

*Comprehensive Annual  
Financial Report*

*City of Poquoson, Virginia*



*Fiscal Year Ended June 30, 2006*

*Prepared by:*

*The Department of Finance*

*Lisa K. Dessoffy, CPA, Director*



Certified Public Accountants  
Specialized Services  
Business Solutions



*City of Poquoson, Virginia*  
*Government Officials*

**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  
Lisa K. Dessoffy, CPA, Director of Finance  
Lisa K. Dessoffy, CPA, Interim Treasurer  
Graham P. Wilson, Commissioner of the Revenue  
D. Wayne Moore, City Attorney  
Judy F. Wiggins, City Clerk

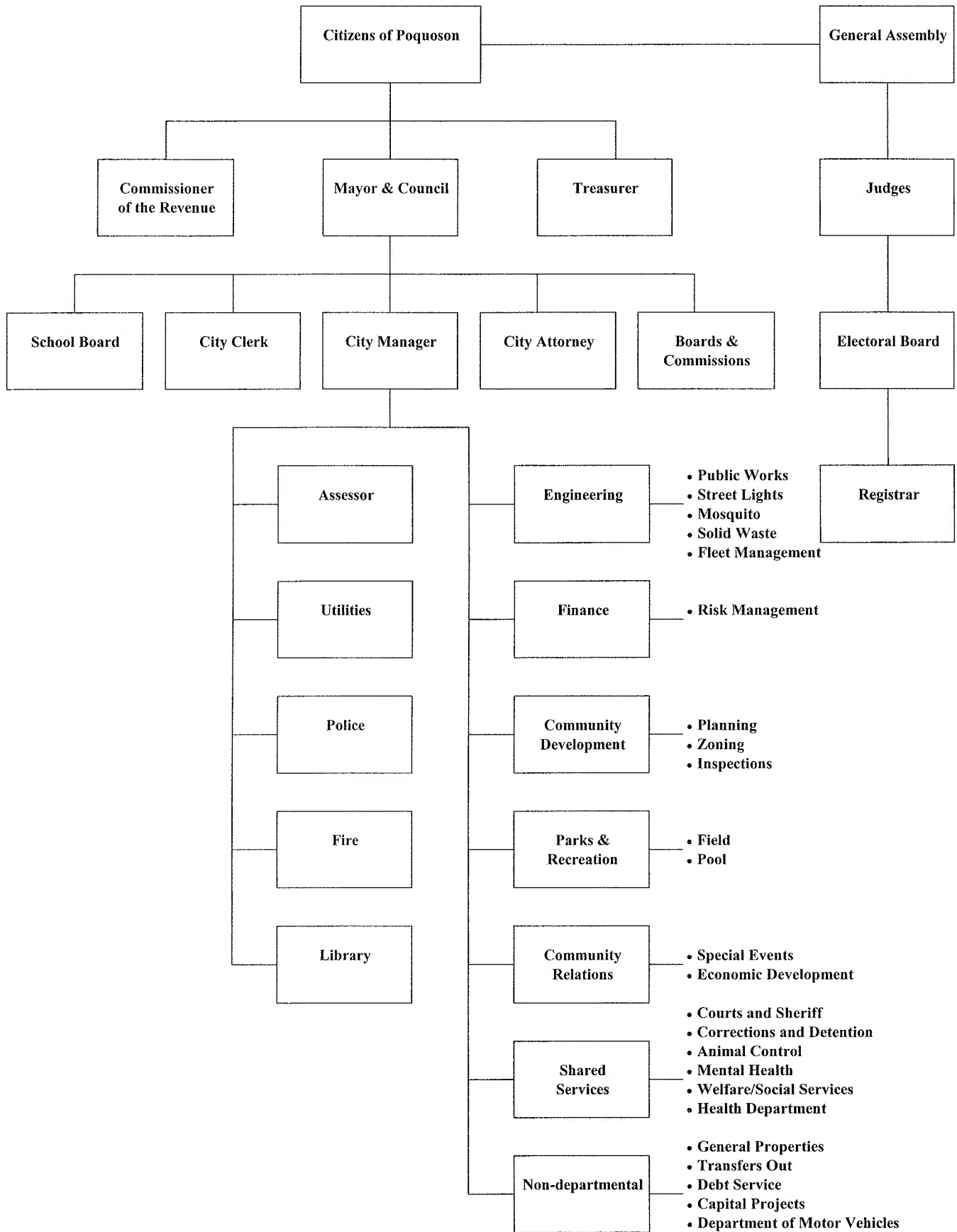
**School Board**

Clifford T. Bowen, Chair  
Regina P. Wightman, Vice Chair  
Deborah Ann Banton  
John A. Costulis  
Kerry Y. Knowlton  
Constance B. Sledd  
Larry R. Marks

**School Officials**

Dr. Jonathan L. Lewis, Superintendent  
Dr. Marilyn F. Barr, Assistant Superintendent of Instruction  
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, 2005

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



President

Executive Director

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**City of Poquoson, Virginia**  
**Comprehensive Annual Financial Report**  
**Fiscal Year Ended June 30, 2006**

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# CITY OF POQUOSON

FINANCE DEPARTMENT

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(757) 868-3030 TELEPHONE (757) 868-3101 FAX

October 27, 2006

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, 2006. 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, 2006, 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, 2006, 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 92.

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 11,900.

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 30.

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 54 of the report.

### **Factors Affecting Economic Condition**

**Local Economy.** General factors affecting the local economy in calendar year 2005 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 \$67,664 in 2003 (latest available data). Hampton Roads economy is strong and has a low unemployment rate. In 2005 (latest available data), Poquoson had a 2.8% unemployment rate as compared to a state-wide rate of 3.5% and a national average of 5.1%.

The 2000 census population of 11,566 reflects growth of 5% since the 1990 census. The Planning Department estimates Poquoson's population to be 11,900 in 2005.

The 2005 taxable sales of \$35,631,095 were down 8.6% from the 2004 level. The decrease was due to the Department of Taxation's (TAX) understatement of sales in the third and fourth quarters of 2005, and an overstatement in the first quarter of 2006. TAX implemented a new accounting system and data wasn't reported in the correct period. The City's 1% portion of the local sales tax was not affected.

**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. While the City's tax rate of \$1.06 per \$100 of assessed value remained constant, 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 40.1%. 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 which occurred in September 2003, the City received a Federal Emergency Management Agency (FEMA) mitigation grant 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 FEMA, State Community Development Block Grant (CDBG) 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 a public pier and parking spaces were constructed. The City is also working towards building restroom facilities in the area. The IDA has purchased several lots in the Messick area and has had an architectural firm lay out a conceptual plan for development. The IDA plans to pursue multi-use zoning in the area and solicitation of a development company.

The City has decided to build a new Fire Station #1 to replace the existing station which was damaged due to flooding from Hurricane Isabel. The City has contracted with Hudson & Associates, PLLC to design the new station; construction is scheduled to take twelve months. Financing has been obtained to construct the new fire station.

In November 2006, the School Board contracted with WM Jordan, Inc. to construct a new Poquoson Elementary School. The present school built in 1952, contains many serious building deficiencies, and fails to meet current education program needs. Construction of the new building, equipment, furnishings, and demolition of the existing elementary school is expected to cost \$18,300,000. The City is in the process of completing financing 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 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, 2006, the various cash balances included cash on hand, investments classified as cash, cash on deposit in banks, and restricted cash in the amount of \$20,685,598 for the City and \$2,006,689 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.

**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 51 of the notes to the basic financial statements and Exhibit L on page 58.

**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, 2005. This was the nineteenth 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 GAAP and applicable legal requirements.

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

The City also received the GFOA's Award for Distinguished Budget Presentation for its Annual Appropriated Budget for FY 2007. 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.