

# City of Poquoson Virginia

Comprehensive Annual Financial Report  
Fiscal Year July 1, 2003 - June 30, 2004

***Comprehensive Annual  
Financial Report***

***City of Poquoson, Virginia***



***Fiscal Year Ended June 30, 2004***

***Prepared by:***

***The Department of Finance***

***Pamela A. Moon, CPA, Director***



## ***City of Poquoson, Virginia***

### **City Council**

Gordon C. Helsel, Jr., Mayor  
Arthur V. Holloway, Jr., Vice Mayor  
Herbert R. Green, Jr.  
Carey L. Freeman  
W. Eugene Hunt, Jr.  
Frank A. Kreiger  
Debra D. Bunting

### **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

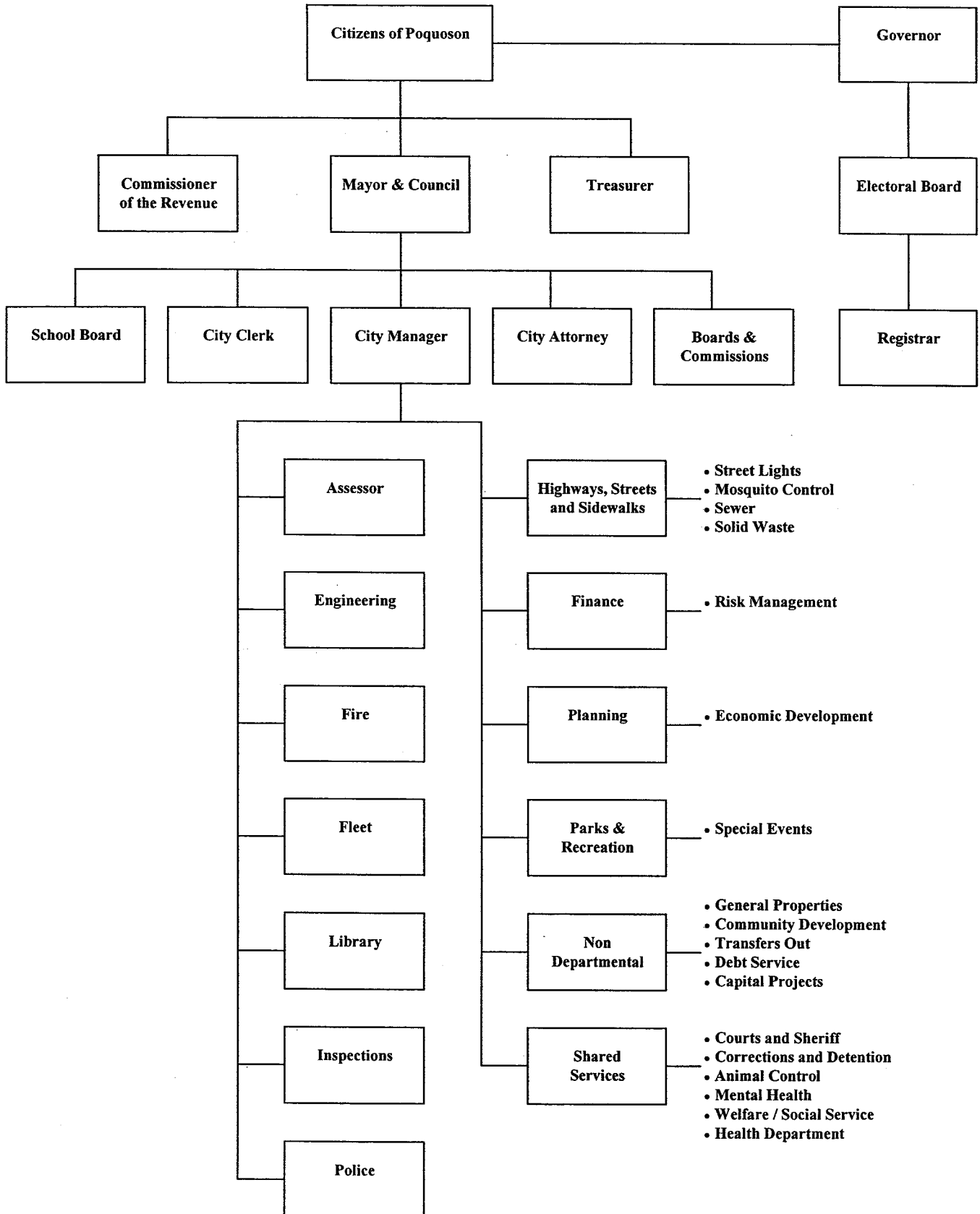
### **School Board**

Charles L. French, Chairman  
Larry E. Marks, Vice Chairman  
Deborah Ann Banton  
Clifford T. Bowen  
John A. Costulis  
Kerry Y. Knowlton  
Regina P. Wightman

### **School Officials**

Dr. Jonathan L. Lewis, Superintendent  
Dr. Marilyn F. Barr, Assistant Superintendent of Instructions  
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, 2003

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



*Nancy L. Ziehl*

President

*Jeffrey R. Emswiler*

Executive Director

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**City of Poquoson, Virginia**  
**Comprehensive Annual Financial Report**  
**Fiscal Year Ended June 30, 2004**

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# CITY OF POQUOSON

FINANCE DEPARTMENT

500 CITY HALL AVENUE, POQUOSON, VIRGINIA 23662-1996  
(757) 868-3030 TELEPHONE (757) 868-3101 FAX

November 19, 2004

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

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, 2004. An audited annual financial 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.

This report consists of management's representations concerning the finances of the City of Poquoson. Consequently, management assumes full responsibility for both the accuracy of the data, the completeness and fairness of the presentation, and all disclosures. To provide a reasonable basis for making these representations, management of the City of Poquoson has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Poquoson's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City of Poquoson's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements are free from material misstatement. As management, we assert that, 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 and the component units of the City of Poquoson.

The City of Poquoson's financial statements have been audited by Goodman & Company, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Poquoson for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Poquoson's financial statements for the fiscal year ended June 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented on page 1 of this report.

The independent audit of the financial statements of the City of Poquoson was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies and a state compliance audit. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. The Commonwealth of Virginia also has audit requirements on compliance with specific Commonwealth of Virginia laws, regulations, contracts, and grants. The compliance section of the report starts on page 82.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Poquoson's MD&A can be found immediately following the report of the independent auditors starting on page 3.

### **Profile of the City of Poquoson**

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

The City is 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 City of Poquoson occupies a land area of 14.7 square miles, and serves an estimated population of 12,076.

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

The City Council is the policy determining body of the City. Its responsibilities include: adoption of the City budget; creation, combination or elimination of City departments; approval of all tax levies; approval of amendments, supplements or repeals to ordinances and the City Code; and appointment of the City Manager, City Clerk, City Attorney and various local boards, commissions and committees. The 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 funding. The City must provide all capital improvement funds, pay debt on school projects and provide any additional operating funds required, but not provided by the State Education Board. The City Council's authority is limited to appointing local school board members and appropriating funds by state-established categories. Local school boards do not have taxing or bond issuance authority.

The City of Poquoson provides a full range of services, including police and fire protection; the maintenance of highways, streets, and other infrastructure; and recreational activities, library services, community development activities, and cultural events. The City also owns and operates sewage facilities; picks up trash, recycling, landscaping and bulky items; owns and operates a City pool; and manages various paid recreational activities. In addition to general governing activities, the governing body has significant financial influence over the Schools and the Industrial Development Authority (IDA); both of which are reported separately within the City of Poquoson's financial statements. Additional information on these two legally separate entities can be found in Note 1 in the notes to basic financial statements starting on page 31.

The annual budget serves as the foundation for the City of Poquoson's financial planning and control. All agencies and departments of the City of Poquoson are required to submit requests for appropriation to the City Manager in January. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager presents a proposed budget to City Council for review in April. The Council is required to hold public hearings on the proposed budget and must adopt a final budget by no later than May 31. The appropriated budget is prepared by fund and department. Department heads may make transfers of appropriations within a department. Transfers of appropriations between departments and additional appropriations require the special approval of City Council. The City also maintains an encumbrance accounting system as one method of maintaining budgetary control. Encumbrances are included as budgetary expenditures and therefore do not lapse after year-end. The budget-to-actual comparison for the General Fund starts on page 56 of the report.

### **Factors Affecting Financial Condition**

**Hurricane Isabel.** In September 2003, more than 50% of the City suffered from flooding and wind damage from Hurricane Isabel. Flood waters covered 75% of the City and caused substantial property damage to many of our citizens' property. Much effort was put into recovery, rebuilding, and replacing assets held in the City. The effects of the hurricane are discussed in more detail in the Management Discussion and Analysis, and are reflected as extraordinary items in the financial statements.

**Local Economy.** General factors affecting the local economy in calendar year 2003 help give a broader perspective of the specific environment within which the City of Poquoson operates.

The City of Poquoson currently has a favorable economic environment and local indicators point to continued stability. While the City of Poquoson's tax base is challenged by few commercial enterprises, Poquoson's close proximity to other cities provides citizens shopping, jobs, and cultural events. The median household income was \$63,329 in 2000 (latest available data). Hampton Roads economy is strong and has a low unemployment rate. In 2002 (latest available data), Poquoson had a 2.8% unemployment rate as compared to a state-wide rate of 4.1% and a national average of 6.0%.

The 2000 census population of 11,566 reflects growth of 5% since the 1990 census. The Planning Department estimates Poquoson's population to be 12,076 in 2003.

The 2003 taxable sales of \$37,968,681 were up 0.4% from the 2002 level.

**Tax Base.** Poquoson is primarily residential in nature and the lack of a strong commercial base in the City places a much higher burden on residents to fund the services of the City compared to neighboring cities who use business tax revenue to fund part of the locality's services. The City's largest source of revenue comes from the real estate tax. The City's tax rate of \$1.12 per \$100 of assessed value has not increased since FY 1995, but the City 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, increased by 28.8%. Many properties in the City enjoy waterfront views and access to water and the growth in assessments in these properties have outpaced other properties.

**Long-Term Financial Planning.** In response to Hurricane Isabel, the City submitted a FEMA mitigation grant to see if assistance could be received to help citizens raise their homes to prevent future flooding. The City will be required to provide a 5% match for the private assistance grants. A number of City and School properties were also flooded. The City is researching ways to

mitigate future flooding of City and School properties as damaged City and School properties are rebuilt. A combination of insurance proceeds, Federal Emergency Management Agency (FEMA), State funds, and City funds will address the rebuilding of damaged properties.

The City continues to make improvements to the Messick Point Area. In recent years the channel was dredged and much of the debris that was in the water was cleaned out. In FY 2004, the City completed improvements of the boat launch area and finger piers. The Industrial Development Authority (IDA) has purchased several lots in the Messick area and has had an architectural firm lay out a conceptual plan for development. In FY 2005 the City plans to improve and add parking spaces in the area and to build a public pier. The IDA plans to pursue multi-use zoning in the area and solicitation of a development company.

The School Board has hired an architect to design a new Poquoson Elementary School. The present school built in 1952, contains many serious building deficiencies, and fails to meet current education program needs. The cost is expected to be between \$13,000,000 and \$15,000,000, depending on the scope of the project. The City will need to issue debt to pay for the new school building.

**Cash Management Policies and Practices.** 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 system (a 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 City recorded an unrealized market value loss in the City's investments for fiscal year 2004, which was greater than investment earnings. The City plans on holding investments until maturity and expects positive earnings in the long-run. The City also has restricted cash and investments that are monitored by the Finance Department and used for the payment of sewer bond projects. At June 30, 2004, the various cash balances included cash on hand, investments, cash on deposit in banks, and restricted cash in the amount of \$4,925,806 for the City and \$2,146,963 for the Schools.

**Risk Management.** The City maintains liability and property 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. In response to the flood damage incurred by Hurricane Isabel in September 2003, the City increased the number of buildings that have flood insurance coverage. The City also formed a Safety Committee in FY 2004 in an attempt to decrease worker's compensation claims.

**Pension Benefits.** The City and Schools contribute 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. For more information on the defined benefit retirement plan, see page 54 of the notes to the basic financial statements and Exhibit M on page 60.

**Awards and Acknowledgements.** The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Poquoson for its comprehensive annual financial report for the fiscal year ended June 30, 2003. This was the seventeenth consecutive year that the government has received the prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily

readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both 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.

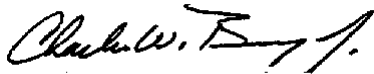
The City also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget for FY 2005. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories including policy documentation, financial planning and organization.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department, the School Board Finance Department, the Treasurer's Office and our Certified Public Accountants, Goodman & Company, LLP. Credit is also 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,

Handwritten signature of Pamela A. Moon in cursive script.

Pamela A. Moon, CPA  
Director of Finance

Handwritten signature of Charles W. Burgess, Jr. in cursive script.

Charles W. Burgess, Jr.  
City Manager

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## *Report of Independent Auditors*

Certified Public Accountants  
Financial Planning  
Specialized Services

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Poquoson, Virginia* (City), as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the *City of Poquoson'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 and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Poquoson, Virginia* as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2004, on our consideration of the *City of Poquoson's* internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of the report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. 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 assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 17 and the other required supplementary information included at pages 56 through 61 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

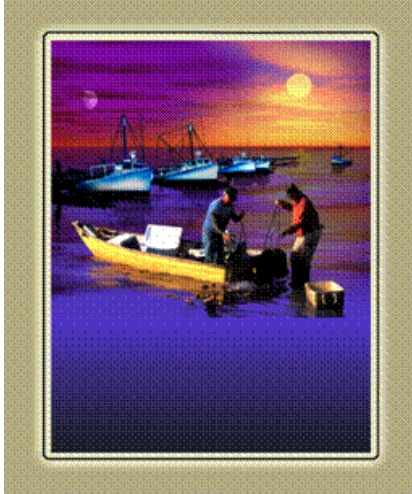
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The information listed as other supplementary information and compliance section information in the accompanying table of contents, including the schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The information included in the introductory and statistical sections listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Goodman & Company*

Newport News, Virginia  
November 9, 2004



## **City of Poquoson, Virginia**

**500 City Hall Avenue  
Poquoson, Virginia 23662**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### **Financial Highlights**

#### **Overview of the Financial Statements**

#### **Government-Wide Financial Analysis**

#### **Financial Analysis of the Government's Funds**

#### **General Fund Budgetary Highlights**

#### **Capital Asset and Debt Administration**

#### **Economic Factors and Next Year's Budgets and Rates**

#### **Requests for Information**

## **Management's Discussion and Analysis**

**Fiscal Year July 1, 2003 — June 30, 2004**

As management of the City of Poquoson, we offer readers of the City of Poquoson's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which can be found on pages vi through x of this report.

### **Financial Highlights**

- The assets of the City of Poquoson exceeded its liabilities as of June 30, 2004 by \$17,716,105 (net assets). Of this amount, \$6,440,952 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$627,479. Most of the increase is attributable to growth in assessments in the residential real estate, which resulted in increased real property taxes; increases in other local taxes due to commercial growth in the City; and scrutiny of City expenditures.
- As of June 30, 2004, the City's governmental funds reported combined ending fund balances of \$5,165,756, of which \$4,015,477 is available to spend at the City's discretion.
- As of June 30, 2004, unreserved fund balance for the General Fund was \$4,015,477, or 19.7% of total General Fund expenditures, and 12.9% of total General Fund and School expenditures (net of transfers).
- The City of Poquoson's total debt outstanding at June 30, 2004 was \$25,424,647, a decrease of \$1,590,796 from the prior year. During the year, the City refunded a general obligation bond issue and paid down debt.

## Overview of the Financial Statements

The Comprehensive Annual Financial Report consists of four (4) sections: the introductory section, the financial section, the statistical section, and the compliance section. This discussion and analysis serves as an introduction to the City of Poquoson's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

With the implementation of Governmental Accounting Standards Board (GASB) Statement No. 34 in FY 2003, the City now presents financial information with two different perspectives. The City continues to present the fund financial statements, which presents fund-type information on a current financial resource basis. With GASB Statement No. 34 the City also presents government-wide financial statements, which provide both long-term and short-term information about the City's overall financial status.

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

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

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

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

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

component units is reported separately from the financial information presented for the primary government itself.

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

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

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

Because the focus of governmental funds does not address the long-term focus of the government-wide financial statements, information is presented at the bottom of governmental funds which reconciles the differences between governmental funds and governmental activities.

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

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

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

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on Exhibits E, F and G of this report.

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

The fiduciary fund statement can be found on Exhibit H and Exhibit I of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31-55 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary and other supplementary information concerning the City of Poquoson including financial information on the School Board component unit. Supplementary information can be found on pages 56-66 of this report.

## Government-Wide Financial Analysis

Summary of Statement of Net Assets  
June 30, 2004

	Governmental Activities		Business-Type Activities		Total	
	FY 2003	FY 2004	FY 2003	FY 2004	FY 2003	FY 2004
Current and other assets	\$ 5,929,816	\$ 6,557,653	\$ 1,898,169	\$ 1,890,421	\$ 7,827,985	\$ 8,448,074
Capital assets	18,350,808	18,296,017	18,426,464	18,316,856	36,777,272	36,612,873
Other noncurrent assets	16,635	15,304	757,356	119,635	773,991	134,939
<b>Total assets</b>	<b>24,297,259</b>	<b>24,868,974</b>	<b>21,081,989</b>	<b>20,326,912</b>	<b>45,379,248</b>	<b>45,195,886</b>
Current and other liabilities	1,954,582	2,672,021	983,996	1,123,269	2,938,578	3,795,290
Long-term liabilities	12,249,312	11,244,581	13,102,732	12,439,910	25,352,044	23,684,491
<b>Total liabilities</b>	<b>14,203,894</b>	<b>13,916,602</b>	<b>14,086,728</b>	<b>13,563,179</b>	<b>28,290,622</b>	<b>27,479,781</b>
Net assets:						
Invested in capital assets, net of related debt	5,133,636	6,042,187	4,693,016	5,161,343	9,826,652	11,203,530
Restricted	-	-	598,114	71,623	598,114	71,623
Unrestricted	4,959,729	4,910,185	1,704,131	1,530,767	6,663,860	6,440,952
<b>Total net assets</b>	<b>\$10,093,365</b>	<b>10,952,372</b>	<b>\$ 6,995,261</b>	<b>6,763,733</b>	<b>\$17,088,626</b>	<b>17,716,105</b>

Net assets serve as a useful indicator of a government's financial position. The City's combined net assets total \$17,716,105, excluding discretely presented component units. By far, the largest portion of this represents investments in capital assets, such as land, buildings, machinery, and equipment. Capital assets net of related debt total \$11,203,530. The City of Poquoson uses these capital assets to provide services to citizens; and thus these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate liabilities. Net assets includes \$71,623 that is restricted for sewer rehabilitation projects. The remaining \$6,440,952 is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

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

**Governmental Activities.** The government's net assets increased by \$627,479 during FY 2004. The governmental activities increased by \$859,007, while the business-type activities decreased by \$231,528. The majority of increases in the governmental activities represents City investments in capital assets.

On September 18, 2003, the City of Poquoson experienced extensive damage from Hurricane Isabel. The majority of damage came in the form of flooding, where the storm surge covered more than half of the City. The flood and wind damage caused extensive damage to both citizens' property and local government property. The City was declared a disaster and the Federal Emergency Management Agency (FEMA) and the Virginia Department of Emergency Management (VDEM) provided assistance for 75% and 17%, respectively, of eligible disaster expenses, leaving the City to fund 8% of eligible costs. All activities that were associated with the recovery from the hurricane have been recorded as an extraordinary item in the Statement of Activities. The City incurred \$2,797,515 in costs for debris cleanup, emergency operations, and repair of damaged government facilities, of which \$2,163,802 was reimbursed by FEMA and Federal Highway Funds, \$475,077 was reimbursed by VDEM, and \$54,379 was received in citizen donations. The School Board component unit also incurred \$475,593 in property damage from the hurricane, with much of this reimbursed by insurance, FEMA, and VDEM.

Summary of Changes in Net Assets  
June 30, 2004

	Governmental Activities		Business-Type Activities		Total	
	FY 2003	FY 2004	FY 2003	FY 2004	FY 2003	FY 2004
Revenues:						
Program revenues:						
Charges for services	\$249,795	\$345,221	\$1,784,117	\$1,866,659	\$2,033,912	\$2,211,880
Operating grants and contributions	1,326,011	1,718,011	-	-	1,326,011	1,718,011
Capital grants and contributions	694,324	193,425	-	-	694,324	193,425
General revenues:						
Real estate and personal property taxes	10,796,813	11,135,298	-	-	10,796,813	11,135,298
Other local taxes	2,442,485	2,524,964	-	-	2,442,485	2,524,964
Reimbursements from other agencies	1,669,092	2,012,657	-	-	1,669,092	2,012,657
Miscellaneous	67,633	83,401	318,936	339,909	386,569	423,310
Unrestricted investment earnings	52,492	-	84,824	39,559	137,316	39,559
<b>Total revenues</b>	<b>17,298,645</b>	<b>18,012,977</b>	<b>2,187,877</b>	<b>2,246,127</b>	<b>19,486,522</b>	<b>20,259,104</b>
Expenses:						
General government	1,401,639	1,449,410	-	-	1,401,639	1,449,410
Judicial	247,161	277,307	-	-	247,161	277,307
Public safety	3,721,021	3,823,700	-	-	3,721,021	3,823,700
Public works	1,472,320	1,659,214	-	-	1,472,320	1,659,214
Health and welfare	605,334	650,092	-	-	605,334	650,092
Education	6,459,434	6,965,522	-	-	6,459,434	6,965,522
Parks, recreation, cultural	775,359	839,537	-	-	775,359	839,537
Community development	514,618	636,477	-	-	514,618	636,477
Interest and fees on long-term debt	561,580	525,850	-	-	561,580	525,850
Nondepartmental	78,826	120,404	-	-	78,826	120,404
Sewer	-	-	1,657,238	1,609,179	1,657,238	1,609,179
Parks and Recreation	-	-	543,327	524,504	543,327	524,504
Solid Waste	-	-	430,223	446,172	430,223	446,172
<b>Total expenses</b>	<b>15,837,292</b>	<b>16,947,513</b>	<b>2,630,788</b>	<b>2,579,855</b>	<b>18,468,080</b>	<b>19,527,368</b>
<b>Change in net assets before transfers</b>	<b>1,461,353</b>	<b>1,065,464</b>	<b>(442,911)</b>	<b>(333,728)</b>	<b>1,018,442</b>	<b>731,736</b>
<b>Transfers</b>	<b>(74,000)</b>	<b>(102,200)</b>	<b>74,000</b>	<b>102,200</b>	<b>-</b>	<b>-</b>
<b>Increase in net assets before extraordinary item</b>	<b>1,387,353</b>	<b>963,264</b>	<b>(368,911)</b>	<b>(231,528)</b>	<b>1,018,442</b>	<b>731,736</b>
Extraordinary item:						
Extraordinary revenues	-	2,797,515	-	-	-	2,797,515
Extraordinary expenses	-	2,901,772	-	-	-	2,901,772
<b>Total extraordinary item</b>	<b>-</b>	<b>(104,257)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(104,257)</b>
<b>Increase in net assets after extraordinary item</b>	<b>1,387,353</b>	<b>859,007</b>	<b>(368,911)</b>	<b>(231,528)</b>	<b>1,018,442</b>	<b>627,479</b>
<b>Net assets, Beginning of Year</b>	<b>8,706,012</b>	<b>10,093,365</b>	<b>7,364,172</b>	<b>6,995,261</b>	<b>16,070,184</b>	<b>17,088,626</b>
<b>Net assets, End of Year</b>	<b>\$10,093,365</b>	<b>\$10,952,372</b>	<b>\$6,995,261</b>	<b>\$6,763,733</b>	<b>\$17,088,626</b>	<b>\$17,716,105</b>

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

	<b>FY 2003</b>	<b>FY 2004</b>
Real estate tax revenue	\$ 9,180,557	\$ 9,277,114
Public service corporation property taxes	145,365	178,613
Personal property taxes	1,322,979	1,538,520
Penalties and interest	147,912	141,051
<b>Total</b>	<b>\$10,796,813</b>	<b>\$ 11,135,298</b>

Real estate revenue increases in FY 2004 were due to growth and new buildings. The Reassessments are completed biennially and FY 2004 was not a reassessment year. The City's real estate property tax assessments were \$814,646,831 and \$832,002,644 for FY 2003 and FY 2004, respectively. The City's real estate tax rate was \$1.12 per \$100 of assessed value in both years. Netted against new tax revenue was \$78,979 in abatement of tax revenues for citizens that incurred substantial damage to their property during the hurricane.

The City's personal property tax assessments were \$90,623,115 and \$124,217,525 for FY 2003 and FY 2004 respectively. The City's personal property tax rate was \$3.85 per \$100 of assessed value for vehicles, \$1.50 per \$100 of assessed value for recreational vehicles and boats, and \$1.12 per \$100 of assessed value for mobile homes. Under the provisions of the Personal Property Tax Relief Act (PPTRA), the State's share of local personal property tax was \$1,630,817 and \$1,677,746 for FY 2003 and FY 2004, respectively, and is classified as reimbursements from other agencies on the Statement of Activities. The increase in personal property tax revenue resulted from vehicles that flooded during the hurricane. Most citizens replaced their damaged vehicles with newer, higher assessed value vehicles.

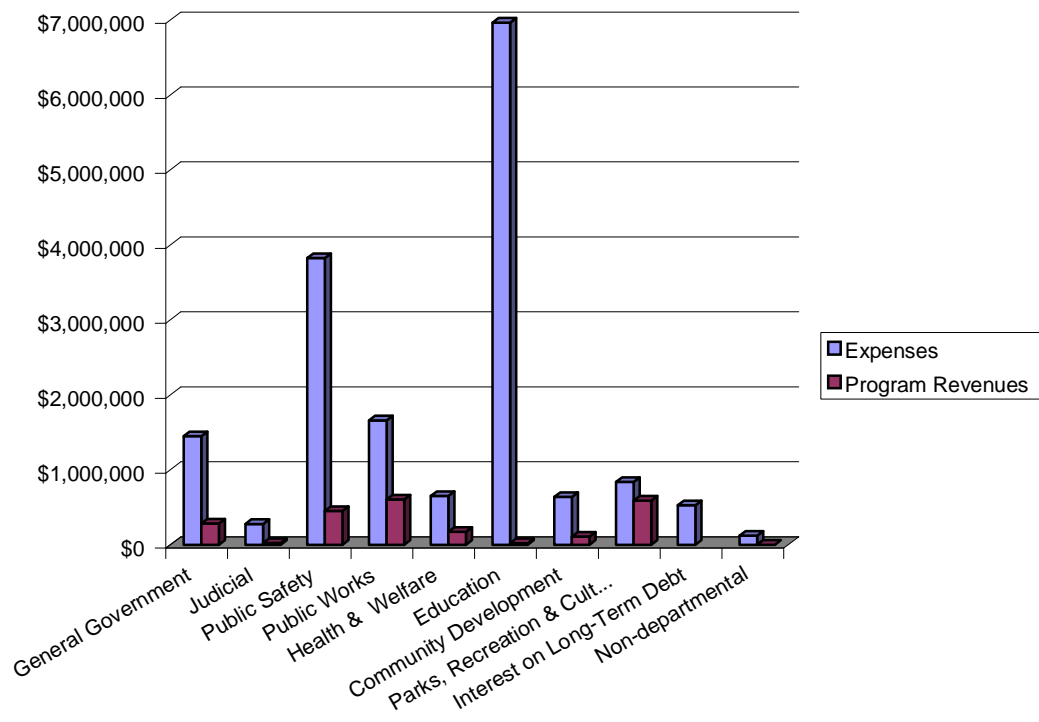
Other local taxes were \$2,442,485 and \$2,524,964 for FY 2003 and FY 2004, respectively, and consisted of meals taxes, consumers' utilities taxes, franchise license taxes, motor vehicle license taxes and a variety of other taxes. The 3.4% increase is mainly due to a new restaurant in the City, which generated additional sales and meals tax.

Operating grants and contributions and capital grants and contributions were \$2,020,335 and \$1,911,436 for FY 2003 and FY 2004, respectively. The 5.3% decrease was due to a special Homeland Security Grant received in FY 2003.

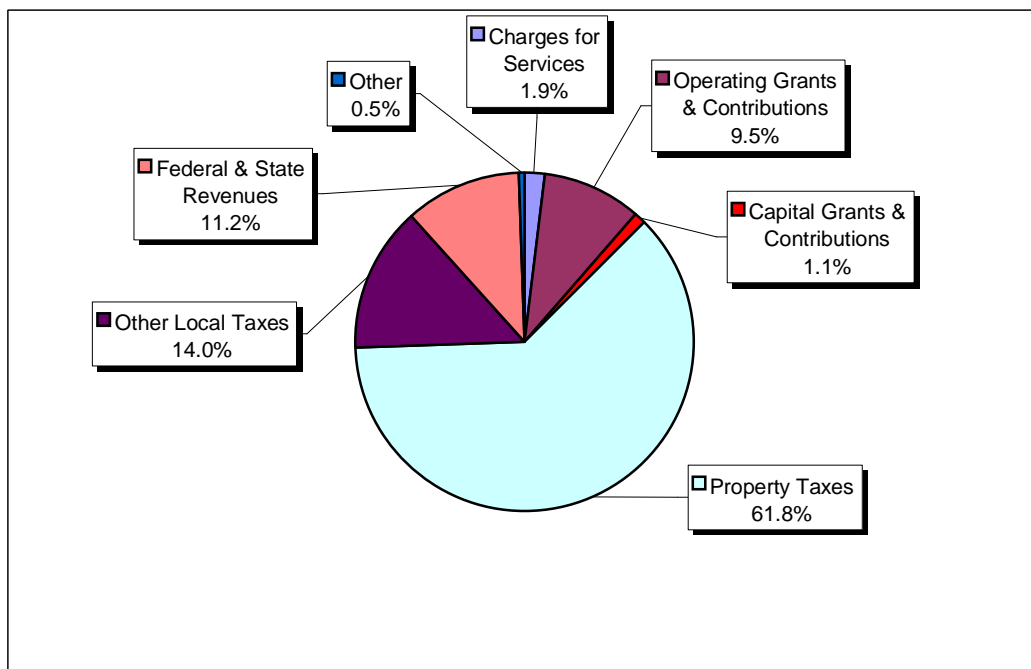
For FY 2003, expenses for governmental activities totaled \$15,837,292, including a net payment of \$6,459,434 to the School Board component unit and a \$50,000 payment to the IDA component unit. In FY 2004, expenses for governmental activities totaled \$16,947,513, including a net payment of \$6,965,520 to the School Board component unit and a \$95,000 payment to the IDA component unit. The School Board had several new initiatives during FY 2004, which were funded by the City. The City's increases related mainly to personnel and capital projects. The City experienced increased employee benefit costs, hired an additional employee, and upgraded several positions. The main increase in City capital expenditures came from additional road paving projects in FY 2004.



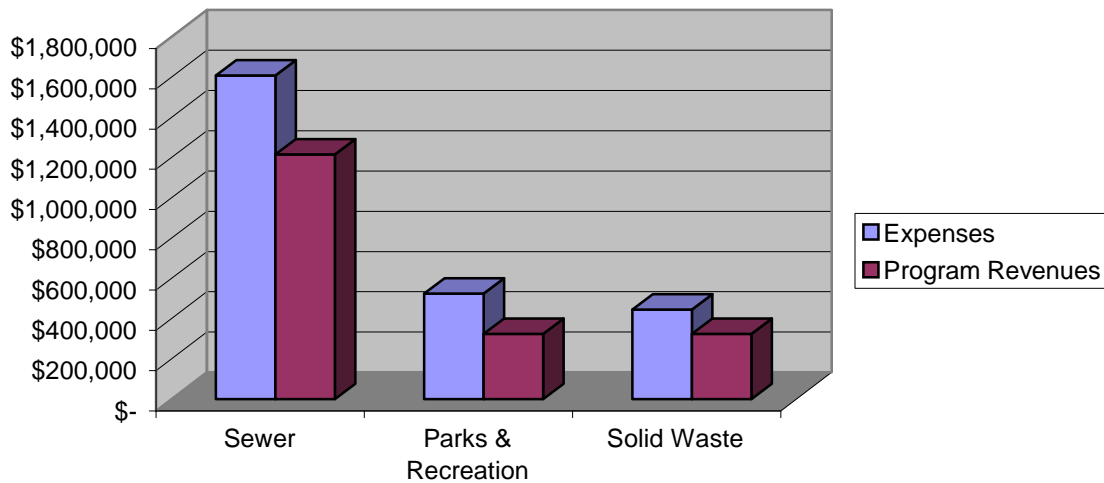
## Expenses and Program Revenues – Governmental Activities



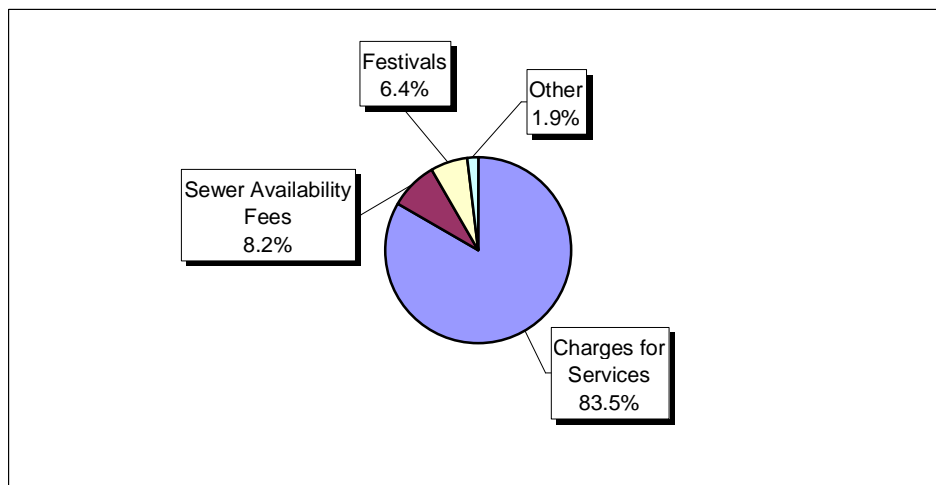
## Revenues by Sources – Governmental Activities



### Expense and Program Revenues – Business-Type Activities



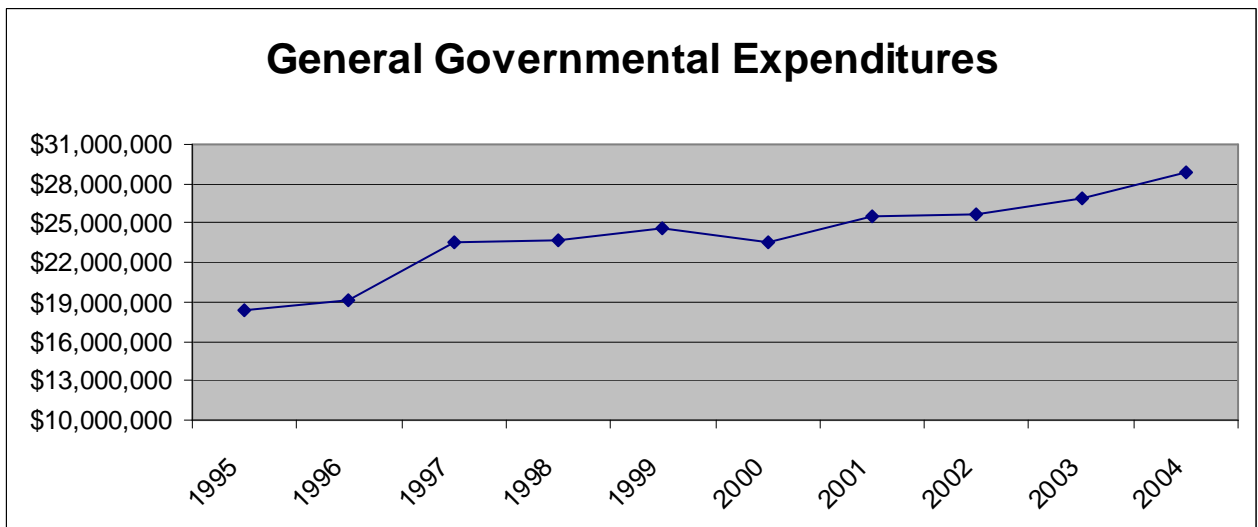
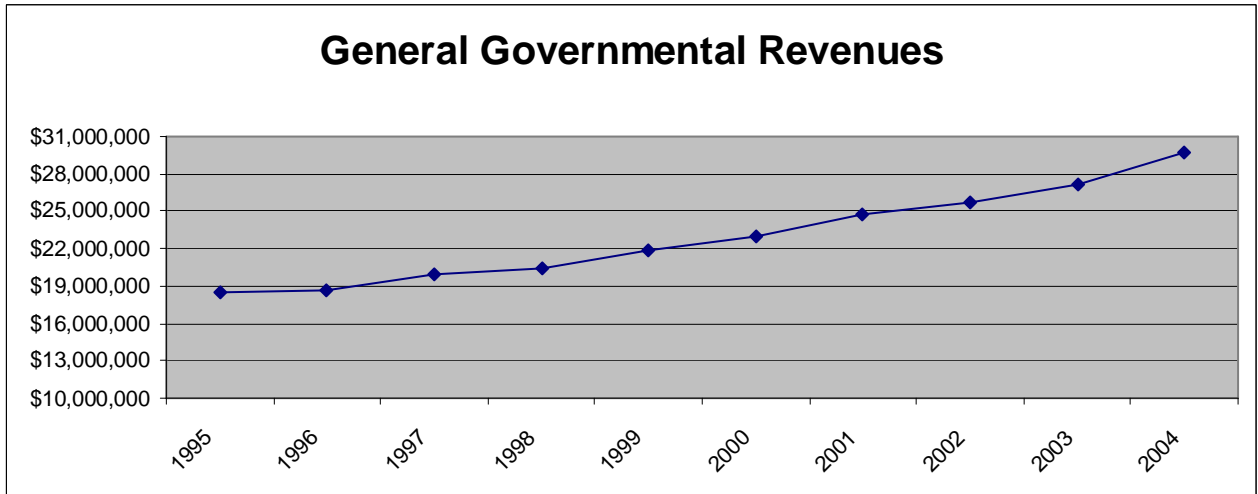
### Revenues by Source – Business-Type Activities



**Business-Type Activities.** Business-type activities decreased the City's net assets before transfers by \$333,728 and \$231,528 after transfers. The business-type activities had net losses in both the Sewer Operations Fund and Parks and Recreation Fund, while the Solid Waste had net income. In the past several years, the Sewer Fund issued debt for significant sewer expansion projects, which increased sewer rates to pay for the additional debt. In order to keep the sewer usage rates from increasing significantly, Council has budgeted to use a portion of net assets. Parks and Recreation user charges continue to be held as low as possible to accommodate all citizens, but has increasing expenses. The Parks and Recreation Fund had net losses over the last few years, indicating the need to either raise user fees or to receive supplemental government funds. The Solid Waste Fund utilizes a pay-as-you throw green bag system, which funds trash pickup and disposal, recycling, and hazardous materials collection. The City supplements the bulky item and landscape trash pickup in the Solid Waste Fund.

## Financial Analysis of the Government's Funds

Below is a summary of general government revenue and expenditures over a 10 year period. As shown below, expenditures have exceeded revenues during recent years, thus using much of the City's fund balance. Amounts include the City's General, Debt Service, and Capital Projects Funds, and the School's General and Special Revenue Funds. In the past three fiscal years, governmental revenues exceeded expenditures, which ended six years of expenditures exceeding revenues.



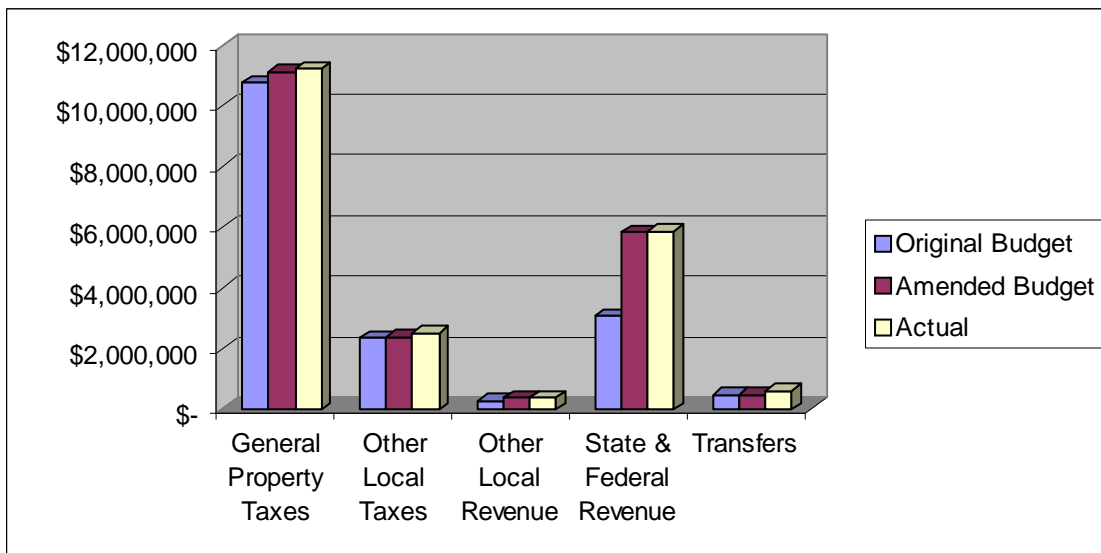
## General Fund Budgetary Highlights

The City of Poquoson uses fund accounting and budgeting to ensure and demonstrate compliance with finance-related legal requirements. The General Fund budgetary comparison to actual can be found on Exhibit L. The City records actual revenues and expenditures using generally accepted accounting principles (GAAP) with the exception of encumbrances, which are included as budgetary expenditures. At the end of Exhibit L, the non-GAAP budgetary expenditures are reconciled to the GAAP statements. The budget differences of \$3,764,390 between the original budget and the final amended budget can be briefly summarized as follows:

- \$2,809,076 expenditures were budgeted for Hurricane Isabel Recovery. Revenues for the Hurricane Isabel Recovery included \$2,134,876 in FEMA public assistance grant, \$475,487 in State matching FEMA grant funds, \$28,926 Federal Highway Funds, \$54,379 in donations, and \$115,408 budgeted use of fund balance.
- \$352,780 additional transfers to Capital Projects Fund were budgeted to pay for construction of the Messick Point Parking Lot using fund balance.
- \$195,936 expenditures were budgeted for various public safety grants and matching requirements.
- \$120,608 expenditures were budgeted to contribute to the School Board for various capital purchases using fund balance.
- \$83,000 expenditures were budgeted for State mandated welfare services, which used State funds and fund balance.
- \$202,990 expenditures were budgeted using a variety of additional revenues.

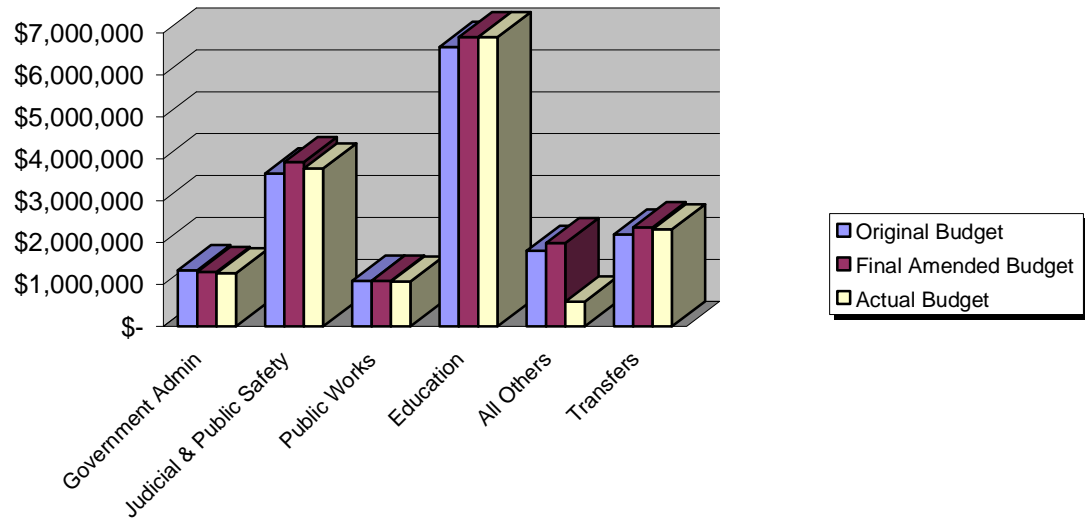
The following chart shows the original approved budget, the final amended budget, and actual amounts for both revenues and expenditures in the General Fund.

**General Fund Revenue  
Comparison of Budget to Actual**



The City's actual revenue exceeded the amended budget by \$409,531. The City had a higher than expected revenues for general property taxes and other local taxes. The City is conservative in budgeting tax revenues and typically has some overage. Revenue from use of money was under budget to record unrealized losses on decline in fair market value on investments. The contribution from the Schools was over budget, primarily by unspent year-end funds that are required to be returned to the City. These funds are not budgeted.

### General Fund Expenditures Comparison of Budget to Actual



As reflected above, actual General Fund expenditures were \$49,828 or 0.2% below the amended budget. The City had budgeted to use \$683,307 of fund balance, but due to revenues exceeding budget and expenditures under budget, only used \$223,948 of fund balance.

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

### Capital Projects Fund

The Capital Projects Fund is used by the City to account for the acquisition and construction of major capital projects and large equipment purchases for the general government. A major source of funding for Capital Projects is a transfer from the General Fund. The Capital Projects Fund also received State and community grants for projects.

During FY 2004, capital projects expenditures of \$986,129 included Messick Point parking lot and boat ramp improvements, highway and drainage improvements, large equipment purchases, park improvements, school capital expenditures, and public safety equipment.

## Capital Assets and Debt Administration

**Capital Assets.** The City's investment in capital assets for its governmental and business-type activities amounted to \$36,777,272 and \$36,612,873 (net of accumulated depreciation) for FY 2003 and FY 2004, respectively. The investment in capital assets includes land, construction in progress, buildings, infrastructure, machinery and equipment, sewer system, and allocated school buildings. The City owns roads, streetlights, and other infrastructure, but has only capitalized these assets placed in service since July 1, 2002. Infrastructure is planned to be capitalized in FY 2007. The School Board component unit owns their school buildings; however, the City has issued the debt and/or provided the resources to build and renovate school buildings. Thus the State Code allows the Schools to allocate a portion of their asset to the City, if the City has outstanding debt on the School building.

The following table summarizes capital assets, net of depreciation:

	Governmental Activities		Business-Type Activities		Total	
	FY 2003	FY 2004	FY 2003	FY 2004	FY 2003	FY 2004
Land	\$2,583,903	\$2,583,903	\$237,766	\$243,216	\$2,821,669	\$2,827,119
Construction in progress	190,995	55,757	312,444	-	503,439	55,757
Buildings	4,683,247	4,566,690	33,225	26,744	4,716,472	4,593,434
Infrastructure	6,553	374,092	-	-	6,553	374,092
Machinery and equipment	1,891,452	1,934,623	470,479	387,777	2,361,931	2,322,400
Sewer System	-	-	17,372,550	17,659,119	17,372,550	17,659,119
Allocated school buildings	8,994,658	8,780,952	-	-	8,994,658	8,780,952
Total	\$18,350,808	\$18,296,017	\$18,426,464	\$18,316,856	\$36,777,272	\$36,612,873

**Debt Administration.** Total outstanding general obligation debt at June 30, 2004 was \$25,424,647, of which \$12,269,134 is considered to be net direct tax supported debt. Included in the total is \$7,645,953 in bonds and \$4,811,338 in State Literary Loans. The remaining \$13,155,513 is bonds for the sewer system that are essentially paid for by revenues in the Sewer Operations Fund. On the government-wide financial statements, long-term liabilities are netted against deferred refunding charges and bond premiums of \$188,157 in governmental activities and \$351,111 business-type activities.

The City's debt decreased by \$1,590,796, primarily due to debt payments during the fiscal year. The City did not issue any new debt during FY 2004, but did refinance some of its existing debt to take advantage of favorable interest rates.

State statutes limit the amount of general obligation debt a government may issue to 10% of its total assessed valuation of real estate and public service corporations. The June 30, 2004 debt limitation for the City of Poquoson is \$84,728,374, which is significantly in excess of the City of Poquoson's \$25,963,915 outstanding net direct bonded debt. 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  
General Governmental Activities

	<b>FY 2003</b>	<b>FY 2004</b>
Net direct bonded debt	\$13,440,709	\$12,457,291
Ratio of outstanding direct debt to assessed value	1.46%	1.32%
Net debt per capita	\$1,162	\$1,077

Net Direct Tax Supported Debt  
Including Business-Type Funds

	<b>FY 2003</b>	<b>FY 2004</b>
Net direct bonded debt	\$27,572,199	\$25,963,915
Ratio of outstanding direct debt to assessed value	3.00%	2.75%
Net debt per capita	\$2,384	\$2,245

More detailed information on long-term debt activity and capital asset activity can be found in the notes to the financial statements.

## **Economic Factors and Next Year's Budgets and Rates**

The FY 2005 budget was prepared with economic trends within the City taken into account:

- The unemployment rate for the City of Poquoson was 2.8% compared to a state-wide rate of 4.1% and a national average of 6.0%.
- Real estate property values increased over 19% with the FY 2005 reassessment.
- City Council rolled the real estate tax rate from \$1.12 to \$1.06 per \$100 of assessed value.
- Other local taxes have been trending upwards for the last several years.

Expenditures for the FY 2005 budget had more funding than prior years.

- The Schools received additional State funds for FY 2005, requiring less from the City to operate.
- Both the City and Schools funded a 4% raise for employees. The Schools hired a few additional employees and the City budgeted to implement a salary upgrade project for employees with many years of service. Both City and Schools funded rising retirement costs.
- The City's local contribution to the Capital Projects fund was funded from local revenues. In prior years, it was necessary to budget use of fund balance to pay for capital expenditures.

The City still has several outstanding hurricane recovery items to complete. The City has decided to build a new Fire Station #1 rather than repair the flood damaged building. This is still in the design phase. The Schools are also in the design phase of building a new Poquoson Elementary School. Due diligence is given to the location and type of building given that the current elementary school received extensive flood damage from the hurricane.

The City is in the application stage of applying to FEMA for mitigation grants. The City is hopeful that federal mitigation grant funds will be secured to help citizens that had more than 50% of the homes damaged from the storm surge, to raise their homes up on cinder blocks so that the lowest floor level is out of the required flood elevation.

## **Requests for Information**

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

City of Poquoson  
Pamela A. Moon, CPA  
Director of Finance  
500 City Hall Avenue  
Poquoson, VA 23662



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## City of Poquoson, Virginia

## Statement of Net Assets

June 30, 2004

Assets	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Cash and investments	\$ 5,428,859	\$ 1,442,131	\$ 6,870,990	\$ 2,163,391
Property taxes receivable - net	419,583	-	419,583	-
Receivables-net	118,575	344,349	462,924	947
Due from component units	139,863	-	139,863	-
Due from other governments	430,920	-	430,920	718,960
Inventory	19,853	1,979	21,832	2,802
Prepaid items	-	13,575	13,575	-
Notes and interest receivable	-	88,387	88,387	-
Restricted assets - cash and cash equivalents	-	71,623	71,623	-
Capital assets - net	18,296,017	18,316,856	36,612,873	6,050,492
Other assets	15,304	48,012	63,316	-
	<b>\$ 24,868,974</b>	<b>\$ 20,326,912</b>	<b>\$ 45,195,886</b>	<b>\$ 8,936,592</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 930,574	\$ 181,215	\$ 1,111,789	\$ 1,895,344
Accrued compensated absences	442,368	20,531	462,899	110,386
Accrued interest	213,254	173,595	386,849	-
Line of credit	-	-	-	1,201,340
Deposits	-	32,325	32,325	-
Due to primary government	-	-	-	139,863
Deferred revenue	61,272	-	61,272	-
Noncurrent liabilities:				
Due within one year	1,024,553	715,603	1,740,156	-
Due in more than one year	11,244,581	12,439,910	23,684,491	130,000
<b>Total liabilities</b>	<b>13,916,602</b>	<b>13,563,179</b>	<b>27,479,781</b>	<b>3,476,933</b>
<b>Net Assets</b>				
Invested in capital assets - net of related debt	6,026,883	5,232,966	11,259,849	4,706,763
Restricted:				
Sewer improvements	-	71,623	71,623	-
Unrestricted	4,925,489	1,459,144	6,384,633	752,896
<b>Total net assets</b>	<b>10,952,372</b>	<b>6,763,733</b>	<b>17,716,105</b>	<b>5,459,659</b>
	<b>\$ 24,868,974</b>	<b>\$ 20,326,912</b>	<b>\$ 45,195,886</b>	<b>\$ 8,936,592</b>

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

## Statement of Activities

Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total	Component Units
<b>Primary Government</b>								
Government activities:								
General government and administration	\$ 1,449,410	\$ 92,864	\$ 190,653	\$ -	\$ (1,165,893)	\$ -	\$ (1,165,893)	\$ -
Judicial	277,307	23,955	-	-	(253,352)	-	(253,352)	-
Public safety	3,823,700	71,666	297,332	82,721	(3,371,981)	-	(3,371,981)	-
Public works	1,659,214	-	600,000	4,495	(1,054,719)	-	(1,054,719)	-
Health and welfare	650,092	-	173,330	-	(476,762)	-	(476,762)	-
Education	6,965,522	21,800	-	-	(6,943,722)	-	(6,943,722)	-
Parks, recreation, cultural	839,537	25,849	456,696	106,209	(250,783)	-	(250,783)	-
Community development	636,477	109,087	-	-	(527,390)	-	(527,390)	-
Interest and fees on long-term debt	525,850	-	-	-	(525,850)	-	(525,850)	-
Nondepartmental	120,404	-	-	-	(120,404)	-	(120,404)	-
<b>Total governmental activities</b>	<b>16,947,513</b>	<b>345,221</b>	<b>1,718,011</b>	<b>193,425</b>	<b>(14,690,856)</b>	<b>-</b>	<b>(14,690,856)</b>	<b>-</b>
Business-type activities:								
Sewer	1,609,179	1,216,215	-	-	-	(392,964)	(392,964)	-
Parks and recreation	524,504	325,361	-	-	-	(199,143)	(199,143)	-
Solid waste	446,172	325,083	-	-	-	(121,089)	(121,089)	-
<b>Total business-type activities</b>	<b>2,579,855</b>	<b>1,866,659</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(713,196)</b>	<b>(713,196)</b>	<b>-</b>
<b>Total primary government</b>	<b>\$ 19,527,368</b>	<b>\$ 2,211,880</b>	<b>\$ 1,718,011</b>	<b>\$ 193,425</b>	<b>\$ (14,690,856)</b>	<b>\$ (713,196)</b>	<b>\$ (15,404,052)</b>	<b>\$ -</b>
<b>Component Units</b>								
Poquoson Public Schools	\$ 17,876,099	\$ 453,779	\$ 10,853,531	\$ -	\$ -	\$ -	\$ -	\$ (6,568,789)
Industrial Development Authority	126,814	-	-	-	-	-	-	(126,814)
<b>Total component units</b>	<b>\$ 18,002,913</b>	<b>\$ 453,779</b>	<b>\$ 10,853,531</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (6,695,603)</b>
<b>General Revenues:</b>								
Real estate and personal property taxes					\$ 11,135,298	\$ -	\$ 11,135,298	\$ -
Other local taxes					2,524,964	-	2,524,964	-
Payments from City of Poquoson					-	-	-	7,145,745
Reimbursements from other agencies					2,012,657	-	2,012,657	-
Miscellaneous					83,401	339,909	423,310	15,891
Unrestricted investment earnings					-	39,559	39,559	11
<b>Transfers</b>					(102,200)	102,200	-	-
<b>Total general revenues, transfers and miscellaneous</b>					<b>15,654,120</b>	<b>481,668</b>	<b>16,135,788</b>	<b>7,161,647</b>
<b>Change in net assets before extraordinary item</b>					<b>963,264</b>	<b>(231,528)</b>	<b>731,736</b>	<b>466,044</b>
<b>Extraordinary item-Hurricane Isabel</b>					<b>(104,257)</b>	<b>-</b>	<b>(104,257)</b>	<b>-</b>
<b>Net assets - beginning of year</b>					<b>10,093,365</b>	<b>6,995,261</b>	<b>17,088,626</b>	<b>4,993,615</b>
<b>Net assets - end of year</b>					<b>\$ 10,952,372</b>	<b>\$ 6,763,733</b>	<b>\$ 17,716,105</b>	<b>\$ 5,459,659</b>

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

**Balance Sheet - Governmental Funds**

**June 30, 2004**

		Capital	Total
<b>Assets</b>	<b>General</b>	<b>Projects</b>	<b>Governmental Funds</b>
Cash and cash equivalents	\$ 4,006,482	\$ 1,334,124	\$ 5,340,606
Property taxes receivable - net	419,583	-	419,583
Other receivables	116,965	-	116,965
Due from component units	139,863	-	139,863
Due from other governmental units	343,977	86,943	430,920
Inventory	2,763	-	2,763
	<b>\$ 5,029,633</b>	<b>\$ 1,421,067</b>	<b>\$ 6,450,700</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 507,253	\$ 396,441	\$ 903,694
Deferred revenue	381,250	-	381,250
<b>Total liabilities</b>	<b>888,503</b>	<b>396,441</b>	<b>1,284,944</b>
<b>Fund Balances</b>			
Fund balances:			
Reserved for encumbrances	125,653	-	125,653
Unreserved:			
Designated for fiscal year 2005 budget	-	1,024,626	1,024,626
Unreserved and undesignated	4,015,477	-	4,015,477
<b>Total fund balances</b>	<b>4,141,130</b>	<b>1,024,626</b>	<b>5,165,756</b>
	<b>\$ 5,029,633</b>	<b>\$ 1,421,067</b>	<b>\$ 6,450,700</b>

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

**Balance Sheet - Governmental Funds**

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**June 30, 2004**

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**Reconciliation of the Governmental Funds Balance  
Sheet to the Statement of Net Assets**

<b>Total fund balances - governmental funds</b>	<b>\$ 5,165,756</b>
Amount reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation.	18,287,499
Other long-term assets are not financial resources and, therefore, are deferred in the funds.	319,978
Internal service funds are used by management to charge the costs of fleet management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.	69,709
Other liabilities not paid from current-period revenues are not reported in funds for:	
Accrued interest	(213,235)
Accrued compensated absences	(423,505)
Long-term liabilities, including bonds payable, net of capitalized bond issuance costs and deferred bond issuance charge, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(12,253,830)
<b>Total net assets - governmental activities</b>	<b>\$ 10,952,372</b>

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

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

Year Ended June 30, 2004

	General	Debt Service	Capital Projects	Total Governmental Funds
<b>Revenues</b>				
General property taxes	\$ 11,226,560	\$ -	\$ -	\$ 11,226,560
Other local taxes	2,524,964	-	-	2,524,964
Permits, privilege fees and regulatory licenses	173,525	-	-	173,525
Fines and forfeitures	24,605	-	-	24,605
Revenue from use of money and property	58,937	-	-	58,937
Charges for services	31,740	-	-	31,740
Intergovernmental	3,238,158	-	456,696	3,694,854
Miscellaneous	38,666	-	330,388	369,054
<b>Total revenues</b>	<b>17,317,155</b>	<b>-</b>	<b>787,084</b>	<b>18,104,239</b>
<b>Expenditures</b>				
Current:				
General government and administration	1,330,271	-	-	1,330,271
Public safety and judicial	4,007,945	-	-	4,007,945
Public works	1,125,448	-	-	1,125,448
Health and welfare	657,485	-	-	657,485
Parks, recreation, and cultural	763,681	-	-	763,681
Community development	535,757	-	-	535,757
Nondepartmental	115,105	-	-	115,105
Education	6,728,536	-	-	6,728,536
Industrial Development Authority	95,000	-	-	95,000
Capital outlays	-	-	986,129	986,129
Debt service:				
Principal retirement	-	983,418	-	983,418
Bond issuance costs	-	2,000	-	2,000
Interest and fiscal charges	-	522,623	-	522,623
<b>Total expenditures</b>	<b>15,359,228</b>	<b>1,508,041</b>	<b>986,129</b>	<b>17,853,398</b>
<b>Excess (deficiency) of revenue over expenditures</b>	<b>1,957,927</b>	<b>(1,508,041)</b>	<b>(199,045)</b>	<b>250,841</b>
<b>Other financing sources (uses)</b>				
Transfers from:				
Sewer	151,800	-	-	151,800
General	-	1,508,041	456,380	1,964,421
Bond proceeds				-
Transfers to:				
Debt service	(1,508,041)	-	-	(1,508,041)
Capital projects	(456,380)	-	-	(456,380)
Parks and recreation	(56,000)	-	-	(56,000)
Solid waste	(198,000)	-	-	(198,000)
<b>Total other financing sources (uses)</b>	<b>(2,066,621)</b>	<b>1,508,041</b>	<b>456,380</b>	<b>(102,200)</b>
<b>Net change in fund balances before extraordinary item</b>	<b>(108,694)</b>	<b>-</b>	<b>257,335</b>	<b>148,641</b>
<b>Extraordinary item-Hurricane Isabel</b>				
Revenues	2,693,258	-	-	2,693,258
Expenditures	(2,797,515)	-	-	(2,797,515)
<b>Total extraordinary item-Hurricane Isabel</b>	<b>(104,257)</b>	<b>-</b>	<b>-</b>	<b>(104,257)</b>
<b>Net change in fund balances</b>	<b>(212,951)</b>	<b>-</b>	<b>257,335</b>	<b>44,384</b>
<b>Fund balances - July 1, 2003</b>	<b>4,354,081</b>	<b>-</b>	<b>767,291</b>	<b>5,121,372</b>
<b>Fund balances - June 30, 2004</b>	<b>\$ 4,141,130</b>	<b>\$ -</b>	<b>\$ 1,024,626</b>	<b>\$ 5,165,756</b>

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

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

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**Year Ended June 30, 2004**

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

<b>Net change in fund balances - total governmental funds</b>	<b>\$ 44,384</b>
Amount reported for governmental activities in the statement of net assets are different because:	
Revenues in the Statement of Activities that do not provide financial resources are not reported as revenues in the funds.	(91,262)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. Also, in the Statement of Activities, the loss or disposal of assets is reported.	
Capital outlays	566,818
Depreciation expense	(652,490)
Loss on disposal of capital assets	(15,757)
Proceeds from bond issuance provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Costs of debt issuance (net)	20,076
Repayment of debt principal	985,418
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Interest expense	16,849
Compensated absences	(23,257)
Internal service fund is used by management to charge the cost of fleet management to individual departments. The net gain of the fleet management fund is reported with governmental activities.	8,228
<b>Change in net assets of governmental activities</b>	<b>\$ 859,007</b>

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

## City of Poquoson, Virginia

## Statement of Net Assets - Proprietary Funds

June 30, 2004

Assets	Business-type Activities Proprietary Funds				Governmental Activities- Internal Service Funds
	Sewer Operation	Parks and Recreation	Solid Waste	Totals	
<b>Current assets</b>					
Cash and investments	\$ 945,358	\$ 61,386	\$ 435,387	\$ 1,442,131	\$ 88,253
Accounts receivable	317,774	-	26,575	344,349	1,610
Notes and interest receivable	88,387	-	-	88,387	-
Inventory	-	-	1,979	1,979	17,090
Prepaid expenses	-	13,575	-	13,575	-
<b>Total current assets</b>	<b>1,351,519</b>	<b>74,961</b>	<b>463,941</b>	<b>1,890,421</b>	<b>106,953</b>
<b>Noncurrent assets</b>					
Restricted cash and investments	71,623	-	-	71,623	-
Capital assets:					
Land	214,666	28,550	-	243,216	41,742
Buildings	-	254,179	9,943	264,122	16,500
Sewer system	21,645,904	-	-	21,645,904	-
Equipment	476,424	6,000	448,152	930,576	-
Less - accumulated depreciation	(4,221,690)	(237,909)	(307,363)	(4,766,962)	(49,724)
<b>Total capital assets (net of accumulated depreciation)</b>	<b>18,115,304</b>	<b>50,820</b>	<b>150,732</b>	<b>18,316,856</b>	<b>8,518</b>
Intangible assets	36,027	-	-	36,027	-
Notes receivable - less current portion	11,985	-	-	11,985	-
<b>Total noncurrent assets</b>	<b>18,234,939</b>	<b>50,820</b>	<b>150,732</b>	<b>18,436,491</b>	<b>8,518</b>
	<b>\$ 19,586,458</b>	<b>\$ 125,781</b>	<b>\$ 614,673</b>	<b>\$ 20,326,912</b>	<b>\$ 115,471</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Vouchers and accounts payable	\$ 120,629	\$ 13,176	\$ 22,725	\$ 156,530	\$ 21,054
Deposits	-	32,325	-	32,325	-
Accrued payroll	4,958	17,370	2,357	24,685	5,826
Accrued interest	173,595	-	-	173,595	-
Compensated absences	12,912	3,582	4,037	20,531	18,882
Bonds, notes payable and capital lease obligations - current portion	715,603	-	-	715,603	-
<b>Total current liabilities</b>	<b>1,027,697</b>	<b>66,453</b>	<b>29,119</b>	<b>1,123,269</b>	<b>45,762</b>
<b>Noncurrent liabilities</b>					
Bonds, notes payable and capital lease obligations - less current portion	12,439,910	-	-	12,439,910	-
<b>Total noncurrent liabilities</b>	<b>12,439,910</b>	<b>-</b>	<b>-</b>	<b>12,439,910</b>	<b>-</b>
<b>Total liabilities</b>	<b>13,467,607</b>	<b>66,453</b>	<b>29,119</b>	<b>13,563,179</b>	<b>45,762</b>
<b>Net Assets</b>					
Invested in capital assets - net of related debt	5,031,414	50,820	150,732	5,232,966	8,518
Restricted for sewer construction	71,623	-	-	71,623	-
Unrestricted	1,015,814	8,508	434,822	1,459,144	61,191
<b>Total net assets</b>	<b>6,118,851</b>	<b>59,328</b>	<b>585,554</b>	<b>6,763,733</b>	<b>69,709</b>
	<b>\$ 19,586,458</b>	<b>\$ 125,781</b>	<b>\$ 614,673</b>	<b>\$ 20,326,912</b>	<b>\$ 115,471</b>

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



## City of Poquoson, Virginia

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

Year Ended June 30, 2004

	Proprietary Fund Types				Internal Service Fund
	Sewer Operation	Parks and Recreation	Solid Waste	Total	
<b>Operating revenues</b>					
Charges for services	\$ 1,216,215	\$ 325,361	\$ 325,083	\$ 1,866,659	\$ 546,714
Festivals	-	142,514	-	142,514	-
Miscellaneous	1,353	2,542	-	3,895	-
<b>Total operating revenues</b>	<b>1,217,568</b>	<b>470,417</b>	<b>325,083</b>	<b>2,013,068</b>	<b>546,714</b>
<b>Operating expenses</b>					
Personnel services	165,518	254,965	78,544	499,027	211,911
Contractual services	51,505	184,768	14,670	250,943	55,306
Materials and supplies	31,760	58,246	64,110	154,116	253,612
Utilities	47,820	6,423	68	54,311	2,890
Depreciation and amortization	638,775	5,818	42,124	686,717	2,016
Other charges	52,923	14,284	44,560	111,767	12,752
Waste disposal	-	-	202,096	202,096	-
<b>Total operating expenses</b>	<b>988,301</b>	<b>524,504</b>	<b>446,172</b>	<b>1,958,977</b>	<b>538,487</b>
<b>Operating income (loss)</b>	<b>229,267</b>	<b>(54,087)</b>	<b>(121,089)</b>	<b>54,091</b>	<b>8,227</b>
<b>Nonoperating revenues (expenses)</b>					
Interest income	39,559	-	-	39,559	-
Interest and fiscal charges	(566,326)	-	-	(566,326)	-
Sewer availability fees	184,200	-	-	184,200	-
Gain (loss) on disposal of capital assets	(54,552)	-	9,300	(45,252)	-
<b>Net nonoperating revenues (expenses)</b>	<b>(397,119)</b>	<b>-</b>	<b>9,300</b>	<b>(387,819)</b>	<b>-</b>
<b>Income (loss) before transfers</b>	<b>(167,852)</b>	<b>(54,087)</b>	<b>(111,789)</b>	<b>(333,728)</b>	<b>8,227</b>
<b>Transfers</b>					
Transfer in	-	56,000	198,000	254,000	-
Transfers out	(151,800)	-	-	(151,800)	-
<b>Net transfers</b>	<b>(151,800)</b>	<b>56,000</b>	<b>198,000</b>	<b>102,200</b>	<b>-</b>
<b>Change in net assets</b>	<b>(319,652)</b>	<b>1,913</b>	<b>86,211</b>	<b>(231,528)</b>	<b>8,227</b>
<b>Net assets - July 1, 2003</b>	<b>6,438,503</b>	<b>57,415</b>	<b>499,343</b>	<b>6,995,261</b>	<b>61,482</b>
<b>Net assets - June 30, 2004</b>	<b>\$ 6,118,851</b>	<b>\$ 59,328</b>	<b>\$ 585,554</b>	<b>\$ 6,763,733</b>	<b>\$ 69,709</b>

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

## City of Poquoson, Virginia

## Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2004						
	Proprietary Fund Types				Component Unit	
	Sewer Operation	Parks and Recreation	Solid Waste	Total	Internal Service Fund	Industrial Development Authority
<b>Cash flows from operating activities</b>						
Received from customers and users	\$ 1,392,453	\$ 470,416	\$ 330,288	\$ 2,193,157	\$ 545,170	\$ 110,891
Payments to suppliers for goods and services	(93,489)	(261,053)	(313,238)	(667,780)	(327,202)	(76,923)
Payments to employees	(163,670)	(248,577)	(80,657)	(492,904)	(206,018)	-
<b>Net cash provided by (used in) operating activities</b>	<b>1,135,294</b>	<b>(39,214)</b>	<b>(63,607)</b>	<b>1,032,473</b>	<b>11,950</b>	<b>33,968</b>
<b>Cash flows from noncapital financing activities</b>						
Transfers to other funds	(151,800)	-	-	(151,800)	-	-
Transfers from other funds	-	56,000	198,000	254,000	-	95,000
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>(151,800)</b>	<b>56,000</b>	<b>198,000</b>	<b>102,200</b>	<b>-</b>	<b>95,000</b>
<b>Cash flows from capital and related financing activities</b>						
Principal paid on capital debt	(1,616,123)	-	-	(1,616,123)	-	(101,638)
Proceeds from capital debt	990,000	-	-	990,000	-	385,815
Proceeds from sales of capital assets	-	-	9,300	9,300	-	-
Payments received on notes receivable	-	-	-	-	-	-
Sewer availability fees	184,200	-	-	184,200	-	-
Interest paid on capital debt	(619,011)	-	-	(619,011)	-	(38,362)
Acquisition and construction of capital assets	(585,340)	-	-	(585,340)	(6,500)	(366,513)
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>(1,646,274)</b>	<b>-</b>	<b>9,300</b>	<b>(1,636,974)</b>	<b>(6,500)</b>	<b>(120,698)</b>
<b>Cash flows from investing activities</b>						
Interest received	39,559	-	-	39,559	-	-
<b>Net increase (decrease) in cash and investments</b>	<b>(623,221)</b>	<b>16,786</b>	<b>143,693</b>	<b>(462,742)</b>	<b>5,450</b>	<b>8,270</b>
<b>Cash and investments - beginning of year</b>	<b>1,640,202</b>	<b>44,600</b>	<b>291,694</b>	<b>1,976,496</b>	<b>82,803</b>	<b>8,158</b>
<b>Cash and investments - end of year</b>	<b>\$ 1,016,981</b>	<b>\$ 61,386</b>	<b>\$ 435,387</b>	<b>\$ 1,513,754</b>	<b>\$ 88,253</b>	<b>\$ 16,428</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>						
Operating income (loss)	\$ 229,267	\$ (54,087)	\$ (121,089)	\$ 54,091	\$ 8,227	\$ (15,923)
Adjustments:						
Depreciation and amortization	638,775	5,818	42,124	686,717	2,016	21,102
Changes in assets and liabilities:						
Receivables - net	174,885	-	5,206	180,091	(1,543)	-
Inventories	-	-	767	767	(5,091)	-
Prepaid items	-	(10,292)	-	(10,292)	-	-
Vouchers and accounts payable	90,519	12,959	9,142	112,620	2,449	28,789
Accrued compensated absences	(729)	2	87	(640)	2,548	-
Accrued payroll	2,577	6,386	156	9,119	3,344	-
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 1,135,294</b>	<b>\$ (39,214)</b>	<b>\$ (63,607)</b>	<b>\$ 1,032,473</b>	<b>\$ 11,950</b>	<b>\$ 33,968</b>

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

*City of Poquoson, Virginia**Statement of Fiduciary Net Assets*

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**June 30, 2004**

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<b>Assets</b>	<b>Library Agency Fund</b>
Cash and cash equivalents	<u>\$ 53,639</u>
<b>Net Assets</b>	
Held in trust for library building	<u>\$ 53,639</u>

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

*City of Poquoson, Virginia**Statement of Changes in Fiduciary Net Assets***Year Ended June 30, 2004**

	<b>Library Agency Fund</b>
<b>Additions</b>	
Interest income	\$ 649
<b>Total additions</b>	<u>649</u>
<b>Deductions</b>	
Contributions to library	2,000
<b>Total deductions</b>	<u>2,000</u>
<b>Change in net assets</b>	(1,351)
<b>Net assets - beginning of year</b>	<u>54,990</u>
<b>Net assets - end of year</b>	<u>\$ 53,639</u>

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

*City of Poquoson, Virginia**Statement of Net Assets - Component Units***June 30, 2004**

<b>Assets</b>	<b>Poquoson Public Schools</b>	<b>Industrial Development Authority</b>	<b>Total</b>
Cash and cash equivalents	\$ 2,146,963	\$ 16,428	\$ 2,163,391
Receivables	947	-	947
Due from other governments	718,960	-	718,960
Inventory	2,802	-	2,802
Capital assets - net	4,043,925	2,006,567	6,050,492
	<b>\$ 6,913,597</b>	<b>\$ 2,022,995</b>	<b>\$ 8,936,592</b>
<b>Liabilities</b>			
Vouchers and accounts payable	\$ 1,866,527	\$ 28,817	\$ 1,895,344
Line of credit	-	1,201,340	1,201,340
Compensated absences - current	11,039	-	11,039
Due to primary government	139,863	-	139,863
Note payable	-	130,000	130,000
Compensated absences - noncurrent	99,347	-	99,347
<b>Total liabilities</b>	<b>2,116,776</b>	<b>1,360,157</b>	<b>3,476,933</b>
<b>Net Assets</b>			
Invested in capital assets	4,043,925	662,838	4,706,763
Unrestricted	752,896	-	752,896
<b>Total net assets</b>	<b>4,796,821</b>	<b>662,838</b>	<b>5,459,659</b>
	<b>\$ 6,913,597</b>	<b>\$ 2,022,995</b>	<b>\$ 8,936,592</b>

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

*City of Poquoson, Virginia**Statement of Activities - Component Units*

Year Ended June 30, 2004

	Expense	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		Totals
		Charges for Services	Operating Grants and Contributions	Capital Contributions	Poquoson Public Schools	Industrial Development Authority	
Poquoson Public Schools Education	\$ 17,876,099	\$ 453,779	\$ 10,853,531	\$ -	\$ (6,568,789)	\$ -	\$ (6,568,789)
Industrial Development Authority Economic Development	126,814	-	-	-	-	(126,814)	(126,814)
Total component units	\$ 18,002,913	\$ 453,779	\$ 10,853,531	\$ -	\$ (6,568,789)	\$ (126,814)	\$ (6,695,603)

**General revenues**

City of Poquoson	\$ 7,050,745	\$ 95,000	\$ 7,145,745
Unrestricted investment earnings	11	-	11
Miscellaneous revenues	-	15,891	15,891
Total general revenues	7,050,756	110,891	7,161,647

Change in net assets	481,967	(15,923)	466,044
Net assets - beginning of year	4,314,854	678,761	4,993,615
Net assets - end of year	\$ 4,796,821	\$ 662,838	\$ 5,459,659

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

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June 30, 2004

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**1. Summary of Significant Accounting Policies**

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

**Reporting Entity**

The *City of Poquoson, Virginia* (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) and the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia. 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 (School Board) and the Industrial Development Authority (IDA).

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

The School Board is responsible for elementary and secondary education in the City. The members of the School Board are appointed by the City Council. The School Board is fiscally dependent upon the City because the City's governing body, City Council, levies the necessary taxes, approves the issuance of bonds, and provides the financial resources to be used for acquisition or construction of School Board facilities and to fund the operations of the City's schools.

Therefore, the School Board is included in the component unit column of the City's financial statements because of the significance of its financial relationship with the City. Furthermore, the School Board meets the criteria for discrete presentation and is, therefore, presented in a separate component unit column in the basic financial statements to emphasize that it is legally separate from the City. There are no separate financial statements issued for the School Board.

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 also included in the component unit column of the City's financial statements 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 and guarantees their line-of-credit. Therefore, the IDA is financially dependent on the City. There are no separate financial statements issued for the IDA.



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

### **Reporting Entity** *(Continued)*

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

### **Financial Reporting Model**

GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (Statement) which established new requirements and a new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions. Because of the significant changes in financial reporting under the Statement, implementation was phased in (based on the size of the government) beginning with fiscal year ended 2002 (for larger governments). As part of the Statement, there is a new reporting requirement regarding the local government's infrastructure (roads, bridges, traffic signals, etc.). This requirement permits an optional delay for implementation to the fiscal year ending in 2007. The City implemented the basic model in fiscal year 2003 and anticipates completing the implementation of the infrastructure-related portion of the Statement by fiscal year 2007.

### **Management's Discussion and Analysis**

GASB Statement No. 34 and GASB Statement No. 37 require financial statements to be accompanied by a narrative introduction of the basic financial statements and an analytical overview of the government's financial activities in the form of Management's Discussion and Analysis (MD&A).

### **Government-wide and Fund Financial Statements**

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

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

### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

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

The City reports the following major proprietary funds:

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

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

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

Additionally, the City reports the following proprietary fund type:

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.

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

### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation** *(Continued)*

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

### **Fiduciary Fund - Agency Fund Types**

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

### **Component Unit - School Board**

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

#### ***School Board General Fund***

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

#### ***School Board Special Revenue Fund***

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

#### ***School Board Agency Funds***

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

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

**Component Unit - Industrial Development Authority (IDA)**

***Component Unit - Industrial Development Authority***

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 the City Council. The IDA 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 does not issue separate financial statements and, consequently, has been included in the financial statements as a component unit.

**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.

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, 2004, for an increase in appropriations in the amount of \$3,764,390 and \$1,850,393 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.

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

**Investments**

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

**Capital Assets**

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

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

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

The estimated useful lives of capital assets are as follows:

	<u>Years</u>
Buildings	40
Infrastructure	20 - 50
Machinery and equipment	3 - 50

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

**Allowance for Uncollectible Accounts**

The City (the primary government) calculates its allowance for uncollectible property taxes receivable using historical collection data. At June 30, 2004, 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).

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).

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

**Inventory (Continued)**

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.

**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 and Capital Projects Fund of the City

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.

**Compensated Absences**

City employees are granted vacation and sick pay in varying amounts based on years of service. Employees may accumulate, subject to certain limitations, unused vacation and sick pay earned and, upon retirement, termination or death, may be compensated for certain amounts at specified rates. The cost of accumulated vacation and sick pay expected to be paid from future expendable resources is accounted for as a liability in the government-wide statements and proprietary fund statements.

**Sewer Availability Fees**

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

**Deferred Revenue**

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

**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.

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

**Credit Risk**

The assessed value of real estate for the City's ten largest taxpayers comprises 3.94% of the City's real estate tax base. Concentration of credit risk with respect to receivables is limited due to the large number of customers comprising the City's customer base.

**2. Deposits and Investments**

**Deposits**

At year-end, the carrying value of the primary government's deposits with banks and savings institutions was \$4,100,140 and the bank balance was \$4,452,972 including cash with fiscal agents. The primary government also held \$16,428 of deposits of the IDA. Of the bank balance, 100% was covered by the Federal Deposit Insurance Corporation (FDIC) or collateralized in accordance with the Virginia Security for Public Deposits Act (Act).

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

However, all qualified bank's public deposits are considered 100% "insured" (per GASB Statement No. 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, 2004, no balances of the primary government were uninsured or uncollateralized in banks or savings institutions because of failure of the institutions to qualify under the Act.

The carrying amount of deposits for the School Board was \$2,145,884 and the bank balance was \$980,149. The bank balance was covered by Federal Depository Insurance Corporation or collateralized in accordance with the Virginia Security for Public Deposits Act. At June 30, 2004, 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. The fair value of the LGIP is the same as the value of the pool shares. Investments with a maturity date of one year or less are stated at amortized cost. All other investments are stated at fair value.

## 2. Deposits and Investments (Continued)

### Investments (Continued)

Investments are categorized on the next page 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 counterparty'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 counterparty'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	\$ 1,465,013	\$ 551,794	\$ -	\$ 2,016,807	\$ 2,016,807
Investment not subject to categorization:					
Investment in State Treasurer's Local Government Investment Pool (LGIP)				735,876	735,876
State Non-Arbitrage Program				71,623	71,623
				<u>2,824,306</u>	<u>2,824,306</u>
Less - LGIP, State Non-Arbitrage Program and Money Market Funds classified as cash and cash equivalents				<u>(807,499)</u>	<u>(807,499)</u>
Total investments				<u>\$ 2,016,807</u>	<u>\$ 2,016,807</u>

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

	Carrying Amount	Fair Value
Investments not subject to categorization:		
Investment in State Treasurer's Local Government Investment Pool (LGIP)	\$ 1,079	\$ 1,079
Less - LGIP classified as cash and cash equivalents	<u>(1,079)</u>	<u>(1,079)</u>
	<u>\$ -</u>	<u>\$ -</u>



2. **Deposits and Investments (Continued)**

A summary of cash and cash equivalents at June 30, 2004, of both the primary government and its component units – School Board and IDA, was as follows:

	Primary Government	School Component Unit	IDA Component Unit
Petty cash and change funds	\$ 18,167	\$ -	\$ -
Deposits	4,100,140	2,145,884	16,428
Investments - classified as cash and cash equivalents	807,499	1,079	-
	<u>\$ 4,925,806</u>	<u>\$ 2,146,963</u>	<u>\$ 16,428</u>

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 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, 2004, consists of the following:

**Primary Government**

	General	Capital Projects	Total
<u>Commonwealth of Virginia</u>			
Comprehensive Services Act	\$ 68,680	\$ -	\$ 68,680
Sales tax	35,831	-	35,831
Street and highway maintenance	150,000	86,943	236,943
DMV reimbursement	8,737	-	8,737
Compensation Board	14,329	-	14,329
FEMA Matching Grant	2,224	-	2,224
Fire Program Fund	17,258	-	17,258
Total due from the Commonwealth of Virginia	<u>297,059</u>	<u>86,943</u>	<u>384,002</u>

**Federal Government**

COPS Fast Grant	2,949	-	2,949
U.S. Department of Interior	5,102	-	5,102
FEMA Public Assistance	9,941	-	9,941
Federal Aid Streets and Highways	28,926	-	28,926
Total due from the Federal government	<u>46,918</u>	<u>-</u>	<u>46,918</u>
Total due from other governments	<u>\$ 343,977</u>	<u>\$ 86,943</u>	<u>\$ 430,920</u>

5. **Due From Other Governmental Units (Continued)**

**Component Unit – School Board**

Commonwealth of Virginia

State sales taxes	\$ 239,322
State technology reimbursement	159,492
Teacher fringe benefits	12,606
Various grants	21,716
Total due from the Commonwealth of Virginia	<u>433,136</u>

Federal Government

ECIA Program

Title I & II	167,525
Title VI	6,355
Title V	16,521
Title VI-B	80,976
Vocational	13,004
Various grants	1,443
Total due from the federal government	<u>285,824</u>
Total due from other governments	<u>\$ 718,960</u>

6. **Interfund Receivables and Payables**

Details of the receivables and payables between the primary government and the component units at June 30, 2004, are as follows:

<u>Primary Government</u>	<u>Component Unit</u>	<u>Amount</u>
<u>Receivable Fund</u>	<u>Payable Fund</u>	
City General Fund	School General Fund	<u>\$ 139,863</u>

## 7. Capital Assets

A summary of changes in capital assets for the primary government follows:

	<b>Balance June 30, 2003</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2004</b>
<b>Capital assets not being depreciated</b>				
Land	\$ 2,583,903	\$ -	\$ -	\$ 2,583,903
Construction in progress	190,995	367,976	503,214	55,757
<b>Total capital assets not being depreciated</b>	<b>2,774,898</b>	<b>367,976</b>	<b>503,214</b>	<b>2,639,660</b>
<b>Other capital assets</b>				
Buildings	6,278,653	23,995	-	6,302,648
Infrastructure	10,569	375,471	-	386,040
Machinery and equipment	3,942,635	351,244	291,274	4,002,605
<b>Total other capital assets</b>	<b>10,231,857</b>	<b>750,710</b>	<b>291,274</b>	<b>10,691,293</b>
<b>Less - accumulated depreciation</b>				
Buildings	1,595,406	140,552	-	1,735,958
Infrastructure	4,016	7,932	-	11,948
Machinery and equipment	2,051,183	292,316	275,517	2,067,982
<b>Total accumulated depreciation</b>	<b>3,650,605</b>	<b>440,800</b>	<b>275,517</b>	<b>3,815,888</b>
<b>Other capital assets - net</b>	<b>6,581,252</b>	<b>309,910</b>	<b>15,757</b>	<b>6,875,405</b>
	<b>9,356,150</b>	<b>677,886</b>	<b>518,971</b>	<b>9,515,065</b>
<b>Allocation of School Board Assets</b>				
Buildings	10,685,346	-	-	10,685,346
<b>Less - accumulated depreciation</b>				
Buildings	(1,690,688)	(213,706)	-	(1,904,394)
<b>Total allocated to City</b>	<b>8,994,658</b>			<b>8,780,952</b>
<b>Total</b>	<b>\$ 18,350,808</b>			<b>\$ 18,296,017</b>

7. **Capital Assets (Continued)**

Depreciation was charged to governmental functions as follows:

General Government Administration	\$ 105,765
Public Safety	223,202
Public Works	56,080
Health and Welfare	19,052
Parks, Recreation, and Cultural	30,497
Nondepartmental	4,188
Education	213,706
<b>Total</b>	<b>\$ 652,490</b>

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

	<b>Balance June 30, 2003</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2004</b>
<b>Capital assets not being depreciated:</b>				
Land	\$ 243,223	\$ -	\$ -	\$ 243,223
<b>Other capital assets</b>				
Buildings	17,613,965	42,106	26,344	17,629,727
Machinery and equipment	3,642,643	443,836	631,182	3,455,297
<b>Total other capital assets</b>	<b>21,256,608</b>	<b>485,942</b>	<b>657,526</b>	<b>21,085,024</b>
<b>Less - accumulated depreciation</b>				
Buildings	5,559,518	367,600	26,344	5,900,774
Machinery and equipment	2,968,679	212,389	578,472	2,602,596
<b>Total accumulated depreciation</b>	<b>8,528,197</b>	<b>579,989</b>	<b>604,816</b>	<b>8,503,370</b>
<b>Other capital assets - net</b>	<b>12,728,411</b>	<b>(94,047)</b>	<b>52,710</b>	<b>12,581,654</b>
	<b>12,971,634</b>	<b>(94,047)</b>	<b>52,710</b>	
<b>Allocation to City</b>	<b>(10,685,346)</b>	<b>-</b>	<b>-</b>	<b>(10,685,346)</b>
Buildings				
<b>Less - accumulated depreciation</b>	<b>1,690,688</b>	<b>213,706</b>	<b>-</b>	<b>1,904,394</b>
<b>Total allocated to City</b>	<b>(8,994,658)</b>			<b>(8,780,952)</b>
<b>Total</b>	<b>\$ 3,976,976</b>			<b>\$ 4,043,925</b>

7. **Capital Assets (Continued)**

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

<u>Business-type activities</u>	<u>Balance June 30, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2004</u>
<b>Capital assets not being depreciated:</b>				
Land	\$ 237,766	\$ 5,450	\$ -	\$ 243,216
Construction in progress	312,444	632,514	944,958	-
<b>Total capital assets not being depreciated</b>	<u>550,210</u>	<u>637,964</u>	<u>944,958</u>	<u>243,216</u>
<b>Other capital assets</b>				
Buildings	264,122	-	-	264,122
Machinery and equipment	998,141	-	67,565	930,576
Sewer system	20,897,392	944,959	203,447	21,638,904
Sewer easement	7,000	-	-	7,000
<b>Total other capital assets</b>	<u>22,166,655</u>	<u>944,959</u>	<u>271,012</u>	<u>22,840,602</u>
<b>Less - accumulated depreciation</b>				
Buildings	230,897	6,481	-	237,378
Machinery and equipment	527,662	82,702	67,565	542,799
Sewer system	3,531,842	594,011	139,068	3,986,785
<b>Total accumulated depreciation</b>	<u>4,290,401</u>	<u>683,194</u>	<u>206,633</u>	<u>4,766,962</u>
<b>Other capital assets - net</b>	<u>17,876,254</u>	<u>261,765</u>	<u>64,379</u>	<u>18,073,640</u>
<b>Total</b>	<u>\$ 18,426,464</u>	<u>\$ 899,729</u>	<u>\$ 1,009,337</u>	<u>\$ 18,316,856</u>

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

<u>Industrial Development Authority</u>	<u>Balance July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2004</u>
<b>Capital assets not being depreciated:</b>				
Land	\$ 1,238,552	\$ 366,513	\$ -	\$ 1,605,065
<b>Other capital assets:</b>				
Buildings and improvements	118,858	-	-	118,858
Infrastructure	315,273	-	-	315,273
<b>Total other capital assets</b>	<u>434,131</u>	<u>-</u>	<u>-</u>	<u>434,131</u>
<b>Less - accumulated depreciation:</b>				
Buildings and improvements	11,527	6,771	-	18,298
Infrastructure	-	14,331	-	14,331
<b>Total accumulated depreciation</b>	<u>11,527</u>	<u>21,102</u>	<u>-</u>	<u>32,629</u>
<b>Other capital assets - net</b>	<u>422,604</u>	<u>(21,102)</u>	<u>-</u>	<u>401,502</u>
<b>Total</b>	<u>\$ 1,661,156</u>	<u>\$ 345,411</u>	<u>\$ -</u>	<u>\$ 2,006,567</u>

## 8. Long-Term Obligations

### Governmental Activities

Following is a summary of the changes in long-term liabilities for governmental activities and its component unit - School Board, respectively, for the year ended June 30, 2004:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Amounts due within one year
<b>General Obligation</b>					
Debts payable:					
General obligation bonds	\$ 8,189,853	\$ -	\$ 543,900	\$ 7,645,953	\$ 585,035
State Literary Fund loans	5,250,856	-	439,518	4,811,338	439,518
Deferred charge - refunding	(206,902)	-	(18,745)	(188,157)	-
	<u>13,233,807</u>	<u>-</u>	<u>964,673</u>	<u>12,269,134</u>	<u>1,024,553</u>
Accrued benefits:					
Accrued compensated absences	<u>416,563</u>	<u>25,805</u>	<u>-</u>	<u>442,368</u>	<u>-</u>
	<u>\$ 13,650,370</u>	<u>\$ 25,805</u>	<u>\$ 964,673</u>	<u>\$ 12,711,502</u>	<u>\$ 1,024,553</u>
<b>Component Unit - School Board</b>					
Accrued benefits:					
Accrued compensated absences	<u>\$ 97,475</u>	<u>\$ 12,911</u>	<u>\$ -</u>	<u>\$ 110,386</u>	<u>\$ 11,039</u>

Outstanding General Obligation bonds at June 30, 2004 of the Primary Governmental activities are comprised of the following:

<b><i>School Serial Bonds of 1989</i></b> - \$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%.	\$ 420,000
<b><i>City Serial Bonds of 1994A</i></b> - \$4,900,000 bonds issued and due in annual installments varying from \$120,000 to \$400,000 through January 2006, with interest payable semi-annually at rates varying from 3.90% to 4.70%.	465,000
<b><i>High School Serial Bonds of 1998</i></b> - \$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%.	475,000
<b><i>General Obligation Court Facility Bond Series 1998A</i></b> - \$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%.	<u>1,170,528</u>
<b>Total (carried forward)</b>	<u>\$ 2,530,528</u>

8. **Long-Term Obligations (Continued)**

**Government Activities (Continued)**

<b>Total (brought forward)</b>	<b>\$ 2,530,528</b>
<b>General Obligation Fire Station Bond Series 2000</b> - \$925,000 bonds issued and due in semi-annual principal and interest installments of \$45,471 through September 2015. The bonds bear interest at 5.43%.	770,803
<b>General Obligation Refunding Note Series 2001</b> - \$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.	546,205
<b>General Obligation Public Improvement Equipment Note Series 2002B</b> - \$597,000 bonds issued and due in annual installments of \$72,304, including principal and interest at 4.34%, through June 2011.	428,417
<b>General Obligation Refunding Note Series 2002</b> - \$3,405,000 bonds issued and due in annual installments varying from \$35,000 to \$385,000 through January 2016, with interest paid semi-annually at 2.5% to 3.72%.	3,370,000
<b>Total general obligation bonds outstanding</b>	<b>\$ 7,645,953</b>

**Line of Credit**

On December 2003, the City of Poquoson obtained a \$2,000,000 line of credit evidenced by a general obligation revenue anticipation note. The City used \$90,000 of the line of credit during the year to bridge payments the City incurred for hurricane disaster recovery and reimbursement from Federal and State agencies. The \$90,000 was repaid during the year as Federal and State reimbursements were received. The line of credit is in existence until December 2005.

**Advance Refunding**

In November 2002, the City of Poquoson issued \$3,405,000 of general obligation refunding bonds to provide resources to purchase U.S. Government bonds that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$3,175,000 of general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the City's activities column on the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$230,000. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is the same life as the old debt. This advance refunding was undertaken to reduce total debt service payments over a 13 year period by \$333,000 and resulted in a net present value savings of \$281,070. The advance refunded debt was legally defeased on January 1, 2004.

8. **Long-Term Obligations (Continued)**

Outstanding literary loan funds at June 30, 2004 of the Primary Governmental activities are comprised of the following issues:

<b><i>Middle School Literary Fund Loan (HVAC)</i></b> - \$410,776 loan issued May 1, 1985, due in annual installments of \$20,538 through May 2005, with interest at 3%.	\$ 20,538
<b><i>Elementary School Literary Fund Loan (HVAC)</i></b> - \$339,561 loan issued May 1, 1985, due in annual installments of \$16,980 through May 2005, with interest at 3%.	16,980
<b><i>Primary School Literary Fund Loan</i></b> - \$2,500,000 loan issued September 15, 1989, due in annual installments of \$125,000 through August 2009, with interest at 3%.	750,000
<b><i>Primary School Literary Fund Loan</i></b> - \$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%.	273,820
<b><i>High School Literary Fund Loan</i></b> - \$5,000,000 loan issued November 17, 1998, due in annual installments of \$250,000 through December 2018, with interest at 3%.	3,750,000
<b>Total state literary fund loans outstanding</b>	<u>\$ 4,811,338</u>

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 439,518	\$ 144,340
2006	402,000	131,155
2007	402,000	119,095
2008	402,000	107,035
2009	402,000	94,975
2010-2014	1,513,820	316,473
2015-2019	1,250,000	112,500
	<u>\$ 4,811,338</u>	<u>\$ 1,025,573</u>

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 585,035	\$ 335,416
2006	595,617	306,623
2007	626,745	276,957
2008	638,454	251,002
2009	660,772	224,437
2010-2014	3,135,709	709,757
2015-2019	1,403,621	94,093
	<u>\$ 7,645,953</u>	<u>\$ 2,198,285</u>



**8. Long-Term Obligations (Continued)**

**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, 2004, the City's aggregate general obligation indebtedness, excluding proprietary fund debt, was \$72,271,083 less than the allowable limit.

**Overlapping Debt**

There are no overlapping or underlying tax jurisdictions.

**9. Long-Term Liabilities - Business-Type Activities**

Following is a summary of debt transactions of the enterprise funds for the fiscal year ended June 30, 2004:

	<b>Balance</b>			<b>Balance</b>	<b>Amounts</b>
	<b>July 1, 2003</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2004</b>	<b>due within</b>
					<b>one year</b>
<b>Enterprise Funds</b>					
General obligation funds	\$ 14,131,490	\$ 990,000	\$ 1,614,866	\$ 13,506,624	\$ 715,603
Accounting loss					
on refunding	(356,090)	131,020	(130,092)	(357,018)	-
Bond premium	6,236	-	329	5,907	-
	<u>13,781,636</u>	<u>1,121,020</u>	<u>1,485,103</u>	<u>13,155,513</u>	<u>715,603</u>
Accrued compensated					
absences	21,171	-	640	20,531	-
	<u>\$ 13,802,807</u>	<u>\$ 1,121,020</u>	<u>\$ 1,485,743</u>	<u>\$ 13,176,044</u>	<u>\$ 715,603</u>

9. **Long-Term Liabilities - Business-Type Activities (Continued)**

General long-term obligations and notes payable at June 30, 2004, are comprised of the following:

<b><i>General Obligation Sewer System Bonds, Series 1994A (September 1994)</i></b> - \$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%.	\$ 350,000
<b><i>General Obligation Sewer System Refunding Bonds, Series 1998B (December 1998)</i></b> - \$2,294,591 bonds issued and due in annual installments varying from \$21,809 to \$235,256, through September 2017, with interest payable semi-annually at 4.5%.	2,190,354
<b><i>General Obligation Sewer Bonds, Series 2000B (May 2000)</i></b> - \$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%.	2,362,428
<b><i>General Obligation Sewer Bonds, Series 2000A (May 2000)</i></b> - \$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%.	6,503,313
<b><i>General Obligation Sewer Bonds, Series 2002</i></b> - \$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%.	1,025,000
<b><i>General Obligation Public Improvement Equipment Note Series 2002A</i></b> - \$141,000 bonds issued and due in annual installments of \$30,590, including principal and interest at 3.57% through August 2006.	85,529
<b><i>General Obligation Sewer System Refunding Bonds Series 2003 (December 2003)</i></b> - \$990,000 bonds issued and due in annual installments varying from \$110,000 to \$140,000, through January 2012, with interest payable semi-annually at 2.92%.	990,000
	13,506,624
Accounting loss on refundings	(357,018)
Bond premium	5,907
<b>Total general obligation bonds outstanding</b>	<b>\$ 13,155,513</b>

9. **Long-Term Liabilities - Business-Type Activities (Continued)**

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 715,603	\$ 476,374
2006	741,922	439,075
2007	768,771	410,714
2008	771,690	382,081
2009	795,971	353,847
2010-2014	4,160,306	1,342,685
2015-2019	4,285,854	632,167
2020-2024	1,266,507	61,494
	<u>\$ 13,506,624</u>	<u>\$ 4,098,437</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.

**Advanced and Current Refundings**

In prior years, the City advanced refunded 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. At June 30, 2004, \$2,015,000 of the bonds outstanding is considered to be an in-substance defeasance. The debt was legally defeased on September 1, 2004.

In December 2003, the City of Poquoson issued \$990,000 of general obligation refunding bonds to current refund \$935,000 of general obligation refunding bonds. The refunded bonds are considered to be legally defeased and the liability has been removed from the City's financial statements. The reacquisition price exceeded the net carrying amount of the old debt by \$55,000. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is the same life as the old debt. This advance refunding was undertaken to reduce total debt service payments over a 8 year period by \$60,089 and resulted in a net present value savings of \$54,656.

The unamortized amount deferred on the sewer refundings of \$357,017 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 uses a \$3,000,000 line of credit with a bank to finance a variety of land purchases. Short-term activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Draws	Repayments	Ending Balance
Line of credit	\$ 945,525	\$ 255,815	\$ -	\$ 1,201,340

**Note Payable**

The IDA also has \$130,000 interest bearing note payable, due in annual installments of \$43,333 through June 2007, with interest at 5.00%.

Estimated principal payments on long-term liabilities for future years ending June 30, follows:

Year	Principal	Interest
2005	\$ 43,333	\$ 6,500
2006	43,333	4,333
2007	43,334	2,167
	<u>\$ 130,000</u>	<u>\$ 13,000</u>

**11. Conduit Debt Obligation**

On July 1, 2001, the IDA issued \$10,000,000 YMCA Revenue Bonds to finance the acquisition and construction of the Peninsula Metropolitan YMCA (YMCA). On November 1, 2003, the IDA issued \$5,000,000 Nansemond-Suffolk Academy (NSA) Revenue bonds to finance an addition. 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 and the NSA. 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. At June 30, 2004, \$9,675,000 was outstanding.

**12. Deferred Revenue**

Deferred revenue for the primary government at June 30, 2004, consists of real and personal property taxes not collected within 45 days after June 30, 2004, and grant money received but not yet expended.

**13. Contingency**

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

#### 14. Certain Interfund Transactions and Fund Results

##### Interfund Transfers

Interfund transfers for the year ended June 30, 2004 were made up of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 151,800	\$ 2,218,421
Debt Service Fund	1,508,041	-
Capital Projects Fund	456,380	-
Parks, Recreation and Cultural	56,000	-
Sewer Operation Fund	-	151,800
Solid Waste fund	198,000	-
<b>Totals</b>	<u>\$ 2,370,221</u>	<u>\$ 2,370,221</u>

Purpose:

Transfers from General Fund:

\$1,508,041 Debt Service Fund: current year debt payments.  
 \$ 456,380 Capital Projects: funding for pay-as-you-go capital projects.  
 \$ 56,000 Parks, Recreation and Cultural: fund deficit in special events.  
 \$ 198,000 Solid Waste Fund: fund bulky item pickup.

Transfers from Sewer Operation Fund:

\$ 151,800 General Fund: allocate administration costs paid out of General Fund for sewer services.

#### 15. Surety Bonds

The City maintained the following surety bond coverage's on certain employees of the primary government and component unit during the fiscal year ended June 30, 2004:

<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
Dr. Marilyn F. Barr, Deputy Clerk of the School Board	\$ 10,000
All School Board employees - blanket bond	\$ 1,000,000

**15. Surety Bonds (Continued)**

The Commonwealth of Virginia maintained the following surety bond and blanket bond coverage 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

**16. Related-Party Transactions**

The City's financial statements do not include certain public commissions and authorities created as separate governmental entities under the laws of the Commonwealth of Virginia. These agencies are separate legal entities having governmental character and sufficient autonomy in the management of their own affairs to distinguish them as separate from the administrative organization of the City, although certain members of their governing bodies are appointed by Council. These entities are the Hampton Roads Planning District Commission (HRPDC), the Virginia Peninsula's Public Service Authority (VPPSA), the Peninsula 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, 2004, the City provided support to HRPDC of \$51,886, VPPSA of \$1,923,203, PAED of \$14,125, CSB of \$95,500 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 2004, the City incurred expenses for the jail and center of \$74,270 and \$58,540, respectively. Notes issued by the regional jail are limited obligations payable from revenues received from the member jurisdictions. The City, along with three other member jurisdictions, have agreed to provide funding makeup support to cover any deficiencies in the regional jail's debt service fund based on each member's utilization rate.

The City of Poquoson shares certain services and their associated costs with York County, including the circuit court, the Commonwealth's Attorney and the sheriff of York County. The City also shares social services with York County. During the year ended June 30, 2004, the City paid \$296,012 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, 2004, the School Board provided support of \$316,424 to the New Horizons Education Center.

## **17. Defined Benefit Retirement Plan**

### **A. Plan Description**

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

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, firefighters, and sheriff) 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, firefighters, and sheriff) 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 VRS. 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, 2004, was 1.00% and 12.75%, 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 2004, 2003 and 2002 and were \$854,446, \$833,075 and \$808,682, respectively. The School Board contributed 100% of required contributions to the pool for fiscal year ended 2004 and each of the two preceding years.

**17. Defined Benefit Retirement Plan (Continued)**

**C. Annual Pension Cost**

For fiscal year 2004, the City and School Board's annual pension costs of \$256,075 and \$77,983, 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, 2003, 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.

The Schedules of Funding Progress and Employer Contributions are presented as required supplementary information. The information presented in the schedules of employer contributions and funding progress was determined as part of the actuarial valuation on June 30, 2002. Actuarial assumptions used include an investment rate of return of 8%.

**18. Risk Management**

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

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

**19. Subsequent Event**

On October 5, 2004, the City issued \$696,140 of debt in the form of an equipment lease purchase agreement for two fire pumper trucks.

**20. Extraordinary Item**

On September 18, 2003, Hurricane Isabel passed through the City causing extensive property damage from falling trees and storm surge. Costs incurred to the City amounted to \$2,797,515 of which \$2,163,802 was reimbursed by the Federal Emergency Management Agency (FEMA) and Federal Highway Funds, \$475,077 was reimbursed by the Virginia Emergency Management Agency and citizen donations of \$54,379 were received.

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General Fund  
Budgetary Comparison Schedule

Year Ended June 30, 2004

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
<b>Revenues and other financing sources</b>				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 9,138,000	\$ 9,324,000	\$ 9,368,376	\$ 44,376
Public service corporation property taxes	145,000	178,000	178,613	613
Personal property	1,365,500	1,498,500	1,538,520	40,020
Penalties and interest	115,000	121,000	141,051	20,051
<b>Total general property taxes</b>	<b>10,763,500</b>	<b>11,121,500</b>	<b>11,226,560</b>	<b>105,060</b>
Other local taxes:				
Sales and use taxes	410,000	410,000	435,253	25,253
Meals taxes	375,000	375,000	416,243	41,243
Cigarette taxes	102,000	102,000	93,441	(8,559)
Consumers' utility taxes	427,000	427,000	439,998	12,998
Consumption tax	36,000	36,000	37,692	1,692
E-911 telephone taxes	165,000	165,000	157,749	(7,251)
Business license taxes	300,000	300,000	329,573	29,573
Franchise license taxes	97,000	97,000	106,899	9,899
Motor vehicle license taxes	284,000	284,000	289,669	5,669
Bank stock taxes	18,000	18,000	30,486	12,486
Recordation and wills taxes	105,000	140,000	156,939	16,939
Deeds of conveyance	20,000	20,000	31,022	11,022
<b>Total other local taxes</b>	<b>2,339,000</b>	<b>2,374,000</b>	<b>2,524,964</b>	<b>150,964</b>
Permits, privilege fees and regulatory licenses:				
Animal license	1,600	1,600	1,944	344
Permits and other licenses	102,400	142,400	171,581	29,181
<b>Total permits, privilege fees and regulatory licenses</b>	<b>104,000</b>	<b>144,000</b>	<b>173,525</b>	<b>29,525</b>
Fines and forfeitures	25,800	25,800	24,605	(1,195)
Revenue from use of money and property:				
Revenue from use of money	56,000	40,000	(16,056)	(56,056)
Revenue from use of property	79,800	69,700	74,993	5,293
<b>Total revenue from use of money and property</b>	<b>135,800</b>	<b>109,700</b>	<b>58,937</b>	<b>(50,763)</b>
Charges for services:				
Charges for sales of maps	300	300	275	(25)
Charges for business promotional maps	-	5,580	5,891	311
Charges for copying	4,200	4,200	4,347	147
Charges for library and fees	15,000	19,040	21,227	2,187
<b>Total charges for services</b>	<b>19,500</b>	<b>29,120</b>	<b>31,740</b>	<b>2,620</b>
Miscellaneous revenue:				
Miscellaneous	4,500	8,176	14,307	6,131
Insurance recoveries	-	-	2,197	2,197
Donations-volunteer fire and rescue	-	16,109	16,109	-
Donations-hurricane relief	-	54,379	54,379	-
Donations	-	6,053	6,053	-
<b>Total miscellaneous revenue</b>	<b>4,500</b>	<b>84,717</b>	<b>93,045</b>	<b>8,328</b>

General Fund  
Budgetary Comparison Schedule

Year Ended June 30, 2004

	Original Budget	Budget as Amended	Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
<b>Revenues and other financing sources (Continued)</b>				
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
ABC profits	6,780	6,780	17,638	10,858
DMV reimbursement	60,000	81,000	92,865	11,865
Wine taxes	7,100	7,100	10,933	3,833
Mobile home titling taxes	2,000	2,000	3,884	1,884
Rolling stock tax	-	-	87	87
Personal property tax relief	1,644,500	1,677,500	1,677,746	246
<b>Total noncategorical aid</b>	<b>1,720,380</b>	<b>1,774,380</b>	<b>1,803,153</b>	<b>28,773</b>
Categorical aid:				
Shared expenses:				
Commissioner of the Revenue	74,060	74,060	71,891	(2,169)
Treasurer	83,970	83,970	81,384	(2,586)
Registrar/electoral board	37,620	37,620	37,378	(242)
<b>Total categorical aid</b>	<b>195,650</b>	<b>195,650</b>	<b>190,653</b>	<b>(4,997)</b>
Other categorical aid:				
State 599 police funds	249,000	249,000	248,640	(360)
Juvenile crime	14,340	14,340	14,388	48
Fire program fund	15,000	15,000	17,258	2,258
Department of Emergency Services	2,000	2,000	2,000	-
Street and highway maintenance	600,000	600,000	600,000	-
Litter control	4,780	4,780	4,495	(285)
Library	100,100	100,156	100,156	-
Emergency medical services	5,180	5,729	5,729	-
State drug seizure	-	-	353	353
State matching FEMA grant	-	475,487	475,077	(410)
Wireless E911 PSAP	35,130	35,130	36,381	1,251
Comprehensive services	98,000	171,000	170,754	(246)
<b>Total other categorical aid</b>	<b>1,123,530</b>	<b>1,672,622</b>	<b>1,675,231</b>	<b>2,609</b>
<b>Total categorical aid</b>	<b>1,319,180</b>	<b>1,868,272</b>	<b>1,865,884</b>	<b>(2,388)</b>
<b>Total revenue from the Commonwealth</b>	<b>3,039,560</b>	<b>3,642,652</b>	<b>3,669,037</b>	<b>26,385</b>
Revenue from the federal government:				
FEMA public assistance grant	-	2,134,876	2,134,876	-
Miscellaneous	33,900	74,889	73,124	(1,765)
<b>Total revenue from the federal government</b>	<b>33,900</b>	<b>2,209,765</b>	<b>2,208,000</b>	<b>(1,765)</b>
<b>Other financing sources</b>				
Transfer from component unit-School Board	321,700	321,700	462,072	140,372
Transfer from sewer fund	151,800	151,800	151,800	-
<b>Total other financing uses</b>	<b>473,500</b>	<b>473,500</b>	<b>613,872</b>	<b>140,372</b>
<b>Total revenue and other financing sources</b>	<b>\$ 16,939,060</b>	<b>\$ 20,214,754</b>	<b>\$ 20,624,285</b>	<b>\$ 409,531</b>

General Fund  
Budgetary Comparison Schedule

Year Ended June 30, 2004

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
<b>Expenditures and other financing uses</b>				
General government administration:				
Legislative - City Council	\$ 59,240	\$ 63,740	\$ 63,728	\$ 12
General and financial administration:				
City Manager	243,770	246,973	243,903	3,070
Legal services	84,750	77,350	77,308	42
Independent auditor	31,180	22,280	22,255	25
Commissioner of the Revenue	212,340	213,834	211,832	2,002
Assessor/equalization board	124,290	139,120	139,120	-
Treasurer	211,530	219,210	219,176	34
Finance	224,450	230,348	226,471	3,877
Risk management	47,370	22,705	22,674	31
<b>Total general and financial administration</b>	<b>1,179,680</b>	<b>1,171,820</b>	<b>1,162,739</b>	<b>9,081</b>
Board of elections - electoral board and registrar	99,200	99,200	99,199	1
<b>Total general government administration</b>	<b>1,338,120</b>	<b>1,334,760</b>	<b>1,325,666</b>	<b>9,094</b>
Public safety:				
General district court	97,184	97,184	97,010	174
Clerk of the circuit court	(33,425)	(33,425)	(33,425)	-
Sheriff	77,713	77,713	77,713	-
Building maintenance	38,248	38,248	38,248	-
<b>Total judicial administration</b>	<b>179,720</b>	<b>179,720</b>	<b>179,546</b>	<b>174</b>
Law enforcement and traffic control - police department	1,583,480	1,653,963	1,653,407	556
Fire and rescue services - fire department	1,749,700	1,858,343	1,858,249	94
Correction and detention - regional operated institutions	152,990	161,800	161,799	1
Inspections - various	102,270	110,270	110,258	12
Other protection - animal control	53,090	53,090	53,090	-
<b>Total public safety</b>	<b>3,641,530</b>	<b>3,837,466</b>	<b>3,836,803</b>	<b>663</b>
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
General engineering/administration	176,400	174,678	165,375	9,303
Highways, streets, bridges and sidewalks	794,650	797,608	797,336	272
Street lights	56,000	56,000	51,316	4,684
<b>Total maintenance of highways, streets, bridges and sidewalks</b>	<b>1,027,050</b>	<b>1,028,286</b>	<b>1,014,027</b>	<b>14,259</b>
Maintenance of general buildings and grounds	110,200	110,200	108,772	1,428
<b>Total public works</b>	<b>1,137,250</b>	<b>1,138,486</b>	<b>1,122,799</b>	<b>15,687</b>

General Fund  
Budgetary Comparison Schedule

Year Ended June 30, 2004

	Original Budget	Budget as Amended	Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
<b>Expenditures and other financing uses (Continued)</b>				
Health and welfare:				
Health:				
Local health department	39,920	39,920	39,103	817
Mosquito control	188,840	188,840	186,366	2,474
<b>Total health</b>	<b>228,760</b>	<b>228,760</b>	<b>225,469</b>	<b>3,291</b>
Mental health and mental retardation - mental health	113,500	113,500	113,345	155
Welfare:				
Social services	96,600	96,600	93,562	3,038
Comprehensive services	150,000	233,000	229,497	3,503
<b>Total welfare</b>	<b>246,600</b>	<b>329,600</b>	<b>323,059</b>	<b>6,541</b>
<b>Total health and welfare</b>	<b>588,860</b>	<b>671,860</b>	<b>661,873</b>	<b>9,987</b>
Education - School Board	7,070,000	7,190,608	7,190,608	-
Parks, recreation and cultural - supervision of parks and recreation	242,840	244,572	241,561	3,011
Library - administration	513,260	523,272	523,195	77
<b>Total parks, recreation and cultural</b>	<b>756,100</b>	<b>767,844</b>	<b>764,756</b>	<b>3,088</b>
Community development:				
Planning	235,760	287,261	285,137	2,124
Economic development	5,000	5,000	5,000	-
Community development	126,610	133,210	132,315	895
Community development - IDA component unit	25,000	95,000	95,000	-
Community relations office	108,020	117,289	117,279	10
<b>Total community development</b>	<b>500,390</b>	<b>637,760</b>	<b>634,731</b>	<b>3,029</b>
Nondepartmental - miscellaneous	43,000	43,000	37,445	5,555
Department of motor vehicles	68,840	68,840	66,509	2,331
Hurricane recovery	-	2,809,076	2,809,076	-
<b>Total nondepartmental</b>	<b>111,840</b>	<b>2,920,916</b>	<b>2,913,030</b>	<b>7,886</b>
<b>Other Financing Uses</b>				
Transfers to Debt Service Fund	1,508,261	1,508,261	1,508,041	220
Transfers to Capital Projects Fund	103,600	456,380	456,380	-
Transfers to Parks Recreation Fund	-	56,000	56,000	-
Transfers to Solid Waste Fund	198,000	198,000	198,000	-
<b>Total other financing uses</b>	<b>1,809,861</b>	<b>2,218,641</b>	<b>2,218,421</b>	<b>220</b>
<b>Total expenditures and other financing uses</b>	<b>\$ 17,133,671</b>	<b>\$ 20,898,061</b>	<b>\$ 20,848,233</b>	<b>\$ 49,828</b>
<b>Excess of revenue and other financing sources over expenditures and other financing uses - budgetary basis</b>	<b>\$ (194,611)</b>	<b>\$ (683,307)</b>	<b>\$ (223,948)</b>	
<b>Net appropriation from fund balance</b>	<b>194,611</b>	<b>683,307</b>		
<b>Budget - excess of revenue, other financing sources and appropriation from fund balances over expenditures and other financing uses</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Less - Encumbrances outstanding June 30, 2003, actually expended as of June 30, 2004</b>			<b>(114,656)</b>	
<b>Add - Encumbrances outstanding June 30, 2004</b>			<b>125,653</b>	
<b>Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses, GAAP basis</b>			<b>(212,951)</b>	
<b>Fund balances - July 1, 2003</b>			<b>4,354,081</b>	
<b>Fund balances - June 30, 2004</b>			<b>\$ 4,141,130</b>	

## Retirement Plan

Schedules of Funding Progress and Employer Contributions  
Virginia Retirement System

Year Ended June 30, 2004

		Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability	Over (Under) Funded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Over (Under) Funded Actuarial Liability as a Percent of Covered Payroll
<b>Schedules of Funding Progress</b>								
<b>City Employees</b>		6/30/03	\$ 11,865,662	\$ 11,671,875	\$ 193,787	101.66%	\$ 4,053,858	4.78%
		6/30/02	\$ 11,533,688	\$ 10,399,405	\$ 1,134,283	110.91%	\$ 3,736,191	30.36%
		6/30/01	\$ 11,032,189	\$ 9,356,833	\$ 1,675,356	117.90%	\$ 3,258,356	51.40%
		6/30/00	\$ 9,910,536	\$ 7,798,479	\$ 2,112,057	127.10%	\$ 3,179,681	66.40%
		6/30/99	\$ 8,331,910	\$ 7,661,020	\$ 670,890	108.80%	\$ 3,059,380	21.93%
<b>School Board</b>								
<b>Non-professional Employees</b>		6/30/03	\$ 827,244	\$ 949,503	\$ (122,259)	87.12%	\$ 467,736	(26.14)%
		6/30/02	\$ 769,537	\$ 908,263	\$ (138,726)	84.73%	\$ 515,674	(26.90)%
		6/30/01	\$ 699,099	\$ 799,581	\$ (100,482)	87.43%	\$ 474,453	(21.18)%
		6/30/00	\$ 602,210	\$ 615,144	\$ (12,934)	97.90%	\$ 403,417	(3.20)%
		6/30/99	\$ 502,635	\$ 574,382	\$ (71,747)	87.50%	\$ 371,974	(19.30)%
<b>Schedules of Employer Contributions</b>								
		Valuation Date	Annual Required Contribution (ARC)		Percentage of ARC Contributed		Net Pension Obligation	
<b>City Employees</b>		6/30/04	\$	42,679	100.00%	\$	-	
		6/30/03	\$	40,011	100.00%	\$	-	
		6/30/02	\$	17,689	100.00%	\$	-	
		6/30/01	\$	80,866	100.00%	\$	-	
<b>School Board</b>								
<b>Non-professional Employees</b>		6/30/04	\$	46,677	100.00%	\$	-	
		6/30/03	\$	38,481	100.00%	\$	-	
		6/30/02	\$	32,678	100.00%	\$	-	
		6/30/01	\$	28,850	100.00%	\$	-	

*Notes to Required Supplementary Information*

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June 30, 2004

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**1. Budgets and Budgetary Accounting**

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

- At least 60 days prior to June 30, the City Manager submits to City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- The budget is formulated from estimates of revenues and expected expenditures from each department. The School Board is treated as a single expenditure line item.
- When the City Manager submits the proposed budget to City Council, he also recommends an appropriation ordinance and an ordinance levying the tax rates for the ensuing year.
- City Council then holds public hearings on the proposed budget. Notice of such public hearing must appear in a local newspaper not less than seven days prior to the hearing.
- The budget must be approved by a majority vote of City Council and legally adopted before July 1. If City Council does not adopt the proposed budget before July 1, the budget as submitted is automatically adopted.
- The City Manager is authorized to transfer budgeted amounts within departments. Expenditures over the original budget of any department must be approved by City Council.

Budgets for proprietary fund types are prepared on the accrual basis of accounting. The General, Capital Projects and Debt Service Funds' budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for the recognition of encumbrances as expenditures in the General and Capital Projects.

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

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

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

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*City of Poquoson, Virginia**Component Unit - School Board  
Combining Balance Sheet***June 30, 2004**

Assets	Governmental Activities		Total School Board
	General	Special Revenue	
Cash and cash equivalents	\$ 2,135,438	\$ 11,525	\$ 2,146,963
Other receivables	947	-	947
Due from other governments	718,960	-	718,960
Inventory	-	2,802	2,802
	<u>\$ 2,855,345</u>	<u>\$ 14,327</u>	<u>\$ 2,869,672</u>
<b>Liabilities</b>			
Vouchers and accounts payable	\$ 1,866,527	\$ -	\$ 1,866,527
Due to primary government	139,863	-	139,863
Total liabilities	<u>2,006,390</u>	<u>-</u>	<u>2,006,390</u>
<b>Fund Balances</b>			
Reserved:			
Encumbrances	848,955	-	848,955
Inventory	-	2,802	2,802
Unreserved	-	11,525	11,525
Total fund balances	<u>848,955</u>	<u>14,327</u>	<u>863,282</u>
	<u>\$ 2,855,345</u>	<u>\$ 14,327</u>	<u>\$ 2,869,672</u>

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

\$ 863,282

Total fund balances - component unit

Amount reported for component unit activities in the Statement of Net Assets  
are different because:Capital assets used in governmental activities are not financial  
resources and, therefore are not reported in the funds, net of  
accumulated depreciation

4,043,925

Noncurrent liabilities are not due and payable in the current period  
and therefore are not reported in the funds.

(110,386)

Total net assets - component unit - School Board

\$ 4,796,821



## City of Poquoson, Virginia

## Component Unit - School Board

## Combining Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2004

	General Fund	Special Revenue	Total School Board
<b>Revenue</b>			
Revenue from use of money or property	\$ -	\$ 11	\$ 11
Charges for services	3,720	281,878	285,598
Intergovernmental:			
Commonwealth of Virginia	9,463,487	6,998	9,470,485
Federal government	1,027,096	22,487	1,049,583
Miscellaneous	796,781	27,073	823,854
<b>Total revenue</b>	<b>11,291,084</b>	<b>338,447</b>	<b>11,629,531</b>
<b>Expenditures</b>			
Current:			
Education	17,525,400	398,986	17,924,386
Capital outlays	1,410	-	1,410
<b>Total expenditures</b>	<b>17,526,810</b>	<b>398,986</b>	<b>17,925,796</b>
<b>Deficiency of revenue over expenditures</b>	<b>(6,235,726)</b>	<b>(60,539)</b>	<b>(6,296,265)</b>
<b>Other financing sources (uses)</b>			
Operating transfer from primary government	7,190,608	-	7,190,608
Operating transfer to primary government	(462,072)	-	(462,072)
Operating transfers in - school general fund	-	53,918	53,918
Operating transfers out - school special revenue fund	(53,918)	-	(53,918)
<b>Total other financing sources - net</b>	<b>6,674,618</b>	<b>53,918</b>	<b>6,728,536</b>
<b>Net change in fund balance</b>	<b>438,892</b>	<b>(6,621)</b>	<b>432,271</b>
<b>Fund balances - July 1, 2003</b>	<b>410,063</b>	<b>20,948</b>	<b>431,011</b>
<b>Fund balances - June 30, 2004</b>	<b>\$ 848,955</b>	<b>\$ 14,327</b>	<b>\$ 863,282</b>

**Reconciliation of the Revenues, Expenditures, and Changes in  
Fund Balances - School Board Funds to the Statement of Activities**

<b>Net change in fund balances - total school board funds</b>	<b>\$ 432,271</b>
Amount reported for governmental activities in the statement of net assets are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation. Also, in the Statement of Activities, the loss of disposal of assets is reported.	
Capital outlays	470,721
Depreciation expense	(355,402)
Loss on disposal of capital assets	(52,712)
Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(12,911)
<b>Change in net assets of governmental activities</b>	<b>\$ 481,967</b>

## City of Poquoson, Virginia

## School Board

## Budgetary Comparison Schedule - Operating Fund

Year Ended June 30, 2004

	General Fund			Variance Positive (Negative)
	Original Budget	Budget As Amended	Actual	
<b>Revenue</b>				
Charges for services	\$ 38,000	\$ 38,000	\$ 3,720	\$ (34,280)
Intergovernmental:				
Commonwealth of Virginia	8,912,521	9,080,146	9,463,487	383,341
Federal government	581,687	948,956	1,027,096	78,140
Miscellaneous	274,676	1,348,959	796,781	(552,178)
<b>Total revenue</b>	<b>9,806,884</b>	<b>11,416,061</b>	<b>11,291,084</b>	<b>(124,977)</b>
<b>Expenditures</b>				
Current:				
General and financial administration	814,729	852,916	805,462	47,454
Instruction	11,033,309	12,676,906	12,298,477	378,429
Attendance and health services	219,662	219,662	218,731	931
Pupil transportation	563,351	594,268	705,571	(111,303)
Operation and maintenance of school plants	1,343,618	1,376,691	1,394,802	(18,111)
Fixed charges	2,839,365	2,825,376	2,539,368	286,008
Capital outlay	3,800	1,800	3,291	(1,491)
<b>Total expenditures</b>	<b>16,817,834</b>	<b>18,547,619</b>	<b>17,965,702</b>	<b>581,917</b>
<b>Other financing sources (uses)</b>				
Operating transfer from primary government	7,070,000	7,190,608	7,190,608	-
Operating transfer to primary government	-	-	(462,072)	462,072
Operating transfer out - special revenue fund	(59,050)	(59,050)	(53,918)	(5,132)
<b>Total other financing sources-net</b>	<b>7,010,950</b>	<b>7,131,558</b>	<b>6,674,618</b>	<b>456,940</b>
<b>Excess of revenue and other financing sources over (under) expenditures and other financing uses - budgetary basis</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>	<b>\$ -</b>
<b>Less - encumbrances outstanding June 30, 2003, actually expended as of June 30, 2004</b>			<b>(410,063)</b>	
<b>Add - encumbrances outstanding June 30, 2004</b>			<b>848,955</b>	
<b>Excess of revenue and other financing sources over (under) expenditures and other financing uses - GAAP basis</b>			<b>438,892</b>	
<b>Fund balance - July 1, 2003</b>			<b>410,063</b>	
<b>Fund balance - June 30, 2004</b>			<b>\$ 848,955</b>	

*City of Poquoson, Virginia**School Board**Schedule of Changes in Capital Assets by Function and Activity***Year Ended June 30, 2004**

	<b>Restated Balance July 1, 2003</b>	<b>Additions</b>	<b>Dispositions</b>	<b>Balance June 30, 2004</b>
Education	\$ 21,515,054	\$ 470,719	\$ 657,526	\$ 21,328,247
Less - accumulated depreciation	(8,539,078)	(569,108)	604,816	(8,503,370)
	<u>12,975,976</u>	<u>(98,389)</u>	<u>52,710</u>	<u>12,824,877</u>
Allocation of assets to City - net	(8,994,658)	213,706	-	(8,780,952)
	<u>\$ 3,981,318</u>	<u>\$ 115,317</u>	<u>\$ 52,710</u>	<u>\$ 4,043,925</u>

*City of Poquoson, Virginia**Component Unit - School Board  
Combining Balance Sheets - Agency Funds***June 30, 2004**

	<b>Restated Balance July 1, 2003</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2004</b>
<b>Assets</b>				
Cash and cash equivalents	<u>\$ 348,176</u>	<u>\$ 1,074,840</u>	<u>\$ 1,088,955</u>	<u>\$ 334,061</u>
<b>Liabilities</b>				
Amounts held for others	<u>\$ 348,176</u>	<u>\$ 1,074,840</u>	<u>\$ 1,088,955</u>	<u>\$ 334,061</u>

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Table 1

*City of Poquoson, Virginia**Government-Wide Revenues*

Year Ended June 30,									
Fiscal Year	Program Revenues			General Revenues					Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Reimbursements from Other Agencies	Grants and Contributions Not Restricted to Specific Programs	Unrestricted Investment Earnings	Miscellaneous	
2004	\$ 2,211,880	\$ 1,718,011	\$ 193,425	\$ 13,660,262	\$ 2,012,657	\$ -	\$ 39,559	\$ 423,310	\$ 20,259,104
2003	\$ 2,033,912	\$ 1,326,011	\$ 694,324	\$ 13,239,298	\$ 1,669,092	\$ -	\$ 137,316	\$ 386,569	\$ 19,486,522

**Note:** FY2004 also had \$2,693,058 extraordinary revenues related to Hurricane Isabel.

Table 2

*City of Poquoson, Virginia**Government-Wide Expenditures by Function*

Year Ended June 30,														
Fiscal Year	General Government	Judicial	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation and Cultural	Community Development	Interest on Long-term Debt	Non-Departmental	Sewer	Parks and Recreation	Solid Waste	Total Expenditures
2004	\$ 1,449,410	\$ 277,307	\$ 3,823,700	\$ 1,659,214	\$ 650,092	\$ 6,965,522	\$ 839,537	\$ 636,477	\$ 525,850	\$ 120,404	\$ 1,609,179	\$ 524,504	\$ 446,172	\$ 19,527,368
2003	\$ 1,401,639	\$ 247,161	\$ 3,721,021	\$ 1,472,320	\$ 605,334	\$ 6,459,434	\$ 775,359	\$ 514,618	\$ 561,580	\$ 78,826	\$ 1,657,238	\$ 543,327	\$ 430,223	\$ 18,468,080

Note: FY2004 also had \$2,797,515 extraordinary expenditures related to Hurricane Isabel.

Table 3

*City of Poquoson, Virginia**General Governmental Revenues By Source***Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>General Property Taxes</u>	<u>Other Local Taxes</u>	<u>Permits, Privilege 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>
2004	\$ 11,226,560	\$ 2,524,964	\$ 173,525	\$ 24,605	\$ 58,948	\$ 317,338	\$ 1,192,908	\$ -	\$ 14,214,922	\$ 29,733,770
2003	\$ 10,859,951	\$ 2,442,485	\$ 116,843	\$ 27,970	\$ 132,753	\$ 331,500	\$ 220,601	\$ -	\$ 13,040,483	\$ 27,172,586
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

**Note:** Amounts include all general, special revenue, debt service and capital projects funds of the primary government and component unit (School Board). (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).



Table 4

## City of Poquoson, Virginia

## General Governmental Expenditures by Function

Last Ten Fiscal Years											
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
2004	\$ 1,333,308	\$ 4,007,945	\$ 1,128,861	\$ 657,485	\$ 17,924,386	\$ 763,681	\$ 540,457	\$ 92,394	\$ 987,539	\$ 1,508,041	\$ 28,944,097
2003	\$ 1,273,661	\$ 3,774,685	\$ 1,013,082	\$ 601,282	\$ 16,305,793	\$ 763,866	\$ 452,374	\$ 78,254	\$ 1,021,949	\$ 1,531,171	\$ 26,816,117
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

**Note:** Amounts include all general, special revenue, debt service and capital projects funds of the primary government and component unit (School Board). (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). Note that the debt service does not include refunded principal payments.

Table 5

*City of Poquoson, Virginia**Property Tax Levies and Collections***Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Total Tax Levy (1)</u>	<u>Current Tax Collections (1)</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections (1) (2)</u>	<u>Total Tax Collections</u>	<u>Percent of Total Tax Collections to Tax Levy</u>	<u>Outstanding Delinquent Taxes (1)</u>	<u>Percent of Delinquent Taxes to Tax Levy</u>
2004	\$ 9,363,522	\$ 9,193,103	98.18%	\$ 219,044	\$ 9,412,147	100.52%	\$ 237,868	2.54%
2003	\$ 9,199,326	\$ 9,064,109	98.53%	\$ 493,614	\$ 9,557,723	103.90%	\$ 286,493	3.11%
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%

(1) Exclusive of penalties and interest

(2) Does not include land redemption

Table 6

*City of Poquoson, Virginia**Assessed Value of Taxable Property**Last Ten Fiscal Years*


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Years Ended June 30,				
Fiscal Year	Real Property	Personal Property	Public Utility Real Property	Total
2004	\$ 832,002,644	\$ 124,217,525	\$ 15,281,091	\$ 971,501,260
2003	\$ 814,646,831	\$ 90,623,115	\$ 12,957,305	\$ 918,227,251
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

Table 7

*City of Poquoson, Virginia**Property Tax Rates (Per \$100 of Assessed Value)*

<b>Last Ten Fiscal Years</b>					
<u>Fiscal Year</u>	<u>Real Estate</u>	<u>Personal Property</u>	<u>Mobile Homes</u>	<u>Recreational Vehicles</u>	<u>Boats</u>
2004	\$1.12	\$3.85	\$1.12	\$1.50	\$1.50
2003	\$1.12	\$3.85	\$1.12	\$1.50	\$1.50
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

(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**

<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>
2004	11,566 (1)	\$ 971,501,260	\$ 12,457,291	1.28%	\$ 1,077
2003	11,566 (1)	\$ 918,227,251	\$ 13,440,709	1.46%	\$ 1,162
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

(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**Computation of Legal Debt Margin*


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 June 30, 2004
 

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**Total assessed value of taxed real property**

General	\$ 832,002,644
Public service corporations	<u>15,281,091</u>

<b>Total</b>	<b>\$ <u>847,283,735</u></b>
--------------	------------------------------

<b>Debt limit (10% of total assessed value)</b>	<b>\$ <u>84,728,374</u></b>
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**Debt applicable to debt limit**

General obligation bonds, other than those authorized for a specific revenue producing project	7,645,953
Sewer general obligation bonds	13,506,624
State literary fund loans	<u>4,811,338</u>
	<u>25,963,915</u>

<b>Margin for additional borrowing</b>	<b>\$ <u>58,764,459</u></b>
--	-----------------------------

*City of Poquoson, Virginia**Ratio of Annual Debt Service Expenditures to Total General  
Governmental Expenditures*

<b>Last Ten Fiscal Years</b>			
<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>
2004	\$28,944,097	\$ 1,508,041	5.21%
2003	\$26,816,177	\$ 1,531,171	5.71%
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%

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

*City of Poquoson, Virginia**Demographic Statistics*

<b>Last Ten Fiscal Years</b>				
<u>Fiscal Year</u>	<u>Population</u>	<u>Per Capita Income (3)</u>	<u>School Enrollment (4)</u>	<u>Unemployment Rate (5)</u>
2004	11,566(1)	Not Available	2,503	Not Available
2003	11,566(1)	Not Available	2,503	2.8%
2002	11,566(1)	\$31,673	2,492	2.2%
2001	11,566(1)	\$30,261	2,483	2.3%
2000	11,566(1)	\$28,797	2,474	1.7%
1999	11,005(2)	\$26,817	2,485	2.2%
1998	11,005(2)	\$25,815	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%

(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*

<b>Last Ten Fiscal Years</b>			
<b>Fiscal Year</b>	<b>Real Property Value (1)</b>	<b>New Construction (2)</b>	<b>Bank Deposits (3)</b>
2004	\$895,681,790	\$ 11,466,000	Not Available
2003	\$874,326,647	\$ 20,870,700	Not Available
2002	\$786,475,643	\$ 12,046,500	\$ 53,000,000
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

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

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

(3) Source: Federal Reserve Bank, Richmond (1995-2002). Data only available in millions in 2002.

*City of Poquoson, Virginia**Principal Taxpayers - 2004 Assessed Values***Year Ended June 30, 2004**

Taxpayer	Assessed Value	Percentage of Total Real Estate Assessment
Poquoson Place Apartments	\$ 7,441,900	0.84%
Bristol-Cardiff	6,201,900	0.70%
Suburban Land Company	3,960,000	0.45%
WCP, L.L.P.	3,668,400	0.42%
David A. Carpenter	3,083,800	0.35%
Islander Associates	2,752,100	0.31%
Universal of Poquoson	2,552,400	0.29%
Vantage Healthcare Corporation	1,927,600	0.22%
Wachovia Bank	1,696,500	0.19%
SNH CHS Properties	1,451,700	0.16%
	<u>\$ 34,736,300</u>	<u>3.94%</u>

**Miscellaneous Statistical Data**

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**Year Ended June 30, 2004**

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<b>Date of Incorporation</b>	1975
<b>Form of Government</b>	Council-Manager
<b>Population</b>	11566
<b>Area</b>	14.7 square miles
<b>Lane miles of streets</b>	
City maintenance	106.99
<b>Number of street lights</b>	519
<b>Fire Protection</b>	
Number of stations	2
Number of firefighters and officers	26
Number of volunteers	10
<b>Police Protection</b>	
Number of stations	1
Number of policemen and officers	22
Number of auxiliary	7
<b>Rescue</b>	
Number of squads	1
Number of volunteers	15
<b>Education</b>	
Elementary schools	2
Middle schools	1
High schools	1
<b>Sewers</b>	
Sanitary sewers	53 miles
Storm sewers	15 miles
<b>Recreation and culture</b>	
Number of major parks and recreational facilities	5
Acreage of major parks and recreational facilities	60.09 acres
Number of libraries	1
Number of volumes	50,735
<b>Employees</b>	
City	163
Schools	348
Constitutional Officers	2
<b>Registered Voters</b>	8,364

*Miscellaneous Statistical Data*

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**Year Ended June 30, 2004**

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**Taxable Retail Sales [1]**

Calendar Year

2004	Not available
2003	\$ 37,968,681
2002	\$ 37,836,130
2001	\$ 34,631,956
2000	\$ 32,194,843
1999	\$ 31,360,650
1998	\$ 27,049,341
1997	\$ 28,266,402

**Building Permits**

Number of new residential buildings constructed	43
Number of new commercial buildings constructed	2
Number of residential buildings demolished	34

[1] Source - Virginia Department of Taxation.

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

Certified Public Accountants  
Financial Planning  
Specialized Services

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, 2004, and have issued our report thereon dated November 9, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

***Compliance and Other Matters***

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

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.

Newport News, Virginia  
November 9, 2004

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Certified Public Accountants  
Financial Planning  
Specialized Services

***Report on Compliance with Requirements Applicable  
to Each Major Program and on 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* (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 its major federal program for the year ended June 30, 2004. The City's major federal program is 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 its major federal program 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 its major federal program for the year ended June 30, 2004.

***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.

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

Page 2

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

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  
November 9, 2004



***Report on Compliance with Commonwealth of  
Virginia Laws, Regulations, Contracts, and Grants***

Certified Public Accountants  
Financial Planning  
Specialized Services

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

We have audited the financial statements of the ***City of Poquoson, Virginia*** (City), as of and for the year ended June 30, 2004, and have issued our report thereon dated November 9, 2004.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the 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 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 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 Investments
- Conflicts of Interest
- Retirement Systems
- Debt Provisions
- Procurement
- Unclaimed Property
- Enhanced 911 Services Taxes
- Personal Property Tax Relief Act

State Agency Requirements

- Education
- Comprehensive Services Act
- Highway Maintenance Funds

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

Page 2

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.

*Goodman & Company*

Newport News, Virginia  
November 9, 2004

*City of Poquoson, Virginia**Schedule of Expenditures of Federal Awards***Year Ended June 30, 2004**

<b>Federal granting agency/recipient state agency/grant Program/grant number</b>	<b>Federal Catalogue Number</b>	<b>Federal Expenditures</b>
U. S. Department of Agriculture:		
Pass through payments:		
Department of Education:		
National School Lunch Program	10.555	\$ 53,851
State Department of Agriculture and Consumer Services:		
National School Lunch Program:		
USDA donated commodities	10.555	22,487
U. S. Department of Defense:		
Direct payments:		
E-rate	12.000	1,188
U. S. Department of the Interior:		
Direct payments:		
Wildlife Restoration	15.611	5,102
U. S. Department of Justice:		
Direct payments:		
Criminal Justice Grant	16.579	2,954
Public Safety Partnership and Community Policing Grants	16.710	26,032
Department of Labor:		
Pass through payments:		
New Horizons:		
WIA Youth Activities	17.259	2,174
U.S. Department of Transportation:		
Pass through payments:		
Department of Motor Vehicles:		
Alcohol Traffic Safety and Drunk Driving		
Prevention Incentive	20.601	8,922
Highway Planning and Construction	20.205	28,926

*City of Poquoson, Virginia**Schedule of Expenditures of Federal Awards***Year Ended June 30, 2004**

	Federal Catalogue Number	Federal Expenditures
<b>Federal granting agency/recipient state agency/grant Program/grant number (Continued)</b>		
Department of Education:		
Direct payments:		
Impact Aid	84.041	118,737
Foreign Language Assistance	84.293	33,256
Pass through payments:		
Virginia Department of Education:		
Adult education	84.002	4,774
Education Consolidation and Improvements Act of 1981:		
Title I - Grants to local educational agencies	84.010	150,628
Title II-Part A	84.367	6,386
Title VI:		
Innovative Education Program Strategies	84.298	15,304
Elementary and Secondary Education Act (ESEA):		
Title VI-B:		
Assistance to states for education of handicapped children:		
Special Education Grants	84.027	299,992
Special Education Preschool Grants	84.173	4,261
Vocational education	84.048	25,329
State and Drug-free Schools and Communities	84.186	8,887
Eisenhower Professional Development	84.281	37,809
Technology Literacy Challenge Grant	84.318	5,743
Department of Homeland Security:		
Direct payments:		
Public Assistance Grant	97.036	* 2,394,841
		<u>\$ 3,257,583</u>

\* Represents a major program of the City of Poquoson.

***City of Poquoson, Virginia***

***Notes to Schedule of Expenditures of Federal Awards***

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**June 30, 2004**

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**1. Basis of Presentation**

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

**2. Food Distribution**

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2004, the food service organization had food commodities totaling \$2,376 in inventory.

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*City of Poquoson, Virginia*

*Schedule of Findings and Questioned Costs*

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**Year Ended June 30, 2004**

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**1. Summary of Auditors' Results**

- a) The auditor's report expresses an unqualified opinion on the financial statements of the City.
- b) There were no reportable conditions noted in internal control required to be disclosed.
- c) No instances of noncompliance material to the financial statements of the City, which would be required to be reported in accordance with *Government Auditing Standards*, were noted during the audit.
- d) No reportable conditions were noted during the audit of internal control over major federal programs.
- e) The auditor's report on compliance for the major federal program of the City expressed an unqualified opinion on the major federal program.
- f) The audit did not disclose any audit findings required to be reported.
- g) The major program is:
  - i) Public Assistance Grant (CFDA No. 97.036)
- h) The dollar threshold used to distinguish between Type A and Type B programs is \$300,000.
- i) The auditee qualified as a low-risk auditee.

**2. Findings Relating to the General-Purpose Financial Statements which are Required to be Reported in accordance with Generally Accepted Governmental Auditing Standards.**

None

**3. Findings and Questioned Costs - Federal Programs**

None

**4. Findings and Questioned Costs - State Programs**

None

**5. Resolution of Prior Year Audit Findings**

There were no audit findings for the year ended June 30, 2003.

