250,841	(3,423,926)
Other financing sources (uses)										
Transfers in	2,253,807	2,248,182	2,587,735	2,708,519	448,610	457,417	150,000	590,000	151,800	590,651
Issuance of debt	998,972	39,914	457,391	2,514,557	664,414	8,000,000	14,500,000	349,640	-	3,405,000
Transfers out	(2,372,606)	(2,167,782)	(2,548,735)	(2,678,519)	(388,430)	(400,193)	(367,683)	(280,800)	(254,000)	(273,000)
Total other financing sources (uses)	880,173	120,314	496,391	2,544,557	724,594	8,057,224	14,282,317	658,840	(102,200)	3,722,651
Net change in fund balances before extraordinary item	285,133	760,875	515,535	(4,387,177)	(12,368,664)	2,332,333	13,733,464	808,739	148,641	298,725
Extraordinary item - Hurricane Isabel										
Revenues	-	-	-	-	-	-	-	-	2,693,258	-
Expenditures	-	-	-	-	-	-	-	-	(2,797,515)	-
Total extraordinary item - Hurricane Isabel	-	-	-	-	-	-	-	-	(104,257)	-
Net change in fund balances	$ 285,133	$ 760,875	$ 515,535	$ (4,387,177)	$ (12,368,664)	$ 2,332,333	$ 13,733,464	$ 808,739	$ 44,384	$ 298,725
Debt service as a percentage of noncapital expenditures	8.88%	9.17%	12.75%	11.18%	11.23%	9.73%	9.78%	8.50%	9.28%	24.98%

Assessed Value and Estimated Actual Value of Taxable Real Property (unaudited)

Last Ten Fiscal Years

Fiscal Year	Residential Property	Commercial / Industrial Property	Agricultural Property	Total Taxable Assessed Value	Tax Exempt Property	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
2012	$ 1,417,474,500	$ 98,208,727	$ 3,706,100	$ 1,519,389,327	$ 105,532,630	$ 0.92	$ 1,519,389,327	100%
2011	$ 1,622,194,900	$ 102,253,036	$ 3,798,800	$ 1,728,246,736	$ 109,434,010	$ 0.81	$ 1,641,834,400	105%
2010	$ 1,612,987,500	$ 103,065,821	$ 3,798,800	$ 1,719,852,121	$ 109,430,730	$ 0.81	$ 1,719,852,121	100%
2009	$ 1,604,471,900	$ 91,095,808	$ 3,227,800	$ 1,698,795,508	$ 81,348,380	$ 0.81	$ 1,705,314,450	99%
2008	$ 1,577,324,400	$ 97,776,982	$ 3,227,800	$ 1,678,329,182	$ 81,410,750	$ 0.81	$ 1,730,236,270	97%
2007	$ 1,543,797,900	$ 90,461,496	$ 3,227,800	$ 1,637,487,196	$ 80,948,613	$ 0.81	$ 1,817,410,872	90%
2006	$ 955,801,900	$ 79,069,841	$ 2,431,400	$ 1,037,303,141	$ 71,268,800	$ 1.06	$ 1,548,213,643	67%
2005	$ 933,021,200	$ 79,555,306	$ 2,425,800	$ 1,015,002,306	$ 71,118,562	$ 1.06	$ 1,318,184,813	77%
2004	$ 772,269,200	$ 73,015,935	$ 1,998,600	$ 847,283,735	$ 63,679,146	$ 1.12	$ 901,365,676	94%
2003	$ 755,651,100	$ 69,944,736	$ 2,008,300	$ 827,604,136	$ 59,679,816	$ 1.12	$ 962,330,391	86%

Source: Commissioner of the Revenue and City Assessor.
Includes Public Service Corporations.

City of Poquoson, Virginia **Table 6**

Property Tax Levies and Collections (unaudited)

Last Ten Fiscal Years

Fiscal Year	Net Taxes Levied for Fiscal Year (Original Levy)	Subsequent Year Adjustments	Total Adjusted Net Levy	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collected to Date	
				Amount	Percent of Original Levy		Amount	Percent of Original Levy
2012	$ 13,808,493	$ -	$ 13,808,493	$13,617,311	98.62%	$ -	$ 13,617,311	98.62%
2011	$ 13,666,068	$ 12,747	$ 13,678,815	$13,421,564	98.12%	$ 153,299	$ 13,574,863	99.24%
2010	$ 13,614,366	$ 1,972	$ 13,616,338	$13,371,918	98.22%	$ 201,946	$ 13,573,864	99.69%
2009	$ 13,481,887	$ 728	$ 13,482,615	$13,306,699	98.70%	$ 155,751	$ 13,462,450	99.85%
2008	$ 13,330,523	$ (1,413)	$ 13,329,110	$13,186,765	98.92%	$ 130,691	$ 13,317,456	99.91%
2007	$ 13,075,301	$ 130	$ 13,075,431	$12,941,290	98.98%	$ 124,621	$ 13,065,911	99.93%
2006	$ 10,831,249	$ 2,552	$ 10,833,801	$10,643,194	98.26%	$ 185,639	$ 10,828,833	99.95%
2005	$ 10,566,343	$ 5,748	$ 10,572,091	$10,399,214	98.42%	$ 170,594	$ 10,569,808	99.98%
2004	$ 9,274,686	$ (9,546)	$ 9,265,140	$ 9,104,267	98.16%	$ 155,854	$ 9,260,121	99.95%
2003	$ 9,178,628	$ (276)	$ 9,178,352	$ 8,964,109	97.66%	$ 210,832	$ 9,174,941	99.96%

Source: City of Poquoson Treasurer's Department.

Principal Taxpayers - 2012 and Nine Years Ago (unaudited)

Years Ended		**2012**		**2003**	
Taxpayer	Type of Business	Assessed Valuation Real Estate	Percentage of Total Real Estate Assessment	Assessed Valuation Real Estate	Percentage of Total Real Estate Assessment
Poquoson Place Apartments	Apartment Rentals	$ 9,460,200	0.55%	$ 7,441,900	0.91%
Poquoson Commons Retail Investors, Inc.	Shopping Center	6,415,500	0.37%	-	-
Whitehouse Cove, LLC	Marina / Mobile Home Park	4,934,100	0.29%	-	-
Poquoson Shopping Center, L.L.C.	Shopping Center	4,532,700	0.26%	-	-
SGC Wythe Creek, L.L.C.	Shopping Center	4,089,300	0.24%	-	-
GPH Poquoson L.L.C.	Nursing Home	3,641,600	0.21%	-	-
Islander Associates	Apartment Rentals	3,444,200	0.20%	2,752,100	0.34%
Universal of Poquoson	Mobile Home Park	3,299,000	0.19%	2,552,400	0.31%
Marque Homes at Poquoson Lakes Inc.	Residential Development	2,896,400	0.17%	-	-
Hunt Properties of Poquoson, Inc.	Storage Facilities	2,671,900	0.15%	-	-
Bristol-Cardiff	Shopping Center	-	-	7,741,000	0.95%
Suburban Land Company	Shopping Center	-	-	3,960,000	0.49%
WCP, L.L.C.	Shopping Center	-	-	3,668,400	0.45%
Vantage Healthcare Corporation	Nursing Home	-	-	1,927,600	0.24%
Wachovia Bank	Financial Institution			1,696,500	0.21%
Carematrix of Dominion Village	Nursing Home	-	-	1,451,700	0.18%
Langley Federal Credit Union	Financial Institution	-	-	1,402,220	0.17%
		$45,384,900	2.63%	$34,593,820	4.25%

Source: Commissioner of the Revenue and City Assessor.

City of Poquoson, Virginia **Table 8**

Computation of Legal Debt Margin (unaudited)

Last Ten Fiscal Years	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Total assessed value of taxed real property										
General	$ 1,498,862,620	$ 1,711,308,830	$ 1,702,517,110	$ 1,685,314,440	$ 1,662,716,070	$ 1,627,336,017	$ 1,025,497,078	$ 1,002,511,357	$ 832,002,644	$ 814,646,831
Public service corporations	20,526,707	16,937,906	17,335,011	13,481,068	15,613,112	10,151,179	11,806,063	12,490,949	15,281,091	12,957,305
Total	$ 1,519,389,327	$ 1,728,246,736	$ 1,719,852,121	$ 1,698,795,508	$ 1,678,329,182	$ 1,637,487,196	$ 1,037,303,141	$ 1,015,002,306	$ 847,283,735	$ 827,604,136
Debt limit (10% of total assessed value)	$ 151,938,933	$ 172,824,674	$ 171,985,212	$ 169,879,551	$ 167,832,918	$ 163,748,720	$ 103,730,314	$ 101,500,231	$ 84,728,374	$ 82,760,414
Debt applicable to debt limit										
General obligation bonds, other than those authorized for a specific revenue producing project	$ 27,212,000	$ 28,164,822	$ 28,689,878	$ 29,552,678	$ 27,460,783	$ 28,341,971	$ 20,966,951	$ 7,060,912	$ 7,645,953	$ 8,189,853
Capital leases	163,593	241,240	316,204	388,577	978,046	525,899	591,024	653,906	-	-
Sewer general obligation bonds	8,605,000	9,425,933	9,890,072	9,796,907	10,508,638	11,280,327	12,049,089	12,791,016	13,506,624	14,131,490
State literary fund loans	1,807,820	2,084,820	2,361,820	2,763,820	3,165,820	3,567,820	3,969,820	4,371,820	4,811,338	5,250,856
	37,788,413	39,916,815	41,257,974	42,501,982	42,113,287	43,716,017	37,576,884	24,877,654	25,963,915	27,572,199
Margin for additional borrowing	$ 114,150,520	$ 132,907,859	$ 130,727,238	$ 127,377,569	$ 125,719,631	$ 120,032,703	$ 66,153,430	$ 76,622,577	$ 58,764,459	$ 55,188,215
Total net debt applicable to the limit as a percentage of debt limit	24.87%	23.10%	23.99%	25.02%	25.09%	26.70%	36.23%	24.51%	30.64%	33.32%

City of Poquoson, Virginia

Table 9

Ratios of Outstanding Debt by Type (unaudited)

Last Ten Fiscal Years

	Governmental Activities			Business-Type Activities				
Fiscal Year	General Obligation Bonds	Term Loans Payable	Capital Leases	Sewer Bonds	Total Primary Government	Median Household Income	Percentage of Personal Income	Per Capita
2012	$ 27,212,000	$ 1,807,820	$ 163,593	$ 8,605,000	$ 37,788,413	N/A	N/A	$ 3,087
2011	$ 28,164,822	$ 2,084,820	$ 241,240	$ 9,425,933	$ 39,916,815	N/A	N/A	$ 3,285
2010	$ 28,689,878	$ 2,361,820	$ 316,204	$ 9,890,072	$ 41,257,974	$ 84,315	1.2%	$ 3,473
2009	$ 29,552,678	$ 2,763,820	$ 388,577	$ 9,796,907	$ 42,501,982	$ 84,688	1.2%	$ 3,605
2008	$ 27,460,783	$ 3,165,820	$ 978,046	$ 10,508,638	$ 42,113,287	$ 79,123	1.4%	$ 3,563
2007	$ 28,341,971	$ 3,567,820	$ 525,899	$ 11,280,327	$ 43,716,017	$ 78,191	1.4%	$ 3,659
2006	$ 20,966,951	$ 3,969,820	$ 591,024	$ 12,049,089	$ 37,576,884	$ 76,741	1.2%	$ 3,167
2005	$ 7,060,912	$ 4,371,820	$ 653,906	$ 12,791,016	$ 24,877,654	$ 71,435	0.9%	$ 2,115
2004	$ 7,645,953	$ 4,811,338	$ -	$ 13,506,624	$ 25,963,915	$ 70,476	1.0%	$ 2,219
2003	$ 8,189,853	$ 5,250,856	$ -	$ 14,131,490	$ 27,572,199	$ 67,664	1.1%	$ 2,398

N/A - This information is not available.

Table 10

City of Poquoson, Virginia

Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita (unaudited)

Last Ten Fiscal Years

Fiscal Year	Population (1)	Assessed Value	Net Bonded Debt (2)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2012	12,240	$ 1,519,389,327	$ 29,183,413	1.92%	$ 2,384
2011	12,150	$ 1,728,246,736	$ 30,490,882	1.76%	$ 2,510
2010	11,881	$ 1,719,852,121	$ 31,367,902	1.82%	$ 2,640
2009	11,791	$ 1,698,795,508	$ 32,705,075	1.93%	$ 2,774
2008	11,818	$ 1,678,329,182	$ 31,604,649	1.88%	$ 2,674
2007	11,948	$ 1,637,487,196	$ 32,435,690	1.98%	$ 2,715
2006	11,865	$ 1,037,303,141	$ 11,027,795	1.06%	$ 929
2005	11,764	$ 1,015,002,306	$ 12,086,638	1.19%	$ 1,027
2004	11,700	$ 847,283,735	$ 12,457,291	1.47%	$ 1,065
2003	11,500	$ 827,604,136	$ 13,440,709	1.62%	$ 1,169

Source: (1) Weldon Cooper Center for Public Service

(2) Only debt to be repaid with general government resources is included, therefore this table does not include Enterprise and Internal Service general obligation debt, which are retired through revenues of the related operations.

Demographic Statistics (unaudited)

Last Ten Fiscal Years

Fiscal Year	Population (1)	Personal Income (2) *(in millions)*	Per Capita Personal Income (2)	School Enrollment (3)	Unemployment Rate	
2012	12,240	N/A	N/A	2,222	5.5%	(5)
2011	12,150	N/A	N/A	2,231	5.7%	(5)
2010	11,881	$ 3,517	$ 45,334	2,390	6.0%	(5)
2009	11,791	$ 3,456	$ 47,380	2,531	5.4%	(4)
2008	11,818	$ 3,429	$ 46,844	2,478	3.7%	(4)
2007	11,948	$ 3,222	$ 44,148	2,583	2.3%	(5)
2006	11,865	$ 3,061	$ 42,146	2,572	2.3%	(5)
2005	11,764	$ 2,868	$ 39,603	2,563	2.8%	(5)
2004	11,700	$ 2,603	$ 35,917	2,503	3.0%	(5)
2003	11,500	$ 2,444	$ 34,029	2,503	3.1%	(5)

N/A - This information is not available

Source: (1) Weldon Cooper Center for Public Service
(2) Bureau of Economic Analysis combined amount for York County/Poquoso
(3) Poquoson School Board. Data is September enrollment for each fiscal yea
(4) Virginia Economic Development Partnership
(5) Virginia Employment Commission

Principal Employers in Poquoson - 2012 and Nine Years Ago (unaudited)

	2012		2003	
Employment	Number of Employees	Percentage of Total City Employment	Number of Employees	Percentage of Total City Employment
Poquoson City Public Schools	287	8.70%	313	13.81%
City of Poquoson	151	4.58%	133	5.87%
Farm Fresh	76	2.30%	90	3.97%
Golden Living Center/Bayside	55	1.67%	N/A	N/A
Surf Rider	55	1.67%	N/A	N/A
Food Lion	52	1.58%	60	2.65%
Dominion Village at Poquoson	41	1.24%	38	1.68%
McDonald's Restaurant	32	0.97%	55	2.43%
Wendy's Restaurant	27	0.82%	N/A	N/A
Stephen's Office Supply	21	0.64%	26	1.15%
	797	24.15%	715	31.55%

N/A - This information is not available.

Source: City of Poquoson Economic Development Department.

City of Poquoson **Table 13**

Full-time Equivalent City Government Employees by Function / Program (unaudited)

Last Ten Fiscal Years

	Full-time Equivalent Employees as of June 30									
Function / Program	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
General government:										
Management services	12.20	12.20	12.20	14.20	14.20	14.20	12.60	12.00	11.50	10.50
Finance	8.00	8.00	8.00	8.00	8.00	8.00	8.00	7.50	7.20	7.20
Planning	4.00	4.35	4.45	5.45	5.45	5.45	5.45	3.60	3.60	3.70
Building	3.75	3.75	3.00	4.00	4.00	4.00	4.00	3.10	2.10	2.25
Other	2.85	2.10	2.10	2.10	2.10	2.10	2.10	2.10	2.10	2.00
Police:										
Officers	22.50	22.50	22.50	22.50	22.50	22.50	22.50	20.50	20.50	20.90
Civilians	1.00	1.00	1.00	2.00	6.50	6.50	6.50	6.50	6.10	5.75
Fire:										
Firefighters and officers	29.00	29.00	29.00	29.00	29.00	28.00	26.00	26.00	26.00	26.00
Civilians	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Refuse collection	1.00	1.00	1.00	2.00	2.50	3.00	3.00	3.00	3.00	3.00
Other public works:	16.50	16.50	16.50	15.50	15.00	14.50	14.50	14.50	14.50	14.50
Engineering	1.00	1.00	1.00	1.00	1.00	1.00	1.00	2.85	2.85	2.75
Other	2.00	2.00	2.00	3.00	3.00	2.40	2.00	2.00	2.10	2.10
Fleet	3.50	3.50	3.50	4.50	4.50	4.50	4.60	4.60	4.75	5.00
Parks and recreation	9.80	9.80	9.80	13.55	13.50	13.50	15.70	13.50	13.50	14.00
Library	11.95	11.95	11.95	11.95	11.95	11.45	11.45	10.45	10.45	10.45
Wastewater	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	3.50	3.50
Total	134.05	133.65	133.00	143.75	148.20	146.10	144.40	137.20	134.75	134.60

Source: Finance Department.

Operating Indicators by Function / Program (unaudited)

Last Ten Fiscal Years

Function / Program	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Police (1)										
Physical arrests	307	259	335	362	109	294	326	344	245	316
Parking violations	18	39	34	29	9	71	32	87	37	78
Traffic violations	714	957	915	979	911	1,014	784	631	468	701
Fire (2)										
Emergency responses	2,028	1,827	1,870	1,574	1,362	1,687	1,466	1,194	1,106	1,127
Fires extinguished	20	51	79	44	38	35	52	85	180	76
Inspections	239	290	233	56	31	41	23	12	12	12
Refuse collection (3)										
Refuse collected (tons)	2,184	2,241	2,560	2,524	2,160	1,663	1,603	1,610	1,604	1,646
Recyclables collected (tons)	1,324	1,390	1,418	2,482	1,490	1,445	1,484	1,312	1,578	1,396
Other public works (3)										
Street resurfacing (tons)	2,991	2,645	2,481	3,315	3,910	4,943	3,620	3,019	2,737	2,536
Library (4)										
Volumes in collection	59,816	58,203	59,217	60,180	58,266	58,401	57,196	53,856	52,644	51,684
Total volumes borrowed	189,719	197,967	209,768	216,065	208,534	193,354	190,000	181,360	179,276	197,299
Wastewater (5)										
Sewer connections	4,816	4,805	4,803	4,876	4,871	4,790	4,649	4,544	4,494	4,440

N/A - This information is not available.

Source: (1) City of Poquoson Police Department.
(2) City of Poquoson Fire Department.
(3) City of Poquoson Public Works Department.
(4) City of Poquoson Library.
(5) City of Poquoson Finance Department.

Capital Asset Statistics by Function/Program (unaudited)

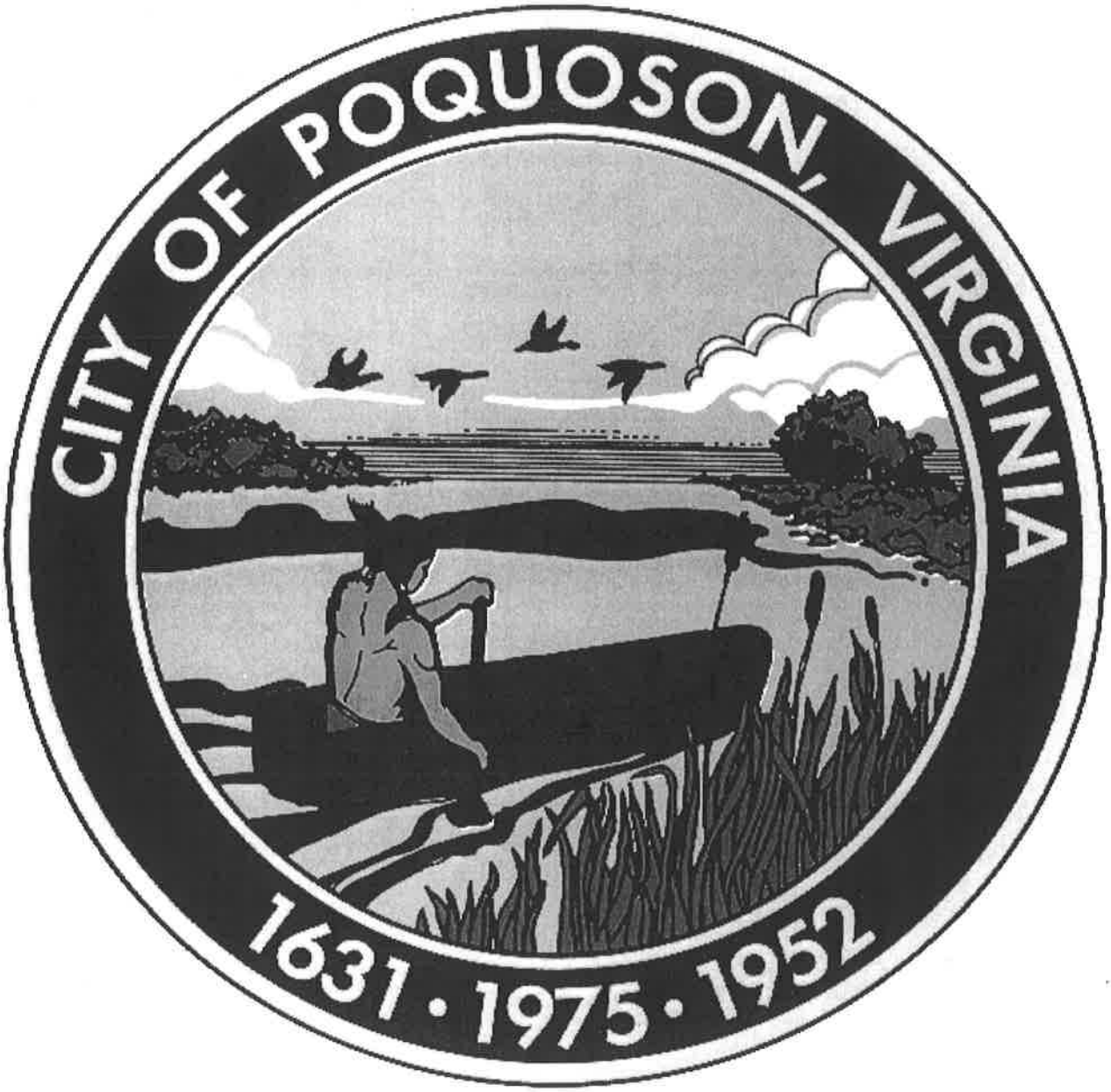
Last Ten Fiscal Years

Function/Program	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Police (1)										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	24.5	24.0	23.0	23.0	23.0	23.0	23.0	21.0	21.0	20.9
Fire stations (2)	2	2	2	2	2	2	2	2	2	2
Refuse collection (3)										
Collection trucks	0	0	0	0	3	3	3	3	3	3
Other public works (3)										
Street (miles)	55.5	55.4	55.4	54.6	53.2	53.2	53.2	52.9	52.0	51.8
Streetlights	569	574	574	574	561	546	542	507	502	495
Traffic signals	4	4	4	4	4	4	3	3	3	3
Park and recreation (4)										
Acreage	63	48	48	48	48	46	39	38	31	31
Playgrounds	3	3	3	3	3	4	3	3	2	2
Baseball / softball diamond	4	6	6	6	6	5	3	3	3	3
Soccer / football fields	6	6	6	6	6	5	5	5	5	5
Community centers	2	1	1	1	1	1	1	1	1	1
Wastewater (5)										
Sanitary sewers (miles)	65	64	64	64	64	64	64	64	63	54
Storm sewers (miles)	34.24(*)	34(*)	34(*)	32(*)	16	16	16	15	14	13

(*) Includes driveway pipes not available in previous years.

Source: (1) City of Poquoson Police Department .
(2) City of Poquoson Fire Department.
(3) City of Poquoson Public Works Department.
(4) City of Poquoson Parks and Recreation Department.
(5) City of Poquoson Utilities Department.

This page left blank intentionally



Compliance Section

This page left blank intentionally

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Honorable Mayor and Members of City Council
City of Poquoson, Virginia

We have audited the 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 Poquoson, Virginia (the "City"), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 4, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Cherry, Bekaert + Holland, L.L.P.

Virginia Beach, Virginia
December 4, 2012

Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Honorable Mayor and Members of City Council
City of Poquoson, Virginia

Compliance

We have audited the compliance of City of Poquoson (the "City") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

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

Cherry, Bekaert + Holland, L.L.P.

Virginia Beach, Virginia
December 4, 2012

City of Poquoson, Virginia

Schedule of Expenditures of Federal Awards

June 30, 2012

	Federal CFDA Number		Federal Expenditures
Federal granting agency / recipient state agency			
Grant program/grant number			
U.S. Department of Agriculture			
Pass through payments:			
Department of Agriculture and Consumer Services			
Child Nutrition Cluster:			
National School Breakfast Program	10.553	$ 26,861	
National School Lunch Program	10.555	146,562	
			$ 173,423
U.S. Department of Transportation			
Pass through payments:			
Department of Motor Vehicles:			
Alcohol Traffic Safety and Drunk Driving			
Prevention Incentive (10/1/10 - 9/30/11)	20.600		6,357
Alcohol Traffic Safety and Drunk Driving			
Prevention Incentive (10/1/11 - 9/30/12)	20.600		10,860
U.S. Department of Education			
Direct payments:			
Impact Aid	84.041		129,923
Pass through payments:			
Virginia Department of Education:			
Title I: Grants to local educational agencies	84.010		65,744
Title II: Improving teacher quality state grants	84.367		49,242
Special Education (IDEA) Cluster:			
Title VI-B: Assistance to states for education of handicapped children:			
Special Education Grants	84.027	$ 383,764	
ARRA - Special Education Grants, Part B, Section 611	84.391A	185,807	
ARRA - Special Education Preschool Grants, Part B, Section 619	84.392A	7,511	
Preschool Handicapped	84.173	12,627	
			589,709
Vocational education-basic grants to states	84.048		18,300
ARRA - State Fiscal Stabilization Funds	84.394		503,022
ARRA - State Fiscal Stabilization Funds - Basic Aid	84.394A		66,427
ARRA - Education Jobs Fund	84.410		87,000
U.S. Department of Defense			
Promoting K-12 Student Achievement at Military-Connected Schools (Reading	12.556		158,139
U.S. Department of Homeland Security			
Pass through payments:			
Virginia Department of Emergency Managemen			
FEMA Public Assistance	97.036		189,559
2010 Port Security Grant	97.056		207,675
2009 Port Security Grant	97.056		15,699
2011 Port Security Grant	97.056		13,276
2010 State Homeland Security Program	97.073		10,150
U.S. Department of the Interior			
Direct payments:			
Plum Tree Island Refuge	15.611		2,511
			$ 2,297,016

Notes to Schedule of Expenditures of Federal Awards

Year Ended

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Poquoson and is presented on the modified accrual basis of accounting. The City's reporting entity is defined in Note 1 to the City's financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. Food Distribution

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2012, the food service organization had food commodities totaling $10,345 in inventory.

City of Poquoson, Virginia

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

1. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

The type of report issued on the financial statements: **Unqualified opinions**

Internal control over financial reporting:

Material weaknesses identified: **No**
Significant deficiencies identified: **None reported**

Noncompliance which is material to the financial statements: **No**

Federal Awards:

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

Internal control over financial reporting:

Material weaknesses identified: **No**
Significant deficiencies identified: **None reported**

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

Major Programs:

- Special Education Grants – ARRA (CFDA No. 84.027, 84.173, 84.391A, 84.392A)
- State Fiscal Stabilization Funds - ARRA (CFDA No. 84.394, 84.394A)

The dollar threshold used to distinguish between Type A and Type B programs: **$300,000**

The auditee qualified as a low-risk auditee: **Yes**

2. FINDINGS - FINANCIAL STATEMENT AUDIT - None

3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS - None

4. FINDINGS AND QUESTIONED COSTS FOR STATE COMPLIANCE - None

2011-2 Record-keeping of Highway Maintenance Expenditures

Criteria:
Costs reported on the annual Weldon Cooper Center Local Finance Survey must be allowable costs for the maintenance, construction, or reconstruction of eligible streets (Urban Manual). Part of the testing of allowability includes verifying that work is being done on streets that have been approved by the Department of Transportation.

Condition:
While performing our audit procedures to ensure compliance with the Highway Maintenance section 3-13 of the *Specifications for Audits of Counties, Cities and Towns*, in one instance we noted that the location of work being performed was not being recorded; therefore, we were unable to test that the street was an eligible street included on the Department of Transportation's listing of eligible streets (Urban Inventory).

Resolution:
Specific street addresses and locations are recorded for all highway maintenance work performed by the City.