



CITY OF  
**Poquoson**  
VIRGINIA

**Comprehensive Annual  
Financial Report**

Fiscal Year July 1, 2015 – June 30, 2016

***Comprehensive Annual  
Financial Report***

***City of Poquoson, Virginia***

***Fiscal Year Ended June 30, 2016***

***Prepared by:***

***The Department of Finance***

***Theresa S. Owens, CPA, Director of Finance***

*City of Poquoson, Virginia*  
*Government Officials*

**City Council**

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

**City Officials**

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

**School Board**

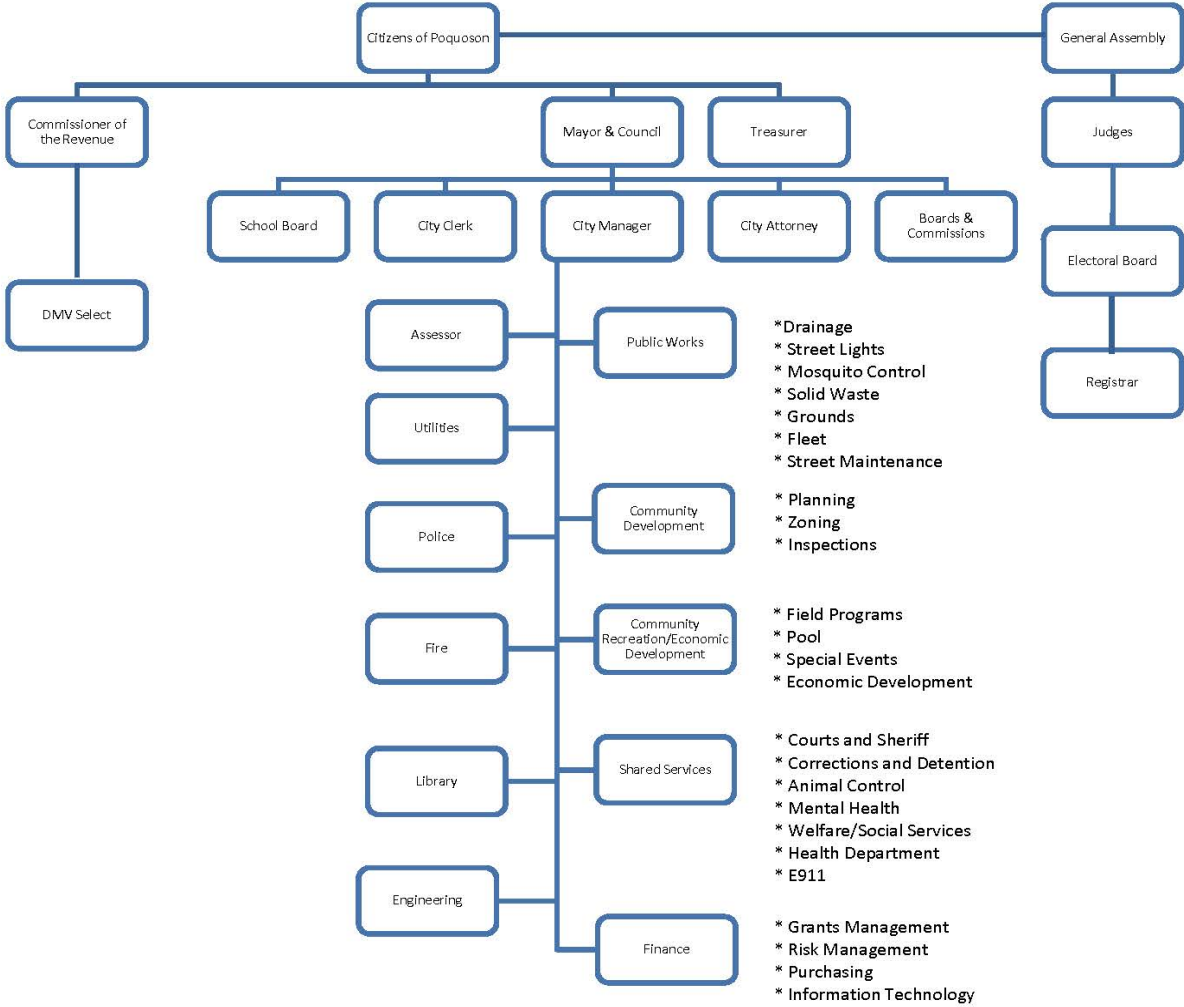
Steven S. Kast, Chairman  
Allan L. Melton, Vice Chairman  
Garry W. Carter  
Wayne E. Holcomb  
David A. Hux  
Anne L. Rollins  
Gail L. Whittaker

**School Officials**

Jennifer Parish, Ed.D., Superintendent  
Amy Colley, Ed.D, Assistant Superintendent for Instruction and Support Services  
Tara Woodruff, Executive Director of Finance  
Steven Pappas, Executive Director of Operations

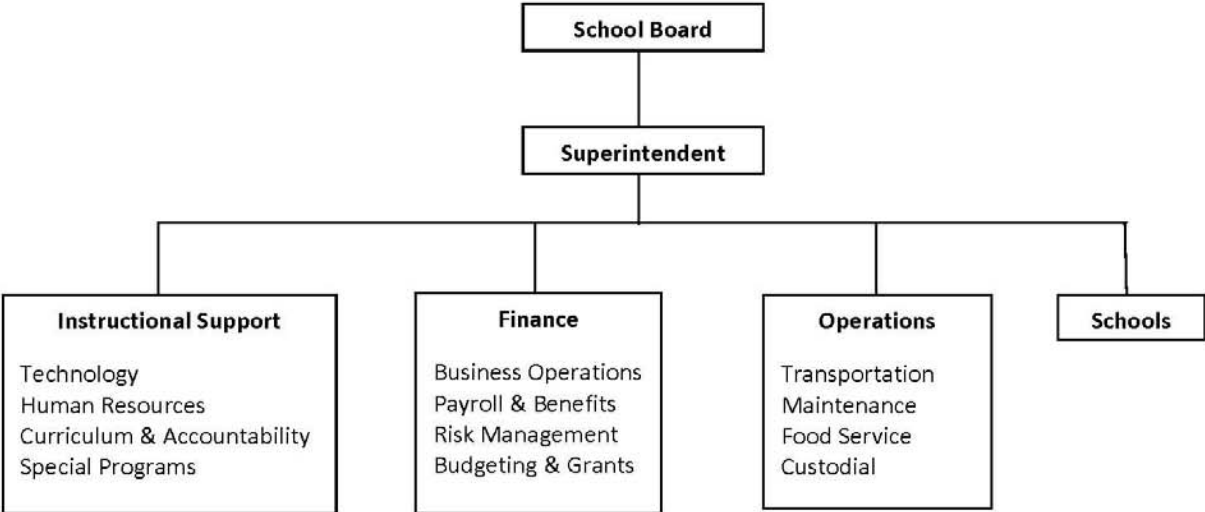
# CITY OF POQUOSON, VIRGINIA

## CITY GOVERNMENT ORGANIZATION CHART



# Poquoson City Public Schools

A Component Unit of the City of Poquoson



Note: City Council appoints School Board Members



Government Finance Officers Association

**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, 2015**

Executive Director/CEO

**City of Poquoson, Virginia**  
**Comprehensive Annual Financial Report**  
**Fiscal Year Ended June 30, 2016**

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## **CITY OF POQUOSON**

500 City Hall Avenue, Poquoson, Virginia 23662-1996  
(757)868-3000 Fax (757)868-3101

City Manager's Office

November 30, 2016

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

We are pleased to submit to you the Comprehensive Annual Financial Report of the City of Poquoson (City) for the fiscal year ended June 30, 2016. An audited annual financial report is required in accordance with Article V, Section 11 of the Poquoson City Charter and is presented in conformity with Generally Accepted Accounting Principles (GAAP) and audited in accordance with Government Auditing Standards and the Auditor of Public Accounts of the Commonwealth of Virginia by a firm of licensed certified public accountants.

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

Cherry Bekaert LLP, Certified Public Accountants, have issued an unmodified opinion on the City's financial statements for the year ended June 30, 2016. The unmodified report, the highest possible result of the audit process, is located at the front of the financial section of this report.

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

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

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

The City of Poquoson, which had been a part of York County for many years, became a town in 1952 and an independent city in 1975 upon referendum of the citizens. Certain municipal functions continue to be shared with York County to include the Courts, Social Services, Sheriff's Department and E-911 Center.

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

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

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

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

The annual budget serves as the foundation for the City of Poquoson's financial planning and control. All agencies and departments of the City of Poquoson are required to submit requests for appropriation to the City Manager in January. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager presents a proposed budget to City Council for review in April. The Council is required to hold public hearings on the proposed budget and must adopt a final budget no later than May 31. The appropriated budget is prepared by fund and department. The City Manager may make transfers of appropriations within a fund. Transfers of appropriations between funds and additional appropriations require approval of City Council. The City

also maintains an encumbrance accounting system as one method of maintaining budgetary control. Encumbrances are included as budgetary expenditures and, therefore, do not lapse after year-end. The budget-to-actual comparison for the General Fund starts on page 73 of the report.

### **Local Economy**

The City is located in the southeastern part of the state in the Hampton Roads area in the Norfolk-Virginia Beach-Newport News Metropolitan Statistical Area. The region is the 37<sup>th</sup> largest metropolitan statistical area in the country. The City of Poquoson is a suburban community in the Hampton Roads area and residents often work in neighboring cities and typically have the region's highest median income. The City of Poquoson occupies a land area of 14.7 square miles, and according to The Weldon Cooper Center for Public Service, serves an estimated population of 12,150.

The City continues to recover from the recession. The City has seen increases in sales, real estate and personal property taxes. Sales of property have been trending slightly in a positive direction.

The City has direct access to leading employment sites including NASA's Langley Research Center, Langley Air Force Base and Newport News Shipbuilding. Local unemployment for the City remains below the state and national averages. According to the Bureau of Labor Statistics, the City's unemployment rate has decreased from a high of 6.2% in 2010 to a current rate of 3.5% compared to the current national average of 4.9% and the state average of 3.7%.

As part of the issuance of debt in June 2016, the City met with the two of the National Credit Rating Agencies, Standard & Poor's (S&P) and Moody's for the purpose of having the agencies rate the City's current debt and to establish a rating on the 2016 general obligation bonds.

S&P assigned a rating of AAA on the City's 2016 general obligation bonds and affirmed its AAA rating on the City's outstanding general obligation bonds, the highest bond rating available. Some of the rationale cited by S&P included the City's strong budgetary flexibility, strong liquidity and strong financial policies and practices.

Moody's assigned a rating of Aa2 on the 2016 general obligation bonds and upgraded to Aa2 from Aa3 the rating on the City's outstanding debt. Moody's issues ratings ranging from Aaa to C to designate the relative investment qualities of bonds. The "Aa" rating is the second of nine such ratings and Moody's describes it as "obligation rated Aa are judged to be of high quality and are subject to very low credit risk". Moody's appends numerical modifiers 1, 2, and 3 to each generic rating category from Aa through Caa. The modifier 1 indicates the issuer ranks in the high end of its generic category while the modifier 3 indicates a ranking in the lower end the generic category.

## **Long-term Financial Planning**

Budgets and Capital Improvement Plans (CIP) are adopted annually, taking into consideration input from all organizational levels of the City. The long-term revenue, expenditure and service implication of continuing or ending existing programs or adding new programs, services and debt are considered while formulating budgets annually. The City assesses the condition of all major capital assets, including buildings, roads, sewer lines, vehicles and equipment annually. The Planning Commission recommends adoption of the Capital Improvement Plan; the document then goes to City Council for final approval. Although the CIP is intended to be a commitment to a multi-year capital improvement program, it is fundamentally a planning document and subject to annual modifications as priorities, available funding and other factors create a need for revision.

## **Relevant Financial Policies**

In October 2009, the City formally adopted a series of financial policy guidelines and in June 2011 modified these policies to incorporate GASB 54. The policies include debt policies as well as fund balance policies. The City believes that sound financial management principles require that sufficient funds be retained by the City to provide a stable financial base at all times, therefore one of the fund balance policies adopted included maintaining a minimum unassigned fund balance of 12% to 15% of the current year budgeted expenditures. The unassigned fund balance at the end of the year was 16% of budget expenditures, well above the adopted policies.

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

## **Major Initiatives**

In 2015, the City continued its comprehensive outreach marketing campaign entitled “*Poquoson Is The Place*” to increase awareness of Poquoson as a wonderful place to live and in which to do business. The campaign folder cites Poquoson as the place to “*Live, Grow, Work, And Play*” and provides one-page informational overviews of the City’s business-friendly focus, single and multi-family residential availability, community engagement opportunities, and its outstanding public school system. The City hosted its fifth annual residential realtor event to continue to promote the campaign.

Throughout fiscal year 2015, the City of Poquoson approved several substantial developments. They include Fountains of Poquoson; Drakes’ Landing; Victory Cove; and Whitehouse Cove Phase 3. Collectively these developments include 36 single family residential lots, 4,200 square feet of retail space, 8,400 square feet of residential apartment space and 12 mobile home lots. In addition, in August 2015, City Council approved a planned unit development mixed use overlay development, Legacy of Poquoson. The project will consist of 40,000 square feet of commercial space, 238 single family dwellings, 107 townhomes, 11 cottages and 200 apartments.

These developments are at different stages of progress. The Fountains of Poquoson has completed Phase 1 of the project which includes one mixed-use building. Phase 2, consisting of two additional buildings is expected to begin in mid-2017. In addition,

conditional use permits and rezoning applications have been approved for two additional phases consisting of two additional mixed-use buildings, one commercial building and 18 townhomes. Drake's Landing Subdivision site work is near completion. Eleven building permits have been issued for the twenty-six lot single family residential Victory Cove subdivision. Three building permits have been issued for the Whitehouse Cove Phase 3 project. The City is awaiting the submittal of the site plan for the Legacy of Poquoson.

In addition, during fiscal year 2016, construction began on the construction of Village Park, a twenty-six townhome development. In April 2016, the City approved the site plan for construction of Firth Lane Townhomes consisting of twenty-six townhomes. Two additional businesses were issued conditional use permits for a craft brewery and garden and a family adventure park and escape room. Both are expected to open in fiscal year 2017.

The City also continues to work with the City of Hampton and the Virginia Department of Transportation on the Wythe Creek Road widening project. This project will widen the street to three lanes for travel to and from the City of Hampton. The project also includes elevating the bridge over the causeway at the Poquoson/Hampton line. The elevation will provide an additional evacuation route out of the City of Poquoson during a flood event.

### **Awards and Acknowledgements**

In 2016, the City of Poquoson was voted one of the safest cities in Virginia by [backgroundscheck.org](http://backgroundscheck.org) and one of the safest places in Virginia by ValuePenguin. In addition the City of Poquoson's Library was ranked 1<sup>st</sup> in both circulation per capita and library visits per capita among the 15 public libraries in the Tidewater area. It was also awarded the 2015 Outstanding Program for Children Award from the Virginia Public Library Director's Association.

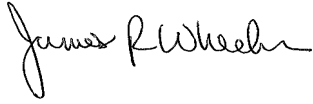
The City of Poquoson's School Division was one of fifty-three fully accredited school divisions in 2016, meaning the school division met standards of learning benchmarks in reading, writing, math, science and social studies. Additionally, three schools received the State Board of Education's excellence Award.

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, 2015. This was the twenty-eighth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The City also received the GFOA's Award for Distinguished Budget Presentation for its Annual Appropriated Budget for FY 2016. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories including policy documentation, financial planning, and organization.

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

Respectfully submitted,



James R. Wheeler  
City Manager



Theresa S. Owens, CPA  
Director of Finance



## Report of Independent Auditor

The Honorable Members of the City Council  
City of Poquoson, Virginia

### **Report on the Financial Statements**

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, (the "City") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Budgetary Comparison Schedule - General Fund (Budget Basis), Schedules of Changes in Net Pension Liability and Related Ratios and Employer Contributions, Changes in School Board's Proportionate Share of the Net Pension Liability and Related Ratios and Employer Contributions, and Funding Progress and Employer Contributions on pages 3-16, 73-78, and 79-82 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Poquoson, Virginia's basic financial statements. The introductory section, other supplementary information on pages 83-91, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by *Title 2 U.S. Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is also not a required part of the basic financial statements.

The other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Cheryl Bekant LLP*

Virginia Beach, Virginia  
November 30, 2016



## **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, 2015 - June 30, 2016**

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, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which can be found on pages viii through xiii of this report.

## **Financial Highlights**

- The assets and deferred outflows of the City of Poquoson exceeded its liabilities and deferred outflows as of June 30, 2016 by \$27.4 million (net position). Of this amount, \$3.8 million (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$2.6 million.
- As of June 30, 2016, the City's governmental funds reported combined ending fund balances of \$10.3 million, of which \$4.4 million is available to spend at the City's discretion.
- As of June 30, 2016, unassigned fund balance for the General Fund was \$4.4 million or 18.5% of total General Fund expenditures.
- The City of Poquoson's total debt outstanding at June 30, 2016 was \$37.4 million for all funds.

## **Overview of the Financial Statements**

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

**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 position* presents information on all of the City of Poquoson’s assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

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

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

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

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

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

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

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

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

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

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

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-72 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary and other supplementary information concerning the City of Poquoson including financial information on the Poquoson Public School component unit. Supplementary information can be found on pages 73-91 of this report.

# Government-Wide Financial Analysis

Summary of Statement of Net Position  
June 30, 2016

	Governmental Activities		Business-Type Activities		Total	
	FY 2016	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015
Current and other assets	\$11,862,070	\$10,762,885	\$2,355,682	\$1,901,454	\$14,217,752	\$12,644,339
Capital assets	43,076,120	43,518,508	11,930,820	12,344,904	55,006,940	55,863,412
Total assets	54,938,190	54,281,393	14,286,502	14,246,358	69,224,692	68,527,751
Deferred Outflows of Resources	2,325,492	879,400	225,201	261,026	2,550,693	1,140,426
<b>Total assets</b>	<b>\$57,263,682</b>	<b>\$55,160,793</b>	<b>\$14,511,703</b>	<b>\$14,507,384</b>	<b>\$71,775,385</b>	<b>\$69,668,177</b>
Current and other liabilities	\$3,491,917	\$3,488,214	\$763,983	\$666,031	\$4,255,900	\$4,154,245
Long-term liabilities	31,770,237	31,565,094	7,075,463	7,580,083	38,845,700	39,145,177
	35,262,154	35,053,308	7,839,446	8,246,114	43,101,600	43,299,422
Deferred inflows of resources	1,226,295	1,481,272	48,705	60,728	1,275,000	1,542,000
<b>Total liabilities</b>	<b>\$36,488,449</b>	<b>\$36,534,580</b>	<b>\$7,888,151</b>	<b>\$8,306,842</b>	<b>\$44,376,600</b>	<b>\$44,841,422</b>
Net investment in capital assets	\$16,369,767	\$15,992,201	\$4,754,036	\$4,791,909	\$21,123,803	\$20,784,110
Restricted	2,502,661	1,229,189	-	-	2,502,661	1,229,189
Unrestricted	1,902,805	1,404,823	1,869,516	1,408,633	3,772,321	2,813,456
<b>Total net position</b>	<b>\$20,775,233</b>	<b>\$18,626,213</b>	<b>\$6,623,552</b>	<b>\$6,200,542</b>	<b>\$27,398,785</b>	<b>\$24,826,755</b>

Net position serves as a useful indicator of a government's financial position. The City's combined net position totals \$27.4 million, excluding discretely presented component units. By far, the largest portion of this represents investments in capital assets, such as land, buildings, machinery, and equipment. Capital assets net of related debt total \$21.1 million. The City of Poquoson uses these capital assets to provide services to citizens; and thus these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate liabilities. Total net position of \$3.8 million are unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

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

**Governmental Activities.** The government's net position increased by \$2.6 million during FY 2016. The governmental activities increased by \$2.2 million and the business-type activities increased by \$0.4 million. The increase in the governmental activities is due to an increase in tax revenue, sale of assets, reduction in accrued interest, the loss on refunding of debt, and a net decrease in pension expense. The increase of the net position of the business-type activities is due to less than expected expenses in the Sewer Fund and additional unexpected sewer availability fees.

Summary of Changes in Net Position  
June 30, 2016

	Governmental Activities		Business-Type Activities		Total	
	FY 2016	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015
Revenues:						
Program revenues:						
Charges for services	\$1,246,241	\$1,164,249	\$2,816,867	\$2,662,873	\$4,063,108	\$3,827,122
Operating grants and contributions	1,633,650	1,566,976	-	-	1,633,650	1,566,976
Capital grants and contributions	837,446	507,190	-	-	837,446	507,190
General revenues:						
Real estate and personal property taxes	18,646,847	18,444,771	-	-	18,646,847	18,444,771
Other local taxes	2,838,120	2,906,288	-	-	2,838,120	2,906,288
Personal property tax relief	1,923,431	1,923,431	-	-	1,923,431	1,923,431
Reimbursements from other agencies	158,675	128,897	-	-	158,675	128,897
Miscellaneous	419,424	165,351	160	4,357	419,584	169,708
Unrestricted investment earnings	221,823	200,759	34,964	33,357	256,787	234,116
<b>Total revenues</b>	<b>\$27,925,657</b>	<b>\$27,007,912</b>	<b>\$2,851,991</b>	<b>\$2,700,587</b>	<b>\$30,777,648</b>	<b>\$29,708,499</b>
Expenses:						
General government	3,670,330	2,655,051	-	-	3,670,330	2,655,051
Public safety and judicial	6,367,432	6,572,994	-	-	6,367,432	6,572,994
Public works	672,523	1,722,753	-	-	672,523	1,722,753
Health and welfare	1,125,090	1,036,794	-	-	1,125,090	1,036,794
Education	10,434,221	10,126,907	-	-	10,434,221	10,126,907
Parks, recreation, cultural	1,923,884	1,738,752	-	-	1,923,884	1,738,752
Community development	667,793	560,195	-	-	667,793	560,195
Economic Development Authority	25,000	-	-	-	25,000	-
Interest and fees on long-term debt	1,040,364	1,046,103	-	-	1,040,364	1,046,103
Sewer	-	-	1,485,293	1,520,881	1,485,293	1,520,881
Solid waste	-	-	793,688	746,243	793,688	746,243
<b>Total expenses</b>	<b>25,926,637</b>	<b>25,459,549</b>	<b>2,278,981</b>	<b>2,267,124</b>	<b>28,205,618</b>	<b>27,726,673</b>
<b>Change in net position before transfers</b>	<b>1,999,020</b>	<b>1,548,363</b>	<b>573,010</b>	<b>433,463</b>	<b>2,572,030</b>	<b>1,981,826</b>
Transfers	150,000	150,000	(150,000)	(150,000)	-	-
<b>Increase in net position</b>	<b>2,149,020</b>	<b>1,698,363</b>	<b>423,010</b>	<b>283,463</b>	<b>2,572,030</b>	<b>1,981,826</b>
<b>Net position, beginning of year</b>	<b>18,626,213</b>	<b>16,927,850</b>	<b>6,200,542</b>	<b>5,917,079</b>	<b>24,826,755</b>	<b>22,844,929</b>
<b>Net position, end of year</b>	<b>\$20,775,233</b>	<b>\$18,626,213</b>	<b>\$6,623,552</b>	<b>\$6,200,542</b>	<b>\$27,398,785</b>	<b>\$24,826,755</b>



The City's largest revenue source for the Governmental Funds is general property taxes.

	<b>FY 2016</b>	<b>FY 2015</b>
Real estate tax revenue	\$15,794,097	\$15,727,723
Public service corporation taxes	214,643	199,633
Personal property taxes	2,488,366	2,375,134
Penalties and interest	108,857	123,100
<b>Total</b>	<b><u>\$18,605,963</u></b>	<b><u>\$18,423,590</u></b>

Real estate revenue was higher in FY 2016 as compared to FY 2015 this was due to a modest increase in development. The City's real estate property tax assessments were \$1,525,034,355 and \$1,518,712,371 for FY 2016 and FY 2015, respectively. The City's real estate tax rate was \$1.07 per \$100 of assessed value per \$100 of assessed value in FY 2016 and FY 2015.

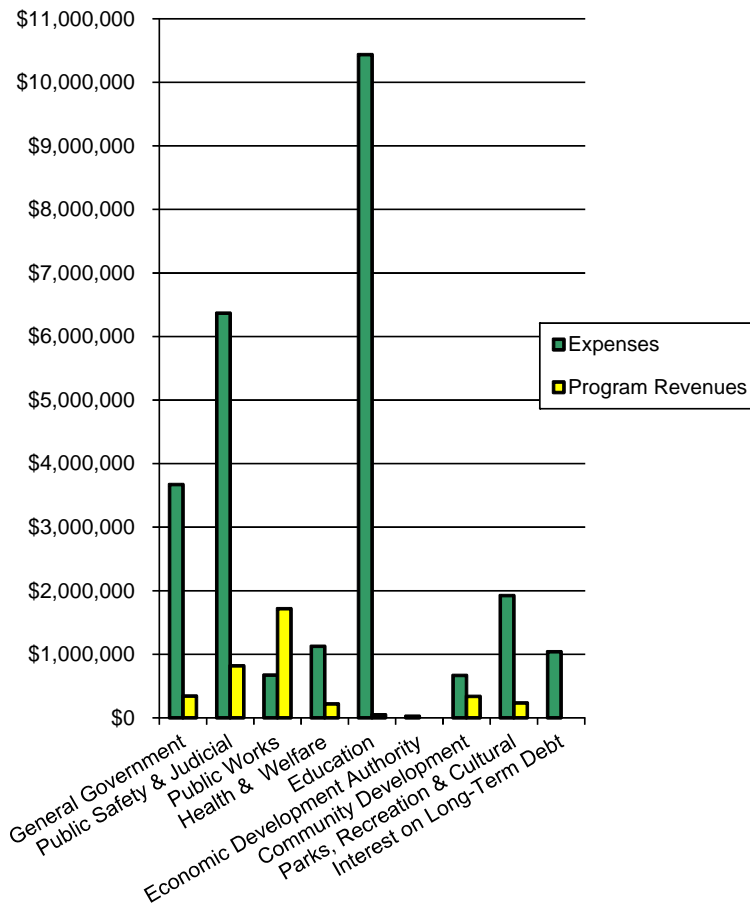
The City's personal property tax assessments were \$152,065,140 and \$145,172,510 for FY 2016 and FY 2015, respectively. In FY 2016 and FY 2015, the City's personal property tax rate was \$4.15 per \$100 of assessed value for vehicles. For boats and recreational vehicles, the tax rate was \$0.00001 per \$100 of assessed value for boats and \$1.50 per \$100 of assessed value for recreational vehicles for FY 2016 and FY 2015. In FY 2016 and FY 2015, the City's tax rate for mobile homes was \$1.07 per assessed value. Under the provisions of the Personal Property Tax Relief Act (PPTRA), the state's share of local personal property tax was \$1,923,431 for FY 2016 and FY 2015.

Other local taxes were \$2.8 million and \$2.9 million for FY 2016 and FY 2015, respectively, and consisted of meals taxes, consumers' utilities taxes, franchise license taxes, motor vehicle license taxes, and a variety of other taxes.

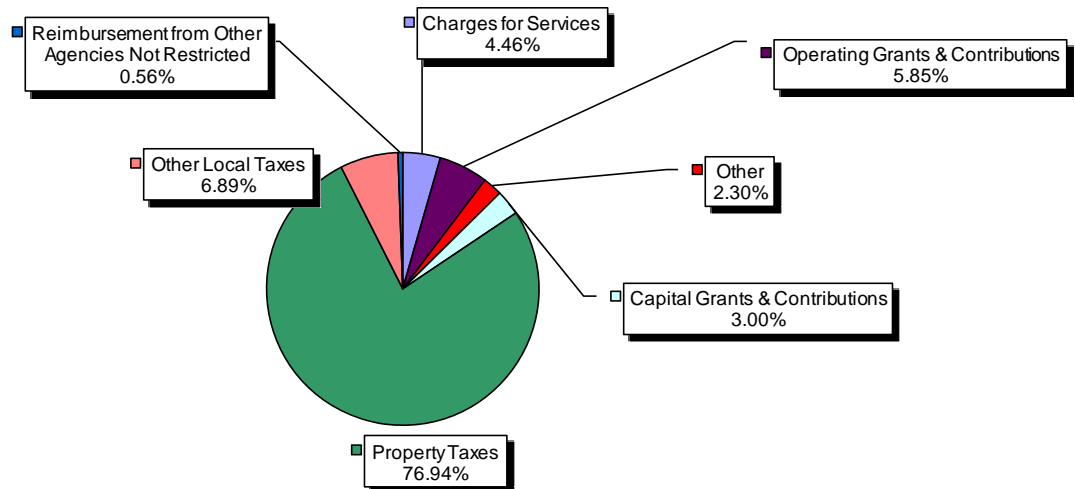
For FY 2016, expenses for governmental activities totaled \$25.9 million, including an expense of \$10.4 million to the component unit, Poquoson City School System. For FY 2015, expenses for governmental activities totaled \$25.5 million, including a net payment of \$10.1 million to the to the component unit, Poquoson City School System.



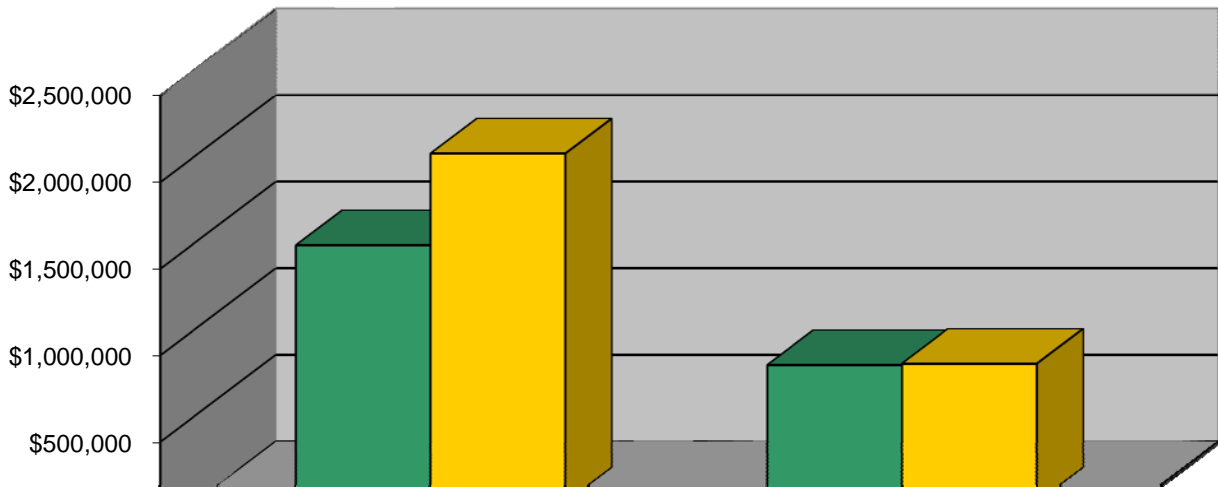
## Expenses and Program Revenues - Governmental Activities



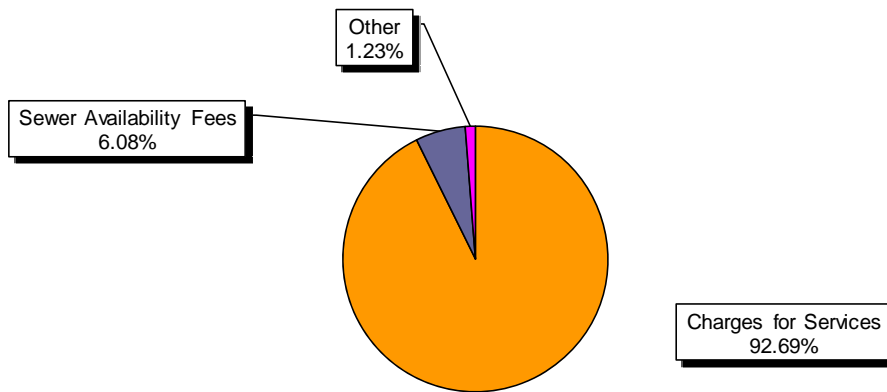
## Revenues by Sources - Governmental Activities



**Expense and Program Revenues - Business-Type Activities**



**Revenues by Source - Business-Type Activities**

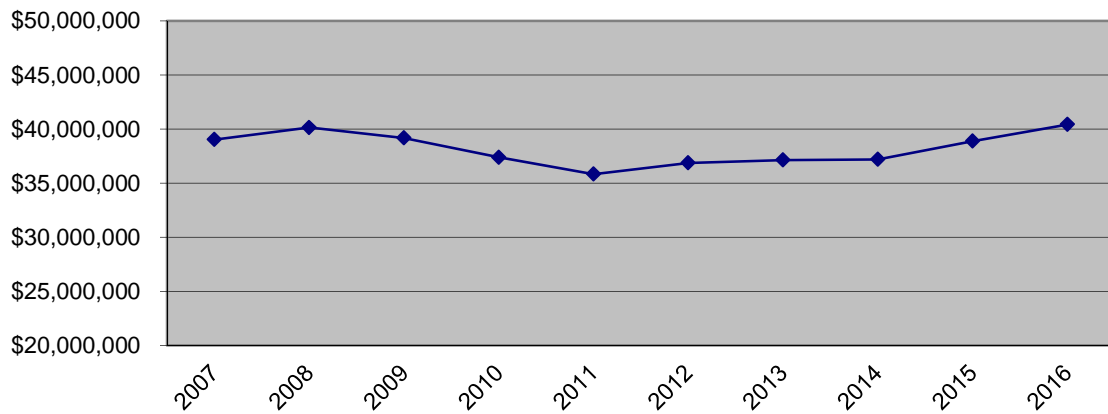


**Business-Type Activities.** Business-type activities increased the City’s net position before transfers by \$.53 million and increased the net position by \$.42 million after transfers. This increase in net position can be attributable to a decrease in expenses and more than expected sewer availability fees paid and additional connections added.

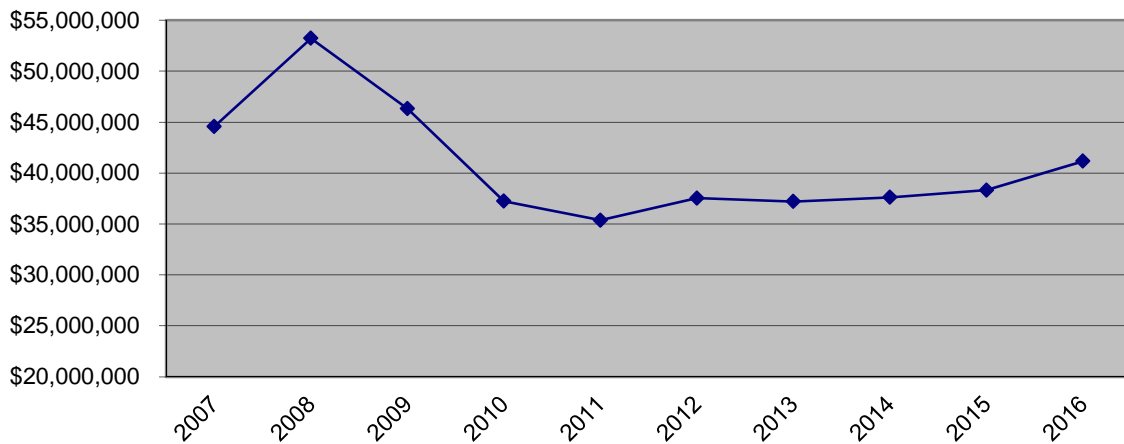
## Financial Analysis of the Government's Funds

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

### General Governmental Revenues



### General Governmental Expenditures



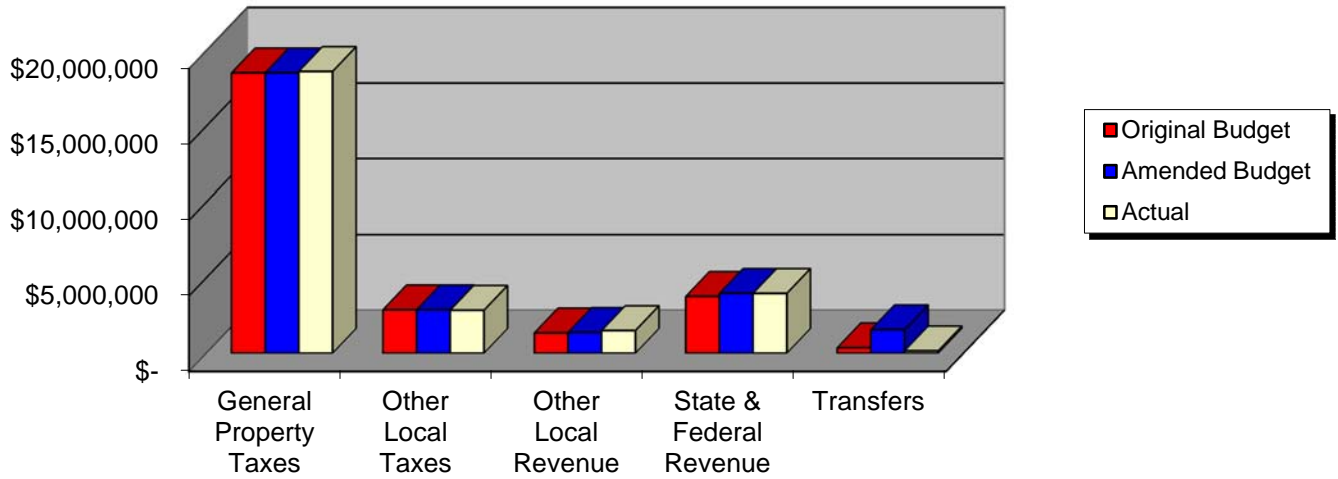
## General Fund Budgetary Highlights

The City of Poquoson uses fund accounting and budgeting to ensure and demonstrate compliance with finance-related legal requirements. The General Fund budgetary comparison to actual can be found on Exhibit K. The City records actual revenues and expenditures using generally accepted accounting principles (GAAP) with the exception of encumbrances, which are included as budgetary expenditures. At the end of Exhibit K, the non-GAAP budgetary expenditures are reconciled to the GAAP statements. The budget differences of \$1.4 million between the original budget and the final amended budget can be briefly summarized as follows:

- \$.03 million additional transfer to the schools for the prior year unspent transfer to enhance safety and security in the school buildings.
- \$.30 million addition to transfers to the debt service fund to retire a line of credit.
- \$.20 million re-appropriation of restricted revenue received for the Police Department, Fire Department and Library.
- \$.11 million appropriation for various grants for public safety.
- \$.01 million appropriation for various other grants.
- \$.01 million appropriation for donations received for various departments.
- \$.01 million appropriation for additional funds received for Events.
- \$.54 million appropriation for transfers to fund capital projects.
- \$.08 million appropriation for additional costs for Comprehensive Services Act.
- \$.03 million transfer to the Economic Development Authority.
- \$.08 million appropriation for various other expenses in general and administration.

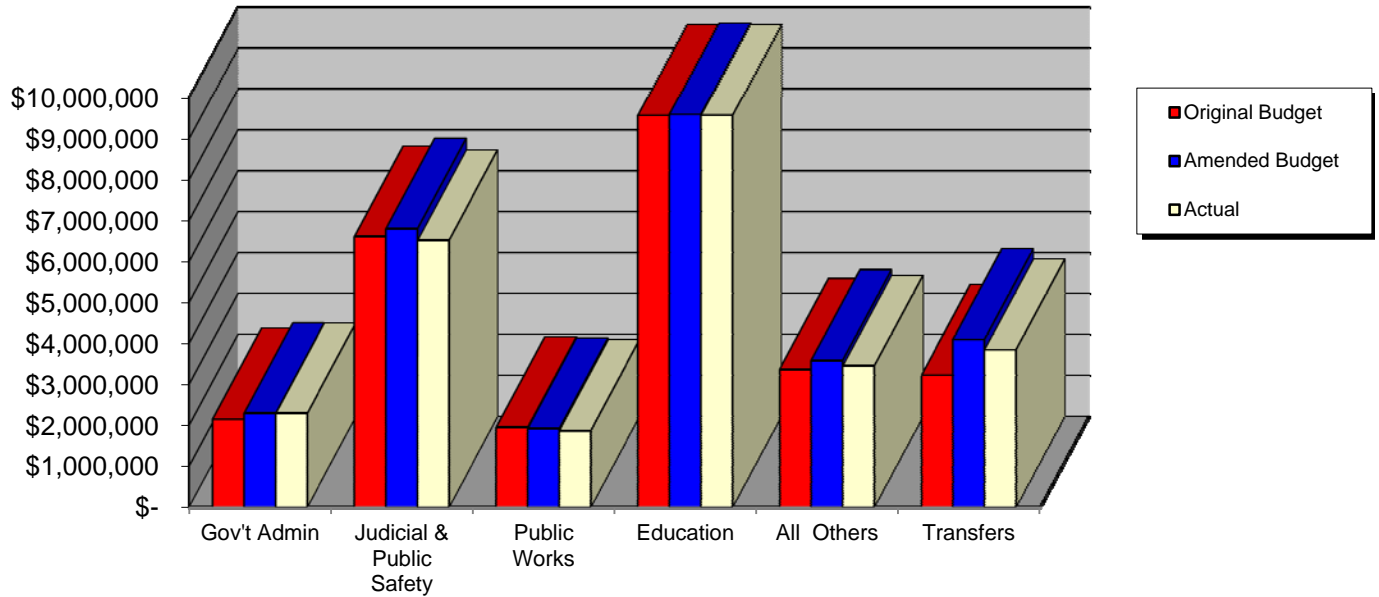
The charts on the following page show the original approved budget, the final amended budget, and actual amounts for both revenues and expenditures in the General Fund.

### General Fund Revenue Comparison of Budget to Actual



The City's actual general fund revenues of \$27 million surpassed the original budget by \$.21 million and did not meet the amended budget by \$1.2 million. The City was awarded various grants that were appropriated but had not yet been finalized and, therefore, the revenues were not received and the use of fund balance is budgeted but not included in actual revenue.

### General Fund Expenditures Comparison of Budget to Actual



As reflected above, actual General Fund expenditures were \$27.5 million. The increase in expenditures is a result of additional costs for schools, debt service, and economic development.

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

### Capital Projects Fund

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

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

During FY 2016, capital projects of \$1.2 million included the purchase of property, school bus, police car, public works equipment, and the replacement of the York/Poquoson Courthouse roof. It also included costs for highway and drainage improvements.

### Capital Assets and Debt Administration

**Capital Assets.** The City’s investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounted to \$55 million (net of accumulated depreciation). The investment in capital assets includes land, construction in progress, buildings, infrastructure, machinery and equipment, sewer system, and allocated school buildings. The City owns roads, streetlights, and other infrastructure, but has only capitalized these assets placed in service since July 1, 2002. Infrastructure was capitalized beginning in FY 2007. The School Board component unit owns their school buildings; however, the City has issued the debt and/or provided the resources to build and renovate school buildings. Thus the State Code allows the schools to allocate a portion of their asset to the City, if the City has outstanding debt on the school building.

The following table summarizes capital assets, net of depreciation:

	Governmental Activities		Business-Type Activities		Total	
	FY 2016	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015
Land	\$3,241,092	\$3,294,949	\$214,666	\$214,666	\$3,455,758	\$3,509,615
Construction in progress	291,275	206,604	150,144	24,899	441,419	231,503
Buildings	5,799,011	6,118,624	73,269	8,120	5,872,280	6,126,744
Infrastructure	7,716,707	6,989,322	-	-	7,716,707	6,989,322
Land Improvements	1,508,434	1,517,309	-	-	1,508,434	1,517,309
Machinery and equipment	2,129,382	2,131,555	371,042	431,972	2,500,424	2,563,527
Sewer system	-	-	11,114,698	11,658,247	11,114,698	11,658,247
Sewer easement	-	-	7,000	7,000	7,000	7,000
Allocated school buildings	22,390,219	23,260,145	-	-	22,390,219	23,260,145
<b>Total</b>	<b>\$43,076,120</b>	<b>\$43,518,508</b>	<b>\$11,930,819</b>	<b>\$12,344,904</b>	<b>\$55,006,939</b>	<b>\$55,863,412</b>

**Debt Administration.** Total outstanding general obligation debt at June 30, 2016 was \$32.7 million of which \$25.8 million is considered to be net direct tax supported debt. Included in the total debt are \$25.1 million in bonds and leases and \$.7 million in State Literary Loans. The remaining \$6.9 million are bonds for the sewer system that are essentially paid for by revenues in the Sewer Operations Fund.

State statutes limit the amount of general obligation debt a government may issue up to 10% of its total assessed valuation of real estate and public service corporations. The June 30, 2016 debt limitation for the City of Poquoson is \$152.5 million, which is significantly in excess of the City of Poquoson’s \$32.7 million outstanding net direct bonded debt.

**Net Direct Tax Supported Debt  
General Governmental Activities**

	FY 2016	FY 2015
Net direct bonded debt	\$25,854,587	\$28,174,64
Ratio of outstanding direct debt to assessed value	1.69%	1.85%
Net debt per capita	\$2,128	\$2,307

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

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

The FY 2017 budget was prepared with economic trends and factors within the City taken into account:

- The FY 2017 adopted budget maintained the real estate tax rate of \$1.07 per \$100 of assessed value.
- The FY 2017 adopted budget included modest increases in local revenues.
- In FY 2017, expenditure increases included salary increases, health insurance and retirement.
- In FY 2017, the school contribution was increased by \$175,000 due to the reduction of state and federal revenue and increase in expenditures to include a pay increase.
- In FY 2017, \$123,000 was budgeted from the use of fund balance for one time capital expenditures.

## **Requests for Information**

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

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



*Basic Financial Statements*

## Statement of Net Position

June 30, 2016

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
Cash and investments	\$ 7,887,589	\$ 1,971,445	\$ 9,859,034	\$ 2,292,213
Property taxes receivable, net	463,984	-	463,984	-
Other receivables, net	217,337	376,512	593,849	8,370
Due from component units	49,597	-	49,597	-
Notes receivable, component unit	1,684,587	-	1,684,587	-
Due from other governments	1,365,120	-	1,365,120	437,985
Inventory	16,945	5,850	22,795	16,846
Notes receivable	176,911	1,875	178,786	-
Capital assets				
Non-depreciable	3,532,367	364,810	3,897,177	2,943,037
Depreciable, net	39,543,753	11,566,010	51,109,763	5,273,222
<b>Total assets</b>	<b>54,938,190</b>	<b>14,286,502</b>	<b>69,224,692</b>	<b>10,971,673</b>
<b>Deferred Outflows of Resources</b>				
Deferred pension contributions	693,108	27,528	720,636	1,619,743
Deferred refunding costs	1,632,384	197,673	1,830,057	-
<b>Total deferred outflows of resources</b>	<b>2,325,492</b>	<b>225,201</b>	<b>2,550,693</b>	<b>1,619,743</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 57,263,682</b>	<b>\$ 14,511,703</b>	<b>\$ 71,775,385</b>	<b>\$ 12,591,416</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 1,313,210	\$ 220,074	\$ 1,533,284	\$ 2,272,172
Accrued interest	178,019	96,334	274,353	14,087
Due to primary government	-	-	-	1,734,184
Noncurrent liabilities				
Due within one year	2,000,688	447,575	2,448,263	81,078
Due in more than one year	28,679,508	6,952,630	35,632,138	301,454
Net pension liability	2,734,397	108,603	2,843,000	18,802,000
Other postemployment benefit obligation	356,332	14,230	370,562	56,678
<b>Total liabilities</b>	<b>35,262,154</b>	<b>7,839,446</b>	<b>43,101,600</b>	<b>23,261,653</b>
<b>Deferred Inflows of Resources</b>				
Deferred pension investment experience	1,226,295	48,705	1,275,000	1,556,000
Deferred pension proportionate share	-	-	-	-
<b>Total deferred inflows of resources</b>	<b>1,226,295</b>	<b>48,705</b>	<b>1,275,000</b>	<b>1,556,000</b>
<b>Net Position</b>				
Net investment in capital assets	16,369,767	4,754,036	21,123,803	6,531,672
Restricted for				
Capital projects	1,995,804	-	1,995,804	-
Education	-	-	-	103,743
Public safety	224,930	-	224,930	-
Parks, recreation, and cultural	28,919	-	28,919	-
Debt service	158,300	-	158,300	-
Community development	94,708	-	94,708	-
Unrestricted (deficit)	1,902,805	1,869,516	3,772,321	(18,861,652)
<b>Total net position (deficit)</b>	<b>20,775,233</b>	<b>6,623,552</b>	<b>27,398,785</b>	<b>(12,226,237)</b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 57,263,682</b>	<b>\$ 14,511,703</b>	<b>\$ 71,775,385</b>	<b>\$ 12,591,416</b>

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

Statement of Activities

Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net Revenues (Expenses) and Changes in Net Position			
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-Type Activities	Total	
<b>Primary Government</b>								
Government activities								
General government and administration	\$ 3,616,473	\$ 343,486	\$ -	\$ -	\$ (3,272,987)	\$ -	\$ (3,272,987)	\$ -
Public safety and judicial	6,367,432	435,190	384,391	-	(5,547,851)	-	(5,547,851)	-
Public works	672,523	-	880,000	837,446	1,044,923	-	1,044,923	-
Health and welfare	1,125,090	-	218,649	-	(906,441)	-	(906,441)	-
Education	10,488,078	47,520	-	-	(10,440,558)	-	(10,440,558)	-
Parks, recreation, and cultural	1,923,884	89,096	144,183	-	(1,690,605)	-	(1,690,605)	-
Economic Development Authority	25,000	-	-	-	(25,000)	-	(25,000)	-
Community development	667,793	330,949	6,427	-	(330,417)	-	(330,417)	-
Interest and fees on long-term debt	1,040,364	-	-	-	(1,040,364)	-	(1,040,364)	-
<b>Total governmental activities</b>	<b>25,926,637</b>	<b>1,246,241</b>	<b>1,633,650</b>	<b>837,446</b>	<b>(22,209,300)</b>	<b>-</b>	<b>(22,209,300)</b>	<b>-</b>
Business-type activities								
Sewer	1,485,293	2,015,026	-	-	-	529,733	529,733	-
Solid waste	793,688	801,841	-	-	-	8,153	8,153	-
<b>Total business-type activities</b>	<b>2,278,981</b>	<b>2,816,867</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>537,886</b>	<b>537,886</b>	<b>-</b>
<b>Total primary government</b>	<b>\$ 28,205,618</b>	<b>\$ 4,063,108</b>	<b>\$ 1,633,650</b>	<b>\$ 837,446</b>	<b>(22,209,300)</b>	<b>537,886</b>	<b>(21,671,414)</b>	<b>-</b>
<b>Component Units</b>								
Poquoson Public Schools	\$ 21,510,333	\$ 776,933	\$ 11,788,067	\$ -	-	-	-	(8,945,333)
Economic Development Authority	83,369	23,867	-	-	-	-	-	(59,502)
<b>Total component units</b>	<b>\$ 21,593,702</b>	<b>\$ 800,800</b>	<b>\$ 11,788,067</b>	<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(9,004,835)</b>
<b>General Revenues</b>								
Real estate and personal property taxes					18,646,847	-	18,646,847	-
Other local taxes					2,838,120	-	2,838,120	-
Personal property tax relief from Commonwealth of Virginia					1,923,431	-	1,923,431	-
Payments from the City of Poquoson					-	-	-	9,591,168
Reimbursements from other agencies not restricted to specific programs					158,675	-	158,675	-
Miscellaneous					419,424	160	419,584	-
Unrestricted investment earnings					221,823	34,964	256,787	-
<b>Transfers</b>					150,000	(150,000)	-	-
<b>Total general revenues, transfers, and miscellaneous</b>					<b>24,358,320</b>	<b>(114,876)</b>	<b>24,243,444</b>	<b>9,591,168</b>
<b>Change in net position</b>					<b>2,149,020</b>	<b>423,010</b>	<b>2,572,030</b>	<b>586,333</b>
<b>Net position, beginning of year</b>					<b>18,626,213</b>	<b>6,200,542</b>	<b>24,826,755</b>	<b>(12,812,570)</b>
<b>Net position, end of year</b>					<b>\$ 20,775,233</b>	<b>\$ 6,623,552</b>	<b>\$ 27,398,785</b>	<b>\$(12,226,237)</b>

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

**Balance Sheet - Governmental Funds****June 30, 2016**

<b>Assets</b>	<b>General</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>Total Governmental Funds</b>
Cash investments	\$ 4,954,390	\$ 465,468	\$ 2,467,731	\$ 7,887,589
Property taxes receivable, net	463,984	-	-	463,984
Other receivables	217,211	-	-	217,211
Notes receivable	176,911	-	-	176,911
Due from component units	1,734,184	-	-	1,734,184
Due from other governmental units	1,221,692	-	143,428	1,365,120
<b>Total assets</b>	<b>\$ 8,768,372</b>	<b>\$ 465,468</b>	<b>\$ 2,611,159</b>	<b>\$ 11,844,999</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 1,049,509	\$ 153,668	\$ 62,742	\$ 1,265,919
<b>Total liabilities</b>	<b>1,049,509</b>	<b>153,668</b>	<b>62,742</b>	<b>1,265,919</b>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue - property taxes	290,633	-	-	290,633
<b>Fund Balances</b>				
Fund balances:				
Nonspendable	1,861,498	-	-	1,861,498
Restricted	348,557	158,300	1,995,804	2,502,661
Assigned	829,475	153,500	552,613	1,535,588
Unassigned	4,388,700	-	-	4,388,700
<b>Total fund balances</b>	<b>7,428,230</b>	<b>311,800</b>	<b>2,548,417</b>	<b>10,288,447</b>
<b>Total liabilities, deferred inflows, and fund balances</b>	<b>\$ 8,768,372</b>	<b>\$ 465,468</b>	<b>\$ 2,611,159</b>	<b>\$ 11,844,999</b>

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

**Balance Sheet - Governmental Funds****June 30, 2016****Reconciliation of Balance Sheet - Governmental Funds  
to Statement of Net Position**

<b>Total fund balances - governmental funds</b>	\$ 10,288,447
Amount reported for governmental activities in the statement of net position 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.	43,062,815
Deferred outflows of resources for pension contributions used in governmental activities are not financial resources and, therefore, are not reported in the funds.	673,867
Deferred outflows of resources for gain/loss on refunding in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,632,384
Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	290,633
Other liabilities not paid from current-period revenues are not reported in funds for:	
Accrued interest	(178,019)
Accrued compensated absences	(639,116)
Net pension liability	(2,658,489)
Other postemployment benefit obligation	(347,611)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(30,023,324)
Deferred inflows of resources for pension investment experience is not due and payable in the current period and, therefore, is not reported in the funds.	(1,192,253)
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 position.	(134,101)
<b>Total net position - governmental activities</b>	<b>\$ 20,775,233</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, 2016**

	General	Debt Service	Capital Projects	Total Governmental Funds
<b>Revenues</b>				
General property taxes	\$ 18,605,963	\$ -	\$ -	\$ 18,605,963
Other local taxes	2,838,120	-	-	2,838,120
Permits, privilege fees, and regulatory licenses	150,186	-	-	150,186
Fines and forfeitures	41,742	-	-	41,742
Use of money and property	221,690	-	133	221,823
Charges for services	719,627	-	-	719,627
Intergovernmental	4,050,442	-	837,446	4,887,888
Miscellaneous	365,068	-	41,320	406,388
<b>Total revenues</b>	<b>26,992,838</b>	<b>-</b>	<b>878,899</b>	<b>27,871,737</b>
<b>Expenditures</b>				
General government administration	2,307,455	-	-	2,307,455
Public safety and judicial	6,510,844	-	-	6,510,844
Public works	1,806,905	-	-	1,806,905
Health and welfare	1,127,881	-	-	1,127,881
Parks, recreation, and cultural	1,605,290	-	-	1,605,290
Community development	686,316	-	-	686,316
Nondepartmental	114,470	-	-	114,470
Education	9,566,168	-	-	9,566,168
Industrial Development Authority	25,000	-	-	25,000
Capital outlay	-	-	1,202,670	1,202,670
Debt service				
Principal retirement	-	2,078,058	-	2,078,058
Interest and fiscal charges	-	1,128,233	-	1,128,233
Bond issuance costs	-	284,041	14,866	298,907
<b>Total expenditures</b>	<b>23,750,329</b>	<b>3,490,332</b>	<b>1,217,536</b>	<b>28,458,197</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>3,242,509</b>	<b>(3,490,332)</b>	<b>(338,637)</b>	<b>(586,460)</b>
<b>Other financing sources (uses)</b>				
Transfers in	150,000	3,095,610	742,875	3,988,485
Transfers out	(3,838,485)	-	-	(3,838,485)
Refunding bonds issued	-	14,140,000	-	14,140,000
Issuance of debt	-	-	690,000	690,000
Premium on bonds sold	-	2,960,530	106,771	3,067,301
Payment of refunding bonds escrow agent	-	(16,811,858)	-	(16,811,858)
<b>Total other financing sources (uses)</b>	<b>(3,688,485)</b>	<b>3,384,282</b>	<b>1,539,646</b>	<b>1,235,443</b>
<b>Net change in fund balances</b>	<b>(445,976)</b>	<b>(106,050)</b>	<b>1,201,009</b>	<b>648,983</b>
<b>Fund balances, July 1, 2015</b>	<b>7,874,206</b>	<b>417,850</b>	<b>1,347,408</b>	<b>9,639,464</b>
<b>Fund balances, June 30, 2016</b>	<b>\$ 7,428,230</b>	<b>\$ 311,800</b>	<b>\$ 2,548,417</b>	<b>\$ 10,288,447</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, 2016**

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

**Net change in fund balances - total governmental funds** \$ 648,983

Amount reported for governmental activities in the statement of net position are different because:

Because some revenues will not be collected for several months after the City's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Unavailable revenues increased by this amount this year. 40,884

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	1,743,530
Depreciation expense	(1,876,260)
Disposal and transfers of capital assets	(313,737)

Proceeds from bond issuance provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Debt issued	(14,830,000)
Premiums on debt issued, net	(2,556,564)
Deferred refunding charge, net	1,348,517
Repayment of debt principal	17,150,058

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These activities consist of the changes in:

Accrued interest	267,380
Compensated absences	(3,784)
Pension cost	530,782
Other postemployment benefits liability	(13,805)

Internal service fund is used by management to charge the cost of fleet management to individual departments. The net income of the fleet management fund is reported with governmental activities. 13,036

**Change in net position - governmental activities** \$ 2,149,020

## Statement of Net Position - Proprietary Funds

June 30, 2016

Assets	Business-Type Activities Proprietary Funds			Governmental Activities - Internal Service Funds
	Sewer Operation	Solid Waste	Total	
<b>Current assets</b>				
Cash and investments	\$ 1,788,508	\$ 182,937	\$ 1,971,445	\$ -
Accounts receivable	247,617	128,895	376,512	126
Note receivable	1,875	-	1,875	-
Inventory	-	5,850	5,850	16,945
<b>Total current assets</b>	<b>2,038,000</b>	<b>317,682</b>	<b>2,355,682</b>	<b>17,071</b>
<b>Noncurrent assets</b>				
Capital assets				
Land	214,666	-	214,666	-
Construction in progress	150,144	-	150,144	-
Buildings	67,437	18,966	86,403	41,742
Sewer system	22,229,878	-	22,229,878	-
Equipment	913,612	438,320	1,351,932	51,795
Less - accumulated depreciation	(11,720,420)	(381,783)	(12,102,203)	(80,232)
<b>Total capital assets, net</b>	<b>11,855,317</b>	<b>75,503</b>	<b>11,930,820</b>	<b>13,305</b>
<b>Total assets</b>	<b>13,893,317</b>	<b>393,185</b>	<b>14,286,502</b>	<b>30,376</b>
<b>Deferred outflows of resources</b>				
Deferred pension contributions	22,772	4,756	27,528	19,241
Deferred refunding costs	197,673	-	197,673	-
<b>Total deferred outflows of resources</b>	<b>220,445</b>	<b>4,756</b>	<b>225,201</b>	<b>19,241</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 14,113,762</b>	<b>\$ 397,941</b>	<b>\$ 14,511,703</b>	<b>\$ 49,617</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	\$ 136,743	\$ 65,408	\$ 202,151	\$ 34,033
Accrued payroll	13,542	4,381	17,923	13,258
Accrued interest	96,334	-	96,334	-
Compensated absences	2,274	301	2,575	1,776
Bonds payable, current portion	445,000	-	445,000	-
<b>Total current liabilities</b>	<b>693,893</b>	<b>70,090</b>	<b>763,983</b>	<b>49,067</b>
<b>Noncurrent liabilities</b>				
Compensated absences	20,462	2,711	23,173	15,980
Bonds payable, less current portion	6,929,457	-	6,929,457	-
Net pension liability	89,839	18,764	108,603	75,908
Other postemployment benefit obligation	11,246	2,984	14,230	8,721
<b>Total noncurrent liabilities</b>	<b>7,051,004</b>	<b>24,459</b>	<b>7,075,463</b>	<b>100,609</b>
<b>Total liabilities</b>	<b>7,744,897</b>	<b>94,549</b>	<b>7,839,446</b>	<b>149,676</b>
<b>Deferred inflows of resources</b>				
Deferred pension investment experience	40,290	8,415	48,705	34,042
<b>Total liabilities and deferred inflows of resources</b>	<b>7,785,187</b>	<b>102,964</b>	<b>7,888,151</b>	<b>183,718</b>
<b>Net position</b>				
Net investment in capital assets	4,678,533	75,503	4,754,036	13,305
Unrestricted (deficit)	1,650,042	219,474	1,869,516	(147,406)
<b>Total net position (deficit)</b>	<b>6,328,575</b>	<b>294,977</b>	<b>6,623,552</b>	<b>(134,101)</b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 14,113,762</b>	<b>\$ 397,941</b>	<b>\$ 14,511,703</b>	<b>\$ 49,617</b>

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



**Statement of Revenue, Expenses, and Changes in Fund Net Position - Proprietary Funds****Year Ended June 30, 2016**

	Proprietary Fund Types			Governmental
	Sewer Operation	Solid Waste	Total	Activities - Internal Service Funds
<b>Operating revenues</b>				
Charges for services	\$ 1,841,626	\$ 801,841	\$ 2,643,467	\$ 688,662
Miscellaneous	120	40	160	-
<b>Total operating revenues</b>	<b>1,841,746</b>	<b>801,881</b>	<b>2,643,627</b>	<b>688,662</b>
<b>Operating expenses</b>				
Personnel services	267,530	83,386	350,916	233,031
Contractual services	112,253	212,203	324,456	110,910
Materials and supplies	100,110	39,119	139,229	312,960
Utilities	78,025	109	78,134	3,563
Depreciation and amortization	631,275	15,520	646,795	1,806
Other charges	35,754	21,999	57,753	13,356
Waste disposal	-	421,352	421,352	-
<b>Total operating expenses</b>	<b>1,224,947</b>	<b>793,688</b>	<b>2,018,635</b>	<b>675,626</b>
<b>Operating income (loss)</b>	<b>616,799</b>	<b>8,193</b>	<b>624,992</b>	<b>13,036</b>
<b>Nonoperating revenues (expenses)</b>				
Interest income	34,964	-	34,964	-
Interest and fiscal charges	(260,346)	-	(260,346)	-
Sewer availability fees	173,400	-	173,400	-
<b>Net nonoperating expenses</b>	<b>(51,982)</b>	<b>-</b>	<b>(51,982)</b>	<b>-</b>
<b>Income (loss) before transfers</b>	<b>564,817</b>	<b>8,193</b>	<b>573,010</b>	<b>13,036</b>
<b>Transfers</b>				
Transfers out	(150,000)	-	(150,000)	-
<b>Net transfers</b>	<b>(150,000)</b>	<b>-</b>	<b>(150,000)</b>	<b>-</b>
<b>Change in net position</b>	<b>414,817</b>	<b>8,193</b>	<b>423,010</b>	<b>13,036</b>
<b>Net position, July 1, 2015</b>	<b>5,913,758</b>	<b>286,784</b>	<b>6,200,542</b>	<b>(147,137)</b>
<b>Net position, June 30, 2016</b>	<b>\$ 6,328,575</b>	<b>\$ 294,977</b>	<b>\$ 6,623,552</b>	<b>\$ (134,101)</b>

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

## Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2016

	Proprietary Fund Types			Internal Service Fund
	Sewer Operation	Solid Waste	Total	
<b>Cash flows from operating activities</b>				
Received from customers and users	\$ 1,819,834	\$ 797,853	\$ 2,617,687	\$ 688,768
Payments to suppliers for goods and services	(197,828)	(807,255)	(1,005,083)	(438,418)
Payments to employees	(283,998)	(87,120)	(371,118)	(244,465)
<b>Net cash provided by (used in) operating activities</b>	<b>1,338,008</b>	<b>(96,522)</b>	<b>1,241,486</b>	<b>5,885</b>
<b>Cash flows from noncapital financing activities</b>				
Transfers to other funds	(150,000)	-	(150,000)	-
<b>Cash flows from capital and related financing activities</b>				
Principal paid on capital debt	(365,000)	-	(365,000)	-
Sewer availability fees	173,400	-	173,400	-
Interest paid on capital debt	(276,811)	-	(276,811)	-
Acquisition and construction of capital assets	(232,711)	-	(232,711)	(5,885)
<b>Net cash used in capital and related financing activities</b>	<b>(701,122)</b>	<b>-</b>	<b>(701,122)</b>	<b>(5,885)</b>
<b>Cash flows from investing activities</b>				
Interest received	34,964	-	34,964	-
<b>Net increase (decrease) in cash and investments</b>	<b>521,850</b>	<b>(96,522)</b>	<b>425,328</b>	<b>-</b>
<b>Cash and investments, beginning of year</b>	<b>1,266,658</b>	<b>279,459</b>	<b>1,546,117</b>	<b>-</b>
<b>Cash and investments, end of year</b>	<b>\$ 1,788,508</b>	<b>\$ 182,937</b>	<b>\$ 1,971,445</b>	<b>\$ -</b>
<b>Reconciliation of operating income to net cash provided by (used in) operating activities</b>				
Operating income	\$ 616,799	\$ 8,193	\$ 624,992	\$ 13,036
Adjustments				
Depreciation and amortization	631,275	15,520	646,795	1,806
Changes in assets and liabilities				
Receivables, net	(21,912)	(4,028)	(25,940)	106
Inventories	-	(2,960)	(2,960)	(3,427)
Deferred outflow for pension contributions	(2,557)	(556)	(3,113)	(2,682)
Accounts payable and accrued liabilities	128,314	(109,513)	18,801	5,798
Accrued compensated absences	1,870	(143)	1,727	1,873
Accrued payroll	3,439	794	4,233	1,778
Other postemployment benefits obligation	323	86	409	250
Net pension liability	(9,551)	(1,884)	(11,435)	(5,507)
Deferred inflow for pension investment experience	(9,992)	(2,031)	(12,023)	(7,146)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 1,338,008</b>	<b>\$ (96,522)</b>	<b>\$ 1,241,486</b>	<b>\$ 5,885</b>

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

**Statement of Fiduciary Assets and Liabilities**

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**June 30, 2016**

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		<u>Library Agency Fund</u>
	<b>Assets</b>	
Cash and cash equivalents		<u>\$ 31,495</u>
	<b>Liabilities</b>	
Amounts held in trust for library building		<u>\$ 31,495</u>

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

**Combining Statement of Net Position - Component Units****June 30, 2016**

	Poquoson Public Schools	Economic Development Authority	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 2,278,414	\$ 13,799	\$ 2,292,213
Accounts receivable	-	8,370	8,370
Due from other governments	437,985	-	437,985
Inventory	16,846	-	16,846
Capital assets			
Non-depreciable	450,876	2,492,161	2,943,037
Depreciable - net	5,131,582	141,640	5,273,222
<b>Total assets</b>	<b>8,315,703</b>	<b>2,655,970</b>	<b>10,971,673</b>
<b>Deferred Outflows of Resources</b>			
Deferred pension contributions	1,619,743	-	1,619,743
<b>Total assets and deferred outflows of resources</b>	<b>\$ 9,935,446</b>	<b>\$ 2,655,970</b>	<b>\$ 12,591,416</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 2,272,046	\$ 126	\$ 2,272,172
Accrued interest	-	14,087	14,087
Compensated absences, current	81,078	-	81,078
Due to primary government	49,597	1,684,587	1,734,184
Compensated absences, noncurrent	301,454	-	301,454
Net pension liability	18,802,000	-	18,802,000
Other postemployment benefit obligation	56,678	-	56,678
<b>Total liabilities</b>	<b>21,562,853</b>	<b>1,698,800</b>	<b>23,261,653</b>
<b>Deferred Inflows of Resources</b>			
Deferred pension investment experience	1,556,000	-	1,556,000
Deferred pension proportionate share	-	-	-
<b>Total deferred inflows of resources</b>	<b>1,556,000</b>	<b>-</b>	<b>1,556,000</b>
<b>Net Position</b>			
Net investment in capital assets	5,582,458	949,214	6,531,672
Restricted	103,743	-	103,743
Unrestricted (deficit)	(18,869,608)	7,956	(18,861,652)
<b>Total net position (deficit)</b>	<b>(13,183,407)</b>	<b>957,170</b>	<b>(12,226,237)</b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 9,935,446</b>	<b>\$ 2,655,970</b>	<b>\$ 12,591,416</b>

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

**Combining Statement of Activities - Component Units**

**Year Ended June 30, 2016**

	Program Revenues				Net Revenues (Expenses) and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Contributions	Poquoson	Economic	Total
					Public Schools	Development Authority	
<b>Poquoson Public Schools</b>							
Education	\$ 21,510,333	\$ 776,933	\$ 11,788,067	\$ -	\$ (8,945,333)	\$ -	\$ (8,945,333)
<b>Economic Development Authority</b>							
Economic Development	83,369	23,867	-	-	-	(59,502)	(59,502)
<b>Total component units</b>	<b>\$ 21,593,702</b>	<b>\$ 800,800</b>	<b>\$ 11,788,067</b>	<b>\$ -</b>	<b>(8,945,333)</b>	<b>(59,502)</b>	<b>(9,004,835)</b>

**General revenues**

City of Poquoson	9,566,168	25,000	9,591,168
<b>Total general revenues</b>	<b>9,566,168</b>	<b>25,000</b>	<b>9,591,168</b>
<b>Change in net position</b>	<b>620,835</b>	<b>(34,502)</b>	<b>586,333</b>
<b>Net position, beginning of year</b>	<b>(13,804,242)</b>	<b>991,672</b>	<b>(12,812,570)</b>
<b>Net position, end of year</b>	<b>\$ (13,183,407)</b>	<b>\$ 957,170</b>	<b>\$ (12,226,237)</b>

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

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**June 30, 2016**

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**1. Summary of Significant Accounting Policies**

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

**Financial Reporting Entity**

The City of Poquoson, 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 to include the Courts, Social Services, Sheriff's Department, and E-911 Center. The City is organized under the Council-Manager form of government. The Poquoson City Council is comprised of seven members who are elected by voters on a non-partisan basis and serve four-year staggered terms.

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

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

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

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

The entities described in Note 15, Related Party Transactions, are excluded from the City's Comprehensive Annual Financial Report, as the City does not have financial accountability over their activities.

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

### Government-Wide and Fund Financial Statements

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

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

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

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

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

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

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



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

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

The City reports the following major governmental funds:

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

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

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

The City reports the following major proprietary funds:

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

The *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.

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

### Fiduciary Fund - Agency Fund Types

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

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

### **Component Unit – Economic Development Authority**

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

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

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

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

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

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

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

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

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

### **Budgeting and Budgetary Accounting**

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

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

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

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

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

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

Supplemental budget appropriations were approved during the fiscal year ended June 30, 2016, for an increase in appropriations in the amount of \$1,426,852 for the Primary Government General Fund.

For the General Fund, the City Manager is authorized to transfer budgeted amounts between functions. Revisions that alter the total appropriations for a fund 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 fund. Unencumbered appropriations lapse at year-end.

### **Cash and Investments**

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

Investments consist of the State Treasurer's Local Government Investment Pool (LGIP), VACo/VML Virginia Investment Pool, 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 that the City's capitalization threshold is met.

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

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

**Capital Assets (Continued)**

The City’s capitalization policy threshold is \$5,000. All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated assets are valued at their acquisition value. 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
Land improvements	10 - 50
Sewer System	40

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

**Allowance for Uncollectible Accounts**

The City (Primary Government) calculates its allowance for uncollectible property taxes receivable using historical collection data. At June 30, 2016, the allowance approximated \$305,000 in the General Fund. All other receivables have experienced a high collection rate; therefore, an allowance for doubtful accounts has not been established by City management for other receivables.

**Inventory**

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

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

Inventory is recognized as expenditures when consumed.

**Deferred Outflows and Inflows of Resources**

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. Currently, the City reports two such items in the Statement of Net Position. The deferred pension contributions represent payments from the City to the pension plan subsequent to the measurement date of the net pension liability and before the end of the reporting period. The deferred refunding costs consist of the amount by which the principal and premium of a refunding bond exceed the net carrying amount of the refunded debt. This amount is deferred and amortized over the remaining life of the refunded debt.

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

### **Deferred Outflows and Inflows of Resources** *(Continued)*

Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City reports deferred inflows for pension actuarial differences, which represent amounts remaining to be expensed as a result of changes to the net pension liability such as differences between expected and actual experience, changes in assumptions about future economic and demographic factors, difference between projected and actual earnings on pension plan investments, and changes to the School Board's proportion of the collective net pension liability. These amounts are required to be recognized in pension expense using a systematic and rational method over a closed period. Under the modified accrual basis of accounting, the City has revenues which are applicable to a future period, and will not be recognized until they period they become available. These amounts are recorded on the governmental funds balance sheet as a deferred inflow of resources.

### **Compensated Absences**

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

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

### **Sewer Availability Fees**

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

### **Fund Balances/Net Positions**

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

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

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

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

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

### Fund Balances/Net Positions *(Continued)*

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

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

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

City Council has adopted a fund balance policy to maintain a general fund unassigned fund balance at the close of each fiscal year equal to 12% - 15% of total general fund operating expenditures. If the fund balance falls below the minimum target level, the policy provides for actions to replenish the amount to the minimum target level. Generally, replenishment is to occur within 24 months.

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

### Estimates

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

### Credit Risk

The assessed value of real estate for the City’s ten largest taxpayers comprises 3.29% 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**

Deposits with banks are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. Seq. of the Code of Virginia (Act) or covered by the Federal Depository Insurance Corporation. Under this Act, banks holding public deposits in excess of the amounts insured by the FDIC must pledge collateral equal to 50% of such deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

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

At June 30, 2016, no balances of the Primary Government or School Board were uninsured or uncollateralized in banks or savings institutions because of failure of the institutions to qualify under the Act.

### **Investments**

Statutes authorize the City to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). LGIP is managed in accordance with the "2a-7 like pool" risk limiting requirements of GASB Statement No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" with portfolio securities valued by the amortized cost method. The fair value of the LGIP is the same as the value of the pool shares. Investments with a maturity date of one year or less are stated at amortized cost. All other investments are stated at fair value. As of June 30, 2016, the City had \$952,379 invested in the State Non-Arbitrage Program (SNAP). SNAP funds are rated AAA by Standard & Poor's.

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

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

### **Investment Policy** *(Continued)*

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

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

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

#### *Short-term Operating Funds*

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

#### *Core Portfolio*

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

#### *Bond Proceeds*

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

### **Credit Risk**

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



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

### **Credit Risk** *(Continued)*

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

### **Concentration of Credit Risk**

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

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

### **Interest Rate Risk**

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

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

### **Custodial Risk**

For an investment, custodial risk is the risk that in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Policy requires that all investment securities purchased by the City or held as collateral on deposits or investments shall be held by the City or by a third-party custodial agent who may not otherwise be counterparty to the investment transaction. As of June 30, 2016, with the exception of the Virginia LGIP and VACO/VML, all of the City's investments are held in a bank's trust department in the City's name.

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

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

	<b>Investment Maturities (in years)</b>		
	<b>Fair Value</b>	<b>Less Than</b>	
		<b>1 Year</b>	<b>1 - 3 Years</b>
VACO/VML Investment Pool	\$ 357,947	\$ 357,947	\$ -
Virginia LGIP	31,495	31,495	-
Scott & Stringfellow	430,000	430,000	-
SNAP	952,246	-	952,246
SNAP	133	-	133
Total investments	1,771,821	\$ 819,442	\$ 952,379

*Reconciliation to total cash and investments:*

Add:

Cash on hand and in banks 10,410,921

Total cash and investments 12,182,742

Less:

Cash held in fiduciary funds 31,495

Total cash and investments, Exhibit A,  
Primary Government and Component Units \$ 12,151,247

**Fair Value Hierarchy**

In fiscal year 2016, the City adopted GASB Statement No. 72 ("GASB 72"), *Fair Value Measurement and Application*. GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements and provide guidance to determining fair value measurement for financial reporting purposes.

GASB 72 establishes a hierarchy (3 Levels) or valuation techniques used to measure fair value. The hierarchy is based on the valuation inputs used to measure the fair value of an asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are inputs other than quoted prices that are observable directly or indirectly. Level 3 inputs are unobservable inputs. The City has the following fair value measurements as of June 30, 2016:

<b>Investments - At Fair Value</b>	<b>June 30, 2016</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>
VACO/VML Investment Pool	\$ 357,947	\$ 357,947	\$ -
Virginia LGIP	31,495	31,495	-
Scott & Stringfellow	430,000	430,000	-
SNAP	952,379	952,379	-
	\$ 1,771,821	\$ 1,771,821	\$ -

**3. Receivables**

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

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Real estate taxes	\$ 434,941	\$ -	\$ 434,941
Personal property taxes	334,043	-	334,043
Accounts receivable	217,337	376,512	593,849
	<u>986,321</u>	<u>376,512</u>	<u>1,362,833</u>
Less - allowance for uncollectible accounts	(305,000)	-	(305,000)
Receivables, net	<u>\$ 681,321</u>	<u>\$ 376,512</u>	<u>\$ 1,057,833</u>

**4. Notes Receivable**

A \$100,000 note receivable in the General Fund and Governmental Activities represents a deed of trust note to a business for relocation expenses. As an incentive to move to the City, the City advanced the business moving expenses. The \$100,000 note bears interest at 6%. Principal payments of \$20,000 plus accrued interest began on December 31, 2015 and payable on December 31<sup>st</sup> of each year thereafter until December 31, 2019, when paid in full. However, the principal and interest payments will be forgiven each year if the business meets the conditions outlined in the agreement. As of June 30, 2016 the balance was \$100,000 and the City has granted the business an extension on the first payment.

A \$192,279 note receivable in the General Fund and Governmental Activities represents a deed of trust note to Poquoson Historical and Cultural Museum Foundation. The \$192,279 note bears interest at 7.25%. Beginning June 1, 2009, interest only is due and payable each June 1 and December 1 thereafter. In all events the accrued interest and unpaid principal is due in full on December 1, 2018. As of June 30, 2016, the balance was \$76,911.

The City also has a \$1,684,587 note receivable from the EDA. In fiscal year 2013, the EDA borrowed \$1,734,000 from the City to pay off their line of credit, which became due on June 30, 2013. The funds for this note receivable were obtained when the City issued a \$1,734,000 general obligation bond on June 12, 2013, along with a \$300,000 taxable line of credit for future economic development use (see Note 8). The EDA has agreed to pay interest and principal when due, and will pay a minimum of 50% of the proceeds of any sale of property towards principal until the debt is paid in full. The note receivable is included in “Notes receivable, component unit” in the Statement of Net Position and the General Fund.

**5. Due From Other Governments**

Due from other governments consists of the following:

**Primary Government**

	<b>General Fund</b>
<b>Commonwealth of Virginia</b>	
Communications Sales and Use Tax	\$ 32,960
Compensation Board	18,601
Comprehensive Services Act	113,933
Division of Motor Vehicles	12,315
HMGP Grant	3,106
SLAF Grant	78,447
Mobile Home Titling Tax	13,160
PPTRA	884,118
Public Assistance	12,833
Sales Tax	52,094
Total due from the Commonwealth of Virginia	<u>1,221,567</u>
<b>Federal Government</b>	
Citizen Corp 2014	325
SHSP 2015 - Airboat	64,981
DUI Grants - Selective Enforcement - Alcohol	608
DUI Grants - Selective Enforcement - Speed	843
FEMA Planning Grant (LEMPG)	7,500
FEMA Public Assistance	57,650
HMGP Grant	11,646
Total due from the federal government	<u>143,553</u>
Total due from other governments	<u>\$ 1,365,120</u>

**5. Due From Other Governments (Continued)**

**Component Unit - School Board**

**Commonwealth of Virginia**

Sales Tax	\$ 175,977
Technology Reimbursement	70,102
Total due from the Commonwealth of Virginia	<u>246,079</u>

**Federal Government**

Department of Education Program	
Title I	39,238
Title II	10,808
Title VI-B	102,892
Various Grants	38,968
Total due from the federal government	<u>191,906</u>
Total due from the other governments	<u>\$ 437,985</u>

**6. Receivables and Payables - Component Units**

Details of the receivables and payables between the Primary Government and component units at June 30, 2016 are as follows:

<u>Primary Government Receivable</u>	<u>Component Unit Payable</u>	<u>Amount</u>
Due from EDA	Due to Primary Government	\$ 1,684,587
Due from School Board	Due to Primary Government	49,597
Total		<u>\$ 1,734,184</u>

See "Note 4, Notes Receivable" for more information regarding the EDA's \$1,684,587 due to the City.

## 7. Capital Assets

A summary of changes in capital assets for the governmental activities follows:

	<b>Balance July 1, 2015</b>	<b>Increase</b>	<b>Decrease</b>	<b>Balance June 30, 2016</b>
Capital assets, non-depreciable				
Land	\$ 3,294,949	\$ -	\$ 53,857	\$ 3,241,092
Construction in progress	206,604	546,601	461,930	291,275
Total capital assets, non-depreciable	<u>3,501,553</u>	<u>546,601</u>	<u>515,787</u>	<u>3,532,367</u>
Capital assets, depreciable				
Buildings	10,682,994	169,976	138,561	10,714,409
Infrastructure	39,482,771	901,548	-	40,384,319
Land improvements	3,263,233	213,815	-	3,477,048
Machinery and equipment	7,485,633	433,262	125,512	7,793,383
Total capital assets, depreciable	<u>60,914,631</u>	<u>1,718,601</u>	<u>264,073</u>	<u>62,369,159</u>
Less - accumulated depreciation				
Buildings	4,564,370	357,956	6,928	4,915,398
Infrastructure	32,493,449	174,163	-	32,667,612
Land improvements	1,745,924	222,690	-	1,968,614
Machinery and equipment	5,354,078	417,513	107,590	5,664,001
Total accumulated depreciation	<u>44,157,821</u>	<u>1,172,322</u>	<u>114,518</u>	<u>45,215,625</u>
Total capital assets, depreciable, net before allocation from School Board	<u>16,756,810</u>	<u>546,279</u>	<u>149,555</u>	<u>17,153,534</u>
Allocation of School Board assets				
Buildings	28,605,337	-	217,577	28,387,760
Less - accumulated depreciation				
Buildings	5,345,192	705,744	53,395	5,997,541
Total allocated from School Board	<u>23,260,145</u>	<u>(705,744)</u>	<u>164,182</u>	<u>22,390,219</u>
Total capital assets, depreciable	<u>40,016,955</u>	<u>(159,465)</u>	<u>313,737</u>	<u>39,543,753</u>
Total capital assets	<u>\$ 43,518,508</u>	<u>\$ 387,136</u>	<u>\$ 829,524</u>	<u>\$ 43,076,120</u>

Depreciation was charged to governmental functions as follows:

General government administration	\$ 43,089
Public safety	298,727
Public works	239,059
Health and welfare	6,459
Parks, recreation, and cultural	582,151
Community development	2,837
Education	705,744
	<u>\$ 1,878,066</u>

**7. Capital Assets (Continued)**

A summary of changes in capital assets for the business-type is as follows:

	<b>Balance July 1, 2015</b>	<b>Increase</b>	<b>Decrease</b>	<b>Balance June 30, 2016</b>
Capital assets, non-depreciable				
Land	\$ 214,666	\$ -	\$ -	\$ 214,666
Construction in progress	24,899	125,245	-	150,144
Total capital assets, non-depreciable	<u>239,565</u>	<u>125,245</u>	<u>-</u>	<u>364,810</u>
Capital assets, depreciable				
Buildings	18,966	67,437	-	86,403
Machinery and equipment	1,345,277	6,655	-	1,351,932
Sewer system	22,196,504	33,374	-	22,229,878
Total capital assets, depreciable	<u>23,560,747</u>	<u>107,466</u>	<u>-</u>	<u>23,668,213</u>
Less - accumulated depreciation				
Buildings	10,846	2,288	-	13,134
Machinery and equipment	913,305	67,585	-	980,890
Sewer system	10,531,257	576,922	-	11,108,179
Total accumulated depreciation	<u>11,455,408</u>	<u>646,795</u>	<u>-</u>	<u>12,102,203</u>
Total capital assets, depreciable, net	<u>12,105,339</u>	<u>(539,329)</u>	<u>-</u>	<u>11,566,010</u>
Total	<u>\$ 12,344,904</u>	<u>\$ (414,084)</u>	<u>\$ -</u>	<u>\$ 11,930,820</u>

7. **Capital Assets (Concluded)**

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

	<b>Balance July 1, 2015</b>	<b>Increase</b>	<b>Decrease</b>	<b>Balance June 30, 2016</b>
Capital assets, non-depreciable				
Land	\$ 450,876	\$ -	\$ -	\$ 450,876
Capital assets, depreciable				
Buildings	39,847,866	92,611	10,000	39,930,477
Machinery and equipment	2,691,364	293,585	114,965	2,869,984
Total capital assets, depreciable	<u>42,539,230</u>	<u>386,196</u>	<u>124,965</u>	<u>42,800,461</u>
Less - accumulated depreciation				
Buildings	12,516,575	920,227	10,000	13,426,802
Machinery and equipment	1,785,705	181,118	114,965	1,851,858
Total accumulated depreciation	<u>14,302,280</u>	<u>1,101,345</u>	<u>124,965</u>	<u>15,278,660</u>
Capital assets, depreciable, net, before allocation to City	<u>28,236,950</u>	<u>(715,149)</u>	<u>-</u>	<u>27,521,801</u>
Allocation to City				
Buildings	28,605,337	-	217,577	28,387,760
Less - accumulated depreciation	5,345,192	705,744	53,395	5,997,541
Total allocated to City	<u>23,260,145</u>	<u>(705,744)</u>	<u>164,182</u>	<u>22,390,219</u>
Total capital assets, depreciable, net	<u>4,976,805</u>	<u>(9,405)</u>	<u>164,182</u>	<u>5,131,582</u>
Total	<u>\$ 5,427,681</u>	<u>\$ (9,405)</u>	<u>\$ 164,182</u>	<u>\$ 5,582,458</u>

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

	<b>Balance July 1, 2015</b>	<b>Increase</b>	<b>Decrease</b>	<b>Balance June 30, 2016</b>
Capital assets, non-depreciable				
Land	\$ 2,492,161	\$ -	\$ -	\$ 2,492,161
Capital assets, depreciable				
Buildings	69,147	-	-	69,147
Infrastructure	315,273	-	-	315,273
Total capital assets, depreciable	<u>384,420</u>	<u>-</u>	<u>-</u>	<u>384,420</u>
Less - accumulated depreciation				
Buildings	53,023	3,457	-	56,480
Infrastructure	171,969	14,331	-	186,300
Total accumulated depreciation	<u>224,992</u>	<u>17,788</u>	<u>-</u>	<u>242,780</u>
Total capital assets, depreciable, net	<u>159,428</u>	<u>(17,788)</u>	<u>-</u>	<u>141,640</u>
Total	<u>\$ 2,651,589</u>	<u>\$ (17,788)</u>	<u>\$ -</u>	<u>\$ 2,633,801</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:

	<b>Balance July 1, 2015</b>	<b>Increase</b>	<b>Decrease</b>	<b>Balance June 30, 2016</b>	<b>Amounts Due Within One Year</b>
General obligation bonds	\$ 26,882,588	\$ 14,830,000	\$ 16,608,001	\$ 25,104,587	\$ 1,685,000
State Literary Fund loans	1,000,000	-	250,000	750,000	250,000
Unamortized premium	1,612,173	3,067,301	510,737	4,168,737	-
Line of credit	292,057	-	292,057	-	-
	<u>29,786,818</u>	<u>17,897,301</u>	<u>17,660,795</u>	<u>30,023,324</u>	<u>1,935,000</u>
Net pension liability	2,927,962	-	193,565	2,734,397	-
Net postemployment benefit obligation	342,277	14,055	-	356,332	-
Accrued compensated absences	651,215	608,743	603,086	656,872	65,688
Total	<u>\$ 33,708,272</u>	<u>\$ 18,520,099</u>	<u>\$ 18,457,446</u>	<u>\$ 33,770,925</u>	<u>\$ 2,000,688</u>
 <b>Component Unit - School Board</b>					
Net pension liability	\$ 18,103,000	\$ 699,000	\$ -	\$ 18,802,000	\$ -
Net other postemployment obligation	89,181	-	32,503	56,678	-
Accrued compensated absences	396,204	532,567	546,239	382,532	81,078
	<u>\$ 18,588,385</u>	<u>\$ 1,231,567</u>	<u>\$ 578,742</u>	<u>\$ 19,241,210</u>	<u>\$ 81,078</u>

The net pension liabilities, OPEB obligations and compensated absences are generally liquidated by the fund for which the employee works, such as for the governmental funds (the general fund and internal service fund), and for the enterprise funds (the sewer fund and the solid waste fund).

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

**Governmental Activities** *(Continued)*

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

<i>High School Serial Bonds of 1998</i> - \$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%.	\$ 90,000
<i>General Obligation Refunding Bonds, Series 2010</i> - \$4,670,000 bonds issued and due in annual installments varying from \$100,000 to \$665,000 beginning February 2014 through February 2027, with interest paid semi-annually at 4.28%.	1,165,000
<i>General Obligation Refunding Bonds, Series 2010</i> - \$6,600,000 bonds issued and due in annual installments varying from \$140,000 to \$1,015,000 beginning February 2014 through February 2027, with interest paid semi-annually at 4.35%.	880,000
<i>General Obligation Refunding Bonds, Series 2010</i> - \$3,900,000 bonds issued and due in annual installments varying from \$45,000 to \$580,000 beginning February 2014 through February 2027, with interest paid semi-annually at 4.49%.	205,000
due in annual installments varying from \$35,000 to \$1,030,000 beginning February 2013 through February 2028, with interest payable semi-annually at rates from 2% to 5%.	6,250,000
<i>General Obligation Bonds, Series 2013</i> - \$1,734,000 bonds issued and due in annual installments varying from \$157,000 to \$191,000 beginning August 2018 through August 2027, with interest payable semi-annually at 2.23%.	1,684,587
<i>General Obligation Bonds, Series 2016</i> - \$14,830,000 bonds issued and due in annual installments varying from \$40,000 to \$2,245,000 beginning February 15 through February 2031, with interest payable semi-annually at rates from 2% to 5%.	14,830,000
	<u>\$ 25,104,587</u>

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

**Governmental Activities (Continued)**

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

	<u>Principal</u>	<u>Interest</u>
2017	\$ 1,685,000	\$ 856,639
2018	1,685,000	1,021,939
2019	1,922,000	948,683
2020	2,250,001	867,434
2021	2,219,000	765,922
2022 - 2026	12,075,000	2,166,720
2027 - 2031	3,268,586	116,276
	<u>\$ 25,104,587</u>	<u>\$ 6,743,613</u>

**Literary Loan Funds**

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

**High School Literary Fund Loan** - \$5,000,000 loan issued November 17, 1998, due in annual installments of \$250,000 through December 2019, with interest at 3%. \$ 750,000

Estimated state literary fund loans debt service requirements to maturity is as follows:

	<u>Principal</u>	<u>Interest</u>
2017	\$ 250,000	\$ 22,500
2018	250,000	15,000
2019	250,000	7,500
	<u>\$ 750,000</u>	<u>\$ 45,000</u>

**Line of Credit**

As discussed in Note 4, the City issued a \$1,734,000 general obligation bond on June 12, 2013, along with a \$300,000 taxable line of credit for future economic development use. The City drew on the line of credit in fiscal year 2015 to purchase land. The land was subdivided, with a portion to be used for community events and the other portion to be held for resale. The balance due under the line of credit was \$292,057 at June 30, 2015. The City paid off the entire \$292,057 balance due in fiscal year 2016, and the line of credit expired in February 2016.

**Debt Limit**

The Commonwealth of Virginia imposes a legal limit on the general obligation debt that may be issued by the City to an amount equal to 10% of total assessed value of real property. As of June 30, 2016, the City's aggregate general obligation indebtedness was \$119,793,849 less than the allowable limit.

**8. Long-term Obligations (Concluded)**

**Overlapping Debt**

There are no overlapping or underlying tax jurisdictions.

**Advance Refunding**

In June 2016, the City of Poquoson issued \$14,140,000 of general obligation refunding bonds to currently refund \$15,072,000 of general obligation bonds. The refunding bonds combined with \$2,671,597 in premiums provide resources to purchase U.S. Government, State and Local Government Series securities that are placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$19,031,555 of General Obligation Bonds. As a result, 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 \$1,438,952. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is the same as the old debt. The current refunding resulted in an overall decrease in debt service over the next 15 years of \$1,425,556. This current refunding resulted in an economic gain of \$1,296,289.

**Business-type Activities**

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

	<b>Balance July 1, 2015</b>	<b>Increase</b>	<b>Decrease</b>	<b>Balance June 30, 2016</b>	<b>Amounts Due Within One Year</b>
General obligation bonds	\$ 7,220,000	\$ -	\$ 365,000	\$ 6,855,000	\$ 445,000
Bond premium	569,604	-	50,147	519,457	-
	<u>7,789,604</u>	<u>-</u>	<u>415,147</u>	<u>7,374,457</u>	<u>445,000</u>
Net pension liability	120,038	-	11,435	108,603	-
Net postemployment benefit obligation	13,821	409	-	14,230	-
Accrued compensated absences	24,023	29,447	27,722	25,748	2,575
Total	<u>\$ 7,947,486</u>	<u>\$ 29,856</u>	<u>\$ 454,304</u>	<u>\$ 7,523,038</u>	<u>\$ 447,575</u>

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

<b>General Obligation Refunding Sewer Bonds, Series 2010</b> - \$740,000 bonds issued and due in annual principal installments varying from \$10,000 to \$80,000 through April 2022 with interest payable semi-annually at rates varying from 2.2% to 5.2%	\$ 440,000
<b>General Obligation Refunding Sewer Bonds, Series 2012</b> - \$7,330,000 bonds issued and due in annual installments varying from \$150,000 to \$685,000 through February 2028, with interest payable semi-annually at rates from 3% to 5%.	<u>6,415,000</u>
	<u>\$ 6,855,000</u>

**8. Long-term Obligations (Concluded)**

Estimated debt service on the general obligation bonds is payable as follows:

	<u>Principal</u>	<u>Interest</u>
2017	\$ 445,000	\$ 262,071
2018	470,000	240,068
2019	490,000	216,628
2020	515,000	192,183
2021	540,000	166,878
2022 - 2026	3,045,000	491,774
2027 - 2031	1,350,000	61,050
	<u>\$ 6,855,000</u>	<u>\$ 1,630,652</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.

**9. Due to Primary Government, Component Unit - Economic Development Authority (EDA)**

As described in Notes 4 and 8 above, the City issued \$1,734,000 in general obligation bonds, and then loaned the proceeds to the EDA to repay a former bank line of credit. The balance due from the EDA was \$1,684,587 at June 30, 2016. The EDA has agreed to pay interest and principal when due, and will pay a minimum of 50% of the proceeds of any sale of property towards principal until the debt is paid in full.

**10. Conduit Debt Obligation**

On September 12, 2005, the EDA issued \$5,000,000 YMCA Revenue Bonds to finance the acquisition and construction of the Peninsula Metropolitan YMCA (YMCA). On November 1, 2013 the EDA issued \$7,474,590 Christopher Newport University Student Housing Project Revenue Bonds to Christopher Newport University Education Foundation (Foundation), for the purpose of financing the construction and equipping of a student housing complex consisting of 5 buildings in Newport News, VA. On December 29, 2015, the EDA issued \$9,180,000 Beth Sholom revenue and refunding bonds for the construction and equipping of a renovation project with Beth Sholom Life Care Community Campus owned by Beth Sholom. The costs of financing the projects, all expenses of issuing the bonds, and the payments of bond principals and interest are the responsibility of the YMCA, Christopher Newport University Education Foundation, and Beth Sholom, respectively. The bonds provide that neither the EDA nor the City shall be obligated to pay the bonds or interest thereon or other costs incident thereto. At June 30, 2016, \$12,696,992 remained outstanding.

**11. Fund Balances**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds.

**11. Fund Balances (Continued)**

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

	General	Debt Service	Capital Project	Total Governmental Funds
<b>Nonspendable</b>				
EDA Note Receivable	\$ 1,684,587	\$ -	\$ -	\$ 1,684,587
Notes Receivable	176,911	-	-	176,911
<b>Total nonspendable</b>	<b>1,861,498</b>	<b>-</b>	<b>-</b>	<b>1,861,498</b>
<b>Restricted</b>				
Asset Forfeiture	66,764	-	-	66,764
4 For Life	13,291	-	-	13,291
Fire	144,875	-	-	144,875
Heritage Park Contributions	19,536	-	-	19,536
Library Contributions	9,383	-	-	9,383
CDBG Program Revenue	75,766	-	-	75,766
Wetland Creation	18,942	-	-	18,942
Streets and Drainage	-	-	1,213,134	1,213,134
Contributions – Kids Island	-	-	634	634
Capital Projects	-	-	782,036	782,036
Debt Service - Issuance costs	-	158,300	-	158,300
<b>Total restricted</b>	<b>348,557</b>	<b>158,300</b>	<b>1,995,804</b>	<b>2,502,661</b>
<b>Assigned</b>				
Revenue Stabilization	600,000	-	-	600,000
General Government and Administration	15,184	-	-	15,184
Public safety and judicial	1,193	-	-	1,193
Public works	83,585	-	-	83,585
Health and welfare	2,728	-	-	2,728
Parks, recreational, and cultural	2,875	-	-	2,875
Non-departmental	910	-	-	910
Subsequent year's budget	123,000	-	-	123,000
Debt service	-	153,500	-	153,500
Capital projects	-	-	552,613	552,613
<b>Total assigned</b>	<b>829,475</b>	<b>153,500</b>	<b>552,613</b>	<b>1,535,588</b>
<b>Unassigned</b>	<b>4,388,700</b>	<b>-</b>	<b>-</b>	<b>4,388,700</b>
<b>Total fund balances</b>	<b>\$ 7,428,230</b>	<b>\$ 311,800</b>	<b>\$ 2,548,417</b>	<b>\$ 10,288,447</b>

**12. 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 and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”), 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.

**13. Interfund Transfers**

Interfund transfers for the year ended June 30, 2016 are as follows:

	<u>Tranfers In</u>	<u>Tranfers Out</u>
General Fund	\$ 150,000	\$ 3,838,485
Debt Service Fund	3,095,610	-
Capital Projects Fund	742,875	-
Sewer Operations Fund	-	150,000
	<u>\$ 3,988,485</u>	<u>\$ 3,988,485</u>

Purpose:

\$ 3,095,610	From General Fund to Debt Service Fund for current year debt payments
\$ 742,875	From General Fund to Capital Projects Fund to fund capital projects
\$ 150,000	From Sewer Operations Fund to General Fund to allocate administration costs for sewer services

**14. 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, 2016:

<u>Description</u>	<u>Amount</u>
Virginia Municipal Liability Pool - All City employees Employee Dishonesty Blanket Bond	\$ 1,000,000
Virginia Municipal Liability Pool Lenna Reimers, Clerk of the School Board	10,000
Amy Colley, Deputy Clerk of the School Board	10,000
All School Board Employees, Blanket Bond	200,000

**14. Surety Bonds (continued)**

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

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

**15. Related Party Transactions**

The City's financial statements do not include certain public commissions and authorities created as separate governmental entities under the laws of the Commonwealth of Virginia. These agencies are separate legal entities having governmental character and sufficient autonomy in the management of their own affairs to distinguish them as separate from the administrative organization of the City, although certain members of their governing bodies are appointed by Council. These entities are the Hampton Roads Planning District Commission (HRPDC), the Virginia Peninsula's Public Service Authority (VPPSA), the Peninsula Council Workforce Development (PCWD), and the Colonial Behavioral Health (CBH). Expenditures of these agencies are financed by federal and state grants and fees, including contributions from the City. During the year ended June 30, 2016, the City provided support or paid for services to HRPDC of \$19,471, VPPSA of \$213,373, PCWD of \$5,847, and CBH of \$180,000.

In June 2003, the Virginia Peninsula Regional Jail Authority (Jail Authority), of which the City is a member jurisdiction, issued \$21,655,000 of Regional Jail Facility Refunding Revenue Bonds, Series 2003. The original bonds were issued for the purpose of acquiring, constructing, and equipping a Regional Jail Facility to serve its member jurisdictions. The bonds bear interest at 2% to 5%, paid semi-annually. The bonds mature in amounts ranging from \$570,000 on October 1, 2003 to \$2,765,000 on October 1, 2018. The outstanding balance at June 30, 2016 was \$6,040,000. The bonds are limited obligations of the Jail Authority, and do not constitute a general obligation debt or pledge of the faith and credit of any of the four member jurisdictions, nor do they obligate any member jurisdiction to levy or pledge any form of taxation therefore. However, the City has entered into a non-binding moral obligation pledge of the member jurisdictions in which the member jurisdictions have agreed to pay their proportionate share of the debt service on the bonds and any debt service funding requirements if the Jail Authority lacks sufficient funds to do so. The City's proportionate share is 10%.

In addition, a conglomerate of municipalities shares certain expenses for maintaining and operating a regional jail and juvenile detention center. During FY 2016, the City incurred expenses for the regional jail and juvenile detention center of \$317,156 and \$58,904, respectively.

The City also participates in a regional animal shelter with several other localities. The City paid \$61,631 for its share in fiscal year 2016.



**15. Related Party Transactions (continued)**

The City of Poquoson shares certain services and their associated costs with York County, including the Circuit Court, the Commonwealth’s Attorney, Sheriff of York County, and E911 operations. The City also shares social services with York County. During the year ended June 30, 2016, the City paid \$1,130,702 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, 2016, the School Board provided support of \$667,810 to the New Horizons Education Center.

**16. Retirement Plan**

**A. Plan Description**

The City and School Board participate in agent multiple employer plans administered by the Virginia Retirement System (VRS). In addition, certain School Board employees participate in the VRS state-wide teachers’ cost-sharing plan (VRS Teachers’ Pool). All full-time, salaried permanent employees of public school divisions and employees of participating employers are automatically covered by the VRS Retirement Plan upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, based on specific criteria defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

<b>VRS PLAN 1</b>	<b>VRS PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p><b>About VRS Plan 1</b> VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p><b>About VRS Plan 2</b> VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p><b>About the Hybrid Retirement Plan</b> The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See “Eligible Members”)  <ul style="list-style-type: none"> <li>• The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.</li> <li>• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.</li> <li>• In addition to the monthly benefit</li> </ul> </p>

<b>VRS PLAN 1</b>	<b>VRS PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
		payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
<p><b>Eligible Members</b> Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.</p>	<p><b>Eligible Members</b> Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.</p>	<p><b>Eligible Members</b> Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>• Political subdivision employees*</li> <li>• Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014</li> </ul> <p><b>*Non-Eligible Members</b> Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees</li> </ul> <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.</p>
<p><b>Retirement Contributions</b> Employees contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the</p>	<p><b>Retirement Contributions</b> Employees contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the</p>	<p><b>Retirement Contributions</b> A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components</p>

<b>VRS PLAN 1</b>	<b>VRS PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p>required 5% member contribution, but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>required 5% member contribution, but all employees will be paying the full 5% by July 1, 2016.</p>	<p>of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>
<p><b>Creditable Service</b> Credible service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total credible service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p><b>Creditable Service</b> Same as VRS Plan 1.</p>	<p><b>Creditable Service</b> <b><u>Defined Benefit Component:</u></b> Under the defined benefit component of the plan, credible service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total credible service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><b><u>Defined Contributions Component:</u></b> Under the defined contribution component, credible service is used to determine vesting for the employer contribution portion of the plan.</p>
<p><b>Vesting</b> Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are</p>	<p><b>Vesting</b> Same as VRS Plan 1.</p>	<p><b>Vesting</b> <b><u>Defined Benefit Component:</u></b> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid</p>

<b>VRS PLAN 1</b>	<b>VRS PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p>eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.</p>		<p>Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><b><u>Defined Contributions Component:</u></b> Defined contribution vesting refers to minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of plan.</p> <p>Members are always 100% vested in contributions they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distribution is not required by law until age 70½.</p>
<p><b>Calculating the Benefit</b> The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p><b>Calculating the Benefit</b> See definition under VRS Plan 1.</p>	<p><b>Calculating the Benefit</b> <b><u>Defined Benefit Component:</u></b> See definition under VRS Plan 1</p> <p><b><u>Defined Contribution Component:</u></b> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>

<b>VRS PLAN 1</b>	<b>VRS PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p><b>Average Final Compensation</b> A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p><b>Service Retirement Multiplier</b> The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%.</p> <p><b>Sheriffs and Regional Jail Superintendents:</b> The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p><b>Political Subdivision Hazardous Duty Employees:</b> The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.</p>	<p><b>Service Retirement Multiplier</b> Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p> <p><b>Sheriffs and Regional Jail Superintendents:</b> Same as Plan 1.</p> <p><b>Political Subdivision Hazardous Duty Employees:</b> Same as Plan 1.</p>	<p><b>Service Retirement Multiplier</b> <b>Defined Benefit Component:</b> The retirement multiplier is 1.0%.</p> <p>For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p><b>Sheriffs and Regional Jail Superintendents:</b> Not applicable.</p> <p><b>Political Subdivision Hazardous Duty Employees:</b> Not applicable.</p> <p><b>Defined Contribution Component:</b> Not applicable.</p>
<p><b>Normal Retirement Age VRS:</b> Age 65.</p> <p><b>Political Subdivisions Hazardous Duty Employees:</b> Age 60.</p>	<p><b>Normal Retirement Age VRS:</b> Normal Social Security retirement age.</p> <p><b>Political Subdivisions Hazardous Duty Employees:</b> Same as Plan 1.</p>	<p><b>Normal Retirement Age VRS:</b> <b>Defined Benefit Component:</b> Same as Plan 2.</p> <p><b>Political Subdivisions Hazardous Duty Employees:</b> Not applicable.</p> <p><b>Defined Contribution Component:</b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

<b>VRS PLAN 1</b>	<b>VRS PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p><b>Earliest Unreduced Retirement Eligibility VRS:</b> Age 65 at least 5 years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p><b>Political Subdivisions Hazardous Duty Employees:</b> Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p><b>Earliest Unreduced Retirement Eligibility VRS:</b> Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p><b>Political Subdivisions Hazardous Duty Employees:</b> Same as Plan 1.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> <b>Defined Benefit Component:</b> <b>VRS:</b> Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p><b>Political Subdivisions Hazardous Duty Employees:</b> Not applicable.</p> <p><b>Defined Contribution Component:</b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Reduced Retirement Eligibility</b> <b>VRS:</b> Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p><b>Political Subdivisions Hazardous Duty Employees:</b> 50 with at least five years of creditable service.</p>	<p><b>Earliest Reduced Retirement Eligibility</b> <b>VRS:</b> Age 60 with at least five years (60 months) of creditable service.</p> <p><b>Political Subdivisions Hazardous Duty Employees:</b> Plan 1.</p>	<p><b>Earliest Reduced Retirement Eligibility</b> <b>Defined Benefit Component:</b> <b>VRS:</b> As early as age 60 with at least five years (60 months) of creditable service.</p> <p><b>Political Subdivisions Hazardous Duty Employees:</b> Not applicable.</p> <p><b>Defined Contribution Component:</b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><b>Eligibility:</b> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><b>Eligibility:</b> Same as VRS Plan 1</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> <b>Defined Benefit Component:</b> Same as VRS Plan 2.</p> <p><b>Defined Contribution Component:</b> Not applicable.</p> <p><b>Eligibility:</b> Same as VRS Plan 1 and VRS Plan 2.</p>

<b>VRS PLAN 1</b>	<b>VRS PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b>  The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> <li>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li> <li>• The member Is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.</li> <li>• The member dies in service and the member’s survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.</li> </ul>	<p><b><u>Exceptions to COLA Effective Dates:</u></b>  Same as VRS Plan 1</p>	<p><b><u>Exceptions to COLA Effective Dates:</u></b>  Same as VRS Plan 1 and VRS Plan 2.</p>
<p><b>Disability Coverage</b>  Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p>	<p><b>Disability Coverage</b>  Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p>	<p><b>Disability Coverage</b>  Employees of political subdivisions ( including VRS Plan 1 and VRS Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.</p>

<b>VRS PLAN 1</b>	<b>VRS PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
Virginia Sickness and Disability Program (VSDP) members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.
<p><b>Purchase of Prior Service</b> Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p><b>Purchase of Prior Service</b> Same as VRS Plan 1.</p>	<p><b>Purchase of Prior Service</b> <b><u>Defined Benefit Component:</u></b> Same as VRS Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> <li>• Hybrid Retirement Plan members are ineligible for ported service.</li> <li>• The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.</li> <li>• Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.</li> </ul> <p><b><u>Defined Contribution Component:</u></b> Not applicable.</p>

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



**16. Retirement Plan (Continued)**

**B. Employees Covered by Benefit Terms**

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number	
	Primary Government*	Component Unit - School Board*
Inactive members of their beneficiaries currently receiving benefits	52	27
Inactive members:		
Vested	21	9
Non-vested	32	9
Active elsewhere in VRS	45	5
Total inactive members	98	23
Active members	116	26
Total covered employees	266	76

\*Agent multiple employer plan

**C. Contributions**

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

**Agent Multiple Employer Plans**

The City's contractually required contribution rate for the year ended June 30, 2016 was 10.22% of covered employee compensation. The rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2014. The actuarial rate for the City's plan was 12.77%. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$720,636 for the year ended June 30, 2016. The School Board's contractually required contribution rate for the year ended June 30, 2016 was 12.18% of covered employee compensation. The rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2014. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School Board were \$64,333 for the year ended June 30, 2016.

**16. Retirement Plan (Continued)**

**C. Contributions (Continued)**

**Teachers' Cost-Sharing Plan**

The School Board's contractually required contribution rate for the year ended June 30, 2016 was 14.06% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of the June 30, 2013, actuarial valuation. The actuarially determined rate for the VRS Teachers' Pool was 18.20%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of Title 51.1-145 of the *Code of Virginia*, as amended, the contributions were funded at 79.69% of the actuarial rate for the year ended June 30, 2016.

Contributions to the pension plan from the School Board were \$1,555,410 for the year ended June 30, 2016.

**D. Net Pension Liability**

**Agent Multiple Employer Plans**

The City and School Board's net pension liability, measured as of June 30, 2015, were \$2,842,770 and \$323,031, as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

**Teachers' Cost-Sharing Plan**

At June 30, 2016, the School Board reported a liability of \$18,479,000 for its proportionate share of the State-wide plan's net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The School Board's proportion of the net pension liability was based on the School Board's actuarially determined employer contributions to the plan for the year ended June 30, 2015 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2015, the School Board's proportion was 0.14682% as compared to 0.14753% at June 30, 2014.

**16. Retirement Plan (Continued)**

**E. Actuarial Assumptions**

The total pension liability for the plans were based on an actuarial valuations as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

	General Employees	Public Safety	Teacher Plan
<b>Assumptions used in calculations:</b>			
Investment rate of return*	7.00%	7.00%	7.00%
Projected salary increases	3.50 – 5.35%	3.50 – 4.75%	3.50 – 5.95%
Includes inflation at	2.50%	2.50%	2.50%
Mortality rates: % of deaths to be service related	14.00%	60.00%	Not available
<b>Mortality tables:</b>			
Pre-retirement	RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years.	RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 2 years and females set back 2 years.	RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 3 years and females set back 5 years.
Post-retirement	RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.	RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.	RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 3 years.
Post-Disablement	RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.	RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.	RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 1 year and no provision for future mortality improvement.
<b>Changes of assumptions:</b>			
The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. The following are the changes to the actuarial assumptions as a result of the experience study.	Updated mortality table Decrease in rates of service retirement Decrease in rates of disability retirement Reduced rate of salary increase by 0.25% per year	Updated mortality table Adjustments to rates of service retirement for females Increase in rates of withdrawal Decrease in male and female rates of disability	Updated mortality table Adjustments to rates of service retirement Decrease in rates of withdrawal for 3 through 9 years of service Decrease in rates of disability Reduced rate of salary increase by 0.25% per year

\*Investment rate of return is reflected net of pension plan investment expense, including inflation.

Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

**16. Retirement Plan (Continued)**

**F. Long-term Expected Rate of Return**

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which the best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are:

<u>Assets Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-term Expected Rate of Return</u>	<u>Weighted Average Long-term Expected Rate of Return</u>
U.S. Equity	19.50%	6.46%	1.26%
Developed Non-U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	<u>100.00%</u>		<u>5.83%</u>
		Inflation	<u>2.50%</u>
		Expected arithmetic nominal return*	<u>8.33%</u>

\* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

**G. Discount Rate**

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that City's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Through the fiscal year ending June 30, 2018, the rate contributed by the School Board for the VRS Teacher Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, the School Board is assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**16. Retirement Plan (Continued)**

**H. Changes in Net Pension Liability**

The following tables represent the changes in net pension liability through the plan's measurement date of June 30, 2015 for the City and School Board, respectively.

<b>City Pension Plan:</b>	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability</b>
Balance, July 1, 2014	\$ 28,203,334	\$ 25,155,317	\$ 3,048,017
Changes for the year:			
Service cost	668,757	-	668,757
Interest	1,940,826	-	1,940,826
Difference Between expected and actual experience	(806,075)	-	(806,075)
Contributions - employer	-	585,103	(585,103)
Contributions - employee	-	282,529	(282,529)
Net investment income	-	1,157,070	(1,157,070)
Benefit payments, including refunds of employee contributions	(954,501)	(954,501)	-
Administrative expense	-	(15,704)	15,704
Other changes	-	(243)	243
Net changes	849,007	1,054,254	(205,247)
Balance, June 30, 2015	\$ 29,052,341	\$ 26,209,571	\$ 2,842,770
<b>School Board Pension Plan</b>			
<b>(excluded Teacher Cost-Sharing Plan)</b>	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability</b>
Balance, July 1, 2014	\$ 2,185,787	\$ 1,911,815	\$ 273,972
Changes for the year:			
Service cost	55,952	-	55,952
Interest	147,547	-	147,547
Difference between expected and actual experience	20,244	-	20,244
Contributions - employer	-	64,124	(64,124)
Contributions - employee	-	25,682	(25,682)
Net investment income	-	86,123	(86,123)
Benefit payments, including refunds of employee contributions	(155,952)	(155,952)	-
Administrative expense	-	(1,229)	1,229
Other changes	-	(16)	16
Net changes	67,791	18,732	49,059
Balance, June 30, 2015	\$ 2,253,578	\$ 1,930,547	\$ 323,031

**16. Retirement Plan (Continued)**

**I. Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following table presents the net pension liability of the City, School Board, and Teacher Retirement Plan, calculated using the Plan's current discount rate, as well as what the respective plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

	<b>1 % Decrease (6.00%)</b>	<b>Discount Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
City's calculated net pension liability	\$ 6,612,000	\$ 2,843,000	\$ (291,000)
School Board's calculated net pension liability	\$ 557,000	\$ 323,000	\$ 124,000
Teacher Retirement Plan's calculated pension liability	\$ 27,043,000	\$ 18,479,000	\$ 11,430,000

**J. Pension Expense and Deferred Outflows/(Inflows) of Resources**

Pension expense recognized for the year ended June 30, 2016, and the reported deferred outflows and inflows of resources related to pensions at June 30, 2016, were as follows:

	<b>Primary Government</b>		<b>Component Unit - School Board</b>	
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Agent Multiple Plan</b>	<b>Teacher Cost- Sharing Plan</b>
<b>Pension expense</b>	<u>\$ 108,683</u>	<u>\$ 4,317</u>	<u>\$ 36,000</u>	<u>\$ 1,319,000</u>
<b>Deferred Inflows:</b>				
Net difference between projected and actual earnings on pension plan investments	\$ 1,226,295	\$ 48,705	\$ 41,000	\$ 1,132,000
Net difference between expected and actual experience	-	-	-	254,000
Changes in proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	-	-	129,000
<b>Total Deferred Inflows</b>	<u>\$ 1,226,295</u>	<u>\$ 48,705</u>	<u>\$ 41,000</u>	<u>\$ 1,515,000</u>
<b>Deferred Outflows:</b>				
Employer contributions subsequent to the measurement date	<u>\$ 693,108</u>	<u>\$ 27,528</u>	<u>\$ 64,333</u>	<u>\$ 1,555,410</u>

**16. Retirement Plan (Concluded)**

**J. Pension Expense and Deferred Outflows/(Inflows) of Resources (Continued)**

Deferred outflows of resources resulting from contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported in the deferred inflows of resources related pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>City</u>	<u>Component Unit - School Board</u>	
		<u>Agent Multiple Plan</u>	<u>Teacher Cost- Sharing Plan</u>
2017	\$ (473,000)	\$ (11,000)	\$ (535,000)
2018	(473,000)	(18,000)	(535,000)
2019	(450,000)	(20,000)	(535,000)
2020	121,000	8,000	127,000
2021	-	-	(37,000)
	<u>\$ (1,275,000)</u>	<u>\$ (41,000)</u>	<u>\$ (1,515,000)</u>

**K. Payables to the Pension Plan**

At June 30, 2016, the City and School Board reported payables of \$79,630 and \$319,840, respectively for the outstanding amount of contributions to the pension plan requested for the year ended June 30, 2016.

**17. Other Postemployment Benefit Obligation (OPEB)**

**Plan Description**

The City and School Board administer a single-employer defined benefit postemployment health care plan that covers all current retirees and covered dependents and will provide coverage for all future retirees and their covered dependents. Employees who are eligible for the health plan under normal retirement must have a combination of age (minimum 50 years) and years of service (minimum of 5 years) equal to 70.

During the year, 146 employees were participating in the City’s plan at a cost of \$64,215 and 344 employees were participating in the School Board’s plan at a cost of \$57,112. Separate stand-alone statements are not issued for this plan.

**Funding Policy**

The City Council and the School Board have the authority to establish and amend the funding policy of their respective plans. The employer’s contribution ranges from 0% - 100% of the premiums based on the retiree’s years of continuous health care coverage and the health care option selected by the retirees. The employer contributions are financed based on a pay-as-you-go basis. During the fiscal year ending 2016, the City and School Board made contributions (credits) amounting to \$49,751 and \$89,615, respectively.

**17. Other Postemployment Benefit Obligation (Continued)**

**Annual OPEB Cost and Net OPEB Obligation**

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

	<u>City of Poquoson</u>	<u>Component Unit - School Board</u>
Annual required contribution	\$ 64,509	\$ 57,186
Interest on net OPEB obligation	14,244	3,567
Adjustment to ARC	(14,538)	(3,641)
Annual OPEB cost	<u>64,215</u>	<u>57,112</u>
Credit / (contributions made)	<u>(49,751)</u>	<u>(89,615)</u>
Increase (decrease) in net OPEB obligation	14,464	(32,503)
Net OPEB obligation - beginning of year	356,098	89,181
NET OPEB obligation - end of year	<u>\$ 370,562</u>	<u>\$ 56,678</u>

The City's and the School's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014, 2015 and 2016 were as follows:

**City of Poquoson**

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed/(Credited)	Net OPEB Obligation
June 30, 2016	\$ 64,215	78%	\$ 370,562
June 30, 2015	\$ 61,629	-3%	\$ 356,098
June 30, 2014	\$ 58,231	6%	\$ 292,594

**Component Unit - School Board**

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2016	\$ 57,112	157%	\$ 56,678
June 30, 2015	\$ 55,207	239%	\$ 89,181
June 30, 2014	\$ 58,496	24%	\$ 165,601



**17. Other Postemployment Benefit Obligation (Continued)**

**Funded Status and Funding Progress**

Based on the most recent actuarial valuation for the fiscal year ended June 30, 2016, the funded status of the plan was as follows:

	<b>City of Poquoson</b>	<b>Component Unit - School Board</b>
Actuarial accrued liability (AAL)	\$ 791,172	\$ 311,524
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 791,172</u>	<u>\$ 311,524</u>
Funded ratio (actuarial value of plan assets/AAL)	0%	0%
Covered payroll (active plan members)	\$ 6,705,875	\$ 11,604,391
UAAL as a percentage of covered payroll	11.80%	2.68%

**Actuarial Methods and Assumptions**

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

Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and the plan members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members.

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The OPEB liability was determined on the Projected Unit Credit cost actuarial method. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4% rate of return on invested assets, which is the City's and the School Board's long-term expectation of investment returns under its investment policy. The actuarial assumptions also include a payroll growth rate of 2.5% per year, general inflation rate of 2.5% per year, and an annual healthcare cost trend rate of 7.5% initially for the year ended June 30, 2017, reduced annually by increments, to an ultimate rate of 5% for the fiscal year ending June 30, 2026. In calculating the fiscal year annual required contribution the initial unfunded actuarial accrued liability, actuarial gains and actuarial losses were amortized over an open 30-year period as a level percentage of projected payroll.

**17. Other Postemployment Benefit Obligation (Concluded)**

**Schedule of Funding Progress**

**City of Poquoson**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2016	\$ -	\$ 791,172	\$ 791,172	0%	\$ 6,705,875	11.80%
6/30/2015	\$ -	\$ 890,702	\$ 890,702	0%	\$ 6,518,638	13.66%
6/30/2014	\$ -	\$ 879,625	\$ 879,625	0%	\$ 6,383,012	13.78%

**Component Unit - School Board**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2016	\$ -	\$ 311,524	\$ 311,524	0%	\$ 11,604,391	2.68%
6/30/2015	\$ -	\$ 448,890	\$ 448,890	0%	\$ 11,373,696	3.95%
6/30/2014	\$ -	\$ 455,056	\$ 455,056	0%	\$ 11,053,054	4.69%

**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 14. Substantially all other risks are insured through participation in various public entity risk pools operating as common risk management and insurance programs for many local political subdivisions in the Commonwealth of Virginia. The City pays annual premiums to the pools for its general insurance coverage. The agreements of political subdivisions participating in the pools provide that the pools will be self-sustaining through member premiums but will reinsure through commercial companies for excess liability claims. There have been no significant reductions in insurance coverage from the prior year, and settled claims have not exceeded the amount of insurance coverage in any of the past three years.

**19. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to assign that portion of the applicable appropriation, is employed as an extension of formal budgetary control. At June 30, 2016, the City's General Fund had outstanding encumbrances of \$106,476 and the Component Unit - School Board's General Fund had outstanding encumbrances of \$291,013.

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

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***Required Supplementary Information***

**Budgetary Comparison Schedule - General Fund (Budget Basis)**

**Year Ended June 30, 2016**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
<b>Revenues and other financing sources</b>				
Revenue from local sources				
General property taxes				
Real property taxes	\$ 15,790,000	\$ 15,790,000	\$ 15,794,097	\$ 4,097
Public service corporation property taxes	200,000	200,000	214,643	14,643
Personal property	2,390,000	2,390,000	2,488,366	98,366
Penalties and interest	135,000	135,000	108,857	(26,143)
<b>Total general property taxes</b>	<b>18,515,000</b>	<b>18,515,000</b>	<b>18,605,963</b>	<b>90,963</b>
Other local taxes				
Sales and use taxes	1,030,000	1,030,000	1,019,774	(10,226)
Meals taxes	730,000	730,000	734,619	4,619
Cigarette taxes	95,000	95,000	100,179	5,179
Consumers' utility taxes	288,000	288,000	279,272	(8,728)
Consumption tax	41,000	41,000	38,524	(2,476)
Business license taxes	419,000	419,000	415,080	(3,920)
Bank stock taxes	45,000	45,000	38,702	(6,298)
Recordation and wills taxes	190,000	190,000	180,682	(9,318)
Deeds of conveyance	32,000	32,000	31,288	(712)
<b>Total other local taxes</b>	<b>2,870,000</b>	<b>2,870,000</b>	<b>2,838,120</b>	<b>(31,880)</b>
Permits, privilege fees, and regulatory licenses				
Animal license	5,000	5,000	5,680	680
Permits and other licenses	73,900	81,116	144,506	63,390
<b>Total permits, privilege fees, and regulatory licenses</b>	<b>78,900</b>	<b>86,116</b>	<b>150,186</b>	<b>64,070</b>
Fines and forfeitures	56,500	56,500	41,742	(14,758)
Revenue from use of money and property				
Revenue from use of money	10,000	10,000	20,571	10,571
Revenue from use of property	168,800	168,800	201,114	32,314
<b>Total revenue from use of money and property</b>	<b>178,800</b>	<b>178,800</b>	<b>221,685</b>	<b>42,885</b>

(Continued)

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

**Budgetary Comparison Schedule - General Fund (Budget Basis)**

**Year Ended June 30, 2016**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
<b>Revenues and other financing sources (Continued)</b>				
Charges for services				
Charges for sales of maps	-	-	77	77
Charges for copying	4,000	4,000	3,536	(464)
Charges for passport processing	48,000	48,000	60,380	12,380
Charges for library and fees	19,200	19,200	25,103	5,903
EMS revenue recovery	255,000	255,000	243,262	(11,738)
Charges for school grounds maintenance	45,000	45,000	47,520	2,520
Charges for Parks & Recreation programs	134,500	134,500	140,348	5,848
Charges for pool	74,050	74,050	63,044	(11,006)
Charges for Seafood Festival	133,305	143,672	136,357	(7,315)
<b>Total charges for services</b>	<b>713,055</b>	<b>723,422</b>	<b>719,627</b>	<b>(3,795)</b>
Miscellaneous revenue				
Miscellaneous	10,000	10,000	6,285	(3,715)
Miscellaneous grants	-	-	-	-
Donations - library	-	14,524	14,524	-
Gain on sale of capital assets	250,000	250,000	289,767	39,767
Donations	50,000	50,200	50,200	-
<b>Total miscellaneous revenue</b>	<b>310,000</b>	<b>324,724</b>	<b>360,776</b>	<b>36,052</b>
Intergovernmental				
Revenue from the Commonwealth				
Noncategorical aid				
DMV reimbursement	120,000	120,000	127,018	7,018
Mobile home titling taxes	10,000	10,000	31,657	21,657
Personal property tax relief	1,923,435	1,923,435	1,923,431	(4)
<b>Total noncategorical aid</b>	<b>2,053,435</b>	<b>2,053,435</b>	<b>2,082,106</b>	<b>28,671</b>
Categorical aid				
Shared expenses				
Commissioner of the Revenue	102,025	102,025	103,249	1,224
Treasurer	92,225	92,225	92,500	275
Registrar/Electoral Board	34,000	40,423	43,013	2,590
<b>Total categorical aid</b>	<b>228,250</b>	<b>234,673</b>	<b>238,762</b>	<b>4,089</b>

(Continued)

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

**Budgetary Comparison Schedule - General Fund (Budget Basis)**

**Year Ended June 30, 2016**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
<b>Revenues and other financing sources (Continued)</b>				
Other categorical aid				
State 599 police funds	233,207	233,207	233,204	(3)
Fire and EMS	45,294	45,294	51,728	6,434
Miscellaneous State Grants	-	-	1,250	1,250
Street and highway maintenance	880,000	880,000	880,000	-
Litter control	-	6,427	6,427	-
Library	140,734	140,734	140,899	165
Comprehensive Services Act	172,500	252,500	218,649	(33,851)
State drug seizure	-	4,639	3,204	(1,435)
<b>Total other categorical aid</b>	<b>1,471,735</b>	<b>1,562,801</b>	<b>1,535,361</b>	<b>(27,440)</b>
<b>Total categorical aid</b>	<b>1,699,985</b>	<b>1,797,474</b>	<b>1,774,123</b>	<b>(23,351)</b>
<b>Total revenue from the Commonwealth</b>	<b>3,753,420</b>	<b>3,850,909</b>	<b>3,856,229</b>	<b>5,320</b>
Revenue from the federal government				
Federal grants	-	101,846	95,004	(6,842)
Miscellaneous	2,800	2,800	2,869	69
<b>Total revenue from the federal government</b>	<b>2,800</b>	<b>104,646</b>	<b>97,873</b>	<b>(6,773)</b>
Other financing sources				
Transfer from sewer fund	150,000	150,000	150,000	-
Transfer from unappropriated fund	204,230	1,398,882	-	(1,398,882)
<b>Total other financing uses</b>	<b>354,230</b>	<b>1,548,882</b>	<b>150,000</b>	<b>(1,398,882)</b>
<b>Total revenue and other financing sources</b>	<b>26,832,705</b>	<b>28,258,999</b>	<b>27,042,201</b>	<b>(1,216,798)</b>

(Continued)

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

**Budgetary Comparison Schedule - General Fund (Budget Basis)**

**Year Ended June 30, 2016**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
<b>Expenditures and other financing uses</b>				
General government administration				
Legislative - City Council	65,444	70,344	70,324	20
General and financial administration				
City Manager	431,787	444,345	443,627	718
Legal services	108,754	117,754	117,234	520
Independent auditor	45,900	40,400	39,407	993
Commissioner of the Revenue	306,337	306,337	305,760	577
Assessor/equalization board	188,452	185,452	184,708	744
Treasurer	321,748	315,748	315,181	567
Finance	392,296	392,296	391,584	712
Technology	75,200	91,200	90,230	970
Risk management	53,039	161,121	159,416	1,705
<b>Total general and financial administration</b>	<b>1,923,513</b>	<b>2,054,653</b>	<b>2,047,147</b>	<b>7,506</b>
Board of Elections - Electoral Board and Registrar	158,014	164,637	164,626	11
<b>Total general government administration</b>	<b>2,146,971</b>	<b>2,289,634</b>	<b>2,282,097</b>	<b>7,537</b>
Judicial Administration				
Courts	258,760	265,260	267,860	(2,600)
Sheriff	208,993	208,993	206,340	2,653
<b>Total judicial administration</b>	<b>467,753</b>	<b>474,253</b>	<b>474,200</b>	<b>53</b>
Public Safety				
Law enforcement and traffic control - police department	2,678,485	2,774,066	2,677,546	96,520
Fire and rescue services - fire department	2,686,239	2,790,410	2,604,097	186,313
Correction and detention - regional operated institutions	395,240	382,940	382,728	212
Inspections - various	266,102	267,852	267,817	35
Other protection - animal control	106,631	105,031	103,674	1,357
<b>Total public safety</b>	<b>6,132,697</b>	<b>6,320,299</b>	<b>6,035,862</b>	<b>284,437</b>

(Continued)

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



**Budgetary Comparison Schedule - General Fund (Budget Basis)**

**Year Ended June 30, 2016**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
<b>Expenditures and other financing uses (Continued)</b>				
Public works				
Maintenance of highways, streets, bridges, and sidewalks				
General engineering/administration	207,813	180,563	175,549	5,014
Highways, streets, bridges, and sidewalks	1,460,470	1,460,470	1,429,194	31,276
Street lights	81,000	88,216	85,928	2,288
<b>Total maintenance of highways, streets, bridges, and sidewalks</b>	<b>1,749,283</b>	<b>1,729,249</b>	<b>1,690,671</b>	<b>38,578</b>
Maintenance of general buildings and grounds	193,051	185,401	173,000	12,401
<b>Total public works</b>	<b>1,942,334</b>	<b>1,914,650</b>	<b>1,863,671</b>	<b>50,979</b>
Health and welfare				
Health				
Local health department	35,761	36,911	36,911	-
Mosquito control	248,403	243,403	238,148	5,255
<b>Total health</b>	<b>284,164</b>	<b>280,314</b>	<b>275,059</b>	<b>5,255</b>
Mental health and mental retardation - mental health	223,982	224,482	224,302	180
Welfare				
Social Services	267,822	275,622	275,528	94
Comprehensive Services Act	230,000	354,500	354,408	92
<b>Total welfare</b>	<b>497,822</b>	<b>630,122</b>	<b>629,936</b>	<b>186</b>
<b>Total health and welfare</b>	<b>1,005,968</b>	<b>1,134,918</b>	<b>1,129,297</b>	<b>5,621</b>
Education - School Board	9,565,403	9,593,289	9,566,168	27,121
<b>Total education</b>	<b>9,565,403</b>	<b>9,593,289</b>	<b>9,566,168</b>	<b>27,121</b>
Parks, recreation, and cultural				
Supervision of parks and recreation	433,801	434,201	430,679	3,522
Pool operations	123,368	123,368	118,401	4,967
Seafood Festival	222,464	232,831	208,197	24,634
Library - administration	868,860	888,155	842,375	45,780
<b>Total parks, recreation, and cultural</b>	<b>1,648,493</b>	<b>1,678,555</b>	<b>1,599,652</b>	<b>78,903</b>
Community development				
Planning	331,136	337,136	334,506	2,630
Economic development	133,491	158,492	141,924	16,568
Community development	125,422	151,385	132,080	19,305
<b>Total community development</b>	<b>590,049</b>	<b>647,013</b>	<b>608,510</b>	<b>38,503</b>
Nondepartmental				
Nondepartmental - miscellaneous	9,758	10,758	596	10,162
Department of Motor Vehicles	107,145	107,145	104,784	2,361
<b>Total nondepartmental</b>	<b>116,903</b>	<b>117,903</b>	<b>105,380</b>	<b>12,523</b>

(Continued)

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

**Budgetary Comparison Schedule - General Fund (Budget Basis)**

**Year Ended June 30, 2016**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
<b>Other Financing Uses</b>				
Transfers to Debt Service Fund	2,800,575	3,095,610	3,095,610	-
Transfers to Capital Projects Fund	415,000	992,875	742,875	250,000
<b>Total other financing uses</b>	<u>3,215,575</u>	<u>4,088,485</u>	<u>3,838,485</u>	<u>250,000</u>
<b>Total expenditures and other financing uses</b>	<u>26,832,146</u>	<u>28,258,999</u>	<u>27,503,322</u>	<u>755,677</u>
<b>Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses - budgetary basis</b>	<u>\$ 559</u>	<u>\$ -</u>	<u>(461,121)</u>	<u>\$ (461,121)</u>
<b>Less - encumbrances outstanding June 30, 2015, actually expended as of June 30, 2016</b>			<u>(90,862)</u>	
<b>Add - encumbrances outstanding June 30, 2016</b>			<u>106,476</u>	
The Grant Fund is consolidated into the General Fund for reporting purposes:				
<b>Revenues:</b>				
Investment income			5	
Local matching funds			4,292	
State Grant			17,166	
Federal Grant			79,174	
<b>Total Revenue</b>			<u>100,637</u>	
<b>Expenditures:</b>				
Community Development expenditures			<u>101,106</u>	
<b>Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses, GAAP basis</b>			(445,976)	
<b>Fund balances, June 30, 2015</b>			<u>7,874,206</u>	
<b>Fund balances, June 30, 2016</b>			<u>\$ 7,428,230</u>	

(Concluded)

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

**Schedules of Changes in Net Pension Liability and Related Ratios and Employer Contributions (Unaudited) - Virginia Retirement System**

**Years Ended June 30, 2016 and 2015**

	June 30, 2016		June 30, 2015	
	City	School Board	City	School Board
<b>Schedule of Changes in Net Pension Liability and Related Ratios</b>				
<b>Total Pension Liability</b>				
Service cost	\$ 668,757	\$ 55,952	\$ 699,997	\$ 62,503
Interest	1,940,826	147,547	1,830,447	143,652
Difference between expected and actual experience	(806,075)	20,244	-	-
Benefit payments, including refunds of member contributions	(954,501)	(155,952)	(952,710)	(145,077)
<b>Net change in total pension liability</b>	<b>849,007</b>	<b>67,791</b>	<b>1,577,734</b>	<b>61,078</b>
Plan total pension liability - beginning	28,203,334	2,185,787	26,625,600	2,124,709
<b>Plan total pension liability - ending</b>	<b>\$ 29,052,341</b>	<b>\$ 2,253,578</b>	<b>\$ 28,203,334</b>	<b>\$ 2,185,787</b>
<b>Plan Fiduciary Net Pension</b>				
Contributions - employer	\$ 585,103	\$ 64,124	\$ 506,435	\$ 70,068
Contributions - employee	282,529	25,682	274,820	23,877
Net investment income	1,157,070	86,123	3,453,469	264,482
Benefit payments, including refunds of member contributions	(954,501)	(155,952)	(952,710)	(145,077)
Administrative expense	(15,704)	(1,229)	(18,572)	(1,455)
Other changes	(243)	(16)	199	(14)
<b>Net change in plan fiduciary net position</b>	<b>1,054,254</b>	<b>18,732</b>	<b>3,263,641</b>	<b>211,881</b>
Plan fiduciary net position - beginning	25,155,317	1,911,815	21,891,693	1,699,906
<b>Plan fiduciary net position - ending</b>	<b>\$ 26,209,571</b>	<b>\$ 1,930,547</b>	<b>\$ 25,155,334</b>	<b>\$ 1,911,787</b>
<b>Plan net pension liability - ending</b>	<b>\$ 2,842,770</b>	<b>\$ 323,031</b>	<b>\$ 3,048,000</b>	<b>\$ 274,000</b>
Covered-employee payroll	\$ 5,761,310	\$ 528,531	\$ 5,680,974	\$ 613,843
Plan net position liability as a percentage of covered-employee payroll	49.34%	61.12%	53.65%	44.64%

**Notes to Schedule:**

There have been no significant changes to the benefit provisions since the prior actuarial valuation.

**Schedule of Employer Contributions**

Actuarially determined contribution	\$ 747,041	\$ 64,333	\$ 725,460	\$ 66,869
Contribution in relation to actuarially determined contribution	720,636	64,333	619,948	66,869
Contribution excess (deficiency)	\$ (26,405)	\$ -	\$ (105,512)	\$ -
Covered-employee payroll	\$ 5,761,310	\$ 528,531	\$ 5,680,974	\$ 613,843
Contributions as a percentage of covered-employee payroll	12.51%	12.17%	10.91%	10.89%

**Notes to Schedule:**

Actuarially determined contributions are developed using the entry age normal actuarial cost method.

There have been no changes to the benefit provisions since the prior actuarial valuation.

**Methods and Assumptions Used to Determine Contribution Rates (for the City and School Board for 2016 and 2015)**

Actuarial cost method:	
Amortization method:	Level percent closed
Amortization period:	30 years
Asset valuation method:	5-year smoothed market
Inflation rate:	2.5%
Projected salary increases:	3.5%-5.35% per annum, compounded annually
Investment rate of return:	7.0% per annum, compounded annually

**NOTE:** GASB 68 requires 10-year trend information. As fiscal year 2015 was the year of implementation, additional years will be displayed as the information becomes available.

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

**Schedules of Changes in School Board's Proportionate Share of the Net Pension Liability and Related Ratios and Employer Contributions (Unaudited) - Virginia Retirement System Teachers' Pool**

**Years Ended June 30, 2016 and 2015**

	2016	2015
<b>Schedule of Proportionate Share of the Net Pension Liability</b>		
Proportionate percentage of the net pension liability	0.14682%	0.14753%
Proportionate share of the net pension liability	\$ 18,479,000	\$ 17,829,000
Covered-employee payroll	11,097,066	10,969,314
Proportionate share of the net pension liability as a percentage of covered employee payroll	166.52%	162.54%
Plan fiduciary net position as a percentage of the total pension liability	70.68%	70.88%
<b>Schedule of Employer Contributions</b>		
Actuarially determined contribution	\$ 1,555,410	\$ 1,564,756
Contribution in relation to actuarially determined contribution	1,555,410	1,564,756
Contribution excess (deficiency)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 11,097,066	\$ 10,969,314
Contributions as a percentage of covered-employee payroll	14.02%	14.26%

**Notes to Schedule:**

Actuarially determined contributions are developed using the entry age normal actuarial cost method. There have been no changes to the benefit provisions since the prior actuarial valuation.

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial cost method	Entry age normal
Amortization method	Level percent closed
Amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation rate	2.50%
Projected salary increases	3.5%-5.95% per annum, compounded annually
Investment rate of return	7.0%, net of pension plan investment expense, including inflation

*NOTE : GASB 68 requires 10-year trend information. As fiscal year 2015 was the year of implementation, additional years will be displayed as the information becomes available.*

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

**Schedules of Funding Progress and Employer Contributions (Unaudited)**  
**Other Postemployment Benefits**

**Year Ended June 30, 2016**

**Schedules of Funding Progress**

	Actuarial Valuation Date	Actuarial Value of Assets	Accrued Liability Projected Unit Credit	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as a Percentage of Covered Payroll
<b>City of Poquoson</b>	7/1/16	\$ -	\$ 791,172	\$ 791,172	0.00%	\$ 6,705,875	11.80%
	7/1/15	\$ -	\$ 890,702	\$ 890,702	0.00%	\$ 6,518,638	13.66%
	7/1/14	\$ -	\$ 879,625	\$ 879,625	0.00%	\$ 6,383,012	13.78%
<b>Component Unit - School Board</b>	7/1/16	\$ -	\$ 311,524	\$ 311,524	0.00%	\$ 11,604,391	2.68%
	7/1/15	\$ -	\$ 448,890	\$ 448,890	0.00%	\$ 11,373,696	3.95%
	7/1/14	\$ -	\$ 455,056	\$ 455,056	0.00%	\$ 9,707,470	4.69%

**Schedules of Employer Contributions**

	Actuarial Valuation Date	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net OPEB Obligation
<b>City of Poquoson</b>	7/1/16	\$ 64,509	77.12%	\$ 370,562
	7/1/15	\$ 61,870	-3.03%	\$ 356,098
	7/1/14	\$ 58,428	5.85%	\$ 292,594
<b>Component Unit - School Board</b>	7/1/16	\$ 57,186	156.71%	\$ 56,678
	7/1/15	\$ 55,344	237.83%	\$ 89,181
	7/1/14	\$ 58,596	23.70%	\$ 165,601

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

**June 30, 2016**

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**Budgets and Budgetary Accounting**

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

- Between the first and thirtieth of April, the City Manager submits to City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- The budget is formulated from estimates of revenues and expected expenditures from each department. The School Board is treated as a single expenditure line item.
- When the City Manager submits the proposed budget to City Council, he also recommends an appropriation ordinance and an ordinance levying the tax rates for the ensuing year.
- City Council then holds public hearings on the proposed budget. Notice of such public hearing must appear in a local newspaper not less than ten days prior to the hearing.
- The budget must be approved by a majority vote of City Council and legally adopted within 40 days of submission to City Council, but no later than May 31. If City Council does not adopt the proposed budget before May 31, the budget as submitted is automatically adopted.
- The City Manager is authorized to transfer budgeted amounts within funds. Expenditures over the original budget of any fund must be approved by City Council.

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

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

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

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

\* \* \* \* \*

***Other Supplementary Information***

Combining Balance Sheet - Component Unit - School Board

June 30, 2016

	Governmental Activities		Total
	General	Special Revenue	School Board
<b>Assets</b>			
Cash and cash equivalents	\$ 2,174,671	\$ 103,743	\$ 2,278,414
Due from other governmental units	437,985	-	437,985
Inventory	-	16,846	16,846
<b>Total assets</b>	<b>\$ 2,612,656</b>	<b>\$ 120,589</b>	<b>\$ 2,733,245</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 2,272,046	\$ -	\$ 2,272,046
Due to primary government	49,597	-	49,597
<b>Total liabilities</b>	<b>2,321,643</b>	<b>-</b>	<b>2,321,643</b>
<b>Fund Balances</b>			
Unspendable	-	16,846	16,846
Restricted	-	103,743	103,743
Assigned, education	291,013	-	291,013
<b>Total fund balances</b>	<b>291,013</b>	<b>120,589</b>	<b>411,602</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,612,656</b>	<b>\$ 120,589</b>	<b>\$ 2,733,245</b>



Combining Balance Sheet - Component Unit - School Board

June 30, 2016

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

Total fund balances - Component Unit - School Board	\$ 411,602
Amount reported for component unit activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation.	5,582,458
Deferred outflows of resources for pension contributions used in governmental activities are not financial resources and therefore, are not reported in the funds.	1,619,743
Noncurrent liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(19,241,210)
Deferred inflows of resources for pension investment experience and proportionate share are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(1,556,000)</u>
<b>Total net position - Component Unit - School Board</b>	<b><u>\$ (13,183,407)</u></b>

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

**Year Ended June 30, 2016**

	General Fund	Special Revenue	Total School Board
<b>Revenues</b>			
Charges for services	\$ -	\$ 776,933	\$ 776,933
Intergovernmental			
Commonwealth of Virginia	10,430,081	11,063	10,441,144
Federal government	977,564	163,736	1,141,300
Local government	9,566,168	-	9,566,168
Other	205,623	-	205,623
<b>Total revenues</b>	<b>21,179,436</b>	<b>951,732</b>	<b>22,131,168</b>
<b>Expenditures</b>			
Current			
Education	21,229,407	1,039,996	22,269,403
<b>Total expenditures</b>	<b>21,229,407</b>	<b>1,039,996</b>	<b>22,269,403</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(49,971)</b>	<b>(88,264)</b>	<b>(138,235)</b>
<b>Other financing sources (uses)</b>			
Transfers in	-	174,578	174,578
Transfers out	(174,578)	-	(174,578)
<b>Total other financing sources, net</b>	<b>(174,578)</b>	<b>174,578</b>	<b>-</b>
<b>Net change in fund balance</b>	<b>(224,549)</b>	<b>86,314</b>	<b>(138,235)</b>
<b>Fund balance, July 1, 2015</b>	<b>515,562</b>	<b>34,275</b>	<b>549,837</b>
<b>Fund balance, June 30, 2016</b>	<b>\$ 291,013</b>	<b>\$ 120,589</b>	<b>\$ 411,602</b>

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**

**Component Unit - School Board**

**Year Ended June 30, 2016**

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

Net change in fund balances - total School Board funds \$ (138,235)

Amount reported for governmental activities in the statement of net position 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 outlay	386,196
Depreciation expense	(1,101,345)

Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Pension expense	558,118
Other postemployment benefit obligation	32,503
Compensated absences	13,672

The City has a "tenancy in common" with the School Board whenever the City incurs "on behalf" of debt for any school property owned by the School Board which is payable over more than one year. This amount is the applicable net book value change for the fiscal year.

869,926

**Change in net position of governmental activities** \$ **620,835**

**Budgetary Comparison Schedule - General Fund - School Board**

**Year Ended June 30, 2016**

	General Fund			Variance With Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
<b>Revenues</b>				
Intergovernmental				
Commonwealth of Virginia	\$ 10,217,621	\$ 10,408,620	\$ 10,430,081	\$ 21,461
Federal government	819,114	1,235,082	977,564	(257,518)
Local government	9,585,403	9,593,292	9,566,168	(27,124)
Miscellaneous	136,091	246,161	205,623	(40,538)
<b>Total revenues</b>	<b>20,758,229</b>	<b>21,483,155</b>	<b>21,179,436</b>	<b>(303,719)</b>
<b>Expenditures</b>				
Current				
Instruction	15,182,769	15,037,750	15,001,743	36,007
Division-wide	1,044,265	1,109,886	1,087,984	21,902
Transportation	817,651	866,875	879,787	(12,912)
Operation and maintenance	1,793,943	1,992,289	1,948,068	44,221
Food service	218,143	218,143	251,323	(33,180)
Technology	1,026,844	1,167,630	1,183,096	(15,466)
Grants	674,614	1,090,582	827,435	263,147
<b>Total expenditures</b>	<b>20,758,229</b>	<b>21,483,155</b>	<b>21,179,436</b>	<b>303,719</b>
<b>Other financing sources (uses)</b>				
Transfer out - special revenue fund	-	(174,578)	(174,578)	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>(174,578)</b>	<b>(174,578)</b>	<b>-</b>
<b>Excess of revenue and other financing sources over (under) expenditures and other financing uses - budgetary basis</b>				
	\$ -	\$ (174,578)	(174,578)	\$ -
<b>Less - encumbrances outstanding June 30, 2015, actually expended as of June 30, 2016</b>				
			(515,562)	
<b>Add - encumbrances outstanding June 30, 2016</b>				
			291,013	
<b>Excess of revenue and other financing sources over (under) expenditures and other financing uses - GAAP basis</b>				
			(224,549)	
<b>Fund balance, June 30, 2015</b>				
			515,562	
<b>Fund balance, June 30, 2016</b>				
			\$ 291,013	

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

**Year Ended June 30, 2016**

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Education	\$ 42,990,106	\$ 386,196	\$ 124,965	\$ 43,251,337
Less - accumulated depreciation	(14,302,280)	(1,101,345)	124,965	(15,278,660)
	<u>28,687,826</u>	<u>(715,149)</u>	<u>-</u>	<u>27,972,677</u>
Allocation of assets to City, net	(23,260,145)	869,926	-	(22,390,219)
	<u>\$ 5,427,681</u>	<u>\$ 154,777</u>	<u>\$ -</u>	<u>\$ 5,582,458</u>

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

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**Year Ended June 30, 2016**

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(School Activity Funds and Instructional Support Fund)

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
<b>Assets</b>				
Cash and cash equivalents	\$ 299,735	\$ 721,290	\$ 701,358	\$ 319,667
<b>Liabilities</b>				
Due to students	\$ 299,735	\$ 721,290	\$ 701,358	\$ 319,667

Statement of Changes in Assets and Liabilities - Library Agency Fund

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Year Ended June 30, 2016

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	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
<b>Assets</b>				
Cash and cash equivalents	\$ 31,394	\$ 101	\$ -	\$ 31,495
<b>Liabilities</b>				
Amounts held for others	\$ 31,394	\$ 101	\$ -	\$ 31,495

**Statement of Cash Flows - Component Unit - Economic Development Authority**


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**Year Ended June 30, 2016**


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<b>Cash flows from operating activities</b>	
Received from customers and users	\$ 54,153
Payments to suppliers for goods and services	(27,904)
<b>Net cash provided by operating activities</b>	<u>26,249</u>
<b>Cash flows from noncapital financing agreements</b>	
Contributions from primary government	<u>25,000</u>
<b>Cash flows from capital and related financing activities</b>	
Interest paid on capital debt	<u>(37,568)</u>
<b>Net increase in cash and cash equivalents</b>	13,681
<b>Cash and cash equivalents, beginning of year</b>	<u>118</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 13,799</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating income	\$ (21,938)
Adjustments	
Depreciation	17,788
Changes in assets and liabilities	
Accounts receivable	30,286
Accounts payable	<u>113</u>
<b>Net cash provided by operating activities</b>	<u>\$ 26,249</u>



***Statistical Section Overview***

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**June 30, 2016**

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

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**Financial Trends**

**Tables 1 - 4**

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

**Revenue Capacity**

**Tables 5 - 7**

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

**Debt Capacity**

**Tables 8 - 10**

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

**Demographic and Economic Information**

**Tables 11 - 12**

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

**Operation Information**

**Tables 13 - 15**

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

**Sources:** Unless otherwise noted, the information in these tables is derived from the Comprehensive Annual Financial Reports for the relevant year.

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**Net Position by Component (unaudited)**

**Last Ten Fiscal Years**

	(Restated)									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Governmental activities</b>										
Net investment in capital assets	\$ 16,369,767	\$ 15,992,201	\$ 15,304,386	\$ 16,049,986	\$ 16,838,143	\$ 17,593,261	\$ 17,493,727	\$ 18,654,461	\$ 12,045,582	\$ 17,183,471
Restricted	2,502,661	1,229,189	758,646	878,402	1,037,956	-	-	-	-	-
Unrestricted	1,902,805	1,404,823	864,818	5,088,254	5,070,860	5,902,110	5,235,762	4,668,824	9,164,683	3,057,158
<b>Total governmental activities</b>	<b>\$ 20,775,233</b>	<b>\$ 18,626,213</b>	<b>\$ 16,927,850</b>	<b>\$ 22,016,642</b>	<b>\$ 22,946,959</b>	<b>\$ 23,495,371</b>	<b>\$ 22,729,489</b>	<b>\$ 23,323,285</b>	<b>\$ 21,210,265</b>	<b>\$ 20,240,629</b>
<b>Business-type activities</b>										
Net investment in capital assets	\$ 4,754,036	\$ 4,791,909	\$ 4,610,052	\$ 4,848,333	\$ 5,094,194	\$ 5,073,709	\$ 4,923,135	\$ 5,595,258	\$ 5,518,765	\$ 5,516,767
Unrestricted	1,869,516	1,408,633	1,307,027	1,016,071	588,681	499,193	1,358,338	1,038,282	1,454,510	1,808,221
<b>Total business-type activities</b>	<b>\$ 6,623,552</b>	<b>\$ 6,200,542</b>	<b>\$ 5,917,079</b>	<b>\$ 5,864,404</b>	<b>\$ 5,682,875</b>	<b>\$ 5,572,902</b>	<b>\$ 6,281,473</b>	<b>\$ 6,633,540</b>	<b>\$ 6,973,275</b>	<b>\$ 7,324,988</b>
<b>Primary government</b>										
Net investment in capital assets	\$ 21,123,803	\$ 20,784,110	\$ 19,914,438	\$ 20,898,319	\$ 21,932,337	\$ 22,199,083	\$ 22,416,862	\$ 24,249,719	\$ 17,564,347	\$ 22,700,238
Restricted - capital projects	1,995,804	942,712	488,442	645,971	862,106	-	-	-	-	-
Restricted - other	506,857	286,477	270,204	232,431	175,850	-	-	-	-	-
Unrestricted	3,772,321	2,813,456	2,171,845	6,104,325	5,659,541	6,401,303	6,594,100	5,707,106	10,619,193	4,865,379
<b>Total primary government</b>	<b>\$ 27,398,785</b>	<b>\$ 24,826,755</b>	<b>\$ 22,844,929</b>	<b>\$ 27,881,046</b>	<b>\$ 28,629,834</b>	<b>\$ 28,600,386</b>	<b>\$ 29,010,962</b>	<b>\$ 29,956,825</b>	<b>\$ 28,183,540</b>	<b>\$ 27,565,617</b>

Change in Net Position (unaudited)

Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Expenses</b>										
Governmental activities										
General government	\$ 3,670,330	\$ 2,655,051	\$ 3,471,130	\$ 3,081,068	\$ 3,058,270	\$ 2,328,395	\$ 2,960,944	\$ 2,735,018	\$ 1,415,530	\$ 4,532,796
Public safety and judicial	6,367,432	6,572,994	6,669,898	6,609,483	6,296,795	6,147,949	6,016,699	5,844,764	6,668,792	5,514,359
Public works	672,523	1,722,753	2,066,486	1,599,943	1,875,113	1,883,380	950,043	1,780,286	1,587,249	1,511,607
Health and welfare	1,125,090	1,036,794	957,396	909,035	913,826	817,008	1,022,735	1,162,301	1,081,767	862,689
Education	10,434,221	10,126,907	9,984,015	9,557,995	9,510,584	9,080,484	10,906,525	8,364,349	8,405,003	8,126,211
Parks and recreation	1,923,884	1,738,752	1,774,597	1,639,717	1,248,643	1,224,910	859,051	1,389,000	1,249,535	18,006
Industrial Development Authority	25,000	-	-	-	-	-	-	-	-	-
Community development	667,793	560,195	644,892	711,874	567,672	488,893	547,051	1,272,635	2,327,008	1,081,786
Interest on long-term debt	1,040,364	1,046,103	1,074,323	1,114,258	1,219,966	1,213,782	1,100,826	1,263,686	1,399,427	1,246,037
<b>Total governmental activities</b>	<b>25,926,637</b>	<b>25,459,549</b>	<b>26,642,737</b>	<b>25,223,373</b>	<b>24,690,869</b>	<b>23,184,801</b>	<b>24,363,874</b>	<b>23,812,039</b>	<b>24,134,311</b>	<b>22,893,491</b>
Business-type activities										
Sewer	1,485,293	1,520,881	1,465,757	1,470,187	1,447,681	2,057,173	1,685,334	1,534,743	1,604,560	1,596,599
Parks and recreation	-	-	-	-	455,199	450,025	401,006	463,662	463,668	473,754
Solid waste	793,688	746,243	863,191	842,251	743,280	791,114	766,921	768,565	904,411	595,209
<b>Total business-type activities</b>	<b>2,278,981</b>	<b>2,267,124</b>	<b>2,328,948</b>	<b>2,312,438</b>	<b>2,646,160</b>	<b>3,298,312</b>	<b>2,853,261</b>	<b>2,766,970</b>	<b>2,972,639</b>	<b>2,665,562</b>
<b>Total expenses</b>	<b>28,205,618</b>	<b>27,726,673</b>	<b>28,971,685</b>	<b>27,535,811</b>	<b>27,337,029</b>	<b>26,483,113</b>	<b>27,217,135</b>	<b>26,579,009</b>	<b>27,106,950</b>	<b>25,559,053</b>
<b>Program revenues</b>										
Governmental activities										
Charges for services:										
General government	343,486	236,877	276,781	218,338	223,152	223,887	254,482	274,901	157,130	100,055
Public safety and judicial	435,190	477,642	398,996	370,268	112,011	300,870	103,169	108,456	102,452	185,842
Education	47,520	43,914	35,343	36,347	49,188	36,347	-	-	-	-
Parks and recreation	89,096	80,871	76,741	80,352	74,609	61,820	217,372	55,288	69,952	72,253
Community development	330,949	324,945	312,043	330,873	300,206	33,721	22,614	22,741	36,230	51,543
Operating grants and contributions	1,633,650	1,566,976	1,622,774	1,670,603	1,575,285	1,881,297	1,986,470	1,658,180	2,290,305	2,094,100
Capital grants and contributions	837,446	507,190	599,361	458,320	732,846	419,225	330,892	2,873,294	1,745,973	1,260,858
<b>Total governmental activities</b>	<b>3,717,337</b>	<b>3,238,415</b>	<b>3,322,039</b>	<b>3,165,101</b>	<b>3,067,297</b>	<b>2,957,167</b>	<b>2,914,999</b>	<b>4,992,860</b>	<b>4,402,042</b>	<b>3,764,651</b>
Business-type activities										
Charges for services										
Sewer	2,015,026	1,865,981	1,887,501	1,835,646	1,520,017	1,531,319	1,487,157	1,528,438	1,514,893	1,803,913
Solid waste	801,841	796,892	863,890	862,297	212,730	189,782	743,965	586,277	511,173	329,172
Parks and recreation	-	-	-	-	743,936	755,834	179,070	171,459	177,858	209,147
<b>Total business-type activities</b>	<b>2,816,867</b>	<b>2,662,873</b>	<b>2,751,391</b>	<b>2,697,943</b>	<b>2,476,683</b>	<b>2,476,935</b>	<b>2,410,192</b>	<b>2,286,174</b>	<b>2,203,924</b>	<b>2,342,232</b>
<b>Total program revenues</b>	<b>6,534,204</b>	<b>5,901,288</b>	<b>6,073,430</b>	<b>5,863,044</b>	<b>5,543,980</b>	<b>5,434,102</b>	<b>5,325,191</b>	<b>7,279,034</b>	<b>6,605,966</b>	<b>6,106,883</b>
<b>Governmental activities, net expense</b>	<b>(22,209,300)</b>	<b>(22,221,134)</b>	<b>(23,320,698)</b>	<b>(22,058,272)</b>	<b>(21,623,572)</b>	<b>(20,227,634)</b>	<b>(21,448,875)</b>	<b>(18,819,179)</b>	<b>(19,732,269)</b>	<b>(19,128,840)</b>
<b>Business-type activities, net expense</b>	<b>537,886</b>	<b>395,749</b>	<b>422,443</b>	<b>385,505</b>	<b>(169,477)</b>	<b>(821,377)</b>	<b>(443,069)</b>	<b>(480,796)</b>	<b>(768,715)</b>	<b>(323,330)</b>
<b>Total primary government, net expenses</b>	<b>(21,671,414)</b>	<b>(21,825,385)</b>	<b>(22,898,255)</b>	<b>(21,672,767)</b>	<b>(21,793,049)</b>	<b>(21,049,011)</b>	<b>(21,891,944)</b>	<b>(19,299,975)</b>	<b>(20,500,984)</b>	<b>(19,452,170)</b>

NOTE - In FY 2013, the Parks and Recreation Enterprise Fund was rolled in the City's General Fund.

**Change in Net Position (unaudited)**

**Last Ten Fiscal Years**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>General revenues and other changes in net position</b>										
Governmental activities										
Taxes										
Property taxes	20,570,278	20,368,202	18,827,143	18,219,806	18,228,029	18,235,363	18,054,307	17,989,555	15,956,711	15,636,708
Other taxes	2,838,120	2,906,288	2,804,760	2,881,297	2,529,995	2,464,223	2,451,932	2,537,554	2,613,195	2,541,189
Reimbursements from other agencies	158,675	128,897	159,612	84,883	58,458	75,318	102,239	95,694	1,367,713	1,970,935
Payments in lieu of taxes										
Investment earnings	221,823	200,759	188,699	189,710	181,274	183,284	156,139	179,671	728,606	1,085,397
Miscellaneous	419,424	165,351	184,222	236,197	196,203	(25,102)	51,462	99,725	294,109	146,900
Transfers	150,000	150,000	128,000	130,000	(118,799)	80,400	39,000	30,000	(258,430)	(270,005)
<b>Total governmental activities</b>	<b>24,358,320</b>	<b>23,919,497</b>	<b>22,292,436</b>	<b>21,741,893</b>	<b>21,075,160</b>	<b>21,013,486</b>	<b>20,855,079</b>	<b>20,932,199</b>	<b>20,701,904</b>	<b>21,111,124</b>
Business-type activities										
Investment earnings	34,964	33,357	35,470	26,440	32,131	29,476	30,522	29,264	37,001	37,913
Miscellaneous	160	4,357	587	2,677	128,520	132,530	99,480	141,797	167,035	147,176
Loss on disposal of capital assets	-	-	-	-	-	-	-	-	(45,464)	-
Transfers	(150,000)	(150,000)	(128,000)	(130,000)	118,799	(49,200)	(39,000)	(30,000)	258,430	270,005
<b>Total business-type activities</b>	<b>(114,876)</b>	<b>(112,286)</b>	<b>(91,943)</b>	<b>(100,883)</b>	<b>279,450</b>	<b>112,806</b>	<b>91,002</b>	<b>141,061</b>	<b>417,002</b>	<b>455,094</b>
<b>Total general revenues and other changes in net position</b>	<b>24,243,444</b>	<b>23,807,211</b>	<b>22,200,493</b>	<b>21,641,010</b>	<b>21,354,610</b>	<b>21,126,292</b>	<b>20,946,081</b>	<b>21,073,260</b>	<b>21,118,906</b>	<b>21,566,218</b>
<b>Change in net position</b>										
Governmental activities	2,149,020	1,698,363	(1,028,262)	(316,379)	(548,412)	785,852	(593,796)	2,113,020	969,635	1,982,284
Business-type activities	423,010	283,463	330,500	284,622	109,973	(708,571)	(352,067)	(339,735)	(351,713)	131,764
<b>Total primary government</b>	<b>\$ 2,572,030</b>	<b>\$ 1,981,826</b>	<b>\$ (697,762)</b>	<b>\$ (31,757)</b>	<b>\$ (438,439)</b>	<b>\$ 77,281</b>	<b>\$ (945,863)</b>	<b>\$ 1,773,285</b>	<b>\$ 617,922</b>	<b>\$ 2,114,048</b>

**Fund Balances - Governmental Funds (unaudited)**

**Last Ten Fiscal Years**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>General fund</b>										
Non-spendable	\$ 1,861,498	\$ 1,880,726	\$ 1,899,954	\$ 1,968,595	\$ 254,474	\$ 273,051	\$ -	\$ -	\$ -	\$ -
Restricted	348,557	286,477	270,204	234,126	175,850	193,477	-	-	-	-
Assigned	829,475	855,862	706,877	426,772	679,065	447,892	-	-	-	-
Unassigned	4,388,700	4,851,141	5,009,182	4,837,805	4,498,417	4,776,356	-	-	-	-
Reserved for										
Encumbrances and loans	-	-	-	-	-	-	347,863	392,810	276,571	180,562
Asset forfeiture	-	-	-	-	-	-	83,704	89,261	89,594	-
Fire department	-	-	-	-	-	-	100,858	69,671	-	-
Library	-	-	-	-	-	-	13,015	13,861	-	-
Heritage Park	-	-	-	-	-	-	6,060	-	-	-
Unreserved	-	-	-	-	-	-	4,338,582	3,389,561	3,571,770	4,858,261
<b>Total general fund</b>	<b>\$ 7,428,230</b>	<b>\$ 7,874,206</b>	<b>\$ 7,886,217</b>	<b>\$ 7,467,298</b>	<b>\$ 5,607,806</b>	<b>\$ 5,690,776</b>	<b>\$ 4,890,082</b>	<b>\$ 3,955,164</b>	<b>\$ 3,937,935</b>	<b>\$ 5,038,823</b>
<b>All other governmental funds</b>										
Non-spendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	2,154,104	942,712	488,442	645,971	862,106	478,967	-	-	-	-
Assigned	706,113	822,546	573,040	651,746	376,082	391,118	-	-	-	-
Reserved for										
Grants	-	-	-	-	-	-	-	32,077	27,168	9,738
Construction - bond principal	-	-	-	-	-	-	651,191	826,219	4,244,577	16,196,290
Construction - bond earnings	-	-	-	-	-	-	-	-	-	82,801
Unreserved for										
Designated	-	-	-	-	-	-	-	-	1,203,324	327,503
Unreserved and undesignated	-	-	-	-	-	-	258,713	470,991	258,724	385,137
<b>Total all other governmental funds</b>	<b>\$ 2,860,217</b>	<b>\$ 1,765,258</b>	<b>\$ 1,061,482</b>	<b>\$ 1,297,717</b>	<b>\$ 1,238,188</b>	<b>\$ 870,085</b>	<b>\$ 909,904</b>	<b>\$ 1,329,287</b>	<b>\$ 5,733,793</b>	<b>\$ 17,001,469</b>

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

**Changes in Fund Balances - Governmental Funds (unaudited)**

**Last Ten Fiscal Years**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Revenues</b>										
General property taxes	\$ 18,605,963	\$ 18,425,590	\$ 16,959,423	\$ 16,371,816	\$ 16,361,071	\$ 16,296,911	\$ 16,023,837	\$ 16,034,422	\$ 16,127,168	\$ 15,562,860
Other local taxes	2,838,120	2,906,288	2,804,760	2,881,297	2,529,995	2,464,223	2,451,932	2,537,554	2,613,195	2,541,189
Permits, privilege fees, and regulatory licenses	150,186	168,314	89,910	76,040	97,314	78,464	70,947	83,775	98,233	162,218
Fines and forfeitures	41,742	44,898	73,024	58,103	43,603	54,907	54,836	46,859	38,201	73,942
Revenue from use of money and property	221,823	200,759	188,699	189,710	183,310	183,282	157,426	224,492	825,346	1,171,832
Charges for services	719,627	730,274	677,961	683,698	395,096	299,386	217,372	55,909	71,505	72,749
Intergovernmental	4,887,888	4,347,257	4,564,184	4,355,574	4,513,171	4,416,734	4,597,512	4,871,491	6,017,329	5,389,676
Miscellaneous	406,388	187,840	216,483	260,245	215,548	128,881	60,625	86,991	320,188	94,093
<b>Total revenues</b>	<b>27,871,737</b>	<b>27,011,220</b>	<b>25,574,444</b>	<b>24,876,483</b>	<b>24,339,108</b>	<b>23,922,788</b>	<b>23,634,487</b>	<b>23,941,493</b>	<b>26,111,165</b>	<b>25,068,559</b>
<b>Expenditures</b>										
Current										
General government and administration	2,307,455	2,142,936	2,150,397	2,116,875	2,175,864	2,106,211	1,924,481	2,324,651	2,018,674	1,938,236
Public safety and judicial	6,510,844	6,543,540	6,323,724	6,247,962	5,909,331	5,765,369	5,601,358	5,328,217	5,952,162	5,235,778
Public works	1,806,905	1,846,179	1,717,667	1,587,114	1,596,143	1,516,878	1,530,904	1,535,411	1,503,219	1,428,384
Health and welfare	1,127,881	1,038,823	938,191	892,421	897,082	802,490	1,016,083	1,131,499	1,067,418	843,523
Parks, recreation, and cultural	1,605,290	1,616,495	1,558,028	1,545,578	1,057,553	1,016,944	1,003,795	1,169,328	1,175,226	1,034,306
Community development	686,316	588,060	643,567	705,927	577,990	490,912	529,529	1,236,529	2,222,658	1,544,499
Nondepartmental	114,470	113,192	125,312	144,213	359,518	112,981	329,279	134,282	218,133	173,643
Education	9,566,168	9,422,763	8,991,413	8,844,076	8,796,662	8,578,675	8,008,392	8,078,598	8,147,463	7,880,000
Industrial Development Authority	25,000	-	-	-	-	-	40,000	51,250	110,000	123,861
Capital outlays	1,202,670	822,462	991,003	794,678	1,119,347	814,871	838,069	7,085,050	14,035,793	8,460,299
Debt service										
Principal retirement	2,078,058	1,464,000	886,835	684,426	867,647	896,963	1,358,073	1,414,131	1,495,455	1,092,106
Bond issuance costs	298,907	-	-	-	310,631	43,263	234,339	139,699	-	-
Interest and fiscal charges	1,128,233	1,163,062	1,190,623	1,124,605	1,266,380	1,136,670	1,201,041	1,244,582	1,258,222	1,038,815
<b>Total expenditures</b>	<b>28,458,197</b>	<b>26,761,512</b>	<b>25,516,760</b>	<b>24,687,875</b>	<b>24,934,148</b>	<b>23,282,227</b>	<b>23,615,343</b>	<b>30,873,227</b>	<b>39,204,423</b>	<b>30,793,450</b>
<b>Excess (deficiency) of revenue over expenditures</b>	<b>(586,460)</b>	<b>249,708</b>	<b>57,684</b>	<b>188,608</b>	<b>(595,040)</b>	<b>640,561</b>	<b>19,144</b>	<b>(6,931,734)</b>	<b>(13,093,258)</b>	<b>(5,724,891)</b>
<b>Other financing sources (uses)</b>										
Transfers in	3,988,485	3,795,075	2,306,958	2,333,090	2,253,807	2,248,182	2,587,735	2,708,519	448,610	457,417
Issuance of debt, net	1,085,443	292,057	-	1,734,000	998,972	39,914	457,391	2,514,557	664,414	8,000,000
Transfers out	(3,838,485)	(3,645,075)	(2,181,958)	(2,203,090)	(2,372,606)	(2,167,782)	(2,548,735)	(2,678,519)	(388,430)	(400,193)
<b>Total other financing sources (uses)</b>	<b>1,235,443</b>	<b>442,057</b>	<b>125,000</b>	<b>1,864,000</b>	<b>880,173</b>	<b>120,314</b>	<b>496,391</b>	<b>2,544,557</b>	<b>724,594</b>	<b>8,057,224</b>
<b>Net change in fund balances</b>	<b>\$ 648,983</b>	<b>\$ 691,765</b>	<b>\$ 182,684</b>	<b>\$ 2,052,608</b>	<b>\$ 285,133</b>	<b>\$ 760,875</b>	<b>\$ 515,535</b>	<b>\$ (4,387,177)</b>	<b>\$ (12,368,664)</b>	<b>\$ 2,332,333</b>
Debt service as a percentage of noncapital expenditures	13.19%	10.28%	8.35%	7.52%	8.88%	9.17%	12.75%	11.18%	11.23%	9.73%

**Assessed Value and Estimated Actual Value of Taxable Real Property (Unaudited)**

**Last Ten Fiscal Years**

Fiscal Year	Residential Property	Commercial / Industrial Property	Agricultural Property	Total Taxable Assessed Value	Tax Exempt Property	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
2016	\$ 1,416,700,300	\$ 106,316,055	\$ 2,018,000	\$ 1,525,034,355	\$ 104,751,400	\$ 1.07	\$ 1,540,287,555	99%
2015	\$ 1,419,250,800	\$ 97,448,871	\$ 2,012,700	\$ 1,518,712,371	\$ 104,076,490	\$ 1.07	\$ 1,518,712,371	100%
2014	\$ 1,411,254,800	\$ 98,310,947	\$ 3,452,500	\$ 1,513,018,247	\$ 103,821,950	\$ 0.97	\$ 1,513,018,247	100%
2013	\$ 1,426,373,300	\$ 96,689,879	\$ 3,706,100	\$ 1,526,769,279	\$ 105,532,630	\$ 0.92	\$ 1,511,501,600	101%
2012	\$ 1,417,474,500	\$ 98,208,727	\$ 3,706,100	\$ 1,519,389,327	\$ 109,434,010	\$ 0.92	\$ 1,519,380,327	100%
2011	\$ 1,622,194,900	\$ 102,253,036	\$ 3,798,800	\$ 1,728,246,736	\$ 109,430,730	\$ 0.81	\$ 1,641,834,400	105%
2010	\$ 1,612,987,500	\$ 103,065,821	\$ 3,798,800	\$ 1,719,852,121	\$ 81,348,380	\$ 0.81	\$ 1,631,859,515	105%
2009	\$ 1,604,471,900	\$ 91,095,808	\$ 3,227,800	\$ 1,698,795,508	\$ 81,410,750	\$ 0.81	\$ 1,705,314,450	99%
2008	\$ 1,577,324,400	\$ 97,776,982	\$ 3,227,800	\$ 1,678,329,182	\$ 80,948,613	\$ 0.81	\$ 1,730,326,270	97%
2007	\$ 1,543,797,900	\$ 90,461,496	\$ 3,227,800	\$ 1,637,487,196	\$ 71,268,800	\$ 1.06	\$ 1,637,487,196	100%

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



**Property Tax Levies and Collections (Unaudited)**

**Last Ten Fiscal Years**

Fiscal Year	Net Taxes Levied for Fiscal Year (Original Levy)	Subsequent Year Adjustments	Total Adjusted Net Levy	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collected to Date	
				Amount	Percent of Original Levy		Amount	Percent of Original Levy
2016	\$ 16,111,062	\$ -	\$ 16,111,062	\$ 15,942,338	98.95%	\$ -	\$ 15,942,338	98.95%
2015	\$ 16,039,914	\$ 595	\$ 16,040,509	\$ 15,875,158	98.97%	\$ 68,487	\$ 15,943,645	99.40%
2014	\$ 14,492,059	\$ 519	\$ 14,492,578	\$ 14,338,022	98.94%	\$ 108,153	\$ 14,446,175	99.68%
2013	\$ 13,891,076	\$ (1,670)	\$ 13,889,406	\$ 13,709,910	98.70%	\$ 155,626	\$ 13,865,536	99.83%
2012	\$ 13,808,493	\$ (3,969)	\$ 13,804,524	\$ 13,617,311	98.62%	\$ 171,337	\$ 13,788,648	99.88%
2011	\$ 13,666,068	\$ 12,686	\$ 13,678,754	\$ 13,421,564	98.21%	\$ 243,649	\$ 13,665,213	99.90%
2010	\$ 13,614,366	\$ 3,219	\$ 13,617,585	\$ 13,371,918	98.22%	\$ 233,096	\$ 13,605,014	99.91%
2009	\$ 13,481,887	\$ 1,040	\$ 13,482,927	\$ 13,306,699	98.70%	\$ 165,681	\$ 13,472,380	99.92%
2008	\$ 13,330,523	\$ (1,413)	\$ 13,329,110	\$ 13,186,765	98.92%	\$ 136,265	\$ 13,323,030	99.95%
2007	\$ 13,075,301	\$ 130	\$ 13,075,431	\$ 12,941,290	98.98%	\$ 126,405	\$ 13,067,695	99.94%

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**Principal Taxpayers - 2016 and Nine Years Ago (Unaudited)**

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Taxpayer	Type of Business	2016		2007	
		Assessed Valuation Real Estate	Percentage of Total Real Estate Assessment	Assessed Valuation Real Estate	Percentage of Total Real Estate Assessment
Poquoson Place Apartments	Apartment Rentals	\$ 9,155,600	0.60%	\$ 8,096,800	0.49%
Whitehouse Cove, LLC	Marina / Mobile Home Park	7,570,700	0.50%	-	0.00%
Poquoson Commons Retail Investors, Inc.	Shopping Center	6,415,500	0.42%	7,907,600	0.48%
Poquoson Shopping Center, L.L.C.	Shopping Center	5,695,900	0.37%	-	0.00%
SGC Wythe Creek, L.L.C.	Shopping Center	4,089,300	0.27%	3,883,800	0.24%
GPH Poquoson L.L.C.	Nursing Home	3,641,600	0.24%	3,028,200	0.18%
Islander Associates	Apartment Rentals	3,480,200	0.23%	3,012,200	0.18%
Universal of Poquoson	Mobile Home Park	3,401,200	0.22%	3,020,400	0.18%
Hunt Properties of Poquoson, Inc.	Storage Facilities	2,718,000	0.18%	2,760,300	0.17%
Wachovia Bank	Financial Institution	-	0.00%	2,291,400	0.14%
Poquoson Marina Associates	Marina / Mobile Home Park	-	0.00%	4,732,500	0.29%
City of Newport News	Public Service	4,023,500	0.26%	-	0.00%
Suburban Land Company	Shopping Center	-	0.00%	4,354,100	0.27%
		<b>\$ 50,191,500</b>	<b>3.29%</b>	<b>\$ 43,087,300</b>	<b>2.63%</b>

Source: Commissioner of the Revenue and City Assessor

**Computation of Legal Debt Margin (Unaudited)**

**Last Ten Fiscal Years**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Total assessed value of taxed real property</b>										
General	\$ 1,504,974,300	\$ 1,500,055,080	\$ 1,493,024,330	\$ 1,508,646,060	\$ 1,498,862,620	\$ 1,711,308,830	\$ 1,702,517,110	\$ 1,685,314,440	\$ 1,662,716,070	\$ 1,627,336,017
Public service corporations	20,060,055	18,657,291	19,993,917	18,123,219	20,526,707	16,937,906	17,335,011	13,481,068	15,613,112	10,151,179
<b>Total</b>	<b>\$ 1,525,034,355</b>	<b>\$ 1,518,712,371</b>	<b>\$ 1,513,018,247</b>	<b>\$ 1,526,769,279</b>	<b>\$ 1,519,389,327</b>	<b>\$ 1,728,246,736</b>	<b>\$ 1,719,852,121</b>	<b>\$ 1,698,795,508</b>	<b>\$ 1,678,329,182</b>	<b>\$ 1,637,487,196</b>
<b>Debt limit (10% of total assessed value)</b>	<b>\$ 152,503,436</b>	<b>\$ 151,871,237</b>	<b>\$ 151,301,825</b>	<b>\$ 152,676,928</b>	<b>\$ 151,938,933</b>	<b>\$ 172,824,674</b>	<b>\$ 171,985,212</b>	<b>\$ 169,879,551</b>	<b>\$ 167,832,918</b>	<b>\$ 163,748,720</b>
<b>Debt applicable to debt limit</b>										
General obligation bonds, other than those authorized for a specific revenue producing project	25,104,587	27,174,645	28,096,588	28,619,001	27,212,000	28,164,822	28,689,878	29,552,678	27,460,783	28,341,971
Capital leases	-	-	-	83,166	163,593	241,240	316,204	388,577	978,046	525,899
Sewer general obligation bonds	6,855,000	7,220,000	8,000,000	8,305,000	8,605,000	9,425,933	9,890,072	9,796,907	10,508,638	11,280,327
State literary fund loans	750,000	1,000,000	1,250,000	1,530,820	1,807,820	2,084,820	2,361,820	2,763,820	3,165,820	3,567,820
	<b>32,709,587</b>	<b>35,394,645</b>	<b>37,346,588</b>	<b>38,537,987</b>	<b>37,788,413</b>	<b>39,916,815</b>	<b>41,257,974</b>	<b>42,501,982</b>	<b>42,113,287</b>	<b>43,716,017</b>
<b>Margin for additional borrowing</b>	<b>\$ 119,793,849</b>	<b>\$ 116,476,592</b>	<b>\$ 113,955,237</b>	<b>\$ 114,138,941</b>	<b>\$ 114,150,520</b>	<b>\$ 132,907,859</b>	<b>\$ 130,727,238</b>	<b>\$ 127,377,569</b>	<b>\$ 125,719,631</b>	<b>\$ 120,032,703</b>
<b>Total net debt applicable to the limit as a percentage of debt limit</b>	<b>21.45%</b>	<b>23.31%</b>	<b>24.68%</b>	<b>25.24%</b>	<b>24.87%</b>	<b>23.10%</b>	<b>23.99%</b>	<b>25.02%</b>	<b>25.09%</b>	<b>26.70%</b>

**Ratios of Outstanding Debt by Type (Unaudited)**

**Last Ten Fiscal Years**

Fiscal Year	Governmental Activities				Business-Type	Total Primary Government	Median Household Income (1)	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Term Loans Payable	Line of Credit	Capital Leases	Activities Sewer Bonds				
2016	\$ 29,273,324	\$ 750,000	\$ -	\$ -	\$ 7,374,457	\$ 37,397,781	N/A	N/A	\$ 3,078
2015	\$ 28,786,818	\$ 1,000,000	\$ 292,057	\$ -	\$ 7,789,604	\$ 37,868,479	N/A	N/A	\$ 3,101
2014	\$ 29,843,650	\$ 1,250,000	\$ -	\$ -	\$ 8,669,904	\$ 39,763,554	\$ 83,460	1.0%	\$ 3,285
2013	\$ 30,500,952	\$ 1,530,820	\$ -	\$ 83,166	\$ 8,305,000	\$ 40,419,938	\$ 81,892	1.0%	\$ 3,341
2012	\$ 28,328,321	\$ 1,807,820	\$ -	\$ 163,593	\$ 8,971,631	\$ 39,271,365	\$ 85,033	1.0%	\$ 3,208
2011	\$ 28,162,916	\$ 2,084,820	\$ -	\$ 241,240	\$ 9,374,924	\$ 39,863,900	\$ 86,611	1.1%	\$ 3,281
2010	\$ 28,685,786	\$ 2,361,820	\$ -	\$ 316,204	\$ 9,733,441	\$ 41,097,251	\$ 84,315	1.2%	\$ 3,459
2009	\$ 29,332,470	\$ 2,763,820	\$ -	\$ 388,577	\$ 9,592,392	\$ 42,077,259	\$ 84,688	1.2%	\$ 3,569
2008	\$ 27,338,072	\$ 3,165,820	\$ -	\$ 978,046	\$ 10,299,394	\$ 41,781,332	\$ 79,123	1.4%	\$ 3,535
2007	\$ 28,202,898	\$ 3,567,820	\$ -	\$ 525,899	\$ 11,035,534	\$ 43,332,151	\$ 78,191	1.4%	\$ 3,627

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Source: (1) United States Census Bureau

N/A - This information is not available.

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

**Last Ten Fiscal Years**

Fiscal Year	Population (1)	Assessed Value	Net Bonded Debt (2)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2016	12,150	\$ 1,525,034,355	\$ 30,023,324	1.97%	\$ 2,471
2015	12,212	\$ 1,518,712,371	\$ 29,786,818	1.96%	\$ 2,439
2014	12,104	\$ 1,513,018,247	\$ 31,093,650	2.06%	\$ 2,569
2013	12,097	\$ 1,526,769,279	\$ 32,031,772	2.10%	\$ 2,648
2012	12,240	\$ 1,519,389,327	\$ 30,136,141	1.98%	\$ 2,462
2011	12,150	\$ 1,728,246,736	\$ 30,247,736	1.75%	\$ 2,490
2010	11,881	\$ 1,719,852,121	\$ 31,047,606	1.81%	\$ 2,613
2009	11,791	\$ 1,698,795,508	\$ 32,096,290	1.89%	\$ 2,722
2008	11,818	\$ 1,678,329,182	\$ 30,503,892	1.82%	\$ 2,581
2007	11,948	\$ 1,637,487,196	\$ 31,770,718	1.94%	\$ 2,659

Source: (1) Weldon Cooper Center for Public Service

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

**Demographic Statistics (Unaudited)**

**Last Ten Fiscal Years**

Fiscal Year	Population (1)	Personal Income (2) <i>(in millions)</i>	Per Capita Personal Income (2)	School Enrollment (3)	Unemployment Rate (4)
2016	12,150	N/A	N/A	2,059	3.5%
2015	12,212	N/A	N/A	2,087	4.1%
2014	12,104	\$ 4,205	\$ 53,646	2,095	4.7%
2013	12,097	\$ 4,069	\$ 51,718	2,125	5.3%
2012	12,240	\$ 3,931	\$ 50,236	2,178	5.8%
2011	12,150	\$ 3,716	\$ 47,564	2,231	5.9%
2010	11,881	\$ 3,517	\$ 45,334	2,325	6.2%
2009	11,791	\$ 3,456	\$ 47,380	2,398	5.6%
2008	11,818	\$ 3,429	\$ 46,844	2,460	3.4%
2007	11,948	\$ 3,222	\$ 44,148	2,473	2.4%

N/A - This information is not available.

- Source: (1) Weldon Cooper Center for Public Service  
 (2) Bureau of Economic Analysis combined amount for York County/Poquoson  
 (3) Poquoson School Board. Data is September enrollment for each fiscal year  
 (4) Bureau of Labor Statistics

**Principal Employers in Poquoson - 2016 and Nine Years Ago (Unaudited)**

Employment	2016		2007	
	Number of Employees	Percentage of Total City Employment	Number of Employees	Percentage of Total City Employment
Poquoson City Public Schools	280	16.75%	417	20.85%
City of Poquoson	149	8.91%	180	9.00%
Farm Fresh	70	4.19%	75	3.75%
Golden Living Center/Bayside	59	3.66%	54	2.70%
Food Lion	58	3.47%	90	2.70%
Surf Rider	55	3.29%	N/A	N/A
Pizza Hut	N/A	N/A	48	2.40%
Village Williamsburg	N/A	N/A	45	2.25%
Poquoson Discount Pharmacy	unavailable	unavailable	35	1.75%
McDonald's Restaurant	34	2.03%	35	1.75%
Dominion Village at Poquoson	31	1.85%	45	2.25%
Wendy's Restaurant	20	1.20%	N/A	N/A
Poquoson Vet	22	1.32%	N/A	N/A
	<b>778</b>	<b>46.53%</b>	<b>1,024</b>	<b>51.20%</b>

N/A - This information is not available.

Source: City of Poquoson Economic Development Department

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

**Last Ten Fiscal Years**

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Function / Program	Full-time Equivalent Employees as of June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
General government										
Management services	12.20	12.20	12.20	12.20	12.20	12.20	12.20	14.20	14.20	14.20
Finance	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Planning	4.00	4.00	4.00	4.00	4.00	4.35	4.45	5.45	5.45	5.45
Building	3.75	3.75	3.75	3.75	3.75	3.75	3.00	4.00	4.00	4.00
Other	3.10	3.10	3.10	3.10	2.85	2.10	2.10	2.10	2.10	2.10
Police										
Officers	24.50	23.50	23.50	23.50	22.50	22.50	22.50	22.50	22.50	22.50
Civilians	1.50	1.00	1.00	1.00	1.00	1.00	1.00	2.00	6.50	6.50
Fire										
Firefighters and officers	30.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	28.00
Civilians	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Refuse collection	1.00	1.00	1.00	1.00	1.00	1.00	1.00	2.00	2.50	3.00
Other public works	17.50	17.50	17.10	17.10	16.50	16.50	16.50	15.50	15.00	14.50
Engineering	2.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Other	2.00	2.00	2.00	2.00	2.00	2.00	2.00	3.00	3.00	2.40
Fleet	3.50	3.50	3.50	3.50	3.50	3.50	3.50	4.50	4.50	4.50
Parks and recreation	9.80	9.80	9.80	9.80	9.80	9.80	9.80	13.55	13.50	13.50
Library	11.95	11.95	11.95	11.95	11.95	11.95	11.95	11.95	11.95	11.45
Wastewater	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
<b>Total</b>	<b>139.80</b>	<b>136.30</b>	<b>135.90</b>	<b>135.90</b>	<b>134.05</b>	<b>133.65</b>	<b>133.00</b>	<b>143.75</b>	<b>148.20</b>	<b>146.10</b>

Source: Finance Department



**Operating Indicators by Function / Program (Unaudited)**

**Last Ten Fiscal Years**

Function / Program	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Police (1)										
Physical arrests	228	225	255	291	307	259	335	362	109	294
Parking violations	8	9	18	41	18	39	34	29	9	71
Traffic violations	667	728	982	1,062	714	957	915	979	911	1,014
Fire (2)										
Emergency responses	1,991	1,883	1,883	2,122	2,028	1,827	1,870	1,574	1,362	1,687
Fires extinguished	25	36	14	22	20	51	79	44	38	35
Inspections	182	237	209	240	239	290	233	56	31	41
Refuse collection (3)										
Refuse collected (tons)	2,491	2,338	3,597	2,761	2,184	2,241	2,560	2,524	2,160	1,663
Recyclables collected (tons)	1,102	1,227	1,161	1,282	1,324	1,390	1,418	2,482	1,490	1,445
Other public works (3)										
Street resurfacing (tons)	3,461	1,764	4,350	2,524	2,991	2,645	2,481	3,315	3,910	4,943
Library (4)										
Volumes in collection	66,922	64,135	62,048	60,811	59,816	58,203	59,217	60,180	58,266	58,401
Total volumes borrowed	185,361	199,695	207,338	199,739	189,719	197,967	209,768	216,065	208,534	193,354
Wastewater (5)										
Sewer connections	4,943	4,910	4,816	4,782	4,816	4,805	4,803	4,876	4,871	4,790

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

**Capital Assets Statistics by Function/Program (Unaudited)**

**Last Ten Fiscal Years**

Function/Program	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Police (1)										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	27	27	25	25	25	24	23	23	23	23
Fire stations (2)	2	2	2	2	2	2	2	2	2	2
Refuse collection (3)										
Collection trucks	4	4	4	4	4	3	3	3	3	3
Other public works (3)										
Street (miles)	54.6	55.3	55.1	55.1	55.1	55.1	55.0	54.6	53.2	53.2
Streetlights	577	580	575	575	574	574	574	574	561	546
Traffic signals	4	4	4	4	4	4	4	4	4	4
Park and recreation (4)										
Acreage	63	63	63	63	63	48	48	48	48	46
Playgrounds	4	4	4	3	3	3	3	3	3	4
Baseball / softball diamonds	6	6	6	4	4	6	6	6	6	5
Soccer / football fields	6	6	6	6	6	6	6	6	6	5
Community centers	2	2	2	2	2	1	1	1	1	1
Wastewater (5)										
Sanitary sewers (miles)	65	65	65	65	65	64	64	64	64	64
Storm sewers (miles)	34.24(*)	34.24(*)	34.24(*)	34.24(*)	34.24(*)	34(*)	34(*)	32(*)	16	16

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

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

**Report of Independent Auditor 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***

To The Honorable Members of the City of Council  
City of Poquoson, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Poquoson, Virginia (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 30, 2016.

#### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies as item 2016-001.

#### **Compliance and Other Matters**

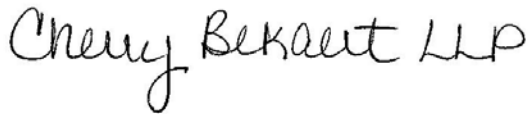
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* or the *Specifications of Audits of Counties, Cities, and Towns* and which is described in the accompanying schedule of findings and questioned costs as item 2016-001.

**City of Poquoson, Virginia's Response to Findings**

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Cheryl Bekant LLP".

Virginia Beach, Virginia  
November 30, 2016

**Report of Independent Auditor on Compliance for Each Major  
Federal Program and on Internal Control over Compliance  
Required by the Uniform Guidance**

To The Honorable Members of the City Council  
City of Poquoson, Virginia

**Report on Compliance for Each Major Federal Program**

We have audited the City of Virginia Beach, Virginia's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2016. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

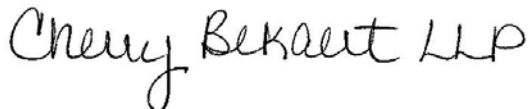
## Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Virginia Beach, Virginia  
November 30, 2016

*City of Poquoson, Virginia*

*Schedule of Expenditures of Federal Awards*

**Year Ended June 30, 2016**

Federal granting agency / recipient state agency Grant program/grant number	Grant Agency Number	Federal CFDA Number	Federal Expenditures
<b>U.S. Department of Agriculture</b>			
Pass through payments:			
Department of Agriculture and Consumer Services:			
Child Nutrition Cluster:			
National School Breakfast Program	201616N109941	10.553	\$ 23,222
National School Lunch Program	201616N109941	10.555	<u>140,706</u>
			\$ 163,928
<b>U.S. Department of Defense</b>			
Promoting K-12 Student Achievement at Military- Connected Schools (Reading)			
		12.556	9,818
Promoting K-12 Student Achievement at Military- Connected Schools (STEM)			
		12.556	73,795
<b>U.S. Department of the Interior</b>			
Direct payments:			
Plum Tree Island Refuge			
		15.611	2,725
<b>U.S. Department of Justice</b>			
Pass through payments:			
Virginia Department of Criminal Justice:			
Byrne Justice Assistance Grant	15-Q1116L014	16.738	1,435
<b>U.S. Department of Transportation</b>			
Pass through payments:			
Department of Motor Vehicles:			
Alcohol Traffic Safety and Drunk Driving Prevention Incentive (10/1/14-9/30/15) - Speed			
	SC-2015-55085-5824 & SC-2016-56176-6376	20.600	6,920
Alcohol Open Container Requirements			
	154AL2015-55084-5823 & 154AL-2016-56175-6375	20.607	4,789
<b>U.S. Department of Education</b>			
Direct payments:			
Impact Aid			
		84.041	129,074
Pass through payments:			
Virginia Department of Education:			
Title I: Grants to Local Educational Agencies	S010A140046 & S010A150046	84.010	100,441
Title II: Improving Teacher Quality State Grants	S367A150044	84.367	42,392
Special Education (IDEA) Cluster:			
Title VI-B: Assistance to States for Education of Handicapped Children:			
Special Education Grants	H027A140107 & H027A150107	84.027	431,475
Preschool Handicapped	H173A150112	84.173	<u>9,665</u>
			441,140
Vocational Education-Basic Grants to States			
	V048A140046 & V048A150046	84.048	16,977
<b>U.S. Department of Homeland Security</b>			
Pass through payments:			
Virginia Department of Emergency Management			
Flood Mitigation Assistance	FMA-2014-001	97.029	14,800
Hazard Mitigation Grant	HMGP-4042-0011 & HMGP-4072-0002	97.039	64,375
State Homeland Security Program	6759 & 6982	97.073	86,777
Local Emergency Management Performance Grant	6889	97.042	<u>7,500</u>
			<u>\$ 1,166,886</u>

See notes to schedule of expenditures of federal awards

*City of Poquoson, Virginia, Virginia*

*Notes to Schedule of Expenditures of Federal Awards*

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**Year Ended June 30, 2016**

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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* and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance").

**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, 2016, the food service organization had food commodities totaling \$16,846 in inventory.

**3. Relationship to the Financial Statements**

Revenues from federal awards are reported in the City's basic financial statements as follows:

General Fund		\$	97,873
Special Revenue Fund			79,174
Capital Projects Fund			64,981
School Board			977,564
Total federal awards reported in the basic financial statements			<u>1,219,592</u>
Less - Revenue closed to fund balances from the following:			
Asset Forfeiture Program	16.922		<u>52,706</u>
Total Federal Expenditures		\$	<u>1,166,886</u>

**4. Subrecipients**

The City does not have any subrecipients.

**4. Indirect Cost Rate**

The City does not elect to use a 10% de minimis indirect cost rate allowed under section 2 CFR 200.331(a)(4).



**City of Poquoson, Virginia**  
**Schedule of Findings and Questioned Costs**  
**For the Fiscal Year Ended June 30, 2016**

**1) Summary of Auditors' Results**

Financial Statements:

Type of auditor's report issued on the financial statements:	<b>Unmodified</b>
Internal control over financial reporting:	
Material weaknesses identified:	<b>No</b>
Significant deficiencies identified:	<b>Yes</b>
Noncompliance material to the financial statements noted?	<b>No</b>

Federal Awards:

Type of auditor's report issued on compliance for major programs:	<b>Unmodified</b>
Internal control over major programs:	
Material weaknesses identified:	<b>No</b>
Significant deficiencies identified:	<b>None reported</b>
Any audit findings disclosed that are required to be reported in Accordance with Section 510(a) of OMB Circular A-133?	<b>No</b>

Identification of major federal programs:

<u>Name of Program</u>	<u>CFDA #</u>
Department of Education: Special Education Cluster	84.027/84.173

Dollar threshold to distinguish between Types A and B Programs:	<b>\$750,000</b>
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The City of Poquoson was qualified as a low risk auditee?	<b>Yes</b>
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**2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards***

**None**

**3) Findings and Questioned Costs Relating to Federal Awards**

**None**

**4) Findings and Questioned Costs Relating to Compliance with Commonwealth of Virginia Laws, Regulations, Contracts, and Grants**

**2016-001: Highway Maintenance Funds**

**Criteria:** Per the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia Section 3-13, an auditor is required to obtain and review the Weldon Cooper Center Local Finance survey for the audit year and determine timeliness of the submission. The auditor is also required to ensure the revenues and expenditures reconcile to the locality's general ledger.

**Condition:** The original Weldon Cooper Survey submission overstated expenditures by \$134,557.34.

**Cause:** The City did not have proper controls in place to review the Weldon Cooper reconciliation and submission.

**Effect:** The City overstated its Highway Maintenance Expenditures to the Weldon Cooper Center.

**Recommendation:** The City should implement a corrective action plan aimed at enhancing internal controls related to the timely submission and reconciliation of the Weldon Cooper Survey.

**View of Responsible Officials and Corrective Action Plan:** Management concurs that the expenditures reported on the original Weldon Cooper submission were overstated. We have procedures in place to ensure the Weldon Cooper Report is properly reconciled, reviewed, and submitted in a timely manner.

**5) Resolution of Prior Year's Findings**

**2015-001** Corrected