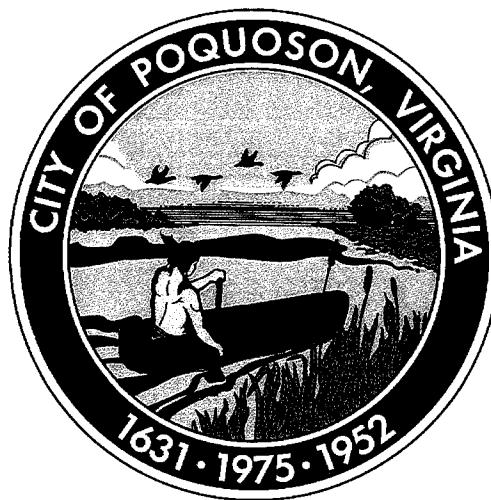


COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF POQUOSON, VIRGINIA



Fiscal Year Ended June 30, 2002

Prepared by:

The Department of Finance

Pamela A. Moon, CPA, Director

CITY OF POQUOSON, VIRGINIA

CITY COUNCIL

Gordon C. Helsel, Jr., Mayor
Roger N. Messier, Vice Mayor
Christopher E. Claud
Herbert R. Green, Jr.
Arthur V. Holloway, Jr.
W. Eugene Hunt, Jr.
Frank A. Kreiger

CITY OFFICIALS

Charles W. Burgess, Jr., City Manager
Pamela A. Moon, CPA, Director of Finance
Donald T. Joyner, CPA, Treasurer
Graham P. Wilson, Commissioner of the Revenue
D. Wayne Moore, City Attorney
Judy F. Wiggins, City Clerk

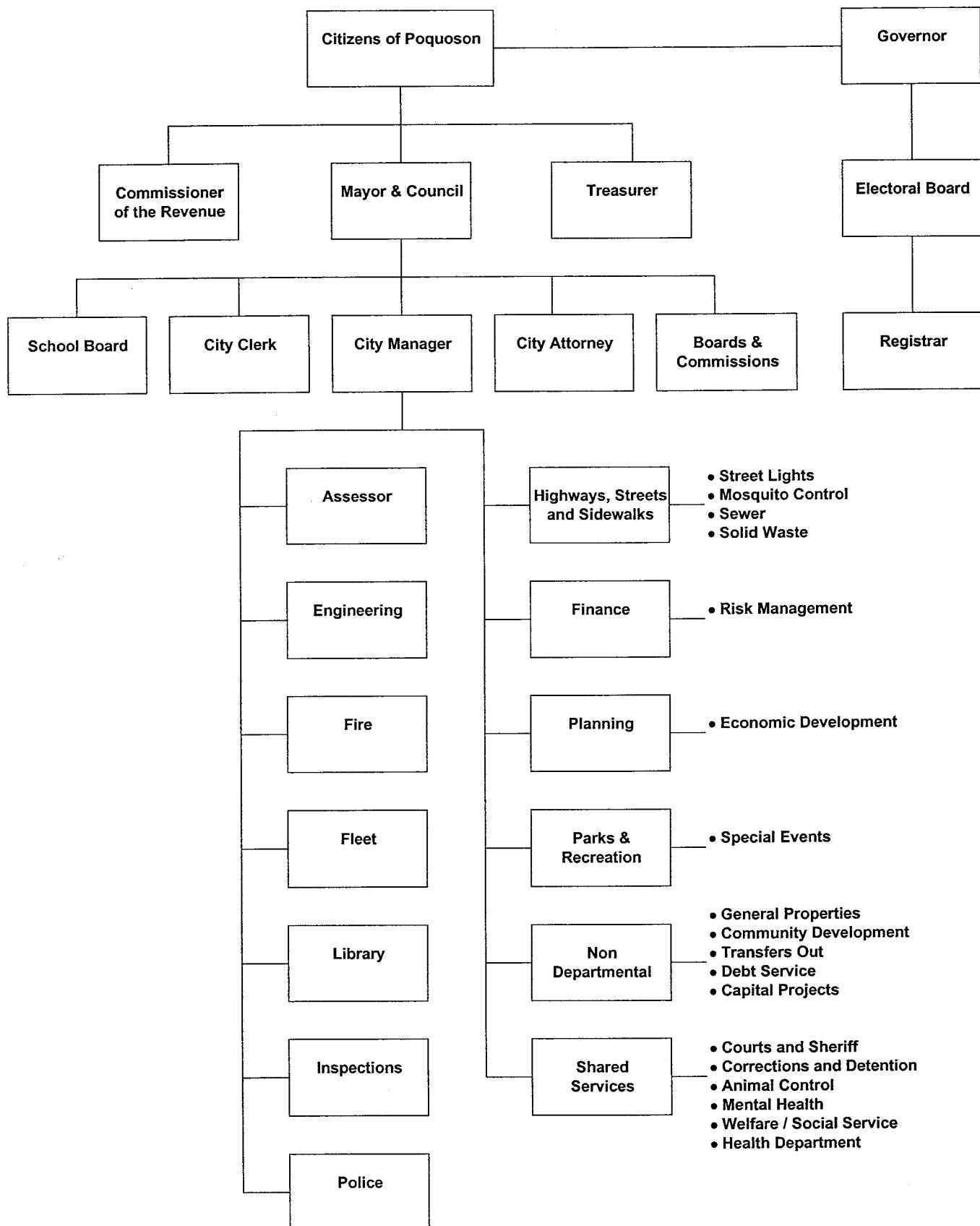
SCHOOL BOARD

D. Scott Bunting, Chairman
Carey L. Freeman, Vice Chairman
S. Michael Evans
Charles L. French
James T. French
Larry E. Marks
Regina P. Wightman

SCHOOL OFFICIALS

Dr. Jonathan L. Lewis, Superintendent
Marilyn F. Barr, Assistant Superintendent
Janet A. Brown, Executive Director of Business and Finance

CITY OF POQUOSON, VIRGINIA
CITY GOVERNMENT ORGANIZATION CHART



Certificate of Achievement for Excellence in Financial Reporting

Presented to

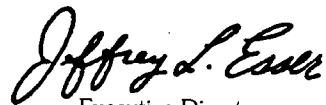
**City of Poquoson,
Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001

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




President


Executive Director

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CITY OF POQUOSON, VIRGINIA

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City of Poquoson, Virginia

500 City Hall Avenue

Poquoson, Virginia 23662



FISCAL YEAR JULY 1, 2001 — JUNE 30, 2002

Letter of Transmittal

- **Introduction**
- **Financial Reporting Entity and Its Structure**
- **Local Economic Condition and Outlook**
- **Major Initiatives and Accomplishments**
- **Financial Overview**
- **Debt Administration**
- **Cash Management**
- **Risk Management**
- **Independent Audit**
- **Certificate of Achievement**
- **Acknowledgments**

Introduction

November 8, 2002

Honorable Mayor, City Council, and Citizens of Poquoson, Virginia:

We are pleased to submit to you the Comprehensive Annual Financial Report of the City of Poquoson (the "City") for the fiscal year ended June 30, 2002. The report is required in accordance with Article V, Section 11 of the Poquoson City Charter and is prepared in accordance with the standards of financial reporting prescribed by the Governmental Accounting Standards Board (GASB), and the Auditor of Public Accounts of the Commonwealth of Virginia.

Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds, account groups and the component units of the City of Poquoson. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The comprehensive annual financial report is presented in four sections:

1. Introduction—This section, which is unaudited, includes this letter of transmittal, an organizational chart, a list of the City of Poquoson's principal officials, and the prior year's Certificate of Achievement for Excellence in Financial Reporting.
2. Financial—This section includes the general-purpose financial statements and the combining, individual fund, and account group financial statements and schedules, as well as the independent auditors' report on the financial statements and schedules.
3. Statistical—This section, which is unaudited, includes selected financial and demographic information, generally presented on a multi-year basis.
4. Compliance—This section contains the schedule of expenditures of federal awards and the independent auditors' reports on internal control and compliance with requirements applicable to grants. The City of Poquoson is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget's Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. It also includes a report on compliance with the Commonwealth of Virginia laws, regulations, contracts, and grants.

Financial Reporting Entity and Its Structure

The financial reporting entity includes all funds and account groups of the City of Poquoson as well as its component units. The City provides a full range of services including emergency services, public works, recreational activities, library services, and community development activities. 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 Industrial Development Authority (IDA); therefore, these activities are included as discretely presented component units in this report. A discretely presented component unit is reported in a separate column in the combined financial statements to emphasize that it is legally separate from the primary government and to differentiate its financial position and results of operations from those of the primary government.

Accordingly, the following funds and entities are included in the City's Annual Report:

Fund Types and Account Groups

General	Poquoson School Board (Discretely
Debt Service	Presented Component Unit)
Capital Projects	
Enterprise	Industrial Development Authority
Internal Service	(Discretely Presented Component Unit)
Fiduciary Fund	
General Fixed Assets	
General Long-Term Obligations	

The City of Poquoson provides the following services to its citizens through shared services with the County of York:

Social Services
 Administration of Justice
 Sheriff's Office
 Court House and Court Activities

Government Structure

Poquoson is organized under the Council-Manager form of government. The Poquoson City Council is composed of seven members who are elected by the voters and serve four year terms. The City is divided into three precincts, each precinct is 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 City Manager acts as Chief Executive and Administrative Officer of the City. The Manager serves at the pleasure of Council, carries out its policies, directs business procedures and has the power of appointment and removal of the heads of all 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 aid formulas for partial funds. The locality must provide all capital improvement funds and 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.

Local Economic Condition and Outlook

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. 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 median household income was \$60,920 in 1999 (latest available data). Hampton Roads economy has been strong for several years and has had a low unemployment rate. In 2001, Poquoson had a 2.3% unemployment rate as compared to a state-wide rate of 3.5% and a national average of 4.8%. The civilian labor force was 6,076 in 2001.

The City remains fiscally sound. Key economic indicators remain fairly consistent or reflect favorable changes. The 2000 Census population of 11,566 reflects growth of 5% since the 1990 Census. The U.S. Bureau of Census estimates Poquoson's population to be 11,694 in 2001.

2001 taxable sales of \$34,631,956 were up 7.6% from the 2000 level. The increase indicates an improvement in the retail and food industry.

Poquoson is primarily residential in nature and does not have a large commercial base affecting the local economy. Poquoson's close proximity to other cities has lessened the demand for large retail and commercial development, as citizens are able to do shopping and find jobs in neighboring cities. This puts a much higher burden on residents to fund the services of the City compared to neighboring cities who use businesses to fund part of the City services.

In excess of 78.0% of our local resources come from general property taxes when the norm for Virginia cities is 51.5%. Commercial property accounts for only 5.6% of total real estate.

The largest source of revenue to the City comes from the real estate tax revenue. Poquoson's real property tax rate for FY 2002 was \$1.12 per \$100 of assessed value. Poquoson has not increased the real estate tax rate since FY 1995, but has had increases in real estate tax revenue, primarily due to increased assessments and growth of new buildings in the City. In the past 5 years assessments on housing and commercial property, including tax exempt property, have increased by 24.9%. Total taxable real property assessments at June 30, 2002 were \$732,405,108.

The biggest financial challenge to the City is to develop the business tax base in order to take some of the burden off residents, but progress has

Demographics

- **Unemployment Rate 2.3%**
- **High Median Income**
- **Slow to Steady Population Growth**
- **Residential Nature**
- **Dependent on General Property Taxes**

been slow. In the mid 1990's, the City embarked on a program of economic development in an undeveloped area called the "Big Woods" with the long-term goal of expanding the commercial tax base. This program included rezoning the area commercial, locating the new City Hall and Library in the center of this area, and extending water, sewer, electricity, gas, cable, telephone line, roads and parking to this area. A Poquoson IDA was formed two years ago, and they are currently obtaining options on land, purchasing land, building roads, and providing drainage to the Big Woods area. While build out of this commercial area may take many years, a strip mall and several businesses have recently located in the Big Woods area.

Personal property tax revenue is the second largest source of revenue in the City. The assessments in personal property have increased to \$81,396,248 up 34.1% in the past 5 years. Effective January 1, 1999, the State implemented the Personal Property Tax Relief Act (PPTRA). The State reimburses a portion of the personal property tax bill to the City, thus reducing the amount the taxpayer remits to the City. While PPTRA has not affected revenues, overall it has shifted some dollars from general property taxes to State non-categorical aid.

Major Initiatives and Accomplishments

The Capital Improvement Plan (CIP) has been updated for the past three years and has helped to guide the City for major capital initiatives. The City is in the process of updating the Comprehensive Plan, which addresses ways Poquoson will sustain itself as it heads into the 21st century. It provides strategies for preserving property rights and developing land use policies, providing governmental services and facilities, encouraging economic development, and transportation needs of the City. The CIP, in combination with the Comprehensive Plan, should assist with determining and balancing long-term needs, setting priorities, and anticipating capital problems.

For the Year:

Sewer extension continued to be the biggest initiative of the City of Poquoson during FY 2002. The project has extended sewer to approximately 560 households and has resulted in sewer being available to all existing households on public rights-of-way in the City. By the end of FY 2002, the sewer pipe was laid, 6 of the 8 pump stations were completed, and the residents in the affected areas had paid the sewer availability fee or financed payment of the fee with the City.

General Property Taxes Largest Sources of Revenue
• Real Estate Rate \$1.12 per \$100 Assessed Value
• Personal Property Tax Rate \$3.85 per \$100 Assessed Value

The Sewer Fund added over \$1,700,000 in fixed assets during the year, bringing sewer system net assets to over \$18,000,000. The City made the final draw on the \$10,000,000 loan that funded the sewer extension and issued additional debt to provide funding for reconstruction of a pump station and future rehabilitation projects. Sewer debt now totals over \$14,000,000. Numerous connections to the sewer system have significantly improved the cash balance of that fund and will be used to keep future quarterly usage fees lower.

Major Initiatives

- **Sewer Extension**
- **Messick Point Dredge and Improvements**
- **IDA Economic Development Projects**

Another major City initiative was the Messick Point project. After more than 10 years of planning, the City participated with the Army Corps of Engineers (ACOE) to dredge a channel from the main Back River to Messick Point. The dredge and a turning basin were completed this spring. The dredge significantly improved the navigation, access and use of the Messick Point area. While most of the City share of costs associated with this project, including 20 year maintenance costs, were prepaid by the City to the ACOE in FY 2001, the work was completed in the spring of FY 2002.

In addition to the ACOE navigation channel and turning basin, the City demolished 3 dilapidated piers in the area; cleaned out debris, collapsed building structures, and old boats found under the water; and dredged additional areas that were not included in the ACOE project. The additional dredge included areas adjacent to the boat launch area, in front of the bulkhead, to the northwest of the turning basin and in the location where the new pier is proposed to be built. This dredge should provide deep water for larger commercial and recreational boats to navigate to the bulkhead and to moor their boats. During the year, an engineering firm was secured to start design of additional parking improvements to the boat launch area, and a new pier at Messick Point.

The City also funded other capital improvements during the year with a transfer to the Capital Projects Fund in the amount of \$762,026. The funding from the General Fund provided funds for roads, land purchases, vehicle replacement and other initiatives in the City.

The IDA is responsible for promoting industry and developing trade by inducing private enterprises to remain in or relocate to the City. The IDA had several initiatives during the year, including the purchase of several parcels of land and construction of a new storm water drainage basin in the Big Woods. The IDA secured a \$3,000,000 line-of-credit during the year to pay for development projects that come up. The unpaid principal on the line is due in March 2004.

In January 2002, the City made significant market adjustments to employees' salaries in an attempt to bring them closer to neighboring communities.

For the Future

The School Board is planning needed building improvements and/or building of new schools. These needed school projects could cost up to \$25,000,000 and would require debt issuances to pay for them. Because of the significance in planning for these projects, the project will go for referendum in the spring of FY 2003 with the design phase following, if the project is approved.

The sewer extension project will be completed and all citizens should have paid their sewer availability fee and started paying quarterly usage charges during FY 2003. With this large project complete, City staff is now preparing to release bids to select a contractor to rehabilitate several pump stations in need of repair.

For the Future

- **Messick Point Improvements**
- **Police IBR System**
- **IDA retention ponds**
- **School buildings**

Land was recently purchased to expand the South Lawson park area. A new entrance to this park and other beautification improvements are being planned for this land.

The Police Department is replacing the incident based reporting system and computer aided design.

The Fire Department has plans for a major renovation of Fire Station #1, which would need to be financed through a debt issuance.

Departmental and Service Accomplishments

The City of Poquoson Schools continue to have a high percentage of high school graduates pursue post secondary education and maintains some of the highest standardized test scores in the State.

In January 2002, the City of Poquoson opened a State Division of Motor Vehicles (DMV) office in City Hall. The DMV office is run by City employees and the City receives 3.5% on the first \$1,000,000 gross revenue collected, and 1.0% on collections over \$1,000,000. This DMV branch office provides a convenience to our citizens and surrounding communities that was not present before.

The City of Poquoson obtained approval from the Virginia General Assembly to amend the City Charter to change the date of municipal elections from May to November of even numbered years.

Financial Overview

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Management is responsible for establishing and maintaining internal controls designed to ensure that the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires estimates and judgments by management.

Controls

- **Auditors tests of controls produced no findings**
- **Budgetary Controls**

Single Audit:

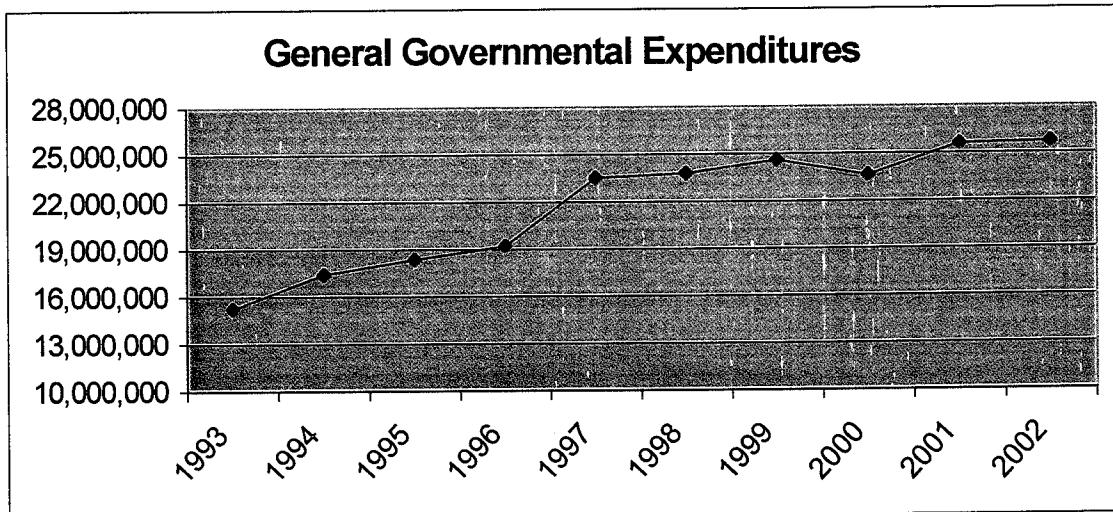
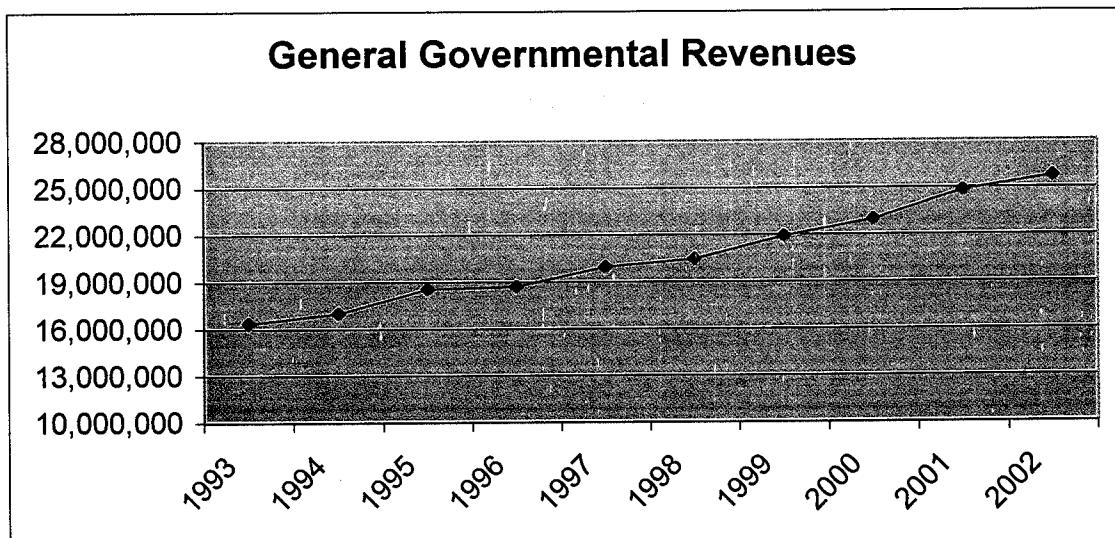
As a recipient of federal and state financial assistance, the City is responsible for ensuring that adequate internal controls are in place to ensure and document compliance with applicable laws and regulations related to these programs. These internal controls are subject to periodic evaluation by management of the City.

As a part of the City's single audit, described earlier, tests are made to determine the adequacy of the internal controls including that portion related to federal financial assistance programs, as well as to determine that the City has complied with applicable laws and regulations. The results of the City single audit for the fiscal year ended June 30, 2002, indicated no instances of material weaknesses in internal controls or significant violations of applicable laws and regulations.

Budgetary Controls:

In addition to internal controls, the City maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the General Fund are included in the annual appropriated budget. Project-length financial plans are adopted for the Capital Projects Fund. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is the total expenditure level of each department. 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.

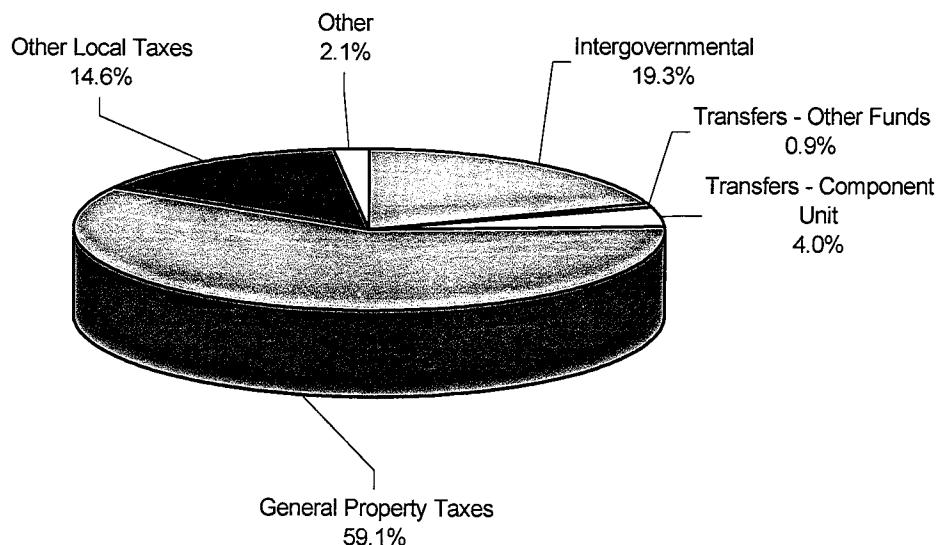
Below is a summary of general government revenue and expenditures over a 10 year period. As shown below, expenditures have exceeded revenues during the past recent years, thus using much of the City's fund balance.



Amounts include general, special revenue (school), debt service and capital project funds.

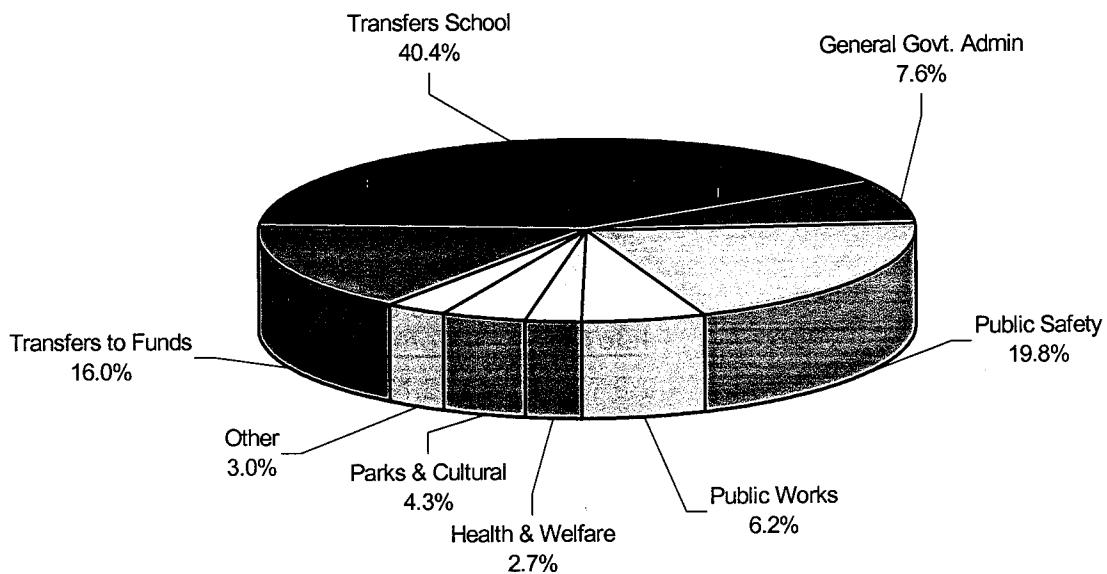
General Fund
Revenue and Other Financing Sources
FY 2002

Revenues & Other Financing Sources	June 30, 2002 Amount	Percent of Total	June 30, 2001 Amount	Increase (Decrease) From 2001	Percent of Increase (Decrease)
General Property Taxes	\$9,716,038	59.1 %	\$9,921,498	(\$205,460)	(2.1%)
Other Local Taxes	2,402,784	14.6	1,984,354	418,430	21.1
Permits, Licenses & Fees	144,907	0.9	108,412	36,495	33.7
Fines & Forfeitures	22,596	0.1	25,448	(2,852)	(11.2)
Interest & Rent	120,990	0.7	226,465	(105,475)	(46.6)
Charges For Service	29,069	0.2	28,980	89	0.3
Intergovernmental	3,177,912	19.3	2,581,883	596,029	23.1
Miscellaneous	24,817	0.2	26,111	(1,294)	(5.0)
Transfers - Other Funds	145,260	0.9	142,000	3,260	2.3
Transfers - Component Unit	662,208	4.0	547,963	114,245	20.8
TOTAL	\$16,446,581	100.0%	\$15,593,114	\$853,467	5.5%



General Fund
Expenditures and Other Uses By Category
FY 2002

<u>Expenditures & Other Uses</u>	June 30, 2002	Percent of Total	June 30, 2001	Increase (Decrease) From 2001	Percent of Increase (Decrease)
General Government Admin	\$1,257,684	7.6%	\$1,172,028	\$85,656	7.3%
Public Safety	3,284,029	19.8	3,092,622	191,407	6.2
Public Works	1,025,194	6.2	889,179	136,015	15.3
Health & Welfare	447,294	2.7	464,380	(17,086)	(3.7)
Parks, Recreation & Cultural	720,466	4.3	730,150	(9,684)	(1.3)
Community Development	449,777	2.7	258,403	191,374	74.1
Non-departmental	42,271	0.3	35,366	6,905	19.5
Transfers - Debt Service	1,597,319	9.6	1,446,818	150,501	10.4
Transfers - Capital Projects	762,026	4.6	611,770	150,256	24.6
Transfers - Other Funds	231,400	1.4	165,040	66,360	40.2
Transfers - Schools	6,696,939	40.4	6,333,720	363,219	5.7
Transfers - IDA	55,000	0.4	360,345	(305,345)	(84.7)
TOTAL	\$16,569,399	100.0%	\$15,559,821	\$1,009,578	6.5%



General Government Functions:

The schedules and charts on the previous pages present a summary of General Fund revenues and expenditures.

General Fund revenues and transfers in for the fiscal year ended June 30, 2002 totaled \$16,446,581, an increase of \$853,467 or 5.5%.

General property taxes account for the largest amount of revenue to the City. They consist of real property taxes, public service corporation property taxes, personal property taxes, and penalties and interest.

	<u>FY 2002</u>	<u>FY 2001</u>
General Fund Revenue		
Real estate	\$8,142,010	\$8,120,847
Public service	185,858	168,564
Personal property	1,271,261	1,495,673
Penalties & interest	<u>116,909</u>	<u>136,414</u>
	<u>\$9,716,038</u>	<u>\$9,921,498</u>

Real estate tax revenue increased 0.3% or \$21,163 due to growth in the City. The City assesses biennially and FY 2002 was not a reassessment year.

Personal property revenue decreased 15.0%, or \$224,412. While assessments on personal property continued to increase, the Personal Property Tax Relief Act (PPTRA) was implemented in January 1999. This shifted \$1,724,991 and \$1,106,555 from general property taxes to State non-categorical aid in FY 2002 and FY 2001, respectively. The State PPTRA was enacted to give citizens a tax break on qualified vehicles on their personal property tax. The State's plan reduced the amount of personal property tax by 70.0% in FY 2002 and the second half of FY 2001. For the first half of FY 2001, the amount was reduced by 47.5%.

Although general property taxes decreased due to PPTRA, State non-categorical aid increased. Overall, the combined personal property taxes and State non-categorical aid from PPTRA revenue increased by 15.1%, or \$394,024 due to the increase in assessments.

	<u>FY 2002</u>	<u>FY 2001</u>
Personal Property Tax	\$1,271,261	\$1,495,673
PPTRA	<u>1,724,991</u>	<u>1,106,555</u>
	<u>\$2,996,252</u>	<u>\$2,602,228</u>

Other local taxes had a \$418,430 or 21.1% increase over the prior year. A 10 cent per pack cigarette tax was instituted October 1, 2001, bringing the City \$191,868 in new revenue in FY 2002. The meals tax rate increased from 4% in FY 2001 to 5.5% in FY 2002. The tax increase and restaurant growth brought in an additional \$127,207 in FY 2002, going from \$236,488 in FY 2001 to \$363,695 in FY 2002. All other local taxes increased in FY 2002, and this is attributed to growth and new businesses in the City. The City saw large increases in sales and use taxes, consumption tax, business license tax, E-911 telephone tax, motor vehicle license tax, and recordation taxes.

Building permits increased by 33.7% over prior year. FY 2002 had several new subdivisions and a number of isolated permits due to sewer availability to lots for the first time, which brought a larger amount of permit revenue.

Fines and forfeitures decreased by 11.2%. This account varies from year to year and FY 2002 was unusually low.

Interest and rent decreased by 46.6%, or \$105,475 in FY 2002. The decrease was in interest revenue, due to a decreased cash balance and significantly lower interest rates.

Intergovernmental increased by 23.1% or \$596,029. PPTRA had a \$618,436 increase in FY 2002 due to a full year of the reimbursement at 70% and increased personal property assessments. FY 2001 had half of the year reimbursed at a 47.5% rate. The State also increased contributions for highways and libraries. The State decreased funding for shared expenses, State 599 police funds, comprehensive services, and one-time public safety grants. Amounts from the Federal government also decreased due to one-time library and public safety grants received in FY 2001.

Transfers from the school component unit increased by 20.8% or \$114,245. This transfer represents unspent School funds at year-end and money that the schools received from the State that was transferred to the City to pay for school debt service. In FY 2002, the Schools received \$271,054 in State construction funds and \$160,069 in lottery funds. In FY 2001, the Schools received \$294,162 in State construction funds and \$134,203 in lottery funds. These funds can be used for school debt service and school construction projects. The Schools are required to return unspent School funds at year-end to the City. The Schools returned \$231,085 and \$103,720 to the City for FY 2002 and FY 2001, respectively.

General Fund
Expenditures

• \$16,569,399

The Expenditures and other uses in the General Fund totaled \$16,569,399 in FY 2002, an overall increase of \$1,009,578, or 6.5%.

General government administration increased by 7.3% or \$85,656 due to increases in salaries, the Commissioner of Revenue upgrading a part-time position to full-time, increased audit costs for the Treasurer turn over audit, and bonuses paid in FY 2002.

Public safety increased by \$191,407 or 6.2%. Over \$100,000 of the increase is attributable to the Fire Department hiring part-time emergency medical technicians and paramedics to fill staffing shortages. Other FY 2002 cost increases included a 35% increase in hospitalization premiums, fire and police salary increases, increased shared services costs for the York County/Poquoson courthouse due to additional positions and supplemented salaries, and increased costs for juvenile detention due to higher usage in FY 2002.

Public works increased by \$136,015 or 15.3%. The City upgraded all salaries on January 1, 2002, and Public Works received a greater share of these upgrades. Also in FY 2001, there were a number of vacancies in positions that were filled in FY 2002. Other large increases in expenditures included a 35% increase in hospitalization premiums and additional money spent to repair curbs, gutters and sidewalks.

Health and welfare decreased by 3.7% primarily due to less severe cases in services for children with special needs. Parks, recreation and cultural expenses decreased by 1.3% primarily due to one employee that is now classified in community development.

Community Development costs increased by \$191,374 or 74.1%, primarily due to the creation of a Community Relations Office at the cost of \$101,580 in FY 2002. Also, over \$50,000 was spent for consulting services for traffic planning in FY 2002. Several newly formed organizations servicing Poquoson, such as the YMCA and Poquoson Museum, received funds for the first time in FY 2002.

Transfers to debt service increased by \$150,501 or 10.4% in FY 2002 due to new debt service on Fire Station #2 and a pumper/aerial truck. The \$150,256 or 24.6% increase in transfers to Capital Projects is due to budgeted expenditures for Messick Point dredging, which occurred in FY 2002. Transfers to other funds increased by \$66,360 or 40.2%. The General Fund transfers funds to cover some costs associated with bulky item pickup and landscaping debris. In FY 2002, the costs of the composting facility increased significantly.

The transfer to school operations continues to be the City's largest single expenditure. The \$363,219 or 5.7% increase represents additional funds used by the Schools for operations, building improvements and technology.

General Fund Balance

The fund balance of the General Fund for the year ended June 30, 2002 was \$3,972,475, a decrease of \$122,818 or 3.0%. Undesignated fund balance of the General Fund for the year ended June 30, 2002, was \$3,861,831, a decrease of 2.1% from the prior year. The undesignated fund balance provides the City with a fund balance that is the equivalent of approximately 85 working days, down 11 days from prior year, of expenditures for the General Fund. The fund balance is used to meet emergencies, provide a source of cash flow in order to avoid short-term borrowing, generate interest on investments, and provide funds for capital and other one time needs.

Capital Projects Fund

The Capital Projects Fund accounts for acquisition or construction of major City and School capital facilities. Capital Projects revenues included \$362,812 in revenue from the State for highway projects and a Virginia Port Authority grant. In FY 2002 financing sources included a \$762,026 transfer from the General Fund and \$597,000 in bond proceeds.

Capital outlays in Capital Projects totaled \$1,266,450 and included highway and drainage improvements, equipment purchases, dredge of Messick Point, park improvements, a police computer aided design system, land purchases, and other major improvements. Improvements to the pool in the amount of \$28,902 were transferred to the Parks and Recreation Enterprise Fund as a residual equity transfer.

As provided in the City Charter, funding for items included in the Capital Projects Fund do not lapse until the project is accomplished or abandoned. Any project is deemed to have been abandoned if no expenditures are made after three fiscal years.

At the end of the fiscal year, completed projects, which should be capitalized, are transferred to the General Fixed Assets Account Group. Streets, sidewalks, curbs, gutters, parking lots, drainage systems, and lighting systems are infrastructures normally immovable and of value only to the governmental unit. Therefore, these items are not transferred to the General Fixed Assets Account Group. The \$850,172 fund balance in the Capital Projects Fund as of June 30, 2002 includes \$221,203 reserved for encumbrances and \$628,969 designated for future years.

General Fixed Assets

The general fixed assets of the City are those assets used in the performance of general government functions and exclude the fixed assets of Enterprise and Internal Service Funds. As of June 30, 2002, the general fixed assets of the City amounted to \$12,943,744. The general fixed assets of the School's component unit

amounted to \$21,589,144. These amounts represent the historical cost or estimated historical cost (if actual historical cost is not available), or in the case of gifts and contributions, the estimated fair market value at the time of the gift or contribution. Depreciation of general fixed assets is not recognized in the City's accounting system; however, the City does recognize depreciation on fixed assets of the Enterprise and Internal Service Funds.

Enterprise Operations

The City's enterprise operations are comprised of three separate and distinct activities: the Sewer Operations Fund, the Parks and Recreation Fund and the Solid Waste Fund. The IDA, which is a discretely present component unit, is also presented as an enterprise operation.

The Sewer Operation Fund operates and maintains the City's sanitary sewer system. To provide for the operating costs of the system and to pay for debt service on capital improvements, the City charged users a sewer assessment of \$57 per household per quarter in FY 2002. Businesses paid \$57 plus \$1.25 per one hundred cubic feet of water used each quarter. These quarterly charges provided the Sewer Fund with \$965,667 in operating revenue during FY 2002. As sewer extension neared completion, a number of residents connected to sewer in FY 2002. Sewer availability fees recorded as non-operating revenue totaled \$1,597,800 in FY 2002. Contributed capital and retained earnings of the Sewer Operation Fund at July 1, 2001 were restated to reclassify sewer availability fees as non-operating revenue in accordance with GASB 33 "Accounting and Financial Reporting for Non-Exchange Transactions." The effect of the adjustment decreased beginning contributed capital and increased retained earnings by \$616,500. The Sewer Operation Fund had net income of \$1,299,750 during the year.

Enterprise Operations
Sewer Net Income
\$1,299,750
Parks and Recreation Net Loss (\$22,767)
Solid Waste Net Income \$84,690

The Parks and Recreation operations continue to provide quality recreational services to the community. Parks and Recreation received \$364,864 for services and received \$110,790 in funds to support festival activities during the year. In FY 2002, the Parks and Recreation Fund had a net loss of \$22,767. This fund continues to be monitored closely and user fees are constantly examined in an effort to eliminate deficits.

The Solid Waste Fund is supported by user fees and General Fund transfers to cover bulky item pickup. This fund accounts for the revenues and expenditures associated with the collection, disposal and/or recycling of household and municipal waste, bulky items and landscaping debris. The majority of revenues come from bag fees. The City uses a pay-by-the-bag program and sold bags for \$1.75 per bag in FY 2002, bringing \$296,453 in revenues. In FY 2002, net income was \$84,690. The accumulation of retained earnings in the Solid Waste Fund is intentional and will be used to replace trash and debris trucks.

Debt Administration

The ratio of net bonded debt to assessed valuation and the amount of bonded debt per capita are useful indicators of the City's debt position to municipal management, citizens and investors. This data for the past two years is presented below:

Net Direct Tax Supported Debt—Including Enterprise Funds

	<u>FY 2002</u>	<u>FY 2001</u>
Net direct bonded debt	\$28,543,012	\$27,222,580
Ratio of outstanding direct debt to assessed value	3.44%	3.30%
Net debt per capita	\$2,468	\$2,354

Net Direct Tax Supported Debt—General Government Obligation

	<u>FY 2002</u>	<u>FY 2001</u>
Net direct bonded debt	\$14,145,971	\$14,536,070
Ratio of outstanding direct debt to assessed value	1.70%	1.78%
Net debt per capita	\$1,223	\$1,257

Total outstanding general obligation debt at June 30, 2002 was \$28,543,012, of which \$14,397,041 in bonds for the sewer system is considered to be self-supporting in the Sewer Operations Fund. The remainder of \$14,145,971 is considered to be net direct tax supported debt. Included in the total is \$8,445,597 in bonds and \$5,690,374 in State Literary Loan funds.

Cash Management

The primary government maintains one centralized bank account for the operation of all funds with the exception of the Sewer Fund, the Library Building Agency Fund, and the School component unit, which have separate accounts. All of the City's cash is deposited with the City Treasurer, an elected officer, who is responsible for investing all City funds. City cash is invested primarily in the Local Government Investment Pool, Federal government obligations, and other short-term investments permissible under the Virginia Public Investment Act. The amount of interest earned during the year by the General Fund was \$79,296, down 124.7% from previous year due to declining interest rates. The City also has restricted cash and investments that are monitored by the Finance Department and used for the payment of bond projects. At June 30, 2002, the various cash balances included cash on hand, investments, cash on deposit in banks, and restricted cash in the amount of \$6,220,481 for the City and \$2,304,683 for the Schools.

Risk Management

The City maintains liability coverage through the Virginia Municipal Liability Pool and workers compensation coverage through the Virginia Municipal Group Self-Insurance Association. These are nonprofit, tax exempt associations of Virginia local political subdivisions. Local political subdivisions of the Commonwealth of Virginia eligible to participate in the program include cities, towns, counties, school systems and other local government agencies.

Independent Audit

State statutes require an annual audit by independent certified public accountants. The City Charter requires an annual audit of the financial records to be performed by independent certified public accountants selected by the City Council. The firm of Goodman & Company, L.L.P. has been contracted to audit all of the fund accounts and records of the City. Their report for the year ended June 30, 2002 is included. In addition to meeting the requirements set forth in state statutes, the audit also is designed to meet the requirements of the federal Single Audit Act Amendments of 1996 and related OMB Circular A-133. Auditing standards generally accepted in the United States of America and the standards set forth in the General Accounting Office's Government Standards were used by the auditors in conducting the engagement. The auditors' report on general-purpose financial statements and schedules is included in the financial section of this report. The auditors' reports, relating specifically to the single audit, are included in the compliance section.

Certificate of Achievement

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, 2001.

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 generally accepted accounting principles 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 government also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget dated May 13, 2002. 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.

Acknowledgments

We would like to express our appreciation for the dedicated efforts of the employees of the Finance Department, the School Board Finance Department, the Treasurer's Office and to our Certified Public Accountants, Goodman & Company, L.L.P. for their cooperation and assistance in keeping us in conformity with rapidly changing accounting interpretations and principles. Due credit should also be given to City Council for their interest and support in planning and conducting the operations of the City of Poquoson in a responsible and progressive manner.

Respectfully submitted,

Pamela A. Moon

Pamela A. Moon, CPA
Director of Finance

Charles W. Burgess, Jr.

Charles W. Burgess, Jr.
City Manager

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REPORT OF INDEPENDENT AUDITORS

Honorable Mayor and City Council
City of Poquoson, Virginia

We have audited the accompanying general-purpose financial statements of the **City of Poquoson, Virginia** (the "City") and the combining, individual fund, account group and component units financial statements of the City as of and for the year ended June 30, 2002, as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of 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 opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types and component units for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the combining, individual fund, account group and component units financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds, account groups and component units of the City, as of June 30, 2002, and the results of operations of such funds and the cash flows of the individual proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated September 30, 2002, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Fountain Plaza One, 701 Town Center Drive, Suite 700, Newport News, VA 23606-4295
ph: 757.873.1033 fax: 757.873.1106 www.goodmanco.com

Members American Institute of Certified Public Accountants



Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the City taken as a whole, and on the combining, individual fund, account group and component units financial statements. The accompanying financial information listed as supplementary schedules in the Table of Contents, including the schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements of the City. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose, combining, individual fund, account group and component units financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements and each of the respective combining, individual fund, account group and component units financial statements taken as a whole.

The statistical schedules listed in the Table of Contents are not a required part of the basic financial statements of the City, and we did not audit or apply limited procedures to such information. Accordingly, we do not express any assurance on such information.

Goodman & Company

Newport News, Virginia
September 30, 2002, except for Note 22,
as to which date is October 17, 2002

GENERAL-PURPOSE FINANCIAL STATEMENTS

CITY OF POQUOSON, VIRGINIA

COMBINED BALANCE SHEET

ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS

June 30, 2002

	Governmental Fund Types	
	General	Capital Projects
ASSETS AND OTHER DEBITS		
Cash and cash equivalents	\$ 2,475,106	\$ 889,903
Property taxes receivable - net	577,541	-
Utility taxes receivable	50,709	-
Other receivables	52,353	-
Notes receivable	-	-
Due from component units	271,884	-
Due from other governmental units	232,676	65,703
Prepaid items	1,918	-
Inventory	-	-
Restricted assets - cash and cash equivalents	-	-
Investments	985,300	-
Fixed assets - net of accumulated depreciation, if applicable	-	-
Other assets	-	-
Amount to be provided for retirement of general long-term obligations	-	-
Total assets and other debits	\$ 4,647,487	\$ 955,606
LIABILITIES, FUND EQUITY AND OTHER CREDITS		
Liabilities		
Accounts payable and accrued liabilities	\$ 195,649	\$ 105,434
Accrued compensated absences	-	-
Line of credit	-	-
Due to primary government	-	-
Amounts held for others	-	-
Deferred revenue	479,363	-
Note payable	-	-
General obligation bonds payable - current	-	-
General obligation bonds payable	-	-
State Literary Fund loans payable	-	-
Total liabilities	675,012	105,434
Fund equity and other credits		
Investment in general fixed assets	-	-
Contributed capital	-	-
Retained earnings (deficit)	-	-
Fund balances:		
Reserved for encumbrances	108,726	221,203
Reserved for inventory	-	-
Reserved for prepaid items	1,918	-
Designated for fiscal year 2003 budget	-	628,969
Unreserved and undesignated	3,861,831	-
Total fund equity and other credits	3,972,475	850,172
Total liabilities, fund equity and other credits	\$ 4,647,487	\$ 955,606

Proprietary Fund Types		Fiduciary Fund Types		Account Groups			Total (Memorandum Only)		Component Units		Total (Memorandum Only)	
Enterprise	Internal Service	Agency		General Fixed Assets	General Long-term Obligations	Primary Government	School Board	Industrial Development Authority			Reporting Entity	
\$ 1,797,826	\$ 54,985	\$ 54,223	\$	-	\$	-	\$ 5,272,043	\$ 2,304,683	\$ -	\$ 7,576,726		
-	-	-		-	-	577,541	-	-	-	577,541		
292,788	-	-		-	-	50,709	-	-	-	50,709		
201,215	-	-		-	-	345,141	1,370	-	-	346,511		
-	-	-		-	-	201,215	-	-	-	201,215		
-	-	-		-	-	271,884	-	-	-	271,884		
-	-	-		-	-	298,379	399,940	-	-	698,319		
4,836	-	-		-	-	6,754	-	-	-	6,754		
7,731	10,686	-		-	-	18,417	2,854	-	-	21,271		
948,438	-	-		-	-	948,438	-	-	-	948,438		
-	-	-		-	-	985,300	-	-	-	985,300		
18,439,577	28,894	-		12,943,744	-	31,412,215	21,589,144	1,496,630		54,497,989		
370,920	-	-		-	-	370,920	-	-	-	370,920		
-	-	-		-	14,373,929	14,373,929	102,138	-	-	14,476,067		
\$ 22,063,331	\$ 94,565	\$ 54,223	\$ 12,943,744	\$ 14,373,929	\$ 55,132,885	\$ 24,400,129	\$ 1,496,630	\$ 81,029,644				
\$ 288,935	\$ 16,482	\$ -	\$ -	\$ -	\$ -	\$ 606,500	\$ 1,635,302	\$ -	\$ 2,241,802			
13,184	6,544	-	-	-	227,958	247,686	102,138	-	-	349,824		
-	-	-	-	-	-	-	-	690,492	690,492			
-	-	54,223	-	-	-	54,223	312,744	36,420	271,884			
-	-	-	-	-	-	479,363	30,453	-	366,967			
-	-	-	-	-	-	-	-	90,000	90,000			
647,802	-	-	-	-	-	647,802	-	-	647,802			
13,749,239	-	-	-	8,455,597	22,204,836	-	-	-	22,204,836			
-	-	-	-	5,690,374	5,690,374	-	-	-	5,690,374			
14,699,160	23,026	54,223	-	14,373,929	29,930,784	2,316,101	816,912		33,063,797			
-	-	-		12,943,744	-	12,943,744	21,589,144	-	34,532,888			
5,489,258	96,114	-	-	-	-	5,585,372	-	-	5,585,372			
1,874,913	(24,575)	-	-	-	-	1,850,338	-	679,718	2,530,056			
-	-	-	-	-	-	329,929	483,323	-	813,252			
-	-	-	-	-	-	-	2,854	-	2,854			
-	-	-	-	-	-	1,918	-	-	1,918			
-	-	-	-	-	-	628,969	-	-	628,969			
-	-	-	-	-	-	3,861,831	8,707	-	3,870,538			
7,364,171	71,539	-		12,943,744	-	25,202,101	22,084,028	679,718	47,965,847			
\$ 22,063,331	\$ 94,565	\$ 54,223	\$ 12,943,744	\$ 14,373,929	\$ 55,132,885	\$ 24,400,129	\$ 1,496,630	\$ 81,029,644				

The accompanying notes are an integral part of these financial statements.

CITY OF POQUOSON, VIRGINIA

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD

Year Ended June 30, 2002

	Governmental Fund Types			Total (Memorandum Only)	Component Unit	Total (Memorandum Only)
	General	Debt Service	Capital Projects			
				Primary Government	School Board	Reporting Entity
Revenue						
General property taxes	\$ 9,716,038	\$ -	\$ -	\$ 9,716,038	\$ -	\$ 9,716,038
Other local taxes	2,402,784	-	-	2,402,784	-	2,402,784
Permits, privilege fees and regulatory licenses	144,907	-	-	144,907	-	144,907
Fines and forfeitures	22,596	-	-	22,596	-	22,596
Revenue from use of money and property	120,990	-	-	120,990	91	121,081
Charges for services	29,069	-	-	29,069	308,158	337,227
Intergovernmental	3,177,912	-	362,812	3,540,724	9,213,105	12,753,829
Miscellaneous	24,817	-	-	24,817	164,044	188,861
Total revenue	15,639,113		362,812	16,001,925	9,685,398	25,687,323
Expenditures						
Current:						
General government and administration	1,257,684	-	-	1,257,684	-	1,257,684
Public safety	3,284,029	-	-	3,284,029	-	3,284,029
Public works	1,025,194	-	-	1,025,194	-	1,025,194
Health and welfare	447,294	-	-	447,294	-	447,294
Education	-	-	-	-	15,559,173	15,559,173
Parks, recreation, and cultural	720,466	-	-	720,466	-	720,466
Community development	449,777	-	-	449,777	-	449,777
Nondepartmental	42,271	-	-	42,271	-	42,271
Capital outlays	-	-	1,266,450	1,266,450	16,000	1,282,450
Debt service:						
Principal retirement	-	987,099	-	987,099	-	987,099
Interest and fiscal changes	-	610,220	-	610,220	-	610,220
Total expenditures	7,226,715	1,597,319	1,266,450	10,090,484	15,575,173	25,665,657
Excess (deficiency) of revenue over expenditures	8,412,398	(1,597,319)	(903,638)	5,911,441	(5,889,775)	21,666
Other financing sources (uses)						
Operating transfers from:						
Primary government	-	1,597,319	762,026	2,359,345	6,696,939	9,056,284
Sewer	145,260	-	-	145,260	-	145,260
Component unit	662,208	-	-	662,208	-	662,208
Bond proceeds	-	-	597,000	597,000	-	597,000
Operating transfers to:						
Primary government	-	-	-	-	(662,208)	(662,208)
Component units	(6,751,939)	-	-	(6,751,939)	-	(6,751,939)
Other operating transfers in	-	-	-	-	53,310	53,310
Other operating transfers out	(2,590,745)	-	-	(2,590,745)	(53,310)	(2,644,055)
	(8,535,216)	1,597,319	1,359,026	(5,578,871)	6,034,731	455,860
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	(122,818)					
			455,388	332,570	144,956	477,526
Fund balances - July 1, 2001	4,095,293					
			423,686	4,518,979	349,928	4,868,907
Residual equity transfer out - Parks and Recreation						
			(28,902)	(28,902)	-	(28,902)
Fund balances - June 30, 2002	\$ 3,972,475					
			\$ 850,172	\$ 4,822,647	\$ 494,884	\$ 5,317,531

The accompanying notes are an integral part of these financial statements.

CITY OF POQUOSON, VIRGINIA

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (BUDGETARY BASIS) GENERAL FUND AND DISCRETELY
PRESENTED COMPONENT UNIT - SCHOOL BOARD

Year Ended June 30, 2002

	General Fund			Component Unit		
	Budget	Actual	Variance Favorable (Unfavorable)			Variance Favorable (Unfavorable)
				Budget	Actual	
Revenue						
General property taxes	\$ 9,213,000	\$ 9,716,038	\$ 503,038	\$ -	\$ -	\$ -
Other local taxes	2,222,841	2,402,784	179,943	-	-	-
Permits, privilege fees, and regulatory licenses	104,000	144,907	40,907	-	-	-
Fines and forfeitures	34,200	22,596	(11,604)	-	-	-
Revenue from use of money and property	188,600	120,990	(67,610)	-	-	-
Charges for services	27,700	29,069	1,369	33,000	17,340	(15,660)
Intergovernmental:						
Commonwealth of Virginia	3,212,205	3,095,500	(116,705)	8,089,162	8,407,464	318,302
Federal	83,317	82,412	(905)	801,389	766,749	(34,640)
Miscellaneous	9,310	24,817	15,507	184,975	146,643	(38,332)
Total revenue	15,095,173	15,639,113	543,940	9,108,526	9,338,196	229,670
Expenditures						
Legislative	81,696	81,476	220	-	-	-
General and financial administration	1,134,753	1,075,714	59,039	-	-	-
Board of elections	107,924	93,367	14,557	-	-	-
Public safety	3,290,327	3,256,396	33,931	-	-	-
Public works	1,054,973	1,012,128	42,845	-	-	-
Health and welfare	496,051	442,588	53,463	-	-	-
Education	-	-	-	15,746,415	15,319,617	426,798
Parks, recreation, and cultural	739,736	735,136	4,600	-	-	-
Community development	481,865	456,477	25,388	-	-	-
Nondepartmental	44,692	35,871	8,821	-	-	-
Total expenditures	7,432,017	7,189,153	242,864	15,746,415	15,319,617	426,798
Excess (deficiency) of revenue over expenditures - budgetary basis	7,663,156	8,449,960	786,804	(6,637,889)	(5,981,421)	656,468
Other financing sources (uses)						
Operating transfers from:						
Primary government	145,260	145,260	-	6,696,939	6,696,939	-
Component unit	426,697	662,208	235,511	-	-	-
Operating transfers to:						
Primary government	(2,593,561)	(2,590,745)	2,816	-	(662,208)	(662,208)
Special revenue-component unit	-	-	-	(59,050)	(53,310)	5,740
Component units	(6,751,939)	(6,751,939)	-	-	-	-
Total other financing sources (uses)	(8,773,543)	(8,535,216)	238,327	6,637,889	5,981,421	(656,468)
Deficiency of revenue and other financing sources over expenditures and other financing uses - budgetary basis	(1,110,387)	(85,256)	\$ 1,025,131	-	-	\$ -
Net appropriation from fund balance	1,110,387					
Budget - excess of revenue, other financing sources, and appropriation from fund balances over expenditures and other financing uses	\$ -			\$ -		
Less: Encumbrances outstanding June 30, 2001, actually expended as of June 30, 2002			(146,288)			(321,507)
Add: Encumbrances outstanding June 30, 2002			108,726			483,323
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses, GAAP basis			(122,818)			161,816
Fund balances - July 1, 2001			4,095,293			321,507
Fund balances - June 30, 2002			\$ 3,972,475			\$ 483,323

The accompanying notes are an integral part of these financial statements.

CITY OF POQUOSON, VIRGINIA

COMBINED STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN RETAINED EARNINGS (DEFICIT)
ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT -
INDUSTRIAL DEVELOPMENT AUTHORITY

Year Ended June 30, 2002

	Proprietary Fund Types		Total (Memorandum Only)	Component Unit Industrial Development Authority	Total (Memorandum Only)
	Enterprise Funds	Internal Service Fund			
Operating revenue					
Charges for services	\$ 1,626,984	\$ 464,340	\$ 2,091,324	\$ -	\$ 2,091,324
Festivals	110,790	-	110,790	-	110,790
Miscellaneous	5,027	-	5,027	-	5,027
Total operating revenue	1,742,801	464,340	2,207,141	-	2,207,141
Operating expenses					
Personnel services	486,793	194,042	680,835	-	680,835
Contractual services	240,971	37,219	278,190	20,039	298,229
Materials and supplies	143,696	210,870	354,566	1,449	356,015
Depreciation and amortization	506,616	9,082	515,698	3,458	519,156
Other charges	117,053	11,366	128,419	3,896	132,315
Waste disposal	182,573	-	182,573	-	182,573
Total operating expenses	1,677,702	462,579	2,140,281	28,842	2,169,123
Operating income (loss)	65,099	1,761	66,860	(28,842)	38,018
Nonoperating revenue (expenses)					
Interest income	86,877	-	86,877	-	86,877
Interest and fiscal charges	(469,606)	-	(469,606)	(4,479)	(474,085)
Sewer availability fees	1,597,800	-	1,597,800	-	1,597,800
Net nonoperating expenses	1,215,071	-	1,215,071	(4,479)	1,210,592
Income (loss) before operating transfers	1,280,170	1,761	1,281,931	(33,321)	1,248,610
Operating transfers					
Transfer in - primary government	-	-	-	55,000	55,000
Transfers in	226,763	4,637	231,400	-	231,400
Transfers out	(145,260)	-	(145,260)	-	(145,260)
Net operating transfers	81,503	4,637	86,140	55,000	141,140
Net income	1,361,673	6,398	1,368,071	21,679	1,389,750
Retained earnings (deficit) - July 1, 2001	(103,260)	(30,973)	(134,233)	658,039	523,806
Prior period adjustment	616,500	-	616,500	-	616,500
Retained earnings (deficit) - June 30, 2002	\$ 1,874,913	\$ (24,575)	\$ 1,850,338	\$ 679,718	\$ 2,530,056

The accompanying notes are an integral part of these financial statements.

CITY OF POQUOSON, VIRGINIA

COMBINED STATEMENT OF CASH FLOWS ALL PROPRIETARY FUND TYPES AND
DISCRETELY PRESENTED COMPONENT UNIT - INDUSTRIAL DEVELOPMENT AUTHORITY

Year Ended June 30, 2002

	Proprietary Fund Types		Total (Memorandum Only)	Component Unit Industrial Development Authority	Total (Memorandum Only)
	Enterprise Funds	Internal Service Fund			
			Primary Government		
Cash flows from operating activities					
Operating income (loss)	\$ 65,099	\$ 1,761	\$ 66,860	\$ (28,842)	\$ 38,018
Adjustments to reconcile to net cash from operating activities:					
Depreciation and amortization	506,616	9,082	515,698	3,458	519,156
Changes in:					
Accounts receivable	(30,638)	95	(30,543)	-	(30,543)
Prepaid expenses	6,370	-	6,370	-	6,370
Inventory	(2,060)	(4,014)	(6,074)	-	(6,074)
Accounts payable and accrued liabilities	(448,635)	9,499	(439,136)	(9,155)	(448,291)
Accrued compensated absences	3,331	34	3,365	-	3,365
Due to General Fund	-	-	-	27,448	27,448
Net cash from operating activities	100,083	16,457	116,540	(7,091)	109,449
Cash flows from noncapital financing activities					
Operating transfers in from other funds	226,763	4,637	231,400	-	231,400
Operating transfers out to other funds	(145,260)	-	(145,260)	-	(145,260)
Operating transfer in - primary government	-	-	-	55,000	55,000
Payments received on notes receivable	185,375	-	185,375	-	185,375
Net cash from noncapital financing activities	266,878	4,637	271,515	55,000	326,515
Cash flows from capital and related financing activities					
Acquisition and construction of fixed assets	(1,702,292)	(4,328)	(1,706,620)	(733,922)	(2,440,542)
Interest paid on general obligation bonds and note payable	(436,863)	-	(436,863)	(4,479)	(441,342)
Proceeds from general obligation bonds	2,247,968	-	2,247,968	-	2,247,968
Sewer availability fees	1,008,900	-	1,008,900	-	1,008,900
Payments for issuance costs	(16,070)	-	(16,070)	-	(16,070)
Proceeds from line of credit	-	-	-	690,492	690,492
Principal payments on general obligation bonds	(570,180)	-	(570,180)	-	(570,180)
Net cash from capital and related financing activities	531,463	(4,328)	527,135	(47,909)	479,226
Cash flows from investing activities					
Interest income	86,877	-	86,877	-	86,877
Net cash from investing activities	86,877	-	86,877	-	86,877
Change in cash and cash equivalents	985,301	16,766	1,002,067	-	1,002,067
Cash and cash equivalents - July 1, 2001	1,760,963	38,219	1,799,182	-	1,799,182
Cash and cash equivalents - June 30, 2002	\$ 2,746,264	\$ 54,985	\$ 2,801,249	-	\$ 2,801,249
Noncash investing, capital and financing activities:					
Supplemental disclosure of capital and related financing activities:					
Notes receivable in exchange for sewer availability fees	\$ 588,900	\$ -	\$ 588,900	\$ -	\$ 588,900
Deferred refunding loss charge and amortization of bond premium as component of interest expense	\$ 32,743	\$ -	\$ 32,743	\$ -	\$ 32,743
Direct financing for acquisition of property	\$ -	\$ -	\$ -	\$ 90,000	\$ 90,000
Contribution of fixed assets from Capital Projects Fund	\$ 28,902	\$ -	\$ 28,902	\$ -	\$ 28,902

The accompanying notes are an integral part of these financial statements.

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CITY OF POQUOSON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

■ *Reporting Entity*

The **City of Poquoson, Virginia** (the "City") 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"). In addition, the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management's estimates. As required by those principles, these financial statements present the **City of Poquoson, Virginia** (the primary government) and its discretely presented component units, the City of Poquoson School Board (the "School Board") and the Industrial Development Authority (the "IDA").

Component units 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 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 fund the operations of the City's schools.

Therefore, the School Board is included in 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 column in the combined financial statements to emphasize that it is legally separate from the City. There are no separate financial statements issued for the School Board, and consequently, combining statements which contain fund type data are included in the City's financial statements.

The Industrial Development Authority is a legally separate public corporation established under the Industrial Development and Revenue Bond Act of the Commonwealth of Virginia, together with ordinances adopted by the City Council. The IDA 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 IDA is included in the City's reporting entity because the City is able to impose its will on the IDA by appointment of the governing body. In addition, the City Council funds a portion of the IDA's operating budget. Therefore, the IDA is financially dependent on the City.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

■ ***Reporting Entity*** *(Continued)*

The entities described in Note 17, Related-Party Transactions, are excluded from the City's Comprehensive Annual Financial Report, as the City does not have financial accountability over their activities.

■ ***Basis of Presentation***

The accompanying financial statements include funds and component units of the ***City of Poquoson, Virginia***.

The accounts of the primary government and component units are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise each fund's assets, liabilities, fund equity, revenue, and expenditures or expenses.

Following is a description of the funds and account groups included in the accompanying financial statements of the primary government and its component units.

A. GOVERNMENTAL FUND TYPES

Governmental Fund types are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. Following are the City's governmental fund types:

1. General Fund

The General Fund accounts for all revenue and expenditures applicable to the general operations of the City, which are not accounted for in other funds. Principal sources of revenue are property taxes and other local taxes, licenses and permit fees, and intergovernmental revenue. A significant part of the General Fund's revenue is transferred to the School Board (the component unit) to fund the operation of the City's school system. Primary expenditures are for public safety; public works; health and welfare; parks, recreation and cultural; community development; and the general administration of the City.

2. Debt Service Fund

The Debt Service Fund accounts for the accumulation of resources for the payment of general obligation debt service for the City and the School Board, except for debt payable by the Enterprise Funds. Primary revenue of the Debt Service Fund is derived from a transfer from the General Fund.

3. Capital Projects Fund

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

■ *Basis of Presentation* *(Continued)*

B. PROPRIETARY FUND TYPES

Proprietary Fund types are used to account for the City's ongoing organizations and activities that are similar to those often found in the private sector. The measurement focus is upon determination of net income and capital maintenance. Following are the City's proprietary fund types:

1. *Enterprise Funds*

The Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the government body is that costs of operating and providing services to the general public are completely or partially financed from user charges; or where the governing body has determined that the periodic determination of net results of operations is appropriate for management control and accountability.

The Enterprise Funds include the Sewer Operation Fund which 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 which accounts for the operation of the City's pool and parks and derives its primary revenue from user fees and dues; the Solid Waste Fund which 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.

2. *Internal Service Fund*

The 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.

C. FIDUCIARY FUND TYPE - AGENCY FUND

The Fiduciary Fund type is used to account for assets held by the City as an agent for a private organization.

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)*

▪ *Basis of Presentation* *(Continued)*

D. ACCOUNT GROUPS

Account groups are used to establish accounting control and accountability for the City's general property, plant and equipment and general long-term obligations. Following are the City's account groups:

1. General Fixed Assets Account Group

The General Fixed Assets Account Group includes the City's fixed assets that are not accounted for in the Enterprise Funds or the Internal Service Fund.

2. General Long-term Obligations Account Group

The General Long-term Obligations Account Group includes all the general obligation debt of the City and the School Board, the State Literary Fund loans of the School Board, as well as the accrued vacation and sick leave of the primary government. All debt service in connection with the debt recorded in the Sewer Operation Fund will be paid from user charges of the funds and, therefore, such debt is not recorded in this account group.

E. DISCRETELY PRESENTED 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 fund types and account groups:

1. Component Unit – 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.

2. Component Unit – 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. The cafeteria revenue is composed of federal grants and charges to students for meals and, accordingly, is restricted as to the purpose for which they may be used.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

■ Basis of Presentation (Continued)

E. DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD (Continued)

3. Component Unit – 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.

4. Component Unit – School Board General Fixed Assets Account Group

The General Fixed Assets Account Group includes the School Board's fixed assets.

5. Component Unit – School Board General Long-term Obligations Account Group

The General Long-term Obligations Account Group includes accrued compensated absences (vacation and vested sick leave) of the School Board.

F. DISCRETELY PRESENTED COMPONENT UNIT - IDA

1. Component Unit - Industrial Development Authority - Proprietary Funds

The Industrial 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 Poquoson City Council, and 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 IDA did not issue separate financial statements and, consequently, has been included in the financial statements as a discretely presented component unit.

■ Total Columns on Combined Statements

The total columns on the Combined Statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations or cash flows in conformity with accounting principles generally accepted in the United States of America, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

■ Basis of Accounting

The basis of accounting applied to a fund is determined by the measurement/focus. Basis of accounting refers to when revenue, expenditures or expenses, and transfers, and the related assets and liabilities, are recognized in the accounts and reported in the financial statements.

All Governmental Funds of both the primary government and the component unit - School Board are accounted for using the "current financial resources" measurement focus. This means that generally, only current assets and current liabilities are reflected on their balance sheet. Their operating statement presents increases (revenue and other financial resources) and decreases (expenditures and other financial uses) in net current assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

■ Basis of Accounting (Continued)

All Proprietary Funds are accounted for using the "economic resources" measurement focus. This measurement focus is the same as used by commercial enterprises. All assets and liabilities associated with the activity are included on its balance sheet. Their operating statement presents increases (revenue) and decreases (expenses) in net total assets.

A. Governmental Funds

Governmental Funds of both the primary government and the component unit - School Board utilize the modified accrual basis of accounting under which revenue and related assets are recorded when measurable and available to finance operations during the year. Revenue considered susceptible to accrual consists primarily of property taxes, certain grants, and sales and utility taxes. Accordingly, real and personal property taxes are recorded as revenue and receivables when billed, except that property taxes not collected within forty-five days after year-end are reflected as deferred revenue. Licenses, permits, fines and rents are recorded as revenue when received. Inter-governmental revenue, consisting primarily of federal, state, and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenue from general-purpose grants is recognized in the period to which the grant applies.

Expenditures, other than vacation and sick leave for City and School Board employees, are recorded as the related liabilities are incurred. The principal and interest on long-term obligations are recorded as expenditures when due. The City's obligation for earned vacation and vested sick leave for City employees is reflected in the General Long-term Obligations Account Group when earned.

The obligation for continued earned vacation and vested sick leave for School Board employees is similarly reflected in the component unit's General Long-term Obligations Account Group when earned. Accumulated but nonvested sick leave for City and School Board employees is recorded as an expenditure when paid.

B. Proprietary Funds

The accrual basis of accounting is used for the Enterprise Funds, the Internal Service Fund and the Component Unit - IDA. Under the accrual method, revenue is recognized in the accounting period in which it is earned, while expenses are recognized in the accounting period in which the related liability is incurred.

C. Fiduciary Fund

The Fiduciary Fund utilizes the modified accrual basis of accounting.

■ Budgeting and Budgetary Accounting

Budgets are employed by the primary government as a financial control device for the General, Debt Service, Capital Projects 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 and the Proprietary Funds. Program and project budgets are utilized to control expenditures in the Capital Projects Fund. Therefore, the Debt Service, Capital Projects and Proprietary Funds are not included in the budget and actual comparisons.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

■ ***Budgeting and Budgetary Accounting (Continued)***

The School Board approves the annual operating budget for the School Operating Fund. An annual operating budget is not adopted for the School Food Service Fund; therefore, it is not included in the budget and actual comparison of the component unit

For the School Operating 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, 2002, for an increase in appropriations in the amount of \$877,747 and \$612,244 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 combined statement of cash flows for all proprietary fund types the City considers all highly liquid investments, including those classified as restricted cash 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 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 cash and cash equivalents.

■ ***Fixed Assets***

Fixed assets of the primary government include land, buildings and improvements, the sewer system, machinery and equipment, and construction in process. Fixed assets of the component units include land, buildings and improvements, and machinery and equipment.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

■ *Fixed Assets (Continued)*

Purchased fixed assets are stated at cost or estimated cost as follows:

	Valuation Method	
	Acquired Prior to June 30, 1986	Acquired After June 30, 1986
General Fixed Asset Account Group:		
Land, buildings and improvements	Historical Cost, if available, or estimated historical cost based on current assessed valuation deflated by an appropriate price index.	Historical Cost
Machinery and equipment	Historical Cost, if available, or estimated historical cost, based on replacement cost.	Historical Cost
Proprietary Fund Types		
Industrial Development Authority	Historical Cost	Historical Cost
Not applicable		Historical Cost

Donated property is recorded at the estimated market value prevailing at the date of donation.

It is the City's policy not to capitalize infrastructure such as streets, sidewalks, parking lots, curbs, gutters and piers in the General Fixed Assets Account Group. Assets in the General Fixed Assets Account Group are not depreciated. Interest incurred during construction is not capitalized on general fixed assets.

Major outlays for capital assets and improvements are capitalized in proprietary funds and IDA as projects are constructed. Interest incurred during the construction phase of proprietary fund and IDA fixed assets is reflected in the capitalized value of the asset constructed. Depreciation for the fixed assets of the Proprietary Fund and IDA is computed using the straight-line method over an estimated useful life of 40 to 50 years for the sewer system, 3 to 10 years for machinery and equipment, and 10 to 30 years for buildings and improvements.

It is the School Board's policy not to capitalize infrastructure or to depreciate fixed assets. The component unit's fixed assets are stated at historical cost, if available, or estimated original cost based on the estimated date of acquisition and the present value of the estimated replacement cost of the property.

■ *Allowance for Uncollectible Accounts*

The City (the primary government) calculates its allowance for uncollectible property taxes receivable using historical collection data. At June 30, 2002, 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 Solid Waste Fund and 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).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

■ *Inventory* *(Continued)*

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

Reported inventory for the Special Revenue Fund of the School Board is offset by a fund balance reserve which indicates it does not constitute "available expendable resources."

Inventory is recognized as expenditures when consumed.

■ *Restricted Assets*

Certain cash and cash equivalents of the Sewer Operation Fund (an Enterprise Fund) are classified as restricted since their use is limited by a bond trust indenture to the construction of improvements in the sewer system.

■ *Fund Balance*

Reserves are used to indicate a portion of the fund balance is not available for expenditures or to identify a portion of the fund balance as legally segregated for a specific future use.

Designation of a portion of the unreserved fund balance of the Capital Projects Fund of the primary government is established to indicate management's tentative plans for use of financial resources in a future period.

■ *Encumbrances*

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the General Fund of the City and Capital Projects Fund.

While encumbrances do not constitute expenditures in accordance with accounting principles generally accepted in the United States of America, encumbrances outstanding at year-end do not lapse and are reported as reservations of fund balances.

Encumbrance accounting is also employed as an extension of formal budgetary control in the School Operating Fund of the component unit. Again, encumbrances outstanding at year-end do not lapse and are reported as reservations of fund balance.

■ *Retained Earnings (Deficits) - Proprietary Funds*

Retained earnings (deficits) of the Proprietary Funds at June 30, 2002, in the Sewer Operation, Parks and Recreation, Solid Waste, and Fleet Management Funds were \$1,719,672, \$(208,270), \$363,511 and \$(24,575), respectively. The deficit in the Parks and Recreation Fund is primarily attributable to accumulated depreciation charges on fixed assets. Retained earnings of the IDA component unit at June 30, 2002, are \$679,718.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

■ *Long-term Obligations*

Long-term obligations of the primary government, such as accrued compensated absences, general obligation bonds, State Literary Fund loans, and notes payable, that will be financed from governmental funds, are accounted for in the General Long-term Obligations Account Group.

Long-term obligations of the Sewer Operation Fund are accounted for in that fund.

Long-term obligations (accrued compensated absences) that will be financed from School Board funds, are accounted for in the General Long-term Obligations Account Group of the component unit.

Long-term obligations of the IDA are accounted for in that fund.

■ *Sewer Availability Fees*

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

■ *Proprietary Fund Accounting*

All applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, are applied to the Proprietary Funds.

■ *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.

■ *Estimates*

The preparation of financial statements 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 4.20% 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. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Deposits

At year-end, the carrying value of the primary government's deposits with banks and savings institutions was \$822,541 and the bank balance was \$1,223,386 including cash with fiscal agents. Of the bank balance, 100% was covered by the Federal Deposit Insurance Corporation (the "FDIC") or collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act").

Under the Act, banks holding public deposits in excess of the amounts insured by the FDIC must pledge collateral in the amount of 50% of the excess 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" (per GASB 3 paragraph 11) 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, 2002, 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, the discretely presented component unit, was \$930,873 and the bank balance was \$1,393,919. The bank balance was covered by Federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. At June 30, 2002, 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 and the School Board 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 "2a7 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. Investments with a maturity date of one year or less are stated at amortized cost. All other investments are stated at fair value.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Investments (Continued)

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

At year-end, the primary government's investment balances were as follows:

	Category			Carrying Amount	Fair Value
	1	2	3		
Federal government Obligations	\$ 985,300	\$ -	\$ -	\$ 985,300	\$ 985,300
Investments not subject to categorization:					
Investment in State Treasurer's Local Government Investment Pool (LGIP)				4,428,211	4,428,211
State Non-Arbitrage Program				948,438	948,438
Money Market Funds				19,286	19,286
				6,381,235	6,381,235
Less - LGIP, State Non-Arbitrage Program and Money Market Funds classified as cash and cash equivalents				(5,395,935)	(5,395,935)
Total investments				\$ 985,300	\$ 985,300

At year-end, the School Board's investment balances were as follows:

	Category			Carrying Amount	Fair Value
	1	2	3		
	\$ -	\$ -	\$ -	\$ -	\$ -
Investments not subject to categorization:					
Investment in State Treasurer's Local Government Investment Pool (LGIP)				1,373,810	1,373,810
				1,373,810	1,373,810
Less - LGIP classified as cash and cash equivalents				(1,373,810)	(1,373,810)
Total investments				\$ -	\$ -

A summary of cash and cash equivalents at June 30, 2002, of both the primary government and its component unit - School Board, was as follows:

	Primary Government	Component Unit
Petty cash and change funds	\$ 2,005	\$ -
Deposits	822,541	930,873
Investments, classified as cash and cash equivalents	5,395,935	1,373,810
	\$ 6,220,481	\$ 2,304,683

3. PROPERTY TAXES RECEIVABLE

Property 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. 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.

4. NOTES RECEIVABLE

Notes receivable of the Sewer Operation Fund represent agreements between the **City of Poquoson, Virginia** and residents for payment of sewer availability fees. The original face value of each note of \$3,000 is to be paid in 36 monthly principal installments of \$92.50 plus interest at an effective annual rate of 7%.

5. DUE FROM OTHER GOVERNMENTAL UNITS

Due from other governmental units at June 30, 2002, consists of the following:

	<u>Primary Government</u>	<u>Component Unit</u>
Commonwealth of Virginia:		
Comprehensive Services Act	\$ 17,137	\$ -
School funds	-	51,124
Sales taxes	30,107	212,255
Street and highway maintenance	215,703	-
COPS Fast Matching	2,372	-
Compensation Board	13,995	-
Subtotal	279,314	263,379
Federal government:		
School funds	-	122,465
COPS Fast Grant	13,382	-
U.S. Department of Interior	5,683	-
Universal Services Act	-	14,096
Total due from other governmental units	\$ 298,379	\$ 399,940

6. INTERFUND RECEIVABLES AND PAYABLES

Details of the receivables and payables between the primary government and the component units at June 30, 2002, are as follows:

<u>Primary Government Receivable Fund</u>	<u>Component Unit Payable Fund</u>	<u>Amount</u>
City General Fund	School General Fund	\$ 235,464
City General Fund	Industrial Development Authority	36,420
		\$ 271,884

7. FIXED ASSETS

A summary of changes in the City's general fixed assets by type of asset follows:

	Balance July 1, 2001	Additions	Reductions	Transfers	Balance June 30, 2002
Land and land improvements	\$ 2,259,942	\$ 40,677	\$ -	\$ -	\$ 2,300,619
Buildings and improvements	6,366,528	17,089	140,500	-	6,243,117
Machinery and equipment	3,607,608	851,132	75,206	2,254	4,385,788
Construction in progress	-	14,220	-	-	14,220
	<u>\$ 12,234,078</u>	<u>\$ 923,118</u>	<u>\$ 215,706</u>	<u>\$ 2,254</u>	<u>\$ 12,943,744</u>

The School Board conducted a physical inventory of its fixed assets and made corrections to its fixed asset inventory system to reflect the results of the physical inventory. A summary of changes in the School Board's general fixed assets by type of asset follows:

	Balance July 1, 2001	Physical Inventory Corrections	Additions	Reductions	Balance June 30, 2002
Land	\$ 243,223	\$ -	\$ -	\$ -	\$ 243,223
Buildings and improvements	17,369,904	1,440	64,300	-	17,435,644
Machinery and equipment	3,895,481	69,576	143,821	198,601	3,910,277
	<u>\$ 21,508,608</u>	<u>\$ 71,016</u>	<u>\$ 208,121</u>	<u>\$ 198,601</u>	<u>\$ 21,589,144</u>

A summary of the Proprietary Funds fixed assets as of June 30, 2002, follows:

	Enterprise Fund				Internal Service Fund
	Sewer Operation	Parks and Recreation	Solid Waste	Total	Fleet Management
Land	\$ 212,788	\$ 28,550	\$ -	\$ 241,338	\$ 1,377
Buildings and improvements	2,025	260,185	9,943	272,153	41,742
Sewer system	20,013,453	-	-	20,013,453	-
Sewer easements	73,880	-	-	73,880	-
Machinery and equipment	515,043	20,659	383,957	919,659	82,688
Construction in progress	601,752	-	-	601,752	-
Total	<u>21,418,941</u>	<u>309,394</u>	<u>393,900</u>	<u>22,122,235</u>	<u>125,807</u>
Less - accumulated depreciation	<u>(3,203,796)</u>	<u>(234,783)</u>	<u>(244,079)</u>	<u>(3,682,658)</u>	<u>(96,913)</u>
Net book value	<u>\$ 18,215,145</u>	<u>\$ 74,611</u>	<u>\$ 149,821</u>	<u>\$ 18,439,577</u>	<u>\$ 28,894</u>

A summary of the Industrial Development Authority fixed assets as of June 30, 2002, follows:

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002
Land	\$ 296,347	\$ 823,922	\$ -	\$ 1,120,269
Buildings and improvements	69,158	-	-	69,158
Infrastructure	315,273	-	-	315,273
	<u>680,778</u>	<u>823,922</u>	<u>-</u>	<u>1,504,700</u>
Less - accumulated depreciation	<u>(4,612)</u>	<u>(3,458)</u>	<u>-</u>	<u>(8,070)</u>
	<u>\$ 676,166</u>	<u>\$ 820,464</u>	<u>\$ -</u>	<u>\$ 1,496,630</u>

8. LONG-TERM OBLIGATIONS

Following is a summary of the changes in long-term obligations that are recorded in the Internal Service Fund and the General Long-term Obligations Account Group of the City and its component unit - School Board, respectively, for the year ended June 30, 2002:

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002
General Obligation Debts Payable				
General obligation bonds	\$ 8,385,678	\$ 597,000	\$ 527,081	\$ 8,455,597
State Literary Fund loans	6,150,392	-	460,018	5,690,374
	<u>14,536,070</u>	<u>597,000</u>	<u>987,099</u>	<u>14,145,971</u>
Accrued benefits:				
Accrued compensated absences	199,203	28,755	-	227,958
	<u>\$ 14,735,273</u>	<u>\$ 625,755</u>	<u>\$ 987,099</u>	<u>\$ 14,373,929</u>
Component Unit - School Board				
Accrued benefits:				
Accrued compensated absences	\$ 96,716	\$ 5,422	\$ -	\$ 102,138

General Long-Term Obligations Account Group

General Obligation Bonds

School Serial Bonds of 1989 - \$1,500,000 bonds issued and due in annual installments varying from \$55,000 to \$90,000 through December 2009, with interest payable semi-annually at rates varying from 6.85% to 7.20%.

\$ 535,000

City Serial Bonds of 1994A - \$4,900,000 bonds issued and due in annual installments varying from \$120,000 to \$400,000 through January 2016, with interest payable semi-annually at rates varying from 3.90% to 5.375%.

4,070,000

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%.

545,000

General Obligation Court Facility Bond Series 1998A - \$1,546,415 bonds issued and due in annual installments varying from \$43,594 to \$122,839, through March 2016, with interest paid semi-annually at 4.5%.

1,312,277

General Obligation Fire Station Bond Series 2000 - \$925,000 bonds issued and due in semi-annual principal and interest installments of \$45,471 through September 2015. The bond bears interest at 5.43%.

861,958

General Obligation Refunding Note Series 2001 - \$647,428 note payable due in annual installments ranging from \$68,109 to \$68,690 including principal and interest at 6.82% through January 2016.

602,132

General Obligation Public Improvement Equipment Note Series 2002B - \$597,000 bonds issued and due in annual installments of \$72,304, including principal and interest at 4.34% through June 2011.

529,230

Total general obligation bonds outstanding

\$ 8,455,597

8. LONG-TERM LIABILITIES (Continued)

General Long-term Obligations Account Group (Continued)

State Literary Fund Loans

<i>Middle School Literary Fund Loan (HVAC)</i> - \$410,776 loan issued May 1, 1985, due in annual installments of \$20,538 through May 2005, with interest at 3%.	\$ 50,940
<i>Elementary School Literary Fund Loan (HVAC)</i> - \$339,561 loan issued May 1, 1985, due in annual installments of \$16,980 through May 2005, with interest at 3%.	61,614
<i>Primary School Literary Fund Loan</i> - \$2,500,000 loan issued September 15, 1989, due in annual installments of \$125,000 through August 2009, with interest at 3%.	1,000,000
<i>Primary School Literary Fund Loan</i> - \$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%.	327,820
<i>High School Literary Fund Loan</i> - \$5,000,000 loan issued November 17, 1998, due in annual installments of \$250,000 through December 2018, with interest at 3%.	<u>4,250,000</u>
Total state literary fund loans outstanding	\$ 5,690,374

The foregoing debt recorded in the General Long-term Obligations Account Group of the primary government is collateralized by the full faith and credit of the City.

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year	Principal	Interest
2003	\$ 495,410	\$ 442,057
2004	509,977	417,518
2005	550,036	391,495
2006	560,616	363,496
2007	586,745	334,726
Thereafter	<u>5,752,813</u>	<u>1,615,386</u>
	\$ 8,455,597	\$ 3,564,678

8. LONG-TERM LIABILITIES (Continued)

General Long-term Obligations Account Group (Continued)

State literary fund loans debt service requirements to maturity are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 439,518	\$ 170,711
2004	439,518	157,526
2005	439,518	144,339
2006	402,000	131,155
2007	402,000	119,095
Thereafter	<u>3,567,820</u>	<u>631,002</u>
	<u>\$ 5,690,374</u>	<u>\$ 1,353,828</u>

Compensated Absences

Earned annual leave and vested portions of accumulated sick leave for employees of the primary government have been recorded in the General Long-term Obligations Account Group. The portion of the liability at June 30, 2002, which will be liquidated in each of the next five years, is not determinable.

Earned annual leave and the vested portion of accumulated sick leave for employees of the School Board have been recorded in the General Long-term Obligations Account Group of the component unit. The portion of the liability at June 30, 2002, to be liquidated in each of the next five years, is not determinable.

Earned but nonvested sick leave of both City and School Board employees, representing accumulated sick leave in excess of the amount payable upon resignation, termination or retirement, is not recorded.

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 ten percent of total assessed value of real property. As of June 30, 2002, the City's aggregate general obligation indebtedness was \$60,756,159 less than the allowable limit.

Overlapping Debt

There are no overlapping or underlying tax jurisdictions.

9. LONG-TERM LIABILITIES - PROPRIETARY FUNDS

Following is a summary of debt transactions of the proprietary funds for the fiscal year ended June 30, 2002:

9. LONG-TERM LIABILITIES - PROPRIETARY FUNDS (Continued)

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002
Enterprise Funds				
General obligation funds	\$ 13,108,140	\$ 2,241,375	\$ 570,180	\$ 14,779,335
Accounting loss on refunding	(421,630)	-	(32,770)	(388,860)
Bond premium	-	6,593	27	6,566
	12,686,510	2,247,968	537,437	14,397,041
Accrued compensated absences	9,852	3,332	-	13,184
	\$ 12,696,362	\$ 2,251,300	\$ 537,437	\$ 14,410,225
Internal Service Fund				
Accrued compensated absences	\$ 6,510	\$ 34	\$ -	\$ 6,544

General long-term obligations and notes payable at June 30, 2002, are composed of the following:

Enterprise Funds

General Obligation Bonds

General Obligation Sewer System Serial Bonds, Series of 1994B (February 1994) - \$1,655,000 bonds issued and due in annual installments varying from \$75,000 to \$140,000 through January 2012, with interest payable semi-annually at rates varying from 3.90% to 5.375%.

\$ 1,120,000

General Obligation Sewer System Bonds, Series 1994A (September 1994) - \$2,800,000 bonds issued and due in annual installments varying from \$15,000 to \$245,000 through September 2017, with interest payable semi-annually at rates varying from 6.11 % to 6.50%.

555,000

General Obligation Sewer System Refunding Bonds, Series 1998B (December 1998) - \$2,294,591 bonds issued and due in annual installments varying from \$21,809 for \$235,256, through September 2017, with interest payable semi-annually at 4.5%.

2,233,381

General Obligation Sewer Bonds, Series 2000B (May 2000) - \$2,664,671 bonds issued with interest only due on the outstanding balance at March 1, 2001, at 3.5%. Commencing on September 1, 2001, principal and interest due in semi-annual installments of \$94,847 through September 2020, at a rate of 3.5%.

2,567,398

General Obligation Sewer Bonds, Series 2000A (May 2000) - \$7,335,329 bonds authorized and issued, with interest only due on the outstanding balance at March 1, 2001. Commencing on September 1, 2001, principal and interest due in semi-annual installments of \$261,093 through September 2020, at a rate of 3.5%.

7,067,556

Total (carried forward)

\$ 13,543,335

9. LONG-TERM LIABILITIES - PROPRIETARY FUNDS (Continued)

Enterprise Funds (Continued)

General Obligation Bonds (Continued)

Total (brought forward)	\$ 13,543,335
General Obligation Sewer Bonds, Series 2002 - \$1,095,000	
bonds issued and due in annual installments varying from \$55,057 to \$82,040 through April 2022 with interest payable semi-annually at rates varying from 3.10% to 5.10%.	1,095,000
General Obligation Public Improvement Equipment Note Series 2002A - \$141,000 bonds issued and due in annual installments of \$30,590, including principle and interest at 3.57% through August 2006.	141,000
	14,779,335
Accounting loss on refundings	(388,860)
Bond premium	6,566
Total general obligation bonds outstanding	\$ 14,397,041

Debt service on the foregoing general obligation bonds recorded in the Enterprise Funds is payable during future fiscal years ending June 30, as follows:

Year	Principal	Interest
2003	\$ 647,802	\$ 592,390
2004	679,851	578,951
2005	705,603	551,797
2006	726,922	523,371
2007	747,967	493,668
Thereafter	11,271,190	3,422,436
	<u>\$ 14,779,335</u>	<u>\$ 6,162,613</u>

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.

Earned annual leave and the vested portion of accumulated sick leave for employees have been recorded in the Enterprise Funds and the Internal Service Fund as appropriate. The amount of the June 30, 2002, balances disclosed above which will be liquidated in each of the next five fiscal years is not determinable.

Defeased Debt

In prior years, The City defeased certain Sewer General Obligation Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On June 30, 2002, \$2,015,000 of bonds outstanding is considered defeased.

The unamortized amount deferred on the sewer refundings of \$388,860 is reported in the accompanying financial statements as a reduction of bonds payable, and is being charged to operations as a component of interest through the year 2016 using the straight-line method.

10. LONG-TERM LIABILITIES - COMPONENT UNIT - INDUSTRIAL DEVELOPMENT AUTHORITY (IDA)

Line of Credit

The IDA has a \$3,000,000 line of credit with a bank. At June 30, 2002, \$690,492 was outstanding. Interest is payable on the outstanding balance at 2.5% over index. The unpaid principal and interest is due March 2004.

Note Payable

The IDA also has \$90,000 non-interest bearing note payable, due in annual installments of \$45,000 beginning January 2003.

Principal payments on long-term liabilities in the succeeding five years are as follows:

<u>Year</u>	
2003	\$ 45,000
2004	<u>735,492</u>
	<u>\$ 780,492</u>

11. PENINSULA METROPOLITAN YMCA PROJECT

On July 1, 2001, the IDA issued \$10,000,000 YMCA Revenue Bonds to finance the acquisition and construction of the Peninsula Metropolitan YMCA (the "YMCA"). The cost of financing the project, all expenses of issuing the bonds and the payment of bond principal and interest is the responsibility of the YMCA. The bonds provide that neither the IDA nor the City shall be obligated to pay the bonds or interest thereon or other costs incident thereto. \$10,000,000 was outstanding at June 30, 2002.

12. CONTRIBUTED CAPITAL

Changes in contributed capital for all Proprietary Funds during the year ended June 30, 2002, are summarized as follows:

	Enterprise Funds				Internal Service Fund	
	Sewer Operation	Parks and Recreation	Solid Waste	Total	Fleet Management	
Contributed capital - July 1, 2001	\$ 5,133,184	(A) \$ 259,833	\$ 67,339	\$ 5,460,356	\$ 96,114	
Contributions	-	28,902	-	28,902	-	
Contributed capital - June 30, 2002	<u>\$ 5,133,184</u>	<u>\$ 288,735</u>	<u>\$ 67,339</u>	<u>\$ 5,489,258</u>	<u>\$ 96,114</u>	

(A) Restated, see Note 20

13. DEFERRED REVENUE

Deferred revenue for the primary government at June 30, 2002, consists of real and personal property taxes not collected within 45 days after June 30, 2002. Deferred revenue for the School Board at June 30, 2002, consists of grant money received but not expended.

14. SEGMENT INFORMATION

The City maintains three enterprise funds that provide sewer services, recreational facilities, and solid waste disposal. The fourth enterprise fund, the IDA, promotes and develops trade with the City. Segment information for the year ended June 30, 2002, is as follows:

	Sewer Operation Fund	Parks and Recreation Fund	Solid Waste Fund	Total Enterprise Fund
Operating revenue	\$ 966,076	\$ 480,272	\$ 296,453	\$ 1,742,801
Depreciation and amortization	\$ 461,406	\$ 5,719	\$ 39,491	\$ 506,616
Operating income (loss)	\$ 225,602	\$ (50,916)	\$ (109,587)	\$ 65,099
Operating transfers in	\$ 4,337	\$ 28,149	\$ 194,277	\$ 226,763
Operating transfers out	\$ (145,260)	\$ -	\$ -	\$ (145,260)
Net income (loss)	\$ 1,299,750	\$ (22,767)	\$ 84,690	\$ 1,361,673
Current capital contribution	\$ -	\$ 28,902	\$ -	\$ 28,902
Fixed asset additions	\$ 1,702,292	\$ 28,902	\$ -	\$ 1,731,194
Net working capital	\$ 1,067,592	\$ 5,854	\$ 281,029	\$ 1,354,475
Total assets	\$ 21,473,773	\$ 134,018	\$ 455,540	\$ 22,063,331
Bonds and other long-term obligations payable	\$ 14,397,041	\$ -	\$ -	\$ 14,397,041
Total equity	\$ 6,852,856	\$ 80,465	\$ 430,850	\$ 7,364,171

15. 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.

16. SURETY BONDS

The City maintained the following surety bond coverages on certain employees of the primary government and component unit during the fiscal year ended June 30, 2002:

<u>Description</u>	<u>Amount</u>
Virginia Municipal Liability Pool - All City employees - employee dishonesty blanket bond	\$ 500,000
Forest T. Jones & Company, Inc.: Janet A. Brown, Executive Director of Business and Finance, School Board, Clerk of the School Board	\$ 10,000
Marilyn Barr, Deputy Clerk of the School Board	\$ 10,000
All School Board employees - blanket bond	\$ 1,000,000

16. SURETY BONDS *(Continued)*

The Commonwealth of Virginia maintained the following surety bond and blanket bond coverages on certain employees pursuant to Section 2.1-526.9 of the Code of Virginia. The coverage with respect to the Treasurer does not extend to the loss of any City funds.

<u>Description</u>	<u>Amount</u>
Virginia Municipal Liability Pool - Surety, Faithful Performance of Duty Schedule, Position Bond: Donald T. Joyner, Treasurer and employees	\$ 500,000
Commonwealth of Virginia Faithful Performance of Duty Bond: Treasurer, Donald T. Joyner	\$ 500,000
Commissioner of the Revenue, Graham P. Wilson	\$ 500,000

17. 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 Alliance for Economic Development ("PAED"), the Colonial Services Board ("CSB") and the Greater Peninsula Workforce Development Consortium ("GPWDC"). Expenditures of these agencies are financed by Federal and State grants and fees, including contributions from the City. During the year ended June 30, 2002, the City provided support to HRPDC of \$13,876, VPPSA of \$165,056, PAED of \$12,475, CSB of \$82,767 and GPWDC of \$5,000.

In addition, a conglomerate of municipalities shares certain expenses for maintaining and operating a regional jail and juvenile detention center. During fiscal year 2002, the City incurred expenses for the jail and center of \$49,079 and \$18,236, respectively.

The City of Poquoson shares certain services and their associated costs with York County, including the circuit court, the commonwealth attorney and the sheriff of York County. The City also shares social services with York County. During the year ended June 30, 2002, the City paid \$235,157 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, 2002, the School Board provided support of \$292,540 to the New Horizons Education Center.

18. DEFINED BENEFIT PENSION 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.

All full-time, salaried permanent employees of participating employers must participate in the VRS. Employees are eligible for an unreduced benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers and firefighters) or at age 50 with at least 30 years service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7% of their average final salary ("AFS"), for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary.

Participating local law enforcement officers and firefighters may receive a monthly benefit supplement if they are retired prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. A copy of that report may be obtained by writing the VRS at P.O. Box 2500, Richmond, VA 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 annual salary to the system. This 5% member contribution has been assumed by both the City and the School Board. In addition the City and School Board are required to contribute the remaining amounts necessary to fund their 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, 2002, was .50% and 6.50%, 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 2002, 2001 and 2000 were \$808,682, \$1,050,602 and \$1,102,461, respectively. The School Board contributed 100% of required contributions to the pool for fiscal year ended 2002 and each of the two preceding years.

17. DEFINED BENEFIT PENSION PLAN (Continued)

C. Annual Pension Cost

For fiscal year 2002, the City and School Board's annual pension costs of \$17,689 and \$32,678, respectively, were equal to the City and School Board's required and actual contributions. The required contributions were determined as part of the June 30, 2000, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (1) 8% investment rate of return, (b) projected salary increases ranging from 4.25% to 6.10% per year, and (c) 3% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of the City and School Board'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 market value of assets over a 5-year period. The School Board's unfunded actuarial accrued liability is being amortized as a level percentage on an open basis within a period of 27 years or less.

Schedule of Employer Contributions

		Three-Year Trend Information		
		Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed
City Employees		6/30/2002	\$ 17,689	100%
		6/30/2001	\$ 80,866	100%
		6/30/2000	\$ 187,616	100%
School Board Non-professional Employees		6/30/2002	\$ 32,678	100%
		6/30/2001	\$ 28,850	100%
		6/30/2000	\$ 20,202	100%

Schedule of Funding Progress – City Employees

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Overfunded			Covered Payroll	Overfunded Actuarial Liability as a Percent of Covered Payroll
			Actuarial Accrued	Actuarial Accrued	Funded Ratio		
06/30/01	\$ 11,032,189	\$ 9,356,833	\$ 1,675,356	117.9%	\$ 3,258,356		51.4%
06/30/00	\$ 9,910,536	\$ 7,798,479	\$ 2,112,057	127.1%	\$ 3,179,681		66.4%
06/30/99	\$ 8,331,910	\$ 7,661,020	\$ 670,890	108.8%	\$ 3,059,380		21.9%
06/30/98	\$ 7,013,821	\$ 5,518,576	\$ 1,495,245	127.1%	\$ 2,807,789		53.3%

18. DEFINED BENEFIT PENSION PLAN (Continued)

C. Annual Pension Costs (Continued)

Schedule of Funding Progress – School Board Nonprofessional Employees

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Underfunded Actuarial Liability as a Percent of Covered Payroll
06/30/01	\$ 699,099	\$ 787,959	\$ (88,860)	88.72%	\$ 467,055	(19.03%)
06/30/00	\$ 602,210	\$ 615,144	\$ (12,934)	97.9%	\$ 403,417	(3.2%)
06/30/99	\$ 502,635	\$ 574,382	\$ (71,747)	87.5%	\$ 371,974	(19.3%)
06/30/98	\$ 410,489	\$ 470,988	\$ (60,499)	87.2%	\$ 377,434	(16.0%)

D. Notes to Schedules of Employer Contributions and Funding Progress

The information presented in the schedules of employer contributions and funding progress was determined as part of the actuarial valuations. Additional information as of the June 30, 2000, actuarial valuation follows:

Valuation date	June 30, 2000
Actuarial cost method	Entry age normal
Amortization method	Level percent, open
Payroll growth rate	3.00%
Remaining amortization period:	
City	14 years
School Board non-professional	4 years
Asset valuation method	Modified market
Actuarial assumptions:	
Investment rate of return ¹	8.00%
Projected salary increases ¹ :	
Non-LEO ² employees, including School	4.25% to 6.10%
LEO employees	4.50% to 5.74%
Cost-of-living adjustments	3.00%

¹ Includes inflation at 3%

² LEO - Law Enforcement Officers

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 16. 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 reinsurance through commercial companies for excess liability claims.

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

20. PRIOR PERIOD ADJUSTMENT

Contributed capital and retained earnings of the Enterprise Funds (Sewer Operations) at July 1, 2001, have been restated to reclassify tap fees as non-operating revenue in accordance with GASB 33 "Accounting and Financial Reporting for Non-exchange Transactions." The effect of the adjustment was to decrease beginning contributed capital and increase retained earnings by \$616,500, respectively.

21. CHANGE IN ACCOUNTING ESTIMATE

During 2002, the City changed the estimated useful life of certain sewer lines to better reflect the actual economic life. The change decreased net income by \$62,865 of the Enterprise Funds (Sewer Operations).

22. SUBSEQUENT EVENT

On October 17, 2002, the City agreed to pay \$50,000 in an out-of-court arrangement resulting from a breach of contract with a contractor for the sewer line construction.

* * * * *

CITY OF POQUOSON, VIRGINIA**BALANCE SHEET
GENERAL FUND**

June 30, 2002

ASSETS

Cash and cash equivalents	\$ 2,475,106
Property taxes receivable - net	577,541
Utility taxes receivable	50,709
Other receivables	52,353
Due from component units	271,884
Due from other governmental units	232,676
Prepaid items	1,918
Investments	<u>985,300</u>
Total assets	<u>\$ 4,647,487</u>

LIABILITIES AND FUND BALANCES**Liabilities**

Accounts payable and accrued liabilities	\$ 195,649
Deferred revenue	<u>479,363</u>
Total liabilities	<u>675,012</u>

Fund balances

Reserved for encumbrances	108,726
Reserved for prepaid items	1,918
Unreserved and undesignated	<u>3,861,831</u>
Total fund balances	<u>3,972,475</u>
Total liabilities and fund balances	<u>\$ 4,647,487</u>

The accompanying notes are an integral part of these financial statements.

CITY OF POQUOSON, VIRGINIA**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND****Year Ended June 30, 2002****Revenue**

General property taxes	\$ 9,716,038
Other local taxes:	
Sales and use taxes	395,628
Meals tax	363,695
Cigarette tax	191,868
Consumers' utility and E-911 telephone taxes	589,122
Consumption tax	33,852
Business license taxes	306,920
Franchise license taxes	87,750
Motor vehicle license taxes	283,258
Bank stock taxes	27,070
Recordation and will taxes, deed of conveyance	123,621
Permits, privilege fees, and regulatory licenses	144,907
Fines and forfeitures	22,596
Revenue from use of money and property	120,990
Charge for services	29,069
Intergovernmental:	
Commonwealth of Virginia	3,095,500
Federal government	82,412
Miscellaneous	24,817
Total revenue	15,639,113

Expenditures

General government administration	1,257,684
Public safety	3,284,029
Public works	1,025,194
Health and welfare	447,294
Parks, recreation, and cultural	720,466
Community development	449,777
Nondepartmental	42,271
Total expenditures	7,226,715

Excess of revenue over expenditures**Other financing sources (uses)**

Transfers from:	
Component Unit	662,208
Sewer Operation Fund	145,260
Transfers to:	
Component Unit-schools	(6,696,939)
Component Unit-Industrial Development Authority	(55,000)
Debt Service Fund	(1,597,319)
Internal Service-fleet	(4,637)
Solid Waste Fund	(194,277)
Sewer Fund	(4,337)
Capital Projects Fund	(762,026)
Parks and Recreation Fund	(28,149)
Total other financing uses	(8,535,216)

Excess (deficiency) of revenue and other financing

sources over expenditures and other financing uses	(122,818)
---	------------------

Fund balance - July 1, 2001**4,095,293****Fund balance - June 30, 2002****\$ 3,972,475***The accompanying notes are an integral part of these financial statements.*

CITY OF POQUOSON, VIRGINIA**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
DEBT SERVICE FUND**

Year Ended June 30, 2002

Expenditures

Debt service:	
Principal retirement	\$ 987,099
Interest and fiscal charges	610,220
Total expenditures	1,597,319

Other financing sources (uses)

Operating transfers in - general fund	1,597,319
Net other financing sources	1,597,319

Excess of other financing sources over expenditures**Fund balance - July 1, 2001**

\$

Fund balance - June 30, 2002\$

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CITY OF POQUOSON, VIRGINIA**BALANCE SHEET
CAPITAL PROJECTS FUND**

June 30, 2002

ASSETS

Cash and cash equivalents	\$ 889,903
Due from other governmental units	65,703
Total assets	\$ 955,606

LIABILITIES AND FUND BALANCE**Liabilities**

Accounts payable and accrued liabilities	\$ 105,434
Total liabilities	105,434

Fund balance

Reserved for encumbrances	221,203
Designated for fiscal year 2003 budget	628,969
Total fund balance	850,172
Total liabilities and fund balance	\$ 955,606

The accompanying notes are an integral part of these financial statements.

CITY OF POQUOSON, VIRGINIA**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
CAPITAL PROJECTS FUND**

Year Ended June 30, 2002

Revenue

Intergovernmental - Commonwealth of Virginia	\$ 362,812
Total revenue	<u>362,812</u>

Expenditures

Capital outlays	1,266,450
Total expenditures	<u>1,266,450</u>

Deficiency of revenue over expenditures

(903,638)

Other financing sources

Operating transfers in - general fund	762,026
Bond proceeds	597,000
Net other financing sources	<u>1,359,026</u>

Excess of revenue and other financing sources

over expenditures	<u>455,388</u>
--------------------------	-----------------------

Fund balance - July 1, 2001 423,686**Residual equity transfer out - Parks and Recreation Fund** (28,902)**Fund balance - June 30, 2002** **\$ 850,172**

CITY OF POQUOSON, VIRGINIA

COMBINING BALANCE SHEETS
ENTERPRISE FUNDS

June 30, 2002

ASSETS	Sewer Operation	Parks and Recreation	Solid Waste	Total
Current assets				
Cash and cash equivalents	\$ 1,476,807	\$ 54,571	\$ 266,448	\$ 1,797,826
Accounts receivable	261,248	-	31,540	292,788
Notes receivable	201,215	-	-	201,215
Prepaid expenses	-	4,836	-	4,836
Inventory	-	-	7,731	7,731
Total current assets	1,939,270	59,407	305,719	2,304,396
Restricted assets				
Revenue bond indenture -				
Cash and cash equivalents	948,438	-	-	948,438
Total restricted assets	948,438	-	-	948,438
Fixed assets				
Land	212,788	28,550	-	241,338
Buildings and improvements	2,025	260,185	9,943	272,153
Sewer system	20,013,453	-	-	20,013,453
Sewer easements	73,880	-	-	73,880
Machinery and equipment	515,043	20,659	383,957	919,659
Construction in progress	601,752	-	-	601,752
Less - accumulated depreciation	(3,203,796)	(234,783)	(244,079)	(3,682,658)
Fixed assets, net of accumulated depreciation	18,215,145	74,611	149,821	18,439,577
Other assets				
Intangible assets - net of amortization	52,376	-	-	52,376
Notes receivable-less current portion	318,544	-	-	318,544
Total other assets	370,920	-	-	370,920
Total assets	\$ 21,473,773	\$ 134,018	\$ 455,540	\$ 22,063,331
LIABILITIES AND FUND EQUITY				
Liabilities				
Accounts payable and accrued liabilities	\$ 217,734	\$ 50,274	\$ 20,927	\$ 288,935
Accrued compensated absences	6,142	3,279	3,763	13,184
General obligation bonds - current portion	647,802	-	-	647,802
Total current liabilities	871,678	53,553	24,690	949,921
Long-term liabilities				
General obligation bonds -net of unamortized premiums	13,749,239	-	-	13,749,239
Total liabilities	14,620,917	53,553	24,690	14,699,160
Fund equity				
Contributed capital:				
Municipality	757,379	92,735	67,339	917,453
Capital grants	1,343,449	196,000	-	1,539,449
Other	3,032,356	-	-	3,032,356
Total contributed capital	5,133,184	288,735	67,339	5,489,258
Retained earnings (deficit)	1,719,672	(208,270)	363,511	1,874,913
Total fund equity	6,852,856	80,465	430,850	7,364,171
Total liabilities and fund equity	\$ 21,473,773	\$ 134,018	\$ 455,540	\$ 22,063,331

The accompanying notes are an integral part of these financial statements.

CITY OF POQUOSON, VIRGINIA

COMBINING STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN RETAINED EARNINGS (DEFICIT)
ENTERPRISE FUNDS

Year Ended June 30, 2002

	Sewer Operation	Parks and Recreation	Solid Waste	Total
Operating revenue				
Charges for services	\$ 965,667	\$ 364,864	\$ 296,453	\$ 1,626,984
Festivals	-	110,790	-	110,790
Miscellaneous	409	4,618	-	5,027
Total operating revenue	966,076	480,272	296,453	1,742,801
Operating expenses				
Personnel services	140,333	260,960	85,500	486,793
Contractual services	54,252	185,419	1,300	240,971
Materials and supplies	27,412	62,629	53,655	143,696
Depreciation and amortization	461,406	5,719	39,491	506,616
Other charges	57,071	16,461	43,521	117,053
Waste disposal	-	-	182,573	182,573
Total operating expenses	740,474	531,188	406,040	1,677,702
Operating income (loss)	225,602	(50,916)	(109,587)	65,099
Nonoperating revenue (expenses)				
Interest income	86,877	-	-	86,877
Interest and fiscal charges	(469,606)	-	-	(469,606)
Sewer availability fees	1,597,800	-	-	1,597,800
Net nonoperating expenses	1,215,071	-	-	1,215,071
Income (loss) before operating transfers	1,440,673	(50,916)	(109,587)	1,280,170
Operating transfers in - general fund	4,337	28,149	194,277	226,763
Operating transfers out - general fund	(145,260)	-	-	(145,260)
Net income (loss)	1,299,750	(22,767)	84,690	1,361,673
Retained earnings (deficit) - July 1, 2001	(196,578)	(185,503)	278,821	(103,260)
Prior period adjustment	616,500	-	-	616,500
Retained earnings (deficit) - June 30, 2002	\$ 1,719,672	\$ (208,270)	\$ 363,511	\$ 1,874,913

The accompanying notes are an integral part of these financial statements.

CITY OF POQUOSON, VIRGINIA

COMBINING STATEMENTS OF CASH FLOWS
ENTERPRISE FUNDS

Year Ended June 30, 2002

	Sewer Operation	Parks and Recreation	Solid Waste	Total
Cash flows from operating activities				
Operating income (loss)	\$ 225,602	\$ (50,916)	\$ (109,587)	\$ 65,099
Adjustments to reconcile to net cash from operating activities:				
Depreciation and amortization	461,406	5,719	39,491	506,616
Changes in:				
Accounts receivable	(34,572)	-	3,934	(30,638)
Prepaid expenses	-	6,370	-	6,370
Inventory	-	-	(2,060)	(2,060)
Accounts payable and accrued liabilities	(489,492)	26,457	14,400	(448,635)
Accrued compensated absences	78	2,151	1,102	3,331
Net cash from operating activities	163,022	(10,219)	(52,720)	100,083
Cash flows from noncapital financing activities				
Operating transfers in from general fund	4,337	28,149	194,277	226,763
Operating transfers out to general fund	(145,260)	-	-	(145,260)
Payments received on notes receivable	185,375	-	-	185,375
Net cash from noncapital financing activities	44,452	28,149	194,277	266,878
Cash flows from capital and related financing activities				
Acquisition and construction of fixed assets	(1,702,292)	-	-	(1,702,292)
Interest paid on general obligation bonds and note payable	(436,863)	-	-	(436,863)
Proceeds from general obligation bonds	2,247,968	-	-	2,247,968
Sewer availability fees	1,008,900	-	-	1,008,900
Payments for issuance costs	(16,070)	-	-	(16,070)
Principal payments on general obligation bonds	(570,180)	-	-	(570,180)
Net cash from capital and related financing activities	531,463	-	-	531,463
Cash flows from investing activities				
Interest income	86,877	-	-	86,877
Net cash from investing activities	86,877	-	-	86,877
Change in cash and cash equivalents	825,814	17,930	141,557	985,301
Cash and cash equivalents - July 1, 2001	1,599,431	36,641	124,891	1,760,963
Cash and cash equivalents - June 30, 2002	\$ 2,425,245	\$ 54,571	\$ 266,448	\$ 2,746,264
Noncash investing, capital and financing activities:				
Supplemental disclosure of capital and related financing activities:				
Notes receivable in exchange for sewer availability fees	\$ 588,900	\$ -	\$ -	\$ 588,900
Deferred refunding loss charge and amortization of bond premium included as a component of interest expense	\$ 32,743	\$ -	\$ -	\$ 32,743
Contributions of fixed assets from Capital Projects Fund	\$ -	\$ 28,902	\$ -	\$ 28,902

The accompanying notes are an integral part of these financial statements.

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CITY OF POQUOSON, VIRGINIA**BALANCE SHEET
INTERNAL SERVICE FUND****June 30, 2002**

	ASSETS	Fleet Management
Current assets		
Cash	\$ 54,985	
Inventory	10,686	
Total current assets	65,671	
Fixed assets		
Land	1,377	
Building and improvements	41,742	
Machinery and equipment	82,688	
Less - accumulated depreciation	(96,913)	
Fixed assets - net	28,894	
Total assets	\$ 94,565	
LIABILITIES AND FUND EQUITY		
Liabilities		
Accounts payable and accrued liabilities	\$ 16,482	
Accrued compensated absences	6,544	
Total liabilities	23,026	
Fund equity		
Contributed capital:		
Municipality	96,114	
Accumulated deficit	(24,575)	
Total fund equity	71,539	
Total liabilities and fund equity	\$ 94,565	

The accompanying notes are an integral part of these financial statements.

CITY OF POQUOSON, VIRGINIA**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN ACCUMULATED DEFICIT
INTERNAL SERVICE FUND****Year Ended June 30, 2002**

	<u>Fleet Management</u>
Operating revenue	
Charges for services	\$ 464,340
Total operating revenue	<u>464,340</u>
Operating expenses	
Personnel services	194,042
Contractual services	37,219
Materials and supplies	210,870
Depreciation	9,082
Other charges	11,366
Total operating expenses	<u>462,579</u>
Operating income	1,761
Other income - transfer from general fund	<u>4,637</u>
Net income	6,398
Accumulated deficit - July 1, 2001	<u>(30,973)</u>
Accumulated deficit - June 30, 2002	<u>\$ (24,575)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF POQUOSON, VIRGINIA**STATEMENT OF CASH FLOWS**
INTERNAL SERVICE FUND**Year Ended June 30, 2002**

	<u>Fleet Management</u>
Cash flows from operating activities	
Operating income	\$ 1,761
Adjustments to reconcile to net cash from operating activities:	
Depreciation	9,082
Change in:	
Accounts receivable	95
Inventory	(4,014)
Accounts payable and accrued liabilities	9,499
Accrued compensated absences	34
Net cash from operating activities	<u>16,457</u>
Cash flows from noncapital financing activities	
Operating transfer in from other funds	<u>4,637</u>
Net cash from noncapital financing activities	<u>4,637</u>
Cash flows from capital and related financing activities	
Acquisition of fixed assets	<u>(4,328)</u>
Net cash from capital and related financing activities	<u>(4,328)</u>
Change in cash and cash equivalents	<u>16,766</u>
Cash and cash equivalents - July 1, 2001	<u>38,219</u>
Cash and cash equivalents - June 30, 2002	<u>\$ 54,985</u>

The accompanying notes are an integral part of these financial statements.

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CITY OF POQUOSON, VIRGINIA**BALANCE SHEET**
AGENCY FUND

June 30, 2002

ASSETS

	Library Building
Cash and cash equivalents	<u>\$ 54,223</u>

LIABILITIES

Amounts held for others	<u>\$ 54,223</u>
-------------------------	------------------

CITY OF POQUOSON, VIRGINIA**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND****Year Ended June 30, 2002**

	Balance July 1, 2001	Additions	Deletions	Balance June 30, 2002
Library Building				
Assets				
Cash and cash equivalents	\$ 54,747	\$ 1,476	\$ 2,000	\$ 54,223
Liabilities				
Amounts held for others	\$ 54,747	\$ 1,476	\$ 2,000	\$ 54,223

The accompanying notes are an integral part of these financial statements.

CITY OF POQUOSON, VIRGINIA***SCHEDULE OF GENERAL FIXED ASSETS - BY SOURCE
GENERAL FIXED ASSET ACCOUNT GROUP***

June 30, 2002

General fixed assets

Land and land improvements	\$ 2,300,619
Buildings and improvements	6,243,117
Machinery and equipment	4,385,788
Construction in progress	<hr/> 14,220
Total general fixed assets	\$ 12,943,744

Investment in general fixed assets by source

Fixed assets acquired prior to July 1, 2001	\$ 12,234,078
Fixed asset disposals	(215,706)
Fixed asset transferred in	2,254
Fixed assets acquired after June 30, 2001:	
From current revenue	329,133
From bond and note proceeds	<hr/> 593,985
Total investment in general fixed assets	\$ 12,943,744

The accompanying notes are an integral part of these financial statements.

CITY OF POQUOSON, VIRGINIA**SCHEDULE OF GENERAL FIXED ASSETS - BY FUNCTION AND ACTIVITY -
GENERAL FIXED ASSET ACCOUNT GROUP****June 30, 2002**

	<u>Land and Land Improvements</u>	<u>Buildings and Improvements</u>	<u>Machinery and Equipment</u>	<u>Construction in Progress</u>	<u>Total</u>
General government	\$ 2,203,015	\$ 4,644,312	\$ 1,045,213	\$ -	\$ 7,892,540
Public safety	52,604	1,402,569	2,135,684	-	3,590,857
Public works	-	-	885,162	-	885,162
Parks, recreation and cultural	45,000	196,236	319,729	-	560,965
Construction in progress	-	-		14,220	14,220
Total general fixed assets allocated to functions	\$ 2,300,619	\$ 6,243,117	\$ 4,385,788	\$ 14,220	\$ 12,943,744

The accompanying notes are an integral part of these financial statements.

CITY OF POQUOSON, VIRGINIA**SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS - BY FUNCTION AND ACTIVITY -
GENERAL FIXED ASSET ACCOUNT GROUP****Year Ended June 30, 2002**

	General Fixed Assets July 1, 2001	Additions	Reductions	Transfers	General Fixed Assets June 30, 2002
General government	\$ 7,947,137	\$ 147,250	\$ (176,027)	\$ (25,820)	\$ 7,892,540
Public safety	2,847,635	732,248	-	10,974	3,590,857
Public works	871,453	20,147	(19,993)	13,555	885,162
Parks, recreation and cultural	567,853	9,253	(19,686)	3,545	560,965
Construction in progress	-	14,220	-	-	14,220
Total general fixed assets	\$ 12,234,078	\$ 923,118	\$ (215,706)	\$ 2,254	\$ 12,943,744

The accompanying notes are an integral part of these financial statements.

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CITY OF POQUOSON, VIRGINIA**SCHEDULE OF CHANGES IN GENERAL LONG-TERM OBLIGATIONS -
GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP****Year Ended June 30, 2002**

	<u>Balance</u> <u>July 1, 2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2002</u>
General obligation bonds	\$ 8,385,678	\$ 597,000	\$ 527,081	\$ 8,455,597
State Literary Fund loans	6,150,392	-	460,018	5,690,374
Total general long-term indebtedness	14,536,070	597,000	987,099	14,145,971
 Accrued compensated absences	 199,203	 28,755	 -	 227,958
Total general long-term obligations	\$ 14,735,273	\$ 625,755	\$ 987,099	\$ 14,373,929

The accompanying notes are an integral part of these financial statements.

CITY OF POQUOSON, VIRGINIA

SCHEDULE OF GENERAL OBLIGATION BONDS
GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP

Year Ended June 30, 2002

General Obligation Bonds	Issue Date	Final Maturity Date	Interest Rates	Interest Due Dates	Amount Authorized and Issued	Bonded Debt Outstanding July 1, 2001	Principal Paid 2001-2002	Bonding Debt Outstanding June 30, 2002	Maturities Due 2002-2003
Schools	12/15/89	12/15/09	6.85%, 7.20%	12/15, 6/15	\$ 1,500,000	\$ 605,000	\$ 70,000	\$ 535,000	\$ 60,000
City	03/22/94	01/01/16	3.90%, 5.375%	7/1, 1/1	4,900,000	4,270,000	200,000	4,070,000	210,000
Schools	11/19/98	07/15/18	3.60%, 5.10%	7/15, 1/15	650,000	580,000	35,000	545,000	35,000
City	12/29/98	03/01/16	4.50%	3/1, 9/1	1,546,415	1,378,607	66,330	1,312,277	69,315
City	08/25/00	09/01/15	5.43%	3/1, 9/1	925,000	904,643	42,685	861,958	44,721
Schools	06/29/01	01/01/16	6.82%	1/1	647,428	647,428	45,296	602,132	27,044
City	03/28/02	06/01/11	4.34%	6/1	597,000	-	67,770	529,230	49,330
					\$ 10,765,843	\$ 8,385,678	\$ 527,081	\$ 8,455,597	\$ 495,410

CITY OF POQUOSON, VIRGINIA

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD

June 30, 2002

ASSETS AND OTHER DEBITS	Account Groups						Total (Memorandum Only)
	Governmental Fund Types		Fiduciary Fund types		General Fixed Assets	General Long-term Obligations	
	General	Special Revenue	Agency				
Assets							
Cash and cash equivalents	\$ 1,983,232	\$ 8,707	\$ 312,744	\$ -	\$ -	\$ -	\$ 2,304,683
Other receivables	1,370	-	-	-	-	-	1,370
Due from other governmental units	399,940	-	-	-	-	-	399,940
Inventory	-	2,854	-	-	-	-	2,854
Fixed assets	-	-	-	21,589,144	-	-	21,589,144
Other debits							
Amount to be provided for retirement of general long-term obligations	-	-	-	-	102,138	102,138	102,138
Total assets and other debits	\$ 2,384,542	\$ 11,561	\$ 312,744	\$ 21,589,144	\$ 102,138	\$ 24,400,129	
LIABILITIES, EQUITY AND OTHER CREDITS							
Liabilities							
Accounts payable and accrued liabilities	\$ 1,635,302	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,635,302
Accrued compensated absences	-	-	-	-	102,138	102,138	102,138
Due to primary government	235,464	-	-	-	-	-	235,464
Amounts held for others	-	-	312,744	-	-	-	312,744
Deferred revenues	30,453	-	-	-	-	-	30,453
Total liabilities	1,901,219	-	312,744	-	102,138	2,316,101	
Equity and other credits							
Investment in general fixed assets	-	-	-	21,589,144	-	-	21,589,144
Fund balances:							
Reserved for encumbrances	483,323	-	-	-	-	-	483,323
Reserved for inventory	-	2,854	-	-	-	-	2,854
Unreserved and undesignated	-	8,707	-	-	-	-	8,707
Total equity and other credits	483,323	11,561	-	21,589,144	-	22,084,028	
Total liabilities, equity and other credits	\$ 2,384,542	\$ 11,561	\$ 312,744	\$ 21,589,144	\$ 102,138	\$ 24,400,129	

CITY OF POQUOSON, VIRGINIA**COMBINING STATEMENTS OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD****Year Ended June 30, 2002**

	General Fund	Special Revenue	Total Component Unit
Revenue			
Revenue from use of money and property	\$ -	\$ 91	\$ 91
Charges for services	17,340	290,818	308,158
Intergovernmental:			
Commonwealth of Virginia	8,407,464	7,090	8,414,554
Federal government	766,749	31,802	798,551
Miscellaneous	146,643	17,401	164,044
Total revenue	9,338,196	347,202	9,685,398
Expenditures			
Current:			
Education	15,141,801	417,372	15,559,173
Capital outlays	16,000	-	16,000
Total expenditures	15,157,801	417,372	15,575,173
Deficiency of revenue over expenditures	(5,819,605)	(70,170)	(5,889,775)
Other financing sources (uses)			
Operating transfers from primary government	6,696,939	-	6,696,939
Operating transfers to primary government	(662,208)	-	(662,208)
Operating transfers in - general fund	-	53,310	53,310
Operating transfers out - special revenue fund	(53,310)	-	(53,310)
Total other financing sources - net	5,981,421	53,310	6,034,731
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	161,816	(16,860)	144,956
Fund balances - July 1, 2001	321,507	28,421	349,928
Fund balances - June 30, 2002	\$ 483,323	\$ 11,561	\$ 494,884

The accompanying notes are an integral part of these financial statements.

CITY OF POQUOSON, VIRGINIA

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGETARY BASIS
BUDGET AND ACTUAL SCHOOL OPERATING FUND
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD

Year Ended June 30, 2002

	General Fund			Variance Favorable (Unfavorable)
	Budget	Actual		
Revenue				
Charges for services	\$ 33,000	\$ 17,340		\$ (15,660)
Intergovernmental:				
Commonwealth of Virginia	8,089,162	8,407,464		318,302
Federal government	801,389	766,749		(34,640)
Miscellaneous	184,975	146,643		(38,332)
Total revenue	9,108,526	9,338,196		229,670
Expenditures				
Current:				
General and financial administration	654,953	655,521		(568)
Instruction	9,696,677	9,749,354		(52,677)
Attendance and health services	202,462	199,392		3,070
Pupil transportation	607,526	604,188		3,338
Operation and maintenance of school plants	1,273,375	1,287,545		(14,170)
Fixed charges	2,379,367	2,110,372		268,995
Capital outlay	17,000	17,000		-
State and federal programs	915,055	696,245		218,810
Total expenditures	15,746,415	15,319,617		426,798
Deficiency of revenue over expenditures -				
budgetary basis	(6,637,889)	(5,981,421)		656,468
Other financing sources (uses)				
Operating transfers in - primary government	6,696,939	6,696,939		-
Operating transfers out - primary government	-	(662,208)		(662,208)
Operating transfer out - special revenue fund	(59,050)	(53,310)		5,740
Total other financing sources - net	6,637,889	5,981,421		(656,468)
Excess of revenue and other financing sources				
over expenditures and other financing uses -				
budgetary basis	\$ -	-		\$ -
Less - encumbrances outstanding June 30, 2001,				
actually expended as of June 30, 2002				(321,507)
Add - encumbrances outstanding June 30, 2002				483,323
Excess of revenue and other financing sources over				
expenditures and other financing uses - GAAP basis				
Fund balance - July 1, 2001				321,507
Fund balance - June 30, 2002				\$ 483,323

The accompanying notes are an integral part of these financial statements.

CITY OF POQUOSON, VIRGINIA**COMBINING BALANCE SHEETS - AGENCY FUNDS
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD**

June 30, 2002

Assets	Instructional Support	School Activities	Total
Cash and cash equivalents	\$ 43,152	\$ 269,592	\$ 312,744

Liabilities

Amounts held for others	\$ 43,152	\$ 269,592	\$ 312,744
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The accompanying notes are an integral part of these financial statements.

CITY OF POQUOSON, VIRGINIA**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD****Year Ended June 30, 2002**

<u>Instructional Support</u>	<u>Balance July 1, 2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2002</u>
Assets				
Cash and cash equivalents	\$ 52,601	\$ 73,948	\$ 83,397	\$ 43,152
Liabilities				
Amounts held for others	\$ 52,601	\$ 73,948	\$ 83,397	\$ 43,152
<u>School Activities</u>				
Assets				
Cash and cash equivalents	\$ 217,031	\$ 864,940	\$ 812,379	\$ 269,592
Liabilities				
Amounts held for others	\$ 217,031	\$ 864,940	\$ 812,379	\$ 269,592
<u>Total - All Agency Funds</u>				
Assets				
Cash and cash equivalents	\$ 269,632	\$ 938,888	\$ 895,776	\$ 312,744
Liabilities				
Amounts held for others	\$ 269,632	\$ 938,888	\$ 895,776	\$ 312,744

The accompanying notes are an integral part of these financial statements.

CITY OF POQUOSON, VIRGINIA

SCHEDULE OF GENERAL FIXED ASSETS - BY SOURCE -
GENERAL FIXED ASSETS ACCOUNT GROUP
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD

June 30, 2002

General fixed assets

Land	\$ 243,223
Buildings and improvements	17,435,644
Machinery and equipment	<u>3,910,277</u>
	<u>\$ 21,589,144</u>

Total general fixed assets**\$ 21,589,144****Investment in general fixed assets by source**

Fixed assets acquired prior to July 1, 2001	\$ 21,508,608
Inventory corrections	71,016
Fixed assets acquired after June 30, 2001:	
From federal grants	11,794
From state grants	3,642
From city grants	145,979
From donated items	46,706
Fixed asset dispositions after June 30, 2001	<u>(198,601)</u>
	<u>\$ 21,589,144</u>

Total investment in general fixed assets**\$ 21,589,144**

CITY OF POQUOSON, VIRGINIA**SCHEDULE OF GENERAL FIXED ASSETS - BY FUNCTION AND ACTIVITY -
GENERAL FIXED ASSETS ACCOUNT GROUP
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD**

June 30, 2002

	Land	Buildings and Improvements	Machinery and Equipment	Total
Education	\$ 243,223	\$ 17,435,644	\$ 3,910,277	\$ 21,589,144

The accompanying notes are an integral part of these financial statements.

CITY OF POQUOSON, VIRGINIA

***SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS -
GENERAL FIXED ASSETS ACCOUNT GROUP
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD***

Year Ended June 30, 2002

	General Fixed Assets July 1, 2001	Inventory Corrections	Additions	Dispositions	General Fixed Assets June 30, 2002
Education	\$ 21,508,608	\$ 71,016	\$ 208,121	\$ 198,601	\$ 21,589,144

The accompanying notes are an integral part of these financial statements.

CITY OF POQUOSON, VIRGINIA

SCHEDULE OF CHANGES IN GENERAL LONG-TERM OBLIGATIONS -
GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD

Year Ended June 30, 2002

	<u>Balance</u> <u>July 1, 2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2002</u>
Accrued compensated absences	\$ 96,716	\$ 5,422	\$ -	\$ 102,138
Total general long-term obligations	\$ 96,716	\$ 5,422	\$ -	\$ 102,138

The accompanying notes are an integral part of these financial statements.

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GOVERNMENTAL FUNDS
PRIMARY GOVERNMENT AND DISCRETELY PRESENTED COMPONENT UNIT -
SCHEDULE OF REVENUE - BUDGET AND ACTUAL

Year Ended June 30, 2002

	Budget	Actual	Variance Favorable (Unfavorable)
Primary government			
General fund:			
Revenue from local sources:			
General property taxes:			
Real property taxes	\$ 8,110,000	\$ 8,142,010	\$ 32,010
Public service corporation property taxes	170,000	185,858	15,858
Personal property taxes	818,000	1,271,261	453,261
Penalties and interest	115,000	116,909	1,909
Total general property taxes	9,213,000	9,716,038	503,038
Other local taxes:			
Sales and use taxes	360,000	395,628	35,628
Meals taxes	349,000	363,695	14,695
Cigarette tax	135,000	191,868	56,868
Consumers' utility taxes	420,000	419,694	(306)
Consumption tax	36,000	33,852	(2,148)
E-911 telephone taxes	170,000	169,428	(572)
Business license taxes	261,841	306,920	45,079
Franchise license taxes	74,000	87,750	13,750
Motor vehicle license taxes	264,000	283,258	19,258
Bank stock taxes	24,000	27,070	3,070
Recordation and wills taxes	104,000	104,232	232
Deeds of conveyance	18,000	19,389	1,389
Penalties licenses	7,000	-	(7,000)
Total other local taxes	2,222,841	2,402,784	179,943
Permits, privilege fees and regulatory licenses:			
Animal licenses	3,000	1,819	(1,181)
Permits and other licenses	101,000	143,088	42,088
Total permits, privilege fees and regulatory licenses	104,000	144,907	40,907
Fines and forfeitures			
	34,200	22,596	(11,604)
Revenue from use of money and property:			
Revenue from use of money	140,000	79,296	(60,704)
Revenue from use of property	48,600	41,694	(6,906)
Total revenue from use of money and property	188,600	120,990	(67,610)
Charges for services:			
Charges for school maintenance	8,300	8,300	-
Charges for copying	4,400	4,669	269
Charges for library and fees	15,000	16,100	1,100
Total charges for services	27,700	29,069	1,369
Miscellaneous revenue:			
Miscellaneous	5,100	19,690	14,590
Donations	4,210	5,127	917
Total miscellaneous revenue	9,310	24,817	15,507
	11,799,651	12,461,201	661,550

GOVERNMENTAL FUNDS
PRIMARY GOVERNMENT AND DISCRETELY PRESENTED COMPONENT UNIT -
SCHEDULE OF REVENUE - BUDGET AND ACTUAL

Year Ended June 30, 2002

	Budget	Actual	Variance Favorable (Unfavorable)
Primary government (Continued)			
General fund: (Continued)			
Revenue from the Commonwealth			
Noncategorical aid:			
ABC profits	\$ 27,105	\$ 31,440	\$ 4,335
DMV reimbursement	6,800	6,083	(717)
Wine taxes	16,045	16,303	258
Mobile home titling taxes	5,300	4,284	(1,016)
Rolling stock tax	-	118	118
Personal property tax relief	1,802,000	1,724,991	(77,009)
Total noncategorical aid	1,857,250	1,783,219	(74,031)
Categorical aid:			
Shared expenses:			
Commissioner of the Revenue	81,040	80,996	(44)
Treasurer	88,540	91,107	2,567
Registrar/electoral board	40,930	40,954	24
Total shared expenses	210,510	213,057	2,547
Other categorical aid:			
State 599 police funds	271,763	242,583	(29,180)
Juvenile crime	29,265	29,687	422
Fire program fund	15,600	15,629	29
Department of emergency services	2,000	2,000	-
Street and highway maintenance	600,000	600,000	-
Litter control	5,400	5,143	(257)
Library	125,134	122,950	(2,184)
Emergency medical services	5,283	5,283	-
COPS Fast Matching	-	10,551	10,551
COPS State assistance	8,000	-	(8,000)
Section 8 administrative fees	-	491	491
Comprehensive services	82,000	64,907	(17,093)
Total other categorical aid	1,144,445	1,099,224	(45,221)
Total categorical aid	1,354,955	1,312,281	(42,674)
Total revenue from the Commonwealth	3,212,205	3,095,500	(116,705)
Revenue from the federal government:			
Miscellaneous	83,317	82,412	(905)
Total revenue - primary government	\$ 15,095,173	\$ 15,639,113	\$ 543,940

Component Unit - School Board

General fund:

Revenue from local sources:

Charges for services:

Charges for education

Miscellaneous revenue

Total revenue from local sources

\$ 33,000	\$ 17,340	\$ (15,660)
184,975	146,643	(38,332)
217,975	163,983	(53,992)

GOVERNMENTAL FUNDS
PRIMARY GOVERNMENT AND DISCRETELY PRESENTED COMPONENT UNIT -
SCHEDULE OF REVENUE - BUDGET AND ACTUAL

Year Ended June 30, 2002

	Budget	Actual	Variance Favorable (Unfavorable)
Component Unit - School Board (Continued)			
General fund: (Continued)			
Revenue from the Commonwealth:			
Categorical aid:			
Share of state sales tax	\$ 1,536,454	\$ 1,438,243	\$ (98,211)
Basic school aid	4,907,219	5,065,385	158,166
Gifted and talented children	58,089	58,989	900
Special education	407,550	416,242	8,692
Vocational education	16,446	10,490	(5,956)
Social security	278,787	283,221	4,434
Teacher retirement	171,995	144,445	(27,550)
Teacher training	57,161	27,279	(29,882)
Other - education	108,391	102,088	(6,303)
Other	252,038	83,590	(168,448)
SOL algebra readiness	16,469	16,469	-
Technology resource assistance	17,124	17,124	-
Remedial funds	77,829	74,327	(3,502)
Group life	11,845	9,355	(2,490)
Lottery funds	155,629	372,777	217,148
SOL incentive	16,136	16,386	250
School construction	-	271,054	271,054
Total revenue from the Commonwealth	8,089,162	8,407,464	318,302
Revenue from the federal government:			
Categorical aid:			
Title I	92,759	90,655	(2,104)
Title II	18,532	1,159	(17,373)
Title VI	12,376	9,404	(2,972)
Title III of P.L. 95-561 (formerly P.L. 874)	105,000	152,643	47,643
School food programs	59,050	53,310	(5,740)
Vocational education	58,410	17,656	(40,754)
Title VI-B	282,628	261,350	(21,278)
Other federal funds	9,377	8,135	(1,242)
Drug abuse grant	11,602	10,587	(1,015)
Workforce investment	8,771	5,000	(3,771)
Class size reduction	30,747	30,747	-
School to work	19,959	19,959	-
Silver grant	19,889	19,799	(90)
Technology literacy challenge grant	72,289	72,249	(40)
Universal Services Act	-	14,096	14,096
Total revenue from the federal government	801,389	766,749	(34,640)
Total revenue - Component Unit - School Board - School Operating Fund	\$ 9,108,526	\$ 9,338,196	\$ 229,670

GOVERNMENTAL FUNDS
PRIMARY GOVERNMENT AND DISCRETELY PRESENTED COMPONENT UNIT -
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2002

	Budget	Actual	Variance Favorable (Unfavorable)
Primary Government			
General fund:			
General government administration:			
Legislative - City Council	\$ 81,696	\$ 81,476	\$ 220
General and financial administration:			
City manager	242,163	238,368	3,795
Legal services	88,900	70,623	18,277
Independent auditor	30,800	30,790	10
Commissioner of the Revenue	194,677	191,208	3,469
Assessor/equalization board	115,625	107,538	8,087
Treasurer	207,818	207,814	4
Finance	214,370	198,021	16,349
Risk management	40,400	31,352	9,048
Total general and financial administration	1,134,753	1,075,714	59,039
Board of elections - electoral board and registrar	107,924	93,367	14,557
Total general government administration	1,324,373	1,250,557	73,816
Public safety:			
General district court	73,981	73,981	-
Clerk of the circuit court	(970)	(970)	-
Sheriff	51,342	51,342	-
Building maintenance	30,447	30,447	-
Total judicial administration	154,800	154,800	-
Law enforcement and traffic control - police department	1,439,311	1,437,582	1,729
Fire and rescue services - fire department	1,415,216	1,415,204	12
Correction and detention - county and regional operated institutions	134,000	107,983	26,017
Inspections - various	104,000	97,827	6,173
Other protection - animal control	43,000	43,000	-
Total public safety	3,290,327	3,256,396	33,931

GOVERNMENTAL FUNDS
PRIMARY GOVERNMENT AND DISCRETELY PRESENTED COMPONENT UNIT -
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
Primary Government (Continued)			
Public works:			
Maintenance of highways, streets, bridges and sidewalks:			
General engineering/administration	\$ 161,049	\$ 152,511	\$ 8,538
Highways, streets, bridges and sidewalks	735,324	705,150	30,174
Street lights	56,600	53,129	3,471
Total maintenance of highways, streets, bridges and sidewalks	952,973	910,790	42,183
Maintenance of general buildings and grounds	102,000	101,338	662
Total public works	1,054,973	1,012,128	42,845
Health and welfare:			
Health:			
Local health department	44,800	42,687	2,113
Mosquito control	137,051	122,721	14,330
Total health	181,851	165,408	16,443
Mental health and mental retardation - mental health	103,200	96,337	6,863
Welfare:			
Social services	91,000	92,260	(1,260)
Comprehensive services	120,000	88,583	31,417
Total welfare	211,000	180,843	30,157
Total health and welfare	496,051	442,588	53,463
Parks, recreation and cultural - supervision of parks and recreation	233,133	228,613	4,520
Library - administration	506,603	506,523	80
Total parks, recreation and cultural	739,736	735,136	4,600
Community development:			
Planning	239,377	232,227	7,150
Economic development	11,000	5,000	6,000
Community development	123,758	117,670	6,088
Community relations office	107,730	101,580	6,150
Total community development	481,865	456,477	25,388
Nondepartmental - miscellaneous	44,692	35,871	8,821
Total general fund expenditures	\$ 7,432,017	\$ 7,189,153	\$ 242,864

GOVERNMENTAL FUNDS
PRIMARY GOVERNMENT AND DISCRETELY PRESENTED COMPONENT UNIT -
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL

Year Ended June 30, 2002

	Budget	Actual	Variance Favorable (Unfavorable)
School Operating Fund			
Education:			
Administration of schools:			
School board	\$ 5,226	\$ 5,162	\$ 64
School superintendent	95,315	99,057	(3,742)
School administration	258,283	257,298	985
Office support	173,131	157,764	15,367
Leases and rentals	34,000	33,768	232
Other	88,998	102,472	(13,474)
Total administration of schools	654,953	655,521	(568)
Instruction costs:			
Elementary and secondary schools	9,639,887	9,698,790	(58,903)
Summer schools	29,061	28,029	1,032
Other educational programs	27,729	22,535	5,194
Total instruction costs	9,696,677	9,749,354	(52,677)
Operating costs:			
Attendance and health services	202,462	199,392	3,070
Pupil transportation	607,526	604,188	3,338
Operating and maintenance of school plants	1,273,375	1,287,545	(14,170)
Fixed charges	2,379,367	2,110,372	268,995
Total operating costs	4,462,730	4,201,497	261,233
Capital outlays	17,000	17,000	-
Total education	14,831,360	14,623,372	207,988
State and federal programs:			
Title I	139,713	130,326	9,387
Title VI	7,502	4,452	3,050
Title VI-B	240,180	224,894	15,286
Workforce investment	8,771	4,980	3,791
Gifted and talented	170,745	156,222	14,523
Drug abuse grant	11,602	11,451	151
State technology grant	254,985	83,430	171,555
Title II	9,269	9,428	(159)
Technology literacy challenge	72,288	71,062	1,226
Total state and federal programs	915,055	696,245	218,810
Total school operating fund expenditures	\$ 15,746,415	\$ 15,319,617	\$ 426,798

CITY OF POQUOSON, VIRGINIA**COMPUTATION OF LEGAL DEBT MARGIN**

Year Ended June 30, 2002

Total assessed value of taxed real property

General	\$ 732,405,108
Public service corporations	<u>16,616,189</u>
Total	\$ 749,021,297

Debt limit (10% of total assessed value)	\$ 74,902,130
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Debt applicable to debt limit

General obligation bonds, other than those authorized for a specific revenue producing project	8,455,597
State literary fund loans	<u>5,690,374</u>
	<u>14,145,971</u>

Margin for additional borrowing	\$ 60,756,159
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CITY OF POQUOSON, VIRGINIA**GENERAL GOVERNMENTAL REVENUE BY SOURCE (ALL GOVERNMENTAL FUND TYPES)****LAST TEN FISCAL YEARS - UNAUDITED****Years Ended June 30,**

<u>Fiscal Year</u>	<u>General Property Taxes</u>	<u>Other Local Taxes</u>	<u>Permits, Privilage Fees, and Regulatory Licenses</u>	<u>Fines and Forfeitures</u>	<u>Revenues From Use of Money and Property</u>	<u>Charges for Services</u>	<u>Miscel-laneous</u>	<u>Recovered Costs</u>	<u>Inter-governmental</u>	<u>Total</u>
2002	\$ 9,716,038	\$ 2,402,784	\$ 144,907	\$ 22,596	\$ 121,081	\$ 337,227	\$ 188,861	\$ -	\$ 12,753,829	\$ 25,687,323
2001	\$ 9,921,498	\$ 1,984,354	\$ 108,412	\$ 25,448	\$ 226,684	\$ 355,996	\$ 162,936	\$ -	\$ 11,998,083	\$ 24,783,411
2000	\$ 9,247,685	\$ 1,890,427	\$ 100,194	\$ 35,957	\$ 208,774	\$ 359,386	\$ 151,675	\$ -	\$ 10,950,626	\$ 22,944,724
1999	\$ 9,364,276	\$ 1,825,575	\$ 107,561	\$ 36,062	\$ 307,428	\$ 239,137	\$ 168,112	\$ -	\$ 9,831,553	\$ 21,879,704
1998	\$ 8,995,589	\$ 1,671,810	\$ 94,133	\$ 23,081	\$ 408,521	\$ 285,782	\$ 137,800	\$ -	\$ 8,794,214	\$ 20,410,930
1997	\$ 8,850,776	\$ 1,632,564	\$ 86,424	\$ 37,324	\$ 311,902	\$ 285,666	\$ 176,700	\$ -	\$ 8,549,493	\$ 19,930,849
1996	\$ 8,216,988	\$ 1,568,265	\$ 86,190	\$ 28,645	\$ 344,660	\$ 284,952	\$ 108,003	\$ -	\$ 8,031,850	\$ 18,669,553
1995	\$ 8,089,248	\$ 1,476,909	\$ 99,207	\$ 36,579	\$ 352,718	\$ 292,440	\$ 115,006	\$ 6,445	\$ 8,050,648	\$ 18,519,200
1994	\$ 7,041,541	\$ 1,274,871	\$ 85,736	\$ 20,057	\$ 83,974	\$ 354,996	\$ 129,471	\$ 14,078	\$ 7,975,631	\$ 16,980,355
1993	\$ 7,075,565	\$ 1,188,590	\$ 69,006	\$ 23,169	\$ 90,270	\$ 334,433	\$ 148,847	\$ 10,722	\$ 7,401,981	\$ 16,342,583

Note: Amounts include all general, special revenue, debt service and capital projects funds. (Beginning in 1994, the special revenue funds, while included here, are also reported in the Component Unit section of the City's general-purpose financial statements).

CITY OF POQUOSON, VIRGINIA

GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION (ALL GOVERNMENTAL FUND TYPES)

LAST TEN FISCAL YEARS - UNAUDITED

Years Ended June 30,											
Fiscal Year	General Governmental Administration	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation and Cultural	Community Development	Non-Departmental	Capital Outlay	Debt Service	Total
2002	\$ 1,257,684	\$ 3,284,029	\$ 1,025,194	\$ 447,294	\$ 15,559,173	\$ 720,466	\$ 449,777	\$ 42,271	\$ 1,282,450	\$ 1,597,319	\$25,665,657
2001	\$ 1,172,028	\$3,092,622	\$ 889,179	\$464,380	\$ 15,100,371	\$730,150	\$258,403	\$35,366	\$ 1,567,339	\$ 2,160,329	\$25,470,167
2000	\$ 1,149,086	\$2,943,894	\$ 983,878	\$448,376	\$ 14,149,699	\$663,220	\$262,813	\$44,668	\$ 1,471,535	\$ 1,479,556	\$23,596,725
1999	\$ 1,059,566	\$2,708,722	\$ 868,873	\$440,107	\$ 13,244,386	\$637,317	\$244,481	\$45,541	\$ 3,898,984	\$ 1,428,956	\$24,576,933
1998	\$ 993,642	\$2,426,352	\$ 824,541	\$508,481	\$ 12,347,618	\$578,141	\$190,300	\$31,250	\$ 4,832,525	\$ 1,031,993	\$23,764,843
1997	\$ 906,797	\$2,269,253	\$ 850,212	\$416,236	\$ 11,985,078	\$527,120	\$158,661	\$35,630	\$ 5,299,946	\$ 1,039,044	\$23,487,977
1996	\$ 1,072,473	\$2,090,540	\$ 718,852	\$336,066	\$ 11,559,038	\$463,106	\$152,679	\$45,005	\$ 1,755,324	\$ 964,882	\$19,157,965
1995	\$ 973,735	\$1,914,373	\$ 723,404	\$394,437	\$ 10,838,127	\$438,282	\$182,145	\$45,245	\$ 1,737,494	\$ 1,100,303	\$18,347,545
1994	\$ 953,180	\$1,849,531	\$ 707,658	\$322,323	\$ 10,584,874	\$400,280	\$150,534	\$24,936	\$ 1,594,625	\$ 814,821	\$17,402,762
1993	\$ 876,683	\$1,785,494	\$ 677,972	\$249,439	\$ 9,879,115	\$377,761	\$192,136	\$34,850	\$ 342,339	\$ 818,036	\$15,233,825

Note: Amounts include all general, special revenue, debt service and capital projects funds. (Beginning in 1994, the special revenue funds, while included here, are also reported in the Component Unit section of the City's general-purpose financial statements.)

CITY OF POQUOSON, VIRGINIA**PROPERTY TAX LEVIES AND COLLECTIONS****LAST TEN FISCAL YEARS - UNAUDITED****Years Ended June 30,**

Fiscal Year	Total Tax Levy (1)	Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1) (2)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (1)	Percent of Delinquent Taxes to Tax Levy
2002	\$9,513,341	\$9,279,055	97.54%	\$240,308	\$9,519,363	100.06%	\$358,397	3.77%
2001	\$9,554,596	\$9,232,273	96.63%	\$223,297	\$9,455,570	98.96%	\$282,512	2.96%
2000	\$9,287,339	\$8,985,622	96.75%	\$140,085	\$9,125,707	98.26%	\$161,632	1.74%
1999	\$9,447,775	\$8,979,383	95.04%	\$285,420	\$9,264,803	98.06%	\$182,972	1.94%
1998	\$8,913,085	\$8,511,426	95.49%	\$329,808	\$8,841,234	99.19%	\$71,851	0.81%
1997	\$8,932,859	\$8,536,177	95.56%	\$333,993	\$8,870,170	99.30%	\$62,689	0.70%
1996	\$8,369,492	\$8,093,042	96.70%	\$138,023	\$8,231,065	98.35%	\$138,427	1.65%
1995	\$8,089,471	\$7,609,147	94.06%	\$349,772	\$7,958,919	98.39%	\$130,552	1.61%
1994	\$7,132,498	\$6,631,907	92.98%	\$311,021	\$6,942,928	97.34%	\$189,570	2.66%
1993	\$7,372,939	\$6,821,287	92.52%	\$147,448	\$6,968,735	94.52%	\$404,204	5.48%

(1) Exclusive of penalties and interest

(2) Does not include land redemption

CITY OF POQUOSON, VIRGINIA**ASSESSED VALUE OF TAXABLE PROPERTY****LAST TEN FISCAL YEARS - UNAUDITED****Years Ended June 30,**

<u>Fiscal Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Public Utility Real Property</u>	<u>Total</u>
2002	\$732,405,108	\$81,396,248	\$16,616,189	\$830,417,545
2001	\$721,546,098	\$78,188,175	\$ 15,164,288	\$814,898,561
2000	\$647,091,321	\$71,338,462	\$ 14,038,764	\$732,468,547
1999	\$634,147,446	\$67,301,706	\$ 12,506,485	\$713,955,637
1998	\$586,329,508	\$60,695,776	\$ 11,986,052	\$659,011,336
1997	\$573,426,552	\$56,676,120	\$ 11,059,900	\$641,162,572
1996	\$526,576,600	\$54,717,549	\$ 10,941,642	\$592,235,791
1995	\$519,553,565	\$49,737,967	\$ 10,029,639	\$579,321,171
1994	\$479,545,983	\$44,305,479	\$ 9,913,738	\$533,765,200
1993	\$474,783,691	\$38,031,244	\$ 9,348,821	\$522,163,756

CITY OF POQUOSON, VIRGINIA**PROPERTY TAX RATES (PER \$100 OF ASSESSED VALUE)****LAST TEN FISCAL YEARS - UNAUDITED****Years Ended June 30,**

<u>Fiscal Year</u>	<u>Real Estate</u>	<u>Personal Property</u>	<u>Mobile Homes</u>	<u>Recreational Vehicles</u>	<u>Boats</u>
2002	\$1.12	\$3.85	\$1.12	\$1.50	\$1.50
2001	\$1.12	\$3.85	\$1.12	\$1.50	\$1.50
2000	\$1.12	\$3.85	\$1.12	\$1.50	\$1.50
1999	\$1.12	\$3.85	\$1.12	\$1.50	\$1.50
1998	\$1.12	\$3.85	\$1.12	\$1.50	\$1.50
1997	\$1.12	\$ 4.50/3.85 (1)	\$1.12	\$1.50	\$1.50
1996	\$1.12	\$4.50	\$1.12	\$ 4.50/1.50 (2)	\$1.50
1995	\$1.12	\$4.50	\$1.12	\$4.50	\$1.50
1994	\$1.07	\$4.50	\$1.07	\$4.50	\$1.50
1993	\$1.02	\$4.50	\$1.02	\$4.50	\$1.50

(1) The property tax rate for personal property decreased January 1, 1997.

(2) The property tax rate for recreational vehicles decreased January 1, 1996.

CITY OF POQUOSON, VIRGINIA**RATIO OF NET GENERAL OBLIGATION DEBT TO ASSESSED VALUE AND****NET BONDED DEBT PER CAPITA****LAST TEN FISCAL YEARS - UNAUDITED****Years Ended June 30,**

<u>Fiscal Year</u>	<u>Population</u>	<u>Assessed Value</u>	<u>Net Bonded Debt (3)</u>	<u>Ratio of Net Bonded Debt to Assessed Value</u>	<u>Net Bonded Debt per Capita</u>
2002	11,566 (1)	\$830,417,545	\$ 14,145,971	1.70%	\$ 1,223
2001	11,566 (1)	\$814,898,561	\$ 14,536,070	1.78%	\$ 1,257
2000	11,566 (1)	\$732,468,547	\$ 13,818,890	1.89%	\$ 1,195
1999	11,005 (2)	\$713,955,637	\$ 14,631,049	2.05%	\$ 1,329
1998	11,005 (2)	\$659,011,336	\$ 14,758,832	2.24%	\$ 1,341
1997	11,005 (2)	\$641,162,572	\$ 15,244,732	2.38%	\$ 1,385
1996	11,005 (2)	\$592,235,791	\$ 8,389,503	1.42%	\$ 762
1995	11,005 (2)	\$579,321,171	\$ 8,864,126	1.53%	\$ 805
1994	11,005 (2)	\$533,765,200	\$ 9,687,840	1.82%	\$ 880
1993	11,005 (2)	\$522,163,756	\$ 4,817,481	0.92%	\$ 438

(1) Source: 2000 United States Census

(2) Source: 1990 United States Census

(3) Does not include Enterprise and Internal Service general obligation debt, which are retired through revenues of the related operations.

CITY OF POQUOSON, VIRGINIA**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES****LAST TEN FISCAL YEARS - UNAUDITED****Years Ended June 30,**

<u>Fiscal Year</u>	<u>Expenditures - All Governmental Fund Types</u>	<u>Total Debt Service (1)</u>	<u>Percentage of Debt Service to Expenditures</u>
2002	\$25,694,559	\$ 1,597,319	6.22%
2001	\$25,470,167	\$ 2,160,329	8.48%
2000	\$23,596,725	\$ 1,479,556	6.27%
1999	\$24,576,933	\$ 1,428,956	5.81%
1998	\$23,764,843	\$ 1,031,993	4.34%
1997	\$23,487,977	\$ 1,039,044	4.42%
1996	\$19,157,965	\$ 964,882	5.04%
1995	\$18,347,545	\$ 1,100,303	6.00%
1994	\$17,402,762	\$ 814,821	4.68%
1993	\$15,233,825	\$ 818,036	5.37%

(1) Includes debt service for all governmental fund types.

CITY OF POQUOSON, VIRGINIA**DEMOGRAPHIC STATISTICS****LAST TEN FISCAL YEARS - UNAUDITED****Years Ended June 30,**

<u>Fiscal Year</u>	<u>Population</u>	<u>Per Capita Income (3)</u>	<u>School Enrollment (4)</u>	<u>Unemployment Rate (5)</u>
2002	11,566(1)	Not Available	2,492	Not Available
2001	11,566(1)	Not Available	2,483	2.3%
2000	11,566(1)	\$28,927	2,474	1.7%
1999	11,005(2)	\$27,226	2,485	2.2%
1998	11,005(2)	\$25,817	2,481	2.2%
1997	11,005(2)	\$24,597	2,524	3.1%
1996	11,005(2)	\$23,140	2,445	3.0%
1995	11,005(2)	\$22,588	2,460	3.0%
1994	11,005(2)	\$22,903	2,320	3.3%
1993	11,005(2)	\$22,860	2,395	3.1%

(1) Source: 2000 United States Census

(2) Source: 1990 United States Census

(3) Source: Weldon Cooper Center for Public Service combined amount for York County/Poquoson.

(4) Source: Poquoson School Board. Data is September enrollment for each fiscal year.

(5) Source: Weldon Cooper Center for Public Service

CITY OF POQUOSON, VIRGINIA**PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS****LAST TEN FISCAL YEARS - UNAUDITED**

Years Ended June 30,			
Fiscal Year	Real Property Value (1)	New Construction (2)	Bank Deposits (3)
2002	\$786,475,643	\$ 12,046,500	Not Available
2001	\$773,872,808	\$ 15,661,400	\$46,413,000
2000	\$696,175,556	\$ 13,224,500	\$64,371,000
1999	\$682,115,739	\$ 9,449,000	\$62,356,000
1998	\$621,978,401	\$ 11,287,400	\$71,061,000
1997	\$606,262,395	\$ 8,909,900	\$74,536,000
1996	\$557,804,500	\$ 6,900,200	\$71,754,000
1995	\$548,889,014	\$ 5,542,600	\$72,126,000
1994	\$507,703,857	\$ 5,417,900	\$66,964,000
1993	\$502,027,096	\$ 4,054,000	\$66,263,000

(1) Real property valuation of total taxable and tax exempt property.

(2) Source: City Assessor, City of Poquoson,

(3) Source: Center for Public Service, University of Virginia, (1993-1994); Federal Reserve Bank, Richmond (1995-2001).

CITY OF POQUOSON, VIRGINIA**PRINCIPAL TAXPAYERS****2002 ASSESSED VALUES - UNAUDITED****Year Ended June 30, 2002**

<u>Taxpayer</u>	<u>Assessed Value</u>	<u>Percentage of Total Real Estate Assessment</u>
Poquoson Place Apartments	\$ 6,796,800	0.91 %
Bristol-Cardiff	5,622,700	0.75
Suburban Land Company	3,775,200	0.50
WCP, L.L.P.	3,660,800	0.49
Islander Associates	2,502,400	0.33
Universal of Poquoson	2,241,200	0.30
Vantage Healthcare Corporation	2,092,100	0.28
Carematrix of Dominion Village	1,801,800	0.24
Wachovia Bank	1,664,100	0.22
Langley Federal Credit Union	<u>1,367,700</u>	<u>0.18</u>
	<u>\$ 31,524,800</u>	<u>4.20 %</u>

**GENERAL INFORMATION AND MISCELLANEOUS STATISTICS
(UNAUDITED)**

June 30, 2002

1. *A Short History of Poquoson*

“Poquoson” is an Indian word for low, flat land. The City is believed to be one of the older English-speaking American settlements that still bears its original name.

Settlement of the Poquoson area was opened in 1628 by order of the Council of State at Jamestown. Many of the early settlers were plantation owners who, with their tenants and apprentices, originally lived south of the Back River. The Great Marsh and Messick Point were important shipping points as early as 1635 for tobacco and other products from the plantations.

After the Revolutionary War, the larger colonial plantations were divided and sold as smaller farms because they were no longer able to survive financially. Many of the people buying the farms were Methodists from Baltimore and the Eastern Shore. Methodism is a prevailing denomination in the City today.

Poquoson remained a “backwater” farming and fishing community. While there was extensive Civil War action on the Peninsula, there was no known war activity in Poquoson. However, many citizens fought for the Confederacy.

Poquoson's rural lifestyle began to change during World War I with the construction of Langley Field. Rapid changes and population growth occurred in the years following World War II. Farming and fishing quickly gave way to suburbanization.

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 officers and functions continue to be shared with York County.

2. *Form of Government*

Poquoson is organized under the Council-Manager form of government. The Poquoson City Council is composed of seven members who are elected by the voters and serve four-year terms. The City is divided into three precincts. Each precinct is entitled to two representatives. One representative is elected at large and he is the City Mayor. Persons elected to City Council take office on the first day of July 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 and various local boards, commissions and committees. The City Manager acts as Chief Executive and Administrative Officer of the City. He serves at the pleasure of Council, carries out its policies, directs business procedures and has the power of appointment and removal of the heads of all departments (except Constitutional officers) as well as all other employees of the City.

**GENERAL INFORMATION AND MISCELLANEOUS STATISTICS
(UNAUDITED)**

June 30, 2002

3. *Fiscal Year*

The fiscal year begins July 1, and ends the following June 30.

4. *Assessments*

Real estate is assessed biennially at "fair market value" by the City Assessor. This value is currently estimated to be 96% of actual value.

5. *Taxes Due*

Real estate taxes are assessed as of the first day of July. Real estate and personal property taxes are payable in two installments each year on December 5 and June 5. If paid after the due date, a penalty of \$10 or 10%, whichever is greater, is added. The penalty may not exceed the tax due. Interest at the rate of 10% per annum accrues on all delinquent taxes beginning on the first day following the due date. The interest may not exceed the tax due.

6. *Overlapping Debt*

The City of Poquoson is autonomous and entirely independent of any other political subdivision of the Commonwealth, being a separate and distinct political unit. It has no overlapping debt with other political units.

7. *Land Area*

	Acres	Square Miles
Non-wetlands	4,997	7.5
Wetlands	4,398	7.2
Totals	9,395	14.7

8. *Miles of Roadway*

	Miles
Secondary	46.75

9. *Population*

1960 U. S. Census Count	4,278
1970 U. S. Census Count	5,441
1980 U. S. Census Count	8,726
1990 U. S. Census Count	11,005
2000 U. S. Census Count	11,566

**GENERAL INFORMATION AND MISCELLANEOUS STATISTICS
(UNAUDITED)**

June 30, 2002

10. Education

	<u>Number of Schools</u>	<u>Average Daily Enrollment (Students)</u>
Primary	1	455
Elementary	1	574
Middle	1	625
High	1	838

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**Year Ended June 30, 2002**

	<u>Federal Catalogue Number</u>	<u>Federal Expenditures</u>
Federal granting agency/recipient state agency/grant		
Program/grant number		
U. S. Department of Agriculture:		
Pass through payments:		
Department of Education:		
National School Lunch Program	10.555	\$ 53,310
State Department of Agriculture and Consumer Services:		
National School Lunch Program:		
USDA donated commodities	10.555	31,802
U. S. Department of Defense:		
Direct payments:		
E-rate	12.000	16,457
U. S. Department of the Interior:		
Direct payments:		
Wildlife Restoration	15.611	5,683
U. S. Department of Justice:		
Direct payments:		
Law Enforcement Grant	16.000	1,985
Drug Seizure-Treasury	16.000	2,724
Public Safety Partnership and Community Policing Grants	16.710	51,688
Department of Labor:		
Pass through payments:		
Commonwealth of Virginia, Office of the		
Virginia Business Partnership:		
School to Work Transition Program	17.249	19,959
New Horizons:		
WIA Youth Activities	17.259	5,000
U.S. Department of Transportation:		
Pass through payments:		
Department of Motor Vehicles:		
Alcohol Traffic Safety and Drunk Driving Prevention Incentive	20.601	7,471
Institute of Museum & Library Services:		
Pass through payments:		
State Library Program	45.310	10,500

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**Year Ended June 30, 2002**

Federal granting agency/recipient state agency/grant Program/grant number (Continued)	Federal Catalogue Number	Federal Expenditures
Department of Education:		
Direct payments:		
Impact Aid	84.041	* 152,644
Pass through payments:		
Virginia Department of Education:		
Adult education	84.002	8,135
Education Consolidation and Improvements Act of 1981:		
Title I - Grants to local educational agencies	84.010	* 90,655
Title VI:		
Innovative Education Program Strategies	84.298	9,404
Elementary and Secondary Education Act (ESEA):		
Title VI-B:		
Assistance to states for education of handicapped children:		
Special Education Grants	84.027	277,355
Special Education Preschool Grants	84.173	3,794
Vocational education	84.048	17,656
State and Drug-free Schools and Communities	84.186	10,586
Technology Literacy Challenge Grant	84.318	72,249
Eisenhower Professional Development	84.281	1,158
Class size reduction	84.340	<u>30,747</u>
		<u>\$ 880,962</u>

* Represents a major program of the City of Poquoson.

CITY OF POQUOSON, VIRGINIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2002

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 general-purpose 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

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2002, the food service organization had food commodities totaling \$4,583 in inventory.

* * * * *



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and City Council
City of Poquoson, Virginia

We have audited the financial statements of the **City of Poquoson, Virginia**, as of and for the year ended June 30, 2002, and have issued our report thereon dated September 30, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

Goodman & Company

Newport News, Virginia
September 30, 2002

Fountain Plaza One, 701 Town Center Drive, Suite 700, Newport News, VA 23606-4295

ph: 757.873.1033 fax: 757.873.1106 www.goodmanco.com

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and City Council
City of Poquoson, Virginia

Compliance

We have audited the compliance of the ***City of Poquoson, Virginia*** (the "City") with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants, applicable to each of its major federal programs, is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

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

*Fountain Plaza One, 701 Town Center Drive, Suite 700, Newport News, VA 23606-4295
ph: 757.873.1033 fax: 757.873.1106 www.goodmanco.com*

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be a material weakness.

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

Goodman & Company

Newport News, Virginia
September 30, 2002



REPORT ON COMPLIANCE WITH COMMONWEALTH OF VIRGINIA LAWS, REGULATIONS, CONTRACTS, AND GRANTS

Honorable Mayor and City Council
City of Poquoson, Virginia

We have audited the general-purpose financial statements of the **City of Poquoson, Virginia** (the "City"), as of and for the year ended June 30, 2002, and have issued our report thereon dated September 30, 2002.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement.

Compliance with Commonwealth of Virginia laws, regulations, contracts, and grants applicable to the **City of Poquoson, Virginia**, is the responsibility of the City's management. As part of obtaining reasonable assurance about whether the general-purpose financial statements are free of material misstatement, we performed tests of the **City of Poquoson, Virginia's** compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts, and grants. (However, the objective of our audit of the general-purpose financial statements was not to provide an opinion on overall compliance with such provisions.) Accordingly, we do not express such an opinion.

Following is a summary of the Commonwealth of Virginia's laws, regulations, contracts, and grants for which we performed tests of compliance:

Code of Virginia

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

State Agency Requirements

- Education
- Comprehensive Services Act
- Highway Maintenance Funds

*Fountain Plaza One, 701 Town Center Drive, Suite 700, Newport News, VA 23606-4295
ph: 757.873.1033 fax: 757.873.1106 www.goodmanco.com*

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The results of our tests disclosed no instances of noncompliance with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the **City of Poquoson, Virginia**, had not complied, in all material respects, with those provisions.

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

Woodman & Company

Newport News, Virginia
September 30, 2002

CITY OF POQUOSON, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2002

1. SUMMARY OF AUDITORS' RESULTS

- a. An unqualified opinion was issued on the general-purpose financial statements.
- b. There were no reportable conditions noted in internal control to disclose.
- c. The audit did not disclose any material noncompliance.
- d. There were no reportable conditions noted in internal control over major programs to disclose.
- e. An unqualified opinion was issued on compliance for major programs.
- f. The audit disclosed no audit findings required to be reported.
- g. The major programs are:
 - i) Educationally Deprived Children (Title I) (CFDA No.84.010)
 - ii) Impact Aid (CFDA No. 84.041)
- h. The dollar threshold used to distinguish between Type A and Type B programs is \$300,000.
- i. The City of Poquoson was determined to be a low-risk auditee.

B. FINDINGS RELATING TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENTAL AUDITING STANDARDS.

None

C. FINDINGS AND QUESTIONED COSTS - FEDERAL PROGRAMS

None

D. FINDINGS AND QUESTIONED COSTS - STATE PROGRAMS

None

E. RESOLUTION OF PRIOR YEAR AUDIT FINDINGS

There were no audit findings for the year ended June 30, 2001.

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