



# CITY OF POQUOSON, VIRGINIA

## Comprehensive Annual Financial Report

Fiscal Year July 1, 2009 - June 30, 2010



***Comprehensive Annual  
Financial Report***

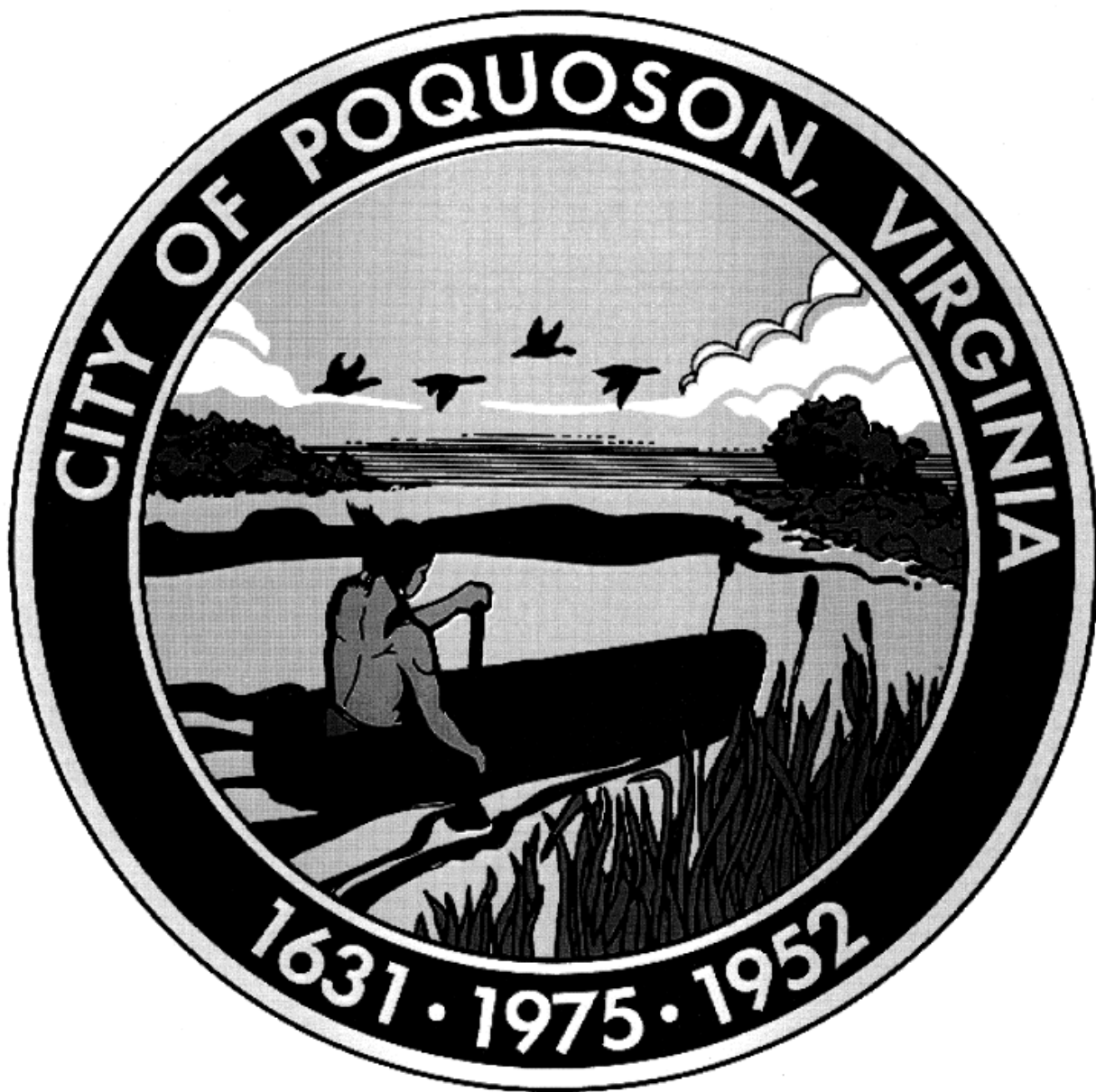
***City of Poquoson, Virginia***

***Fiscal Year Ended June 30, 2010***

***Prepared by:***

***The Department of Finance***

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



## *Introductory Section*

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

### ***Government Officials***

#### **City Council**

Gordon C. Helsel, Jr., Mayor  
W. Eugene Hunt, Jr., Vice Mayor  
Traci-Dale Crawford  
Carey L. Freeman  
Frank A. Kreiger  
E. Thomas Merece  
Charles M. Southall, III

#### **City Officials**

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

#### **School Board**

R. Scott Diggs, Chair  
Constance B. Sledd, Vice Chair  
Robin C. Sydnor  
Garry Carter  
Beth A. Wilson  
William K. Smith  
Mark L. Bellamy, Jr.

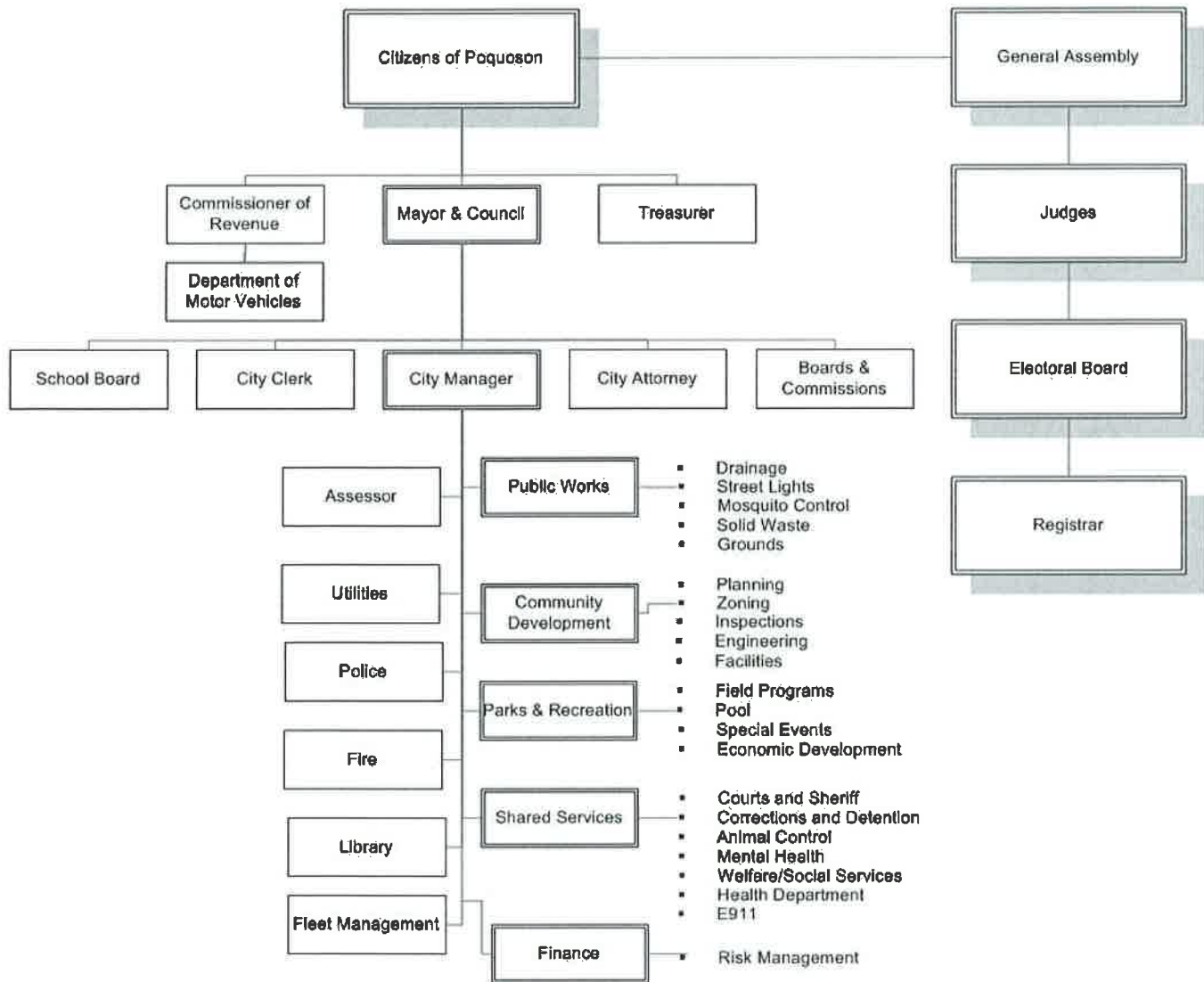
#### **School Officials**

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



# CITY OF POQUOSON, VIRGINIA

## CITY GOVERNMENT ORGANIZATION CHART



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Poquoson  
Virginia

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2009

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



A stylized, handwritten signature in black ink.

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

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***City of Poquoson, Virginia  
Comprehensive Annual Financial Report  
Fiscal Year Ended June 30, 2010***

**Table of Contents**

	<b>Page</b>
<b><i>Introductory Section</i></b>	
<i>Government Officials .....</i>	<i>i</i>
<i>City Government Organization Chart.....</i>	<i>ii</i>
<i>Certificate of Achievement for Excellence in Financial Reporting.....</i>	<i>iii</i>
<i>Table of Contents .....</i>	<i>iv - vi</i>
<i>Letter of Transmittal to City Council.....</i>	<i>vii - xi</i>
 <b><i>Financial Section</i></b>	
<i>Independent Auditors' Report.....</i>	<i>1 - 2</i>
<i>Management's Discussion and Analysis.....</i>	<i>3 - 17</i>
<b><i>Basic Financial Statements</i></b>	
<b><i>Government-Wide Financial Statements</i></b>	
Statement of Net Assets.....	A 18
Statement of Activities .....	B 19
<b><i>Governmental Funds Financial Statements</i></b>	
Balance Sheet - Governmental Funds.....	C 20
Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Assets .....	C 21
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds .....	D 22
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to Statement of Activities .....	D 23
Statement of Net Assets - Proprietary Funds .....	E 24
Statement of Revenue, Expenditures, and Changes in Fund Net Assets - Proprietary Funds .....	F 25
Statement of Cash Flows - Proprietary Funds.....	G 26
Statement of Fiduciary Assets and Liabilities.....	H 27
Combining Statement of Net Assets - Component Units.....	I 28
Combining Statement of Activities - Component Units .....	J 29
<i>Notes to the Basic Financial Statements.....</i>	<i>30 - 58</i>
<b><i>Required Supplementary Information</i></b>	
Budgetary Comparison Schedule - General Fund .....	K 59 - 64
Schedules of Funding Progress and Employer Contributions (Unaudited) - Virginia Retirement System .....	L 65
Other Postemployment Benefits.....	M 66
Notes to Required Supplementary Information .....	67



**City of Poquoson, Virginia**  
**Comprehensive Annual Financial Report**  
**Fiscal Year Ended June 30, 2010**

**Table of Contents (Continued)**

	<b>Schedule</b>	<b>Page</b>
<b>Financial Section (Continued)</b>		
<i>Other Supplementary Information</i>		
Combining Balance Sheet - Component Unit - School Board .....	1	68
Reconciliation of Combining Balance Sheet - Component Unit - School Board to Statement of Net Assets - Component Unit - School Board .....	1	69
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Component Unit - School Board .....	2	70
Reconciliation of Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Component Unit - School Board to Statement of Activities Component Unit - School Board .....	2	71
Budgetary Comparison Schedule - General Fund - School Board .....	3	72
Schedule of Changes in Capital Assets by Function and Activity - School Board.....	4	73
Combining Schedule of Changes in Assets and Liabilities - Agency Funds Discretely Presented Component Unit - School Board .....	5	74
Statement of Changes in Assets and Liabilities - Library Agency Funds .....	6	75
Statement of Cash Flows - Component Unit - Industrial Development Authority .....	7	76
 <b>Statistical Section</b>		
Statistical Section Overview .....		77
Net Assets by Component .....	1	78
Change in Net Assets .....	2	79 - 80
Fund Balances - Governmental Funds - Last 10 Fiscal Years .....	3	81
Changes in Fund Balances - Governmental Funds - Last Ten Fiscal Years .....	4	82
Assessed Value and Estimated Actual Value of Taxable Property - Last Ten Fiscal Years ..	5	83
Property Tax Levies and Collections - Last Ten Fiscal Years .....	6	84
Principal Taxpayers - 2010 and Nine Years Ago .....	7	85
Computation of Legal Debt Margin .....	8	86
Ratios of Outstanding Debt by Type - Last Ten Fiscal Years .....	9	87
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita - Last Ten Fiscal Years .....	10	88
Demographic Statistics - Last Ten Fiscal Years .....	11	89
Principal Employers in Poquoson - 2010 and Nine Years Ago .....	12	90
Full-time Equivalent City Government Employees by Function / Program - Last Ten Fiscal Years .....	13	91
Operating Indicators by Function / Program - Last Ten Fiscal Years .....	14	92
Capital Assets Statistics by Function / Program -Last Ten Fiscal Years.....	15	93

***City of Poquoson, Virginia  
Comprehensive Annual Financial Report  
Fiscal Year Ended June 30, 2010***

**Table of Contents (Continued)**

	<b>Page</b>
<b><i>Compliance Section</i></b>	
<i>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards .....</i>	94 - 95
<i>Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 .....</i>	96 - 97
<i>Schedule of Expenditures of Federal Awards .....</i>	98
<i>Notes to Schedule of Expenditures of Federal Awards .....</i>	99
<i>Schedule of Findings and Questioned Costs .....</i>	100 - 101
<i>Summary Schedule of Prior Year Findings .....</i>	102

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## CITY OF POQUOSON

500 CITY HALL AVENUE, POQUOSON, VIRGINIA 23662-1996  
(757) 868-3000 FAX (757) 868-3101

Office of the City Manager

J. Randall Wheeler

December 6, 2010

To the Honorable Mayor Helsel, 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, 2010. 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 general 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 control that it has been established for this purpose. Because the cost of internal controls should not outweigh their benefits, the City of Poquoson's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements are free from material misstatement.

Cherry, Bekaert & Holland, L.L.P., Certified Public Accountants, have issued an unqualified opinion on the City's financial statements for the year ended June 30, 2010. The unqualified report of Cherry, Bekaert & Holland, L.L.P., the highest possible result of the audit process, is located at the front of the financial section of this report.

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

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

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

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

The City is located in the southeastern part of the state in the Hampton Roads area. The region is the 27<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 serves an estimated population of 11,800.

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

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

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

The City of Poquoson provides a full range of services, including police and fire protection; the maintenance of highways, streets, and other infrastructure; and recreational activities, library services, community development activities, and cultural events. The City also owns and operates sewage facilities; picks up trash, recycling, landscaping and bulky items; owns and operates a City pool; and manages various paid recreational activities. In addition to general governing activities, the governing body has significant financial influence over the Schools and the Industrial Development Authority (IDA), both of which are reported separately within the City of Poquoson's financial statements. Additional information on these two legally separate entities can be found in Note 1 in the notes to basic financial statements starting on page 30.

The annual budget serves as the foundation for the City of Poquoson's financial planning and control. All agencies and departments of the City of Poquoson are required to submit requests for appropriation to the City Manager in January. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager presents a proposed budget to City Council for review in April. The Council is required to hold public hearings on the proposed budget and must adopt a final budget no later than May 31. The appropriated budget is prepared by fund and department. The City Manager may make transfers of appropriations within a department. Transfers of appropriations between departments and additional appropriations require approval of City Council. The City also maintains an encumbrance accounting system as one method of maintaining budgetary control. Encumbrances are included as budgetary expenditures and therefore do not lapse after year-end. The budget-to-actual comparison for the General Fund starts on page 59 of the report.

### **Local Economy**

During the year ended June 30, 2010, the City continued to feel the impact of the national and state economic downturns. Real estate sales within the City are down. The decline in the number of home sales has caused a reduction in the number of building permits being issued and the revenue collected for recordation taxes. However, the City did see an increase in the number of vehicles purchased and an increase in value of vehicles resulting in an increase of personal property tax revenue at the end of the fiscal year.

The City is primarily residential in nature and the lack of a strong commercial base in the City places a much higher burden on residents to fund the services of the City compared to neighboring localities. Although the City of Poquoson's tax base is challenged by few commercial enterprises, it is not as susceptible to change as other localities that depend on commercial revenue to fund services. Because of this, the City has seen other types of local revenue remain stable.

### **Long-Term Financial Planning**

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

### **Relevant Financial Policies**

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



## **Major Initiatives**

The City began construction on capacity improvements to pump station 2. The increase in capacity allows the system to meet existing flow requirements and allows for the potential development in the service area. The improvements were substantially complete in the Fall of 2010.

During the fiscal year 2010, the City began implementing the Sanitation Sewer Evaluation Study plan (SSES) as required by the Federal Department of Environmental Quality in order to be in full compliance with the Hampton Roads-wide consent order on sanitary sewer overflows. The first phase is a three-year plan to determine action needing to take place to control sewer overflows. The City is expected to complete this phase of the plan by November 2011.

The City was allocated Federal American Recovery and Reinvestment Act of 2009 funds through the Hampton Roads Transportation Planning Organization for resurfacing part of Wythe Creek Road. Construction on this project began just after the fiscal year ended and was completed in September 2010.

## **Awards and Acknowledgements**

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Poquoson for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2009. This was the twenty second consecutive year that the government has received the prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both GAAP and applicable legal requirements.

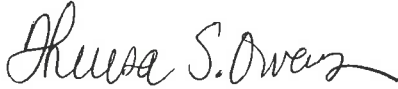
A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The City also received the GFOA's Award for Distinguished Budget Presentation for its Annual Appropriated Budget for FY 2010. 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.

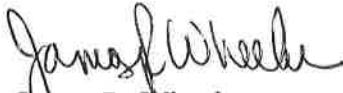
For the first time, the City was ranked the "#1 Best Affordable Suburb 2010" in the state of Virginia by Bloomberg *Business Week Magazine*. The factors that were considered in the selection of the City included livability, education, crime, economy and affordability.

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

Respectfully submitted,

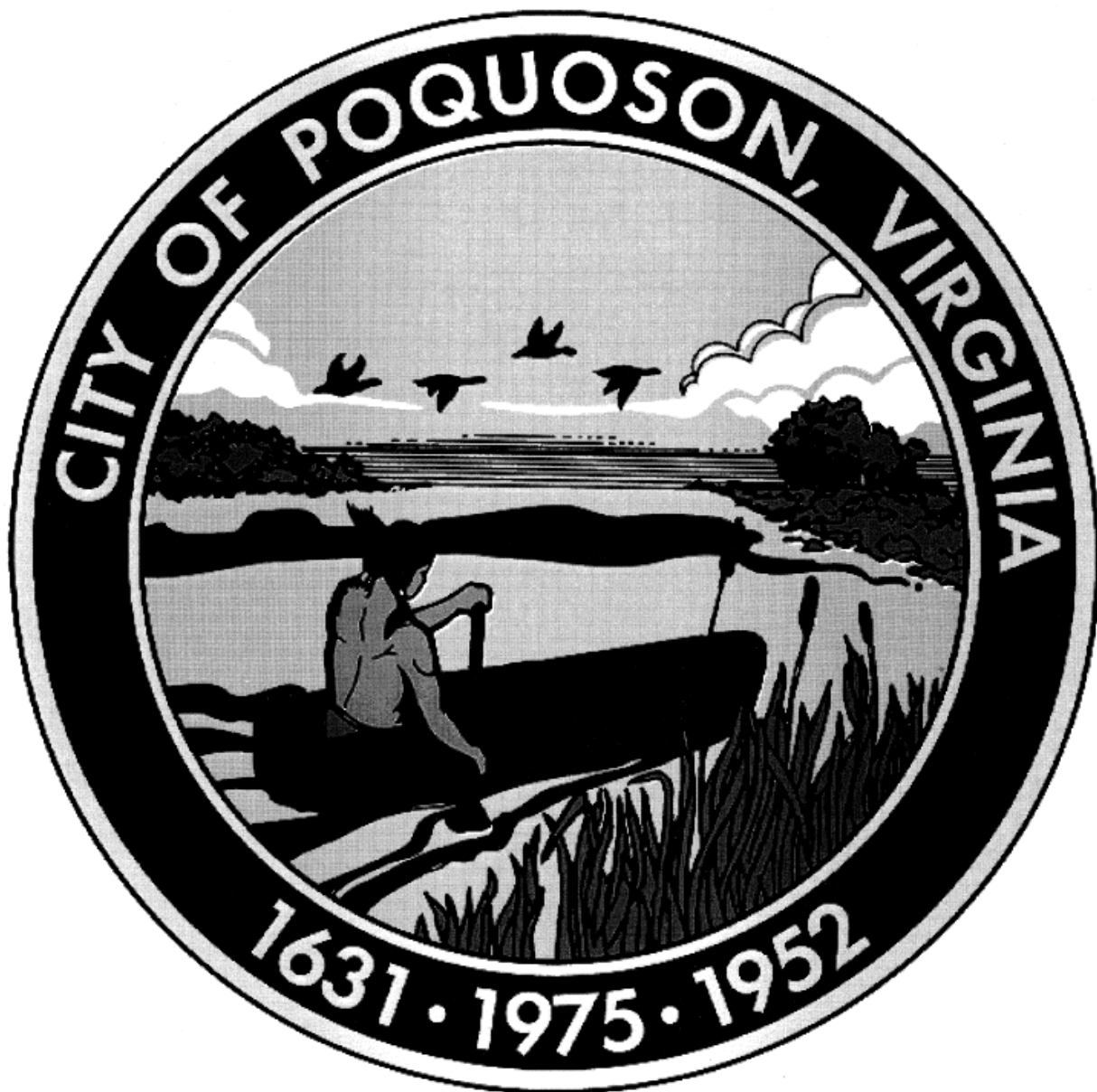
A handwritten signature in cursive script, reading "Theresa S. Owens".

Theresa S. Owens, CPA  
Director of Finance

A handwritten signature in cursive script, reading "James R. Wheeler".

James R. Wheeler  
City Manager

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## *Financial Section*



## *Independent Auditors' Report*

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Poquoson, Virginia (the "City"), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Poquoson, Virginia's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specifications for Audit of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Poquoson, Virginia as of June 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2010 on our consideration of the City of Poquoson, Virginia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-17, the budgetary comparison schedule for the general fund on pages 59-64, and the schedules of funding in progress on pages 65-66 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Poquoson, Virginia's basic financial statements. The introductory section, combining and individual non-major fund statements, statistical section, as well as the accompanying schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund statements and schedules, including the schedule of expenditures of federal awards, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections of this report have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Cherry, Bekant & Holland, L.L.P.*

Virginia Beach, Virginia  
December 6, 2010





## 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, 2009 – June 30, 2010

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, 2010. 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 vii through xi of this report.

## Financial Highlights

- The assets of the City of Poquoson exceeded its liabilities as of June 30, 2010 by \$29.0 million (net assets). Of this amount, \$6.6 million (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by \$0.9 million.
- As of June 30, 2010, the City's governmental funds reported combined ending fund balances of \$5.8 million, of which \$4.6 million is available to spend at the City's discretion.
- As of June 30, 2010, unreserved fund balance for the General Fund was \$4.3 million, or 22% of total General Fund expenditures.
- The City of Poquoson's total debt outstanding at June 30, 2010 was \$41.3 million.

# Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

Because the focus of governmental funds 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, the Debt Service Fund, the Capital Projects Fund, and the Grant Fund.

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

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

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

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

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

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

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

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30-58 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 59-67 of this report.

# Government–Wide Financial Analysis

## Summary of Statement of Net Assets June 30, 2010

	Governmental Activities		Business-Type Activities		Total	
	FY 2010	FY 2009	FY 2010	FY 2009	FY 2010	FY 2009
Current and other assets	\$7,369,720	\$6,827,244	\$1,798,009	\$1,295,818	\$9,167,729	\$8,123,062
Capital assets	48,857,538	51,139,328	14,656,576	15,187,650	63,514,114	66,326,978
<b>Total assets</b>	<b>\$56,227,258</b>	<b>\$57,966,572</b>	<b>\$16,454,585</b>	<b>\$16,483,468</b>	<b>\$72,681,843</b>	<b>\$74,450,040</b>
Current and other liabilities	\$2,493,639	\$2,945,103	\$995,561	\$782,851	\$3,489,200	\$3,727,954
Long-term liabilities	31,004,130	31,698,184	9,177,551	9,067,077	40,181,681	40,765,261
<b>Total liabilities</b>	<b>33,497,769</b>	<b>34,643,287</b>	<b>10,173,112</b>	<b>9,849,928</b>	<b>43,670,881</b>	<b>44,493,215</b>
Net assets:						
Invested in capital assets,						
Net of related debt	17,493,727	18,654,461	4,923,135	5,595,258	22,416,862	24,249,719
Unrestricted	5,235,762	4,668,824	1,358,338	1,038,282	6,594,100	5,707,106
<b>Total net assets</b>	<b>\$22,729,489</b>	<b>\$23,323,285</b>	<b>\$6,281,473</b>	<b>\$6,633,540</b>	<b>\$29,010,962</b>	<b>\$29,956,825</b>

Net assets serve as a useful indicator of a government's financial position. The City's combined net assets total \$29.0 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 \$22.4 million. The City of Poquoson uses these capital assets to provide services to citizens; and thus these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate liabilities. Total net assets of \$6.6 million are unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

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

**Governmental Activities.** The government's net assets decreased by \$0.9 million during FY 2010. The governmental activities decreased by \$0.6 million and the business-type activities decreased by \$0.3 million. The decrease in the governmental activities is due to the transfer of a jointly owned asset with the School Board. The decrease of the net assets of the business-type activities is primarily due to expenses relating to a special order by consent for sanitary sewer overflows as ordered by the Federal Department of Environmental Quality.

Summary of Changes in Net Assets  
June 30, 2010

	Governmental Activities		Business-Type Activities		Total	
	FY 2010	FY 2009	FY 2010	FY 2009	FY 2010	FY 2009
Revenues:						
Program revenues:						
Charges for services	\$597,637	\$461,386	\$2,410,192	\$2,286,174	\$3,007,829	\$2,747,560
Operating grants and contributions	1,986,470	1,658,180	-	-	1,986,470	1,658,180
Capital grants and contributions	330,892	2,873,294	-	-	330,892	2,873,294
General revenues:						
Real estate and personal property taxes	18,054,307	17,989,555	-	-	18,054,307	17,989,555
Other local taxes	2,451,932	2,537,554	-	-	2,451,932	2,537,554
Reimbursements from other agencies	102,239	95,694	-	-	102,239	95,694
Miscellaneous	51,462	99,725	99,480	141,797	150,942	241,522
Unrestricted investment earnings	156,139	179,671	30,522	29,264	186,661	208,935
<b>Total revenues</b>	<b>\$23,731,078</b>	<b>\$25,895,059</b>	<b>\$2,540,194</b>	<b>\$2,457,235</b>	<b>\$26,271,272</b>	<b>\$28,352,294</b>
Expenses:						
General government	2,960,944	2,735,018	-	-	2,960,944	2,735,018
Public safety & judicial	6,016,699	5,844,764	-	-	6,016,699	5,741,765
Public works	950,043	1,780,286	-	-	950,043	1,780,286
Health and welfare	1,022,735	1,162,301	-	-	1,022,735	1,162,301
Education	10,906,525	8,364,349	-	-	10,906,525	8,364,349
Parks, recreation, cultural	859,051	1,389,000	-	-	859,051	1,389,000
Community development	547,051	1,272,635	-	-	547,051	1,272,635
Nondepartmental	-	-	-	-	-	-
Interest and fees on long-term debt	1,100,826	1,263,686	-	-	1,100,826	1,248,390
Sewer	-	-	1,685,334	1,534,743	1,685,334	1,534,743
Parks and recreation	-	-	401,006	463,662	401,006	463,662
Solid waste	-	-	766,921	768,565	766,921	768,565
<b>Total expenses</b>	<b>24,363,874</b>	<b>23,812,039</b>	<b>2,853,261</b>	<b>2,766,970</b>	<b>27,217,135</b>	<b>26,579,009</b>
Change in net assets before transfers	(632,796)	2,083,020	(313,067)	(309,735)	(945,863)	1,773,285
Transfers	39,000	30,000	(39,000)	(30,000)	-	-
Decrease in net assets	(593,796)	2,113,020	(352,067)	(339,735)	(945,863)	1,773,285
Net assets, beginning of year	23,323,285	21,210,265	6,633,540	6,973,275	29,956,825	28,183,540
Net assets, end of year	\$22,729,489	\$23,326,285	\$6,281,473	\$6,633,540	\$29,010,962	\$29,956,825



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

	<b>FY 2010</b>	<b>FY 2009</b>
Real estate tax revenue	\$13,511,422	\$13,451,653
Public service corporation taxes	137,777	109,197
Personal property taxes	2,251,205	2,335,554
Penalties and interest	123,433	138,018
<b>Total</b>	<b>\$16,023,837</b>	<b>\$16,034,422</b>

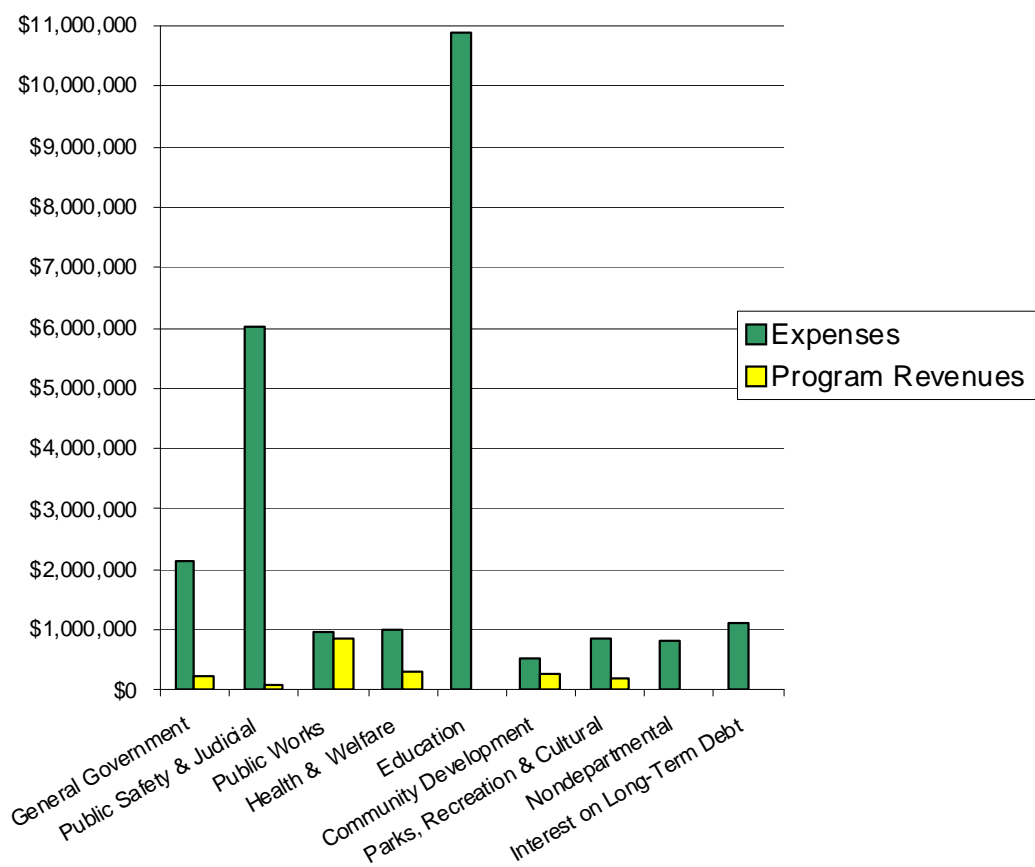
Real estate revenue increases in FY 2010 were due to an increase in assessments of public service corporations. The City's real estate property tax assessments were \$1,719,852,121 and \$1,698,795,508 for FY 2010 and FY 2009, respectively. The City's real estate tax rate was \$0.81 per \$100 of assessed value in FY 2010 and FY 2009.

The City's personal property tax assessments were \$130,921,970 and \$120,265,823 for FY 2010 and FY 2009 respectively. In FY 2010 and FY 2009 the City's personal property tax rate was \$4.15 per \$100 of assessed value for vehicles, \$1.50 per \$100 of assessed value for recreational vehicles and boats, and \$0.81 per \$100 of assessed value for mobile homes. Under the provisions of the Personal Property Tax Relief Act (PPTRA), the state's share of local personal property tax was \$1,923,431 for FY 2010 and FY 2009, and is classified as reimbursements from other agencies on the statement of activities.

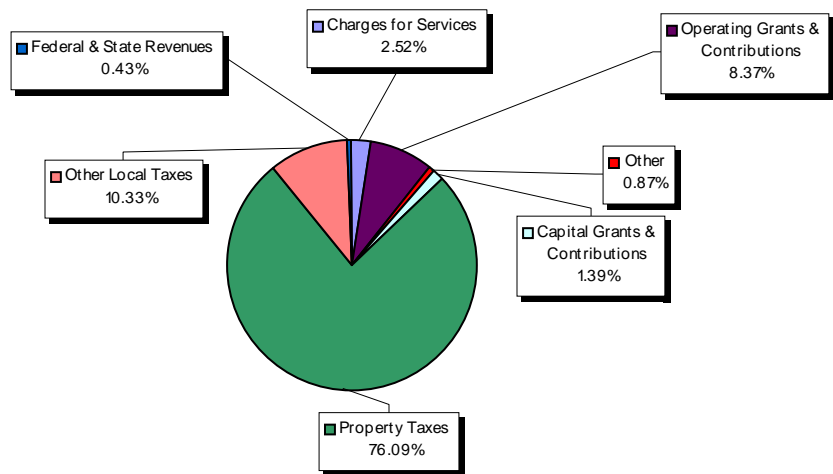
Other local taxes were \$2.5 million for FY 2010 and FY 2009, respectively, and consisted of meals taxes, consumers' utilities taxes, franchise license taxes, motor vehicle license taxes and a variety of other taxes.

For FY 2010, expenses for governmental activities totaled \$24.3 million, including an expense of \$10.9 million to the School Board component unit and a \$40,000 payment to the IDA component unit. For FY 2009, expenses for governmental activities totaled \$23.8 million, including a net payment of \$8.7 million to the School Board component unit and \$51,250 payment to the IDA component unit.

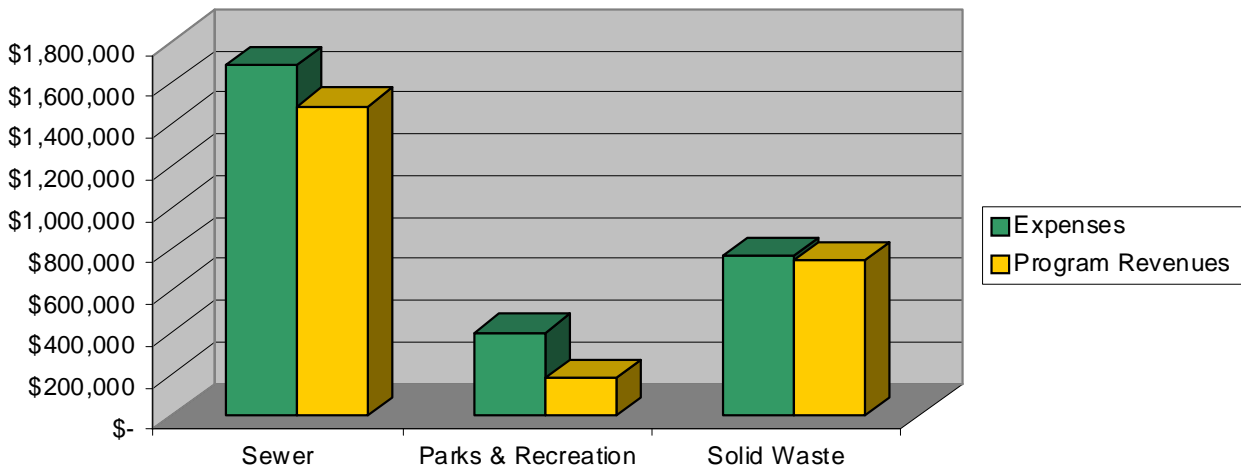
Expenses and Program Revenues - Governmental Activities



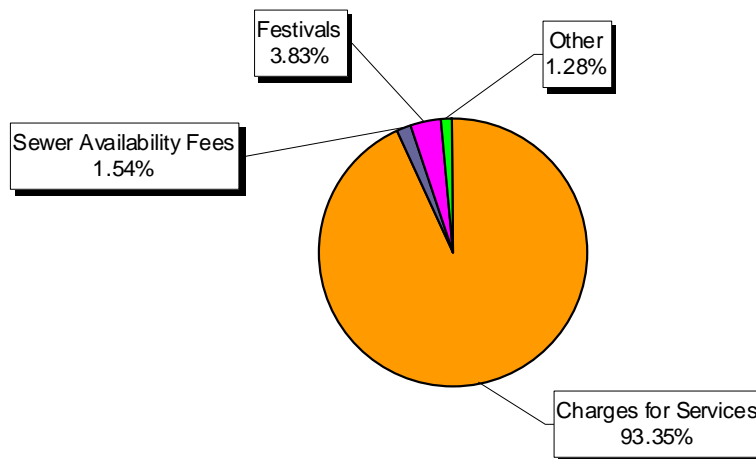
Revenues by Sources - Governmental Activities



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



### Revenues by Source - Business-Type Activities

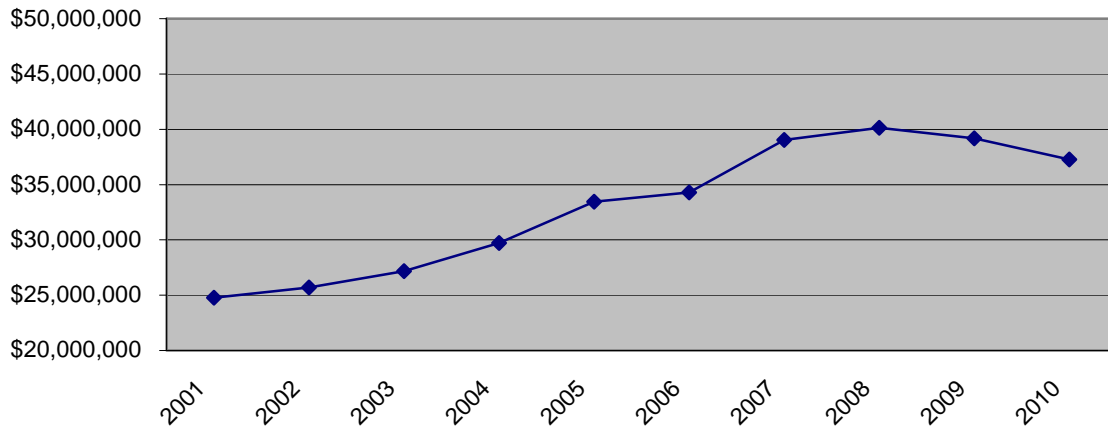


**Business-Type Activities.** Business-type activities decreased the City's net assets before transfers by \$.31 million and \$.35 million after transfers. In order to keep the sewer usage rates from increasing significantly, City Council has budgeted to use a portion of net assets. In FY 2010, the City began the implementation of the evaluation of the sewer system as called for by the Sanitary Sewer Evaluation Study to comply with the special order by consent for the sanitary sewer overflows as ordered by the Department of Environmental Quality. Parks and Recreation user charges continue to be held as low as possible to accommodate all citizens, but have increasing expenses. The Parks and Recreation Fund had net losses over the last few years, indicating the need to either raise user fees or to receive supplemental government funds.

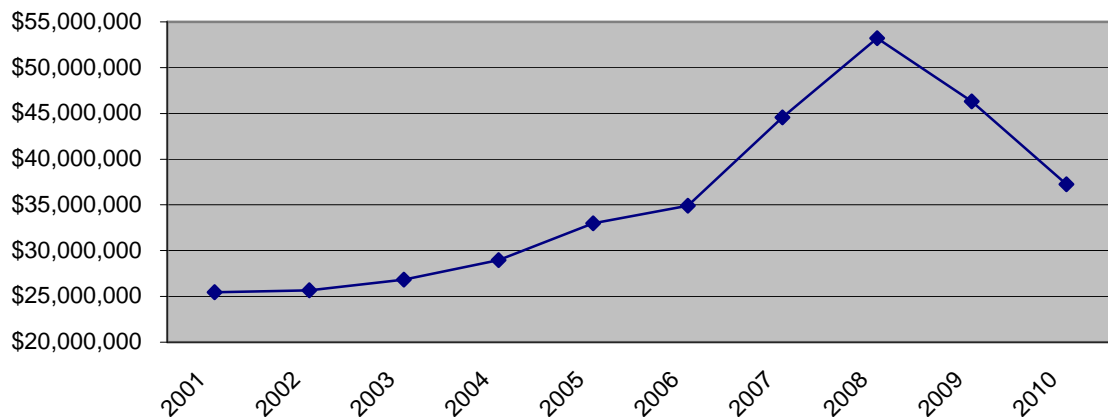
# Financial Analysis of the Government's Funds

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

## General Governmental Revenues



## General Governmental Expenditures



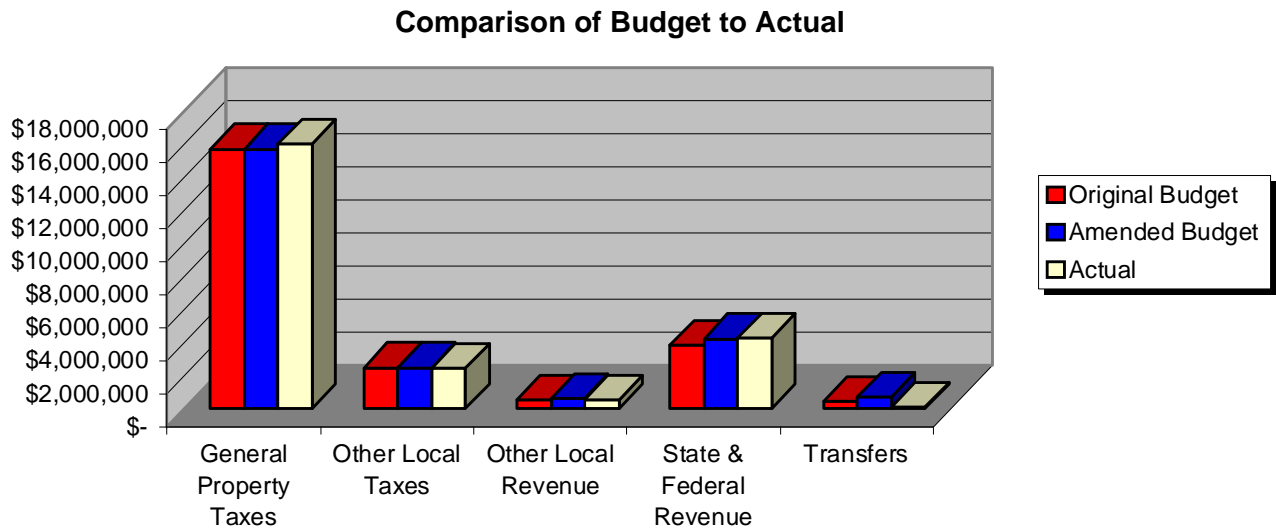
## General Fund Budgetary Highlights

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 \$.76 million between the original budget and the final amended budget can be briefly summarized as follows:

- \$.11 million additional transfer to the schools for the prior year unspent transfer for the outdoor classroom and to offset various revenue reductions from the state.
- \$.19 million re-appropriation of restricted revenue received for the Police Department, Fire Department and Library.
- \$.07 million appropriation for various grants for public safety.
- \$.07 million appropriation for additional revenue for donations relating to a park.
- \$.28 million appropriation of public assistance funds from both the state and federal emergency management agencies for reimbursement of a declared disaster.

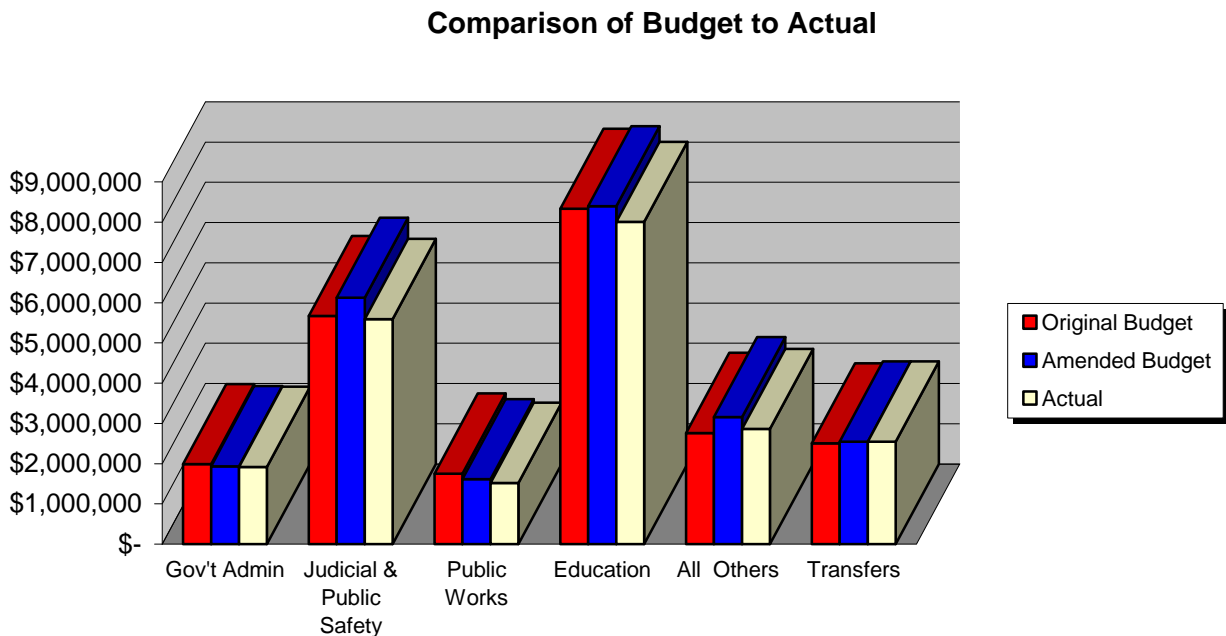
The charts on the following page show the original approved budget, the final amended budget, and actual amounts for both revenues and expenditures in the General Fund.

## General Fund Revenue



The City's actual general fund revenues of \$23.4 million surpassed the original budget by \$.4 million and show a decrease of \$.3 million from the amended budget. The City saw an increase in personal property tax assessments for calendar year 2010, therefore the June personal property tax revenue was approximately \$.32 million higher than originally budgeted. There was also an increase in the assessment of personal service corporations causing a slight increase in the real estate tax revenue.

## General Fund Expenditures





As reflected above, actual General Fund expenditures were \$22.5 million. The decrease in expenditures is a result of various vacancies in public safety and public works that were not filled for a majority of the year and the City reducing capital outlay and capital fund projects.

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

## **Capital Projects Fund**

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

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

During FY 2010, capital projects of \$.8 million included the final construction costs for the new elementary school, new park development, and highway and drainage improvements.

## **Capital Assets and Debt Administration**

**Capital Assets.** The City's investment in capital assets for its governmental and business-type activities as of June 30, 2010, amounted to \$63.5 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 2010	FY 2009	FY 2010	FY 2009	FY 2010	FY 2009
Land	\$3,014,479	\$2,898,979	\$243,216	\$243,216	\$3,257,695	\$3,142,195
Construction in progress	379,374	19,943,410	101,066	-	480,440	19,943,410
Buildings	6,878,161	7,104,575	4,516	7,628	6,882,677	7,112,203
Infrastructure	7,229,151	6,434,046	-	-	7,229,151	6,434,046
Land Improvements	1,855,574	1,973,353	-	-	1,855,574	1,973,353
Machinery and equipment	6,048,811	3,015,887	247,267	309,711	6,296,078	3,325,598
Sewer system	-	-	13,982,233	14,568,138	13,982,233	14,568,138
Sewer easement	-	-	7,000	7,000	7,000	7,000
Intangible	-	-	71,278	51,957	71,278	51,957
Allocated school buildings	26,451,988	9,769,078	-	-	26,451,988	9,769,078
<b>Total</b>	<b>\$48,857,538</b>	<b>\$51,139,328</b>	<b>\$14,656,576</b>	<b>\$15,187,650</b>	<b>\$63,514,114</b>	<b>\$66,326,968</b>

**Debt Administration.** Total outstanding general obligation debt at June 30, 2010 was \$41.2 million of which \$31.3 million is considered to be net direct tax supported debt. Included in the total debt are \$29.0 million in bonds and leases, and \$2.3 million in State Literary Loans. The remaining \$9.9 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, 2010 debt limitation for the City of Poquoson is \$172 million, which is significantly in excess of the City of Poquoson's \$41.2 million outstanding net direct bonded debt.

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

	FY 2010	FY 2009
Net direct bonded debt	\$31,367,902	\$32,705,705
Ratio of outstanding direct debt to assessed value	1.82%	1.92%
Net debt per capita	\$2,640	\$2,773

More detailed information on the City of Poquoson's long-term debt activity and capital asset activity can be found in Notes 7, 8 and 9 of this report.

# Economic Factors and Next Year's Budgets and Rates

The FY 2011 budget was prepared with economic trends within the City taken into account:

- The unemployment rate for the City of Poquoson was 5.7% compared to a state-wide rate of 6.7% and a national average of 9.7%.
- The real estate tax rate of \$0.81 per \$100 of assessed value and personal property tax rate of \$4.15.
- It is expected that there will be decreases in funding from the Commonwealth of Virginia in FY 2011 and FY 2012 due to economic conditions state-wide and nationally.
- FY 2011 is not a reassessment year. Therefore the budget was developed using a small growth factor of less than ¼%.

## 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

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## **Basic Financial Statements**

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## City of Poquoson, Virginia

## Statement of Net Assets

June 30, 2010

	Primary Government			Component Units
	Governmental	Business-Type	Total	
	Activities	Activities		
Assets				
Cash and investments	\$ 5,025,055	\$ 1,384,100	\$ 6,409,155	\$ 3,181,592
Property taxes receivable, net	539,184	-	539,184	-
Other receivables, net	134,479	408,018	542,497	-
Due from component units	89,096	-	89,096	-
Due from other governments	1,269,053	-	1,269,053	405,411
Inventory	20,574	2,270	22,844	8,090
Prepaid items	-	150	150	-
Notes receivable	292,279	3,471	295,750	-
Capital assets				
Land and construction-in-process	3,393,853	344,282	3,738,135	2,718,563
Other capital assets, net	45,463,685	14,312,294	59,775,979	5,748,204
Capital assets, net	48,857,538	14,656,576	63,514,114	8,466,767
Total assets	\$ 56,227,258	\$ 16,454,585	\$ 72,681,843	\$ 12,061,860
Liabilities				
Accounts payable and accrued liabilities	\$ 1,202,570	\$ 246,490	\$ 1,449,060	\$ 2,695,568
Bank overdraft	-	40,295	40,295	-
Accrued interest	340,444	120,077	460,521	-
Line of credit	-	-	-	1,416,438
Due to primary government	-	-	-	89,096
Noncurrent liabilities				
Due within one year	950,625	588,699	1,539,324	80,431
Due in more than one year	30,951,505	9,174,594	40,126,099	297,898
Other post employment benefit obligation	52,625	2,957	55,582	77,537
Total liabilities	33,497,769	10,173,112	43,670,881	4,656,968
Net Assets				
Invested in capital assets, net of related debt	17,493,727	4,923,135	22,416,862	7,050,329
Unrestricted	5,235,762	1,358,338	6,594,100	354,563
Total net assets	22,729,489	6,281,473	29,010,962	7,404,892
	\$ 56,227,258	\$ 16,454,585	\$ 72,681,843	\$ 12,061,860

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

## Statement of Activities

Year Ended June 30, 2010

Functions/Programs	Program Revenues				Net Revenues (Expenses) and Changes in Net Assets			
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Units
<b>Primary Government</b>								
Government activities								
General government and administration	\$ 2,960,944	\$ 254,482	\$ -	\$ -	\$ (2,706,462)	\$ -	\$ (2,706,462)	\$ -
Public safety and judicial	6,016,699	103,169	451,462	-	(5,462,068)	-	(5,462,068)	-
Public works	950,043	-	840,000	327,802	217,759	-	217,759	-
Health and welfare	1,022,735	-	290,993	-	(731,742)	-	(731,742)	-
Education	10,906,525	-	-	-	(10,906,525)	-	(10,906,525)	-
Parks, recreation, cultural	859,051	217,372	150,890	-	(490,789)	-	(490,789)	-
Community development	547,051	22,614	253,125	3,090	(268,222)	-	(268,222)	-
Interest and fees on long-term debt	1,100,826	-	-	-	(1,100,826)	-	(1,100,826)	-
<b>Total governmental activities</b>	<b>24,363,874</b>	<b>597,637</b>	<b>1,986,470</b>	<b>330,892</b>	<b>(21,448,875)</b>	<b>-</b>	<b>(21,448,875)</b>	<b>-</b>
Business-type activities								
Sewer	1,685,334	1,487,157	-	-	-	(198,177)	(198,177)	-
Parks and recreation	401,006	179,070	-	-	-	(221,936)	(221,936)	-
Solid waste	766,921	743,965	-	-	-	(22,956)	(22,956)	-
<b>Total business-type activities</b>	<b>2,853,261</b>	<b>2,410,192</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(443,069)</b>	<b>(443,069)</b>	<b>-</b>
<b>Total primary government</b>	<b>\$ 27,217,135</b>	<b>\$ 3,007,829</b>	<b>\$ 1,986,470</b>	<b>\$ 330,892</b>	<b>(21,448,875)</b>	<b>(443,069)</b>	<b>(21,891,944)</b>	<b>-</b>
<b>Component Units</b>								
Poquoson Public Schools	\$ 21,968,642	\$ 451,573	\$ 13,175,647	\$ -	-	-	-	(8,341,422)
Industrial Development Authority	102,461	27,419	-	-	-	-	-	(75,042)
<b>Total component units</b>	<b>\$ 22,071,103</b>	<b>\$ 478,992</b>	<b>\$ 13,175,647</b>	<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(8,416,464)</b>
<b>General Revenues</b>								
Real estate and personal property taxes					18,054,307	-	18,054,307	-
Other local taxes					2,451,932	-	2,451,932	-
Payments from the City of Poquoson					-	-	-	10,392,148
Reimbursements from other agencies not restricted to specific programs					102,239	-	102,239	-
Miscellaneous					51,462	99,480	150,942	141,501
Unrestricted investment earnings					156,139	30,522	186,661	-
Gain (Loss) on disposal of capital assets					-	-	-	(283,621)
<b>Transfers</b>					39,000	(39,000)	-	-
<b>Total general revenues, transfers and miscellaneous</b>					<b>20,855,079</b>	<b>91,002</b>	<b>20,946,081</b>	<b>10,250,028</b>
<b>Change in net assets</b>					<b>(593,796)</b>	<b>(352,067)</b>	<b>(945,863)</b>	<b>1,833,564</b>
<b>Net assets, beginning of year</b>					<b>23,323,285</b>	<b>6,633,540</b>	<b>29,956,825</b>	<b>5,571,328</b>
<b>Net assets, end of year</b>					<b>\$ 22,729,489</b>	<b>\$ 6,281,473</b>	<b>\$ 29,010,962</b>	<b>\$ 7,404,892</b>

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

## City of Poquoson, Virginia

## Balance Sheet - Governmental Funds

June 30, 2010

Assets	General	Debt Service	Capital Projects	Grant	Total Governmental Funds
Cash and cash investments	\$ 3,620,335	\$ -	\$ 1,238,423	\$ 18,875	\$ 4,877,633
Property taxes receivable, net	539,184	-	-	-	539,184
Other receivables	105,116	-	-	29,199	134,315
Notes receivable	292,279	-	-	-	292,279
Due from component units	89,096	-	-	-	89,096
Due from other governmental units	1,269,053	-	-	-	1,269,053
<b>Total assets</b>	<b>\$ 5,915,063</b>	<b>\$ -</b>	<b>\$ 1,238,423</b>	<b>\$ 48,074</b>	<b>\$ 7,201,560</b>
<b>Liabilities</b>					
Accounts payable and accrued liabilities	\$ 621,808	\$ -	\$ 328,519	\$ 48,074	\$ 998,401
Deferred revenue	403,173	-	-	-	403,173
<b>Total liabilities</b>	<b>1,024,981</b>	<b>-</b>	<b>328,519</b>	<b>48,074</b>	<b>1,401,574</b>
<b>Fund Balances</b>					
Fund balances					
Reserved for:					
Encumbrances	55,584	-	-	-	55,584
Loans	292,279	-	-	-	292,279
Construction	-	-	651,191	-	651,191
Asset forfeiture	83,704	-	-	-	83,704
Fire department	100,858	-	-	-	100,858
Heritage Park	6,060	-	-	-	6,060
Library	13,015	-	-	-	13,015
Undesignated	4,338,582	-	258,713	-	4,597,295
<b>Total fund balances</b>	<b>4,890,082</b>	<b>-</b>	<b>909,904</b>	<b>-</b>	<b>5,799,986</b>
<b>Total liabilities and fund balances</b>	<b>\$ 5,915,063</b>	<b>\$ -</b>	<b>\$ 1,238,423</b>	<b>\$ 48,074</b>	<b>\$ 7,201,560</b>

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

**Balance Sheet - Governmental Funds****June 30, 2010****Reconciliation of Balance Sheet - Governmental Funds  
to Statement of Net Assets**

<b>Total fund balances - governmental funds</b>	<b>\$ 5,799,986</b>
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Amount reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation.	48,848,839
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Other long-term assets are not financial resources and, therefore, are deferred in the funds.	403,173
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Internal service funds are used by management to charge the costs of fleet management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	126,483
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Other liabilities not paid from current-period revenues are not reported in funds for:

Accrued interest	(340,444)
Accrued compensated absences	(513,964)
Accrued termination benefits	(179,701)
Other post employment benefit obligation	(51,073)

Long-term liabilities, including bonds payable, net of capitalized bond issuance costs and deferred bond issuance charges, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(31,363,810)
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<b>Total net assets - governmental activities</b>	<b>\$ 22,729,489</b>
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## City of Poquoson, Virginia

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

Year Ended June 30, 2010

	General	Debt Service	Capital Projects	Grant	Total Governmental Funds
<b>Revenues</b>					
General property taxes	\$ 16,023,837	\$ -	\$ -	\$ -	\$ 16,023,837
Other local taxes	2,451,932	-	-	-	2,451,932
Permits, privilege fees and regulatory licenses	70,947	-	-	-	70,947
Fines and forfeitures	54,836	-	-	-	54,836
Revenue from use of money and property	156,138	-	1,288	-	157,426
Charges for services	217,372	-	-	-	217,372
Intergovernmental	4,266,620	-	327,802	3,090	4,597,512
Miscellaneous	60,625	-	-	-	60,625
<b>Total revenues</b>	<b>23,302,307</b>	<b>-</b>	<b>329,090</b>	<b>3,090</b>	<b>23,634,487</b>
<b>Expenditures</b>					
General government administration	1,924,481	-	-	-	1,924,481
Public safety and judicial	5,601,358	-	-	-	5,601,358
Public works	1,530,904	-	-	-	1,530,904
Health and welfare	1,016,083	-	-	-	1,016,083
Parks, recreation, and cultural	1,003,795	-	-	-	1,003,795
Community development	494,362	-	-	35,167	529,529
Nondepartmental	329,279	-	-	-	329,279
Education	8,008,392	-	-	-	8,008,392
Industrial Development Authority	40,000	-	-	-	40,000
Capital outlay	-	-	838,069	-	838,069
Debt service:					
Principal retirement	-	1,358,073	-	-	1,358,073
Interest and fiscal charges	-	1,201,041	-	-	1,201,041
Bond issuance costs	-	234,339	-	-	234,339
<b>Total expenditures</b>	<b>19,948,654</b>	<b>2,793,453</b>	<b>838,069</b>	<b>35,167</b>	<b>23,615,343</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>3,353,653</b>	<b>(2,793,453)</b>	<b>(508,979)</b>	<b>(32,077)</b>	<b>19,144</b>
<b>Other financing sources (uses)</b>					
Transfers in	130,000	2,410,984	46,751	-	2,587,735
Transfers out	(2,548,735)	-	-	-	(2,548,735)
Issuance of debt:					
Refunding bonds issued	-	15,170,000	-	-	15,170,000
GO bonds issued	-	-	215,000	-	215,000
Premium on issuance of debt	-	662,479	8,052	-	670,531
Payment of refunded bonds	-	(15,598,140)	-	-	(15,598,140)
<b>Total other financing sources (uses)</b>	<b>(2,418,735)</b>	<b>2,645,323</b>	<b>269,803</b>	<b>-</b>	<b>496,391</b>
<b>Net change in fund balances</b>	<b>934,918</b>	<b>(148,130)</b>	<b>(239,176)</b>	<b>(32,077)</b>	<b>515,535</b>
<b>Fund balances, July 1, 2009</b>	<b>3,955,164</b>	<b>148,130</b>	<b>1,149,080</b>	<b>32,077</b>	<b>5,284,451</b>
<b>Fund balances, June 30, 2010</b>	<b>\$ 4,890,082</b>	<b>\$ -</b>	<b>\$ 909,904</b>	<b>\$ -</b>	<b>\$ 5,799,986</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, 2010****Reconciliation of Statement of Revenues, Expenditures, and Changes in  
Fund Balances - Governmental Funds to Statement of Activities**

<b>Net change in fund balances - total governmental funds</b>	<b>\$ 515,535</b>
Amount reported for governmental activities in the statement of net assets are different because:	
Revenues in the statement of activities that do not provide financial resources are not reported as revenues in the funds.	107,039
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	1,710,928
Depreciation expense	(1,794,327)
Assets transferred to component unit	(2,195,091)
Proceeds from bond issuance provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Debt issued	(15,385,000)
Premiums on debt issued, net	(664,036)
Deferred refunding charge, net	447,920
Repayment of debt principal	16,722,173
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Interest expense	114,178
Compensated absences	39,025
Other post employment benefits liability	(18,692)
Accrued termination benefits	(179,701)
Internal service fund is used by management to charge the cost of fleet management to individual departments. The net gain of the fleet management fund is reported with governmental activities.	(13,747)
<b>Change in net assets - governmental activities</b>	<b>\$ (593,796)</b>

## City of Poquoson, Virginia

## Statement of Net Assets - Proprietary Funds

June 30, 2010

Assets	Business-Type Activities Proprietary Funds				Governmental Activities - Internal Service Funds
	Sewer Operation	Parks and Recreation	Solid Waste	Total	
<b>Current assets</b>					
Cash and investments	\$ 1,257,389	\$ -	\$ 126,711	\$ 1,384,100	\$ 147,422
Accounts receivable	266,101	-	141,917	408,018	164
Note receivable	3,471	-	-	3,471	-
Inventory	-	-	2,270	2,270	20,574
Prepaid expenses	-	150	-	150	-
<b>Total current assets</b>	<b>1,526,961</b>	<b>150</b>	<b>270,898</b>	<b>1,798,009</b>	<b>168,160</b>
<b>Noncurrent assets</b>					
Capital assets					
Land	214,666	28,550	-	243,216	-
Construction in progress	101,066	-	-	101,066	-
Buildings	-	254,179	9,943	264,122	41,742
Sewer system	21,737,935	-	-	21,737,935	-
Equipment	476,424	152,756	314,713	943,893	31,887
Less - accumulated depreciation	(8,083,406)	(321,733)	(228,517)	(8,633,656)	(64,929)
Total capital assets (net of accumulated depreciation)	14,446,685	113,752	96,139	14,656,576	8,700
<b>Total noncurrent assets</b>	<b>14,446,685</b>	<b>113,752</b>	<b>96,139</b>	<b>14,656,576</b>	<b>8,700</b>
	<b>\$ 15,973,646</b>	<b>\$ 113,902</b>	<b>\$ 367,037</b>	<b>\$ 16,454,585</b>	<b>\$ 176,860</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Vouchers and accounts payable	\$ 141,686	\$ 38,160	\$ 45,142	\$ 224,988	\$ 14,545
Bank overdraft	-	40,295	-	40,295	-
Accrued payroll	9,775	9,855	1,872	21,502	9,923
Accrued interest	120,077	-	-	120,077	-
Compensated absences	18,007	9,014	2,831	29,852	24,357
Bonds payable, current portion	558,847	-	-	558,847	-
<b>Total current liabilities</b>	<b>848,392</b>	<b>97,324</b>	<b>49,845</b>	<b>995,561</b>	<b>48,825</b>
<b>Noncurrent liabilities</b>					
Bonds payable, less current portion	9,174,594	-	-	9,174,594	-
Other post employment benefit obligation	1,552	1,094	311	2,957	1,552
<b>Total noncurrent liabilities</b>	<b>9,176,146</b>	<b>1,094</b>	<b>311</b>	<b>9,177,551</b>	<b>1,552</b>
<b>Total liabilities</b>	<b>10,024,538</b>	<b>98,418</b>	<b>50,156</b>	<b>10,173,112</b>	<b>50,377</b>
<b>Net Assets</b>					
Invested in capital assets, net of related debt	4,713,244	113,752	96,139	4,923,135	8,700
Unrestricted	1,235,864	(98,268)	220,742	1,358,338	117,783
<b>Total net assets</b>	<b>5,949,108</b>	<b>15,484</b>	<b>316,881</b>	<b>6,281,473</b>	<b>126,483</b>
<b>Total liabilities and net assets</b>	<b>\$ 15,973,646</b>	<b>\$ 113,902</b>	<b>\$ 367,037</b>	<b>\$ 16,454,585</b>	<b>\$ 176,860</b>

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



## City of Poquoson, Virginia

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

Year Ended June 30, 2010

	Proprietary Fund Types				Governmental Activities - Internal Service Funds
	Sewer Operation	Parks and Recreation	Solid Waste	Total	
<b>Operating revenues</b>					
Charges for services	\$ 1,448,157	\$ 179,070	\$ 743,965	\$ 2,371,192	\$ 625,042
Festivals	-	97,338	-	97,338	-
Miscellaneous	102	1,995	45	2,142	-
<b>Total operating revenues</b>	<b>1,448,259</b>	<b>278,403</b>	<b>744,010</b>	<b>2,470,672</b>	<b>625,042</b>
<b>Operating expenses</b>					
Personnel services	249,692	155,846	56,532	462,070	228,680
Contractual services	273,120	192,222	134,684	600,026	40,426
Materials and supplies	25,184	20,452	33,450	79,086	353,183
Utilities	59,606	6,991	72	66,669	3,465
Depreciation and amortization	618,751	17,124	30,505	666,380	3,299
Other charges	74,364	8,371	47,945	130,680	9,736
Waste disposal	-	-	463,733	463,733	-
<b>Total operating expenses</b>	<b>1,300,717</b>	<b>401,006</b>	<b>766,921</b>	<b>2,468,644</b>	<b>638,789</b>
<b>Operating income (loss)</b>	<b>147,542</b>	<b>(122,603)</b>	<b>(22,911)</b>	<b>2,028</b>	<b>(13,747)</b>
<b>Nonoperating revenues (expenses)</b>					
Interest income	30,522	-	-	30,522	-
Interest and fiscal charges	(384,617)	-	-	(384,617)	-
Sewer availability fees	39,000	-	-	39,000	-
<b>Net nonoperating revenues (expenses)</b>	<b>(315,095)</b>	<b>-</b>	<b>-</b>	<b>(315,095)</b>	<b>-</b>
<b>Income (loss) before transfers</b>	<b>(167,553)</b>	<b>(122,603)</b>	<b>(22,911)</b>	<b>(313,067)</b>	<b>(13,747)</b>
<b>Transfers</b>					
Transfers in	-	46,000	45,000	91,000	-
Transfers out	(130,000)	-	-	(130,000)	-
<b>Net transfers</b>	<b>(130,000)</b>	<b>46,000</b>	<b>45,000</b>	<b>(39,000)</b>	<b>-</b>
<b>Change in net assets</b>	<b>(297,553)</b>	<b>(76,603)</b>	<b>22,089</b>	<b>(352,067)</b>	<b>(13,747)</b>
<b>Net assets, July 1, 2009</b>	<b>6,246,661</b>	<b>92,087</b>	<b>294,792</b>	<b>6,633,540</b>	<b>140,230</b>
<b>Net assets, June 30, 2010</b>	<b>\$ 5,949,108</b>	<b>\$ 15,484</b>	<b>\$ 316,881</b>	<b>\$ 6,281,473</b>	<b>\$ 126,483</b>

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

## City of Poquoson, Virginia

## Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2010

	Proprietary Fund Types				Internal Service Fund
	Sewer Operation	Parks and Recreation	Solid Waste	Total	
<b>Cash flows from operating activities</b>					
Received from customers and users	\$ 1,448,717	\$ 278,403	\$ 711,769	\$ 2,438,889	\$ 625,059
Payments to suppliers for goods and services	(305,106)	(238,770)	(672,618)	(1,216,494)	(404,423)
Payments to employees	(244,792)	(156,202)	(56,990)	(457,984)	(229,581)
<b>Net cash provided by (used in) operating activities</b>	<b>898,819</b>	<b>(116,569)</b>	<b>(17,839)</b>	<b>764,411</b>	<b>(8,945)</b>
<b>Cash flows from noncapital financing activities</b>					
Transfers to other funds	(130,000)	-	-	(130,000)	-
Transfers from other funds	-	46,000	45,000	91,000	-
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>(130,000)</b>	<b>46,000</b>	<b>45,000</b>	<b>(39,000)</b>	<b>-</b>
<b>Cash flows from capital and related financing activities</b>					
Principal paid on capital debt	(1,247,383)	-	-	(1,247,383)	-
Proceeds from capital debt	1,354,222	-	-	1,354,222	-
Sewer availability fees	39,000	-	-	39,000	-
Interest paid on capital debt	(366,794)	-	-	(366,794)	-
Acquisition and construction of capital assets	(101,066)	-	-	(101,066)	-
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>(322,021)</b>	<b>-</b>	<b>-</b>	<b>(322,021)</b>	<b>-</b>
<b>Cash flows from investing activities</b>					
Interest received	30,522	-	-	30,522	-
<b>Net increase (decrease) in cash and investments</b>	<b>477,320</b>	<b>(70,569)</b>	<b>27,161</b>	<b>433,912</b>	<b>(8,945)</b>
<b>Cash and investments, beginning of year</b>	<b>780,069</b>	<b>30,274</b>	<b>99,550</b>	<b>909,893</b>	<b>156,367</b>
<b>Cash and investments, end of year</b>	<b>\$ 1,257,389</b>	<b>\$ (40,295)</b>	<b>\$ 126,711</b>	<b>\$ 1,343,805</b>	<b>\$ 147,422</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>					
Operating income (loss)	\$ 147,542	\$ (122,603)	\$ (22,911)	\$ 2,028	\$ (13,747)
Adjustments					
Depreciation and amortization	618,751	17,124	30,505	666,380	3,299
Changes in assets and liabilities					
Receivables, net	458	-	(32,241)	(31,783)	17
Inventories	-	-	(261)	(261)	1,915
Prepaid items	-	4,100	-	4,100	-
Vouchers and accounts payable	127,168	(14,834)	7,527	119,861	472
Accrued compensated absences	3,423	364	331	4,118	3,738
Other post-employment benefits liability	641	799	(3)	1,437	1,552
Accrued payroll	836	(1,519)	(786)	(1,469)	(6,191)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 898,819</b>	<b>\$ (116,569)</b>	<b>\$ (17,839)</b>	<b>\$ 764,411</b>	<b>\$ (8,945)</b>

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

*City of Poquoson, Virginia**Statement of Fiduciary Assets and Liabilities***June 30, 2010**

		<u>Library Agency Fund</u>
	<b>Assets</b>	
Cash and cash equivalents		<u>\$ 38,121</u>
	<b>Liabilities</b>	
Amounts held in trust for library building		<u>\$ 38,121</u>

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

*City of Poquoson, Virginia****Combining Statement of Net Assets - Component Units*****June 30, 2010**

<b>Assets</b>	<b>Poquoson Public Schools</b>	<b>Industrial Development Authority</b>	<b>Total</b>
Cash and cash equivalents	\$ 3,071,765	\$ 109,827	\$ 3,181,592
Due from other governments	405,411	-	405,411
Inventory	8,090	-	8,090
Land	450,876	2,267,687	2,718,563
Other capital assets, net	5,404,789	343,415	5,748,204
<b>Total assets</b>	<b>\$ 9,340,931</b>	<b>\$ 2,720,929</b>	<b>\$ 12,061,860</b>
<b>Liabilities</b>			
Vouchers and accounts payable	\$ 2,676,503	\$ 19,065	\$ 2,695,568
Line of credit	-	1,416,438	1,416,438
Compensated absences, current	80,431	-	80,431
Due to primary government	89,096	-	89,096
Compensated absences, noncurrent	297,898	-	297,898
Other post-employment benefit obligation	77,537	-	77,537
<b>Total liabilities</b>	<b>3,221,465</b>	<b>1,435,503</b>	<b>4,656,968</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	5,855,665	1,194,664	7,050,329
Unrestricted	263,801	90,762	354,563
<b>Total net assets</b>	<b>6,119,466</b>	<b>1,285,426</b>	<b>7,404,892</b>
<b>Total liabilities and net assets</b>	<b>\$ 9,340,931</b>	<b>\$ 2,720,929</b>	<b>\$ 12,061,860</b>

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

*City of Poquoson, Virginia****Combining Statement of Activities - Component Units*****Year Ended June 30, 2010**

					Net Revenues (Expenses) and	
	Program Revenues				Changes in Net Assets	
		Operating			Poquoson	Industrial
	Charges for	Grants and	Capital		Public	Development
	Expenses	Services	Contributions	Contributions	Schools	Authority
Poquoson Public Schools						
Education	\$ 21,968,642	\$ 451,573	\$ 13,175,647	\$ -	\$(8,341,422)	\$ -
Industrial Development Authority						
Economic Development	102,461	27,419	-	-	-	(75,042)
Total component units	\$ 22,071,103	\$ 478,992	\$ 13,175,647	\$ -	(8,341,422)	(75,042)

<b>General revenues</b>			
City of Poquoson		10,352,148	40,000
Miscellaneous		141,501	-
Gain (loss) on disposal of capital assets		(19,811)	(263,810)
<b>Total general revenues</b>		<b>10,473,838</b>	<b>(223,810)</b>
<b>Change in net assets</b>		<b>2,132,416</b>	<b>(298,852)</b>
<b>Net assets, beginning of year</b>		<b>3,987,050</b>	<b>1,584,278</b>
<b>Net assets, end of year</b>		<b>\$ 6,119,466</b>	<b>\$ 1,285,426</b>

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

## *City of Poquoson, Virginia*

### *Notes to Basic Financial Statements*

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**June 30, 2010**

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

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

The School Board is responsible for elementary and secondary education in the City. The members of the School Board are appointed by the City Council. The School Board is fiscally dependent upon the City because the City's governing body, City Council, levies the necessary taxes, approves the issuance of bonds, and provides the financial resources to be used for acquisition or construction of School Board facilities and to 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 Industrial 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 IDA was established to promote industry, to develop trade within the City, and to attract institutions of higher education to locate or remain in the City. The IDA is also included in the component units column of the City's financial statements because the City is able to impose its will on the IDA by appointment of the governing body. In addition, the City Council funds a portion of the IDA's operating budget and guarantees its line of credit. Therefore, the IDA is financially dependent on the City. The IDA 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 assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Primary Government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental* activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for services. Likewise, the Primary Government is reported separately from certain legally separate *component units* for which the Primary Government is financially accountable.

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

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

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

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

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

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



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

The City reports the following major governmental funds:

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

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

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

The *Grant Fund* accounts for resources and expenditures related to state and federal grants for community development and public safety.

The City reports the following major proprietary funds:

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

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

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

Additionally, the City reports the following proprietary Fund type:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Budgeting and Budgetary Accounting**

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

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

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

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

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

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

Supplemental budget appropriations were approved during the fiscal year ended June 30, 2010, for an increase in appropriations in the amount of \$763,736 and \$1,241,813 for the Primary Government General Fund and School Board General Fund, respectively.

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

### **Cash and Cash Equivalents**

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

### **Investments**

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

### **Capital Assets**

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

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

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

### **Capital Assets** *(Continued)*

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

The estimated useful lives of capital assets are as follows:

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

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

### **Allowance for Uncollectible Accounts**

The City (Primary Government) calculates its allowance for uncollectible property taxes receivable using historical collection data. At June 30, 2010, 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).

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

Inventory is recognized as expenditures when consumed.

### **Encumbrances**

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

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

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

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

### **Compensated Absences**

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

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

### **Sewer Availability Fees**

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

### **Deferred Revenue**

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

### **Estimates**

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

### **Credit Risk**

The assessed value of real estate for the City's ten largest taxpayers comprises 2.89% of the City's real estate tax base. Concentration of credit risk with respect to receivables is limited due to the large number of customers comprising the City's customer base.



## **2. Deposits and Investments**

### **Deposits**

At year-end, the carrying value of the City's deposits with banks and savings institutions was \$3,923,550 including agency fund cash of \$38,121. All cash of the City is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. Seq. of the Code of Virginia (Act) or covered by federal depository insurance.

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

However, all qualified bank's public deposits are considered 100% "insured" because the Act provides for additional assessments to be made. This means that if a qualified bank were to fail, all collateral in the pool would be used to recover the public deposits held at that bank. In addition, if the collateral were inadequate to cover all public deposits, additional amounts would be assessed on a pro rata basis to each member of the pool. Therefore, the Act ensures that there will be no loss of public funds and that makes the pool similar to depository insurance. At June 30, 2010, no balances of the Primary Government were uninsured or uncollateralized in banks or savings institutions because of failure of the institutions to qualify under the Act.

The carrying amount of deposits for the School Board was \$2,968,667 and the bank balance was \$2,084,540. The bank balance was covered by Federal Depository Insurance Corporation or collateralized in accordance with the Act. At June 30, 2010, no balances of the component unit were uninsured or uncollateralized in banks or savings institutions because of failure of the institutions to qualify under the Act.

### **Investments**

Statutes authorize the City to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). LGIP is managed in accordance with the "2a-7 like pool" risk limiting requirements of GASB Statement No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" with portfolio securities valued by the amortized cost method. The fair value of the LGIP is the same as the value of the pool shares. Investments with a maturity date of one year or less are stated at amortized cost. All other investments are stated at fair value. As of June 30, 2010, the City had \$595,811 invested in the State Non-Arbitrage Program (SNAP). SNAP funds are rated AAAM by Standard & Poor's. LGIP funds are rated AAAM by Standard & Poor's.

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

### Investment Policy

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

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

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

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

#### *Short-term Operating Funds*

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

#### *Core Portfolio*

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

#### *Bond Proceeds*

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



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

### **Credit Risk**

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

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

### **Concentration of Credit Risk**

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

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

### **Interest Rate Risk**

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

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

### **Custodial Risk**

For an investment, custodial risk is the risk that in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Policy requires that all investment securities purchased by the City or held as collateral on deposits or investments shall be held by the City or by a third-party custodial agent who may not otherwise be counterparty to the investment transaction. As of June 30, 2010, with the exception of the Virginia LGIP, all of the City's investments are held in a bank's trust department in the City's name.

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

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

	Investment Maturities (in years)		
	Fair Value	Less Than 1 year	1 - 3 years
Money market funds, Virginia LGIP	\$ 398,850	\$ 398,850	\$ -
Money market funds, Scott & Stringfellow	1,058,391	1,058,391	-
Money market funds, RBC Dain Rauscher	213,778	213,778	-
Virginia SNAP Accounts	595,811	-	595,811
Total investments	2,266,830	\$ 1,671,019	\$ 595,811
Reconciliation to total cash and investments			
Add:			
Cash on hand and in banks	7,821,767		
Total cash and investments	10,088,597		
Less:			
Cash held in fiduciary funds	497,850		
Total cash and investments, Exhibit A	\$ 9,590,747		

## 3. Property Taxes Receivable

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

	General	Business- Type Activities	Total
Real estate taxes	\$ 438,758	\$ -	\$ 438,758
Personal property taxes	405,426	-	405,426
Accounts receivable	133,674	408,018	541,692
	977,858	408,018	1,385,876
Less - allowance for uncollectible accounts	(305,000)	-	(305,000)
Receivables, net	\$ 672,858	\$ 408,018	\$ 1,080,876

## 4. Notes Receivable

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

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

## 5. Due From Other Governments

Due from other governments consists of the following:

### Primary Government

	General Fund
<u>Commonwealth of Virginia</u>	
Comprehensive Services Act	\$ 86,070
Sales tax	39,647
Division of Motor Vehicles reimbursement	12,554
Compensation Board	18,920
Public Assistance	49,353
Communications Sales and Use tax	36,788
VOPEX Grant	4,065
Mobil Home Titling Tax	1,616
PPTRA	884,118
Total due from the Commonwealth of Virginia	<u>1,133,131</u>
<u>Federal Government</u>	
Citizen Corp 2008	1,913
DUI Grants - Selective Enforcement	8,774
FEMA Public Assistance	125,235
Total due from the federal government	<u>135,922</u>
Total due from other governments	<u>\$ 1,269,053</u>

### Component Unit - School Board

<u>Commonwealth of Virginia</u>	
State sales tax	\$ 148,603
State technology reimbursement	13,765
Total due from the Commonwealth of Virginia	<u>162,368</u>
<u>Federal Government</u>	
Department of Education Program	
Title I	43,996
Title II	29,965
Title IV	3,141
Title VI-B	107,227
Various grants	58,714
Total due from the federal government	<u>243,043</u>
Total due from the other governments	<u>\$ 405,411</u>

## 6. Receivables and Payables - Component Units

Details of the receivables and payables between the Primary Government and component units at June 30, 2010, are as follows:

Primary Government Receivable	Component Unit Payable	Amount
Due from School Board	Due to Primary Government	\$ 89,096

## 7. Capital Assets

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

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets not being depreciated				
Land	\$ 2,898,979	\$ 115,500	\$ -	\$ 3,014,479
Construction-in-process	19,943,410	433,111	19,997,147	379,374
Total capital assets not being depreciated	22,842,389	548,611	19,997,147	3,393,853
Other capital assets				
Buildings	9,452,743	85,100		9,537,843
Infrastructure	37,914,717	950,500		38,865,217
Land improvements	2,542,583	63,649		2,606,232
Machinery and equipment	6,168,114	479,171	259,735	6,387,550
Total other capital assets	56,078,157	1,578,421	259,735	57,396,841
Less - accumulated depreciation				
Buildings	2,348,168	311,514		2,659,682
Infrastructure	31,480,671	155,395		31,636,066
Land improvements	569,230	181,428		750,658
Machinery and equipment	3,152,227	446,247	259,735	338,739
Total accumulated depreciation	37,550,296	1,094,584	259,735	38,385,145
Other capital assets, net	18,527,861	483,837	-	19,011,697
	41,370,250	1,032,448	19,997,147	22,405,550
Allocation of School Board Assets				
Buildings	12,814,047	19,581,043	3,598,510	28,796,580
Less - accumulated depreciation				
Buildings	3,044,969	703,042	1,403,419	2,344,592
Total allocated to City	9,769,078	18,878,001	2,195,091	26,451,988
Total	\$ 51,139,328	\$ 19,910,449	\$ 22,192,238	\$ 48,857,538

7. **Capital Assets (Continued)**

Depreciation was charged to governmental functions as follows:

General Government Administration	\$ 16,489
Public Safety	421,574
Public Works	376,139
Health and Welfare	15,979
Parks, Recreation, and Cultural	214,959
Judicial Administration	47,720
Community Development	1,724
Education	703,042
	<u>\$ 1,797,626</u>

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

	<b>Balance July 1, 2009</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2010</b>
Capital assets not being depreciated				
Land	\$ 243,216	\$ -	\$ -	\$ 243,216
Construction-in-process	-	101,066		101,066
Total capital assets not being depreciated	243,216	101,066	-	344,282
Other capital assets				
Buildings	264,122	-	-	264,122
Machinery and equipment	943,893	-	-	943,893
Sewer system	21,638,904	-	-	21,638,904
Sewer easement	7,000	-	-	7,000
Intangible	73,862	34,239	16,070	92,031
Total other capital assets	22,927,781	34,239	16,070	22,945,950
Less - accumulated depreciation				
Buildings	256,495	3,112	-	259,607
Machinery and equipment	634,181	62,444	-	696,625
Sewer system	7,070,766	585,905	-	7,656,671
Intangible	21,905	14,918	16,070	20,753
Total accumulated depreciation	7,983,347	666,379	16,070	8,633,656
Other capital assets, net	14,944,434	(632,140)	-	14,312,294
Total	\$ 15,187,650	\$ (531,074)	\$ -	\$ 14,656,576

7. **Capital Assets (Continued)**

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

	<b>Balance July 1, 2009</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2010</b>
Capital assets not being depreciated				
Land	\$ 450,876	\$ -	\$ -	\$ 450,876
Other capital assets				
Buildings	19,988,129	19,283,735	64,300	39,207,564
Machinery and equipment	2,115,464	351,544	204,054	2,262,954
Total other capital assets	22,103,593	19,635,279	268,354	41,470,518
Less - accumulated depreciation				
Buildings	7,127,869	916,113	47,046	7,996,936
Machinery and equipment	1,708,482	109,821	201,498	1,616,805
Total accumulated depreciation	8,836,351	1,025,934	248,544	9,613,741
Other capital assets, net	13,267,242	18,609,345	19,810	31,856,777
Capital assets, net	13,718,118	18,609,345	19,810	32,307,653
Allocation to City				
Buildings	(12,814,047)	(19,581,043)	(3,598,510)	(28,796,580)
Less - accumulated depreciation	3,044,969	703,042	1,403,419	2,344,592
Total allocated to City	(9,769,078)	(18,878,001)	(2,195,091)	(26,451,988)
Total	\$ 3,949,040	\$ (268,656)	\$ (2,175,281)	\$ 5,855,665

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

	<b>Balance July 1, 2009</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2010</b>
Capital assets not being depreciated				
Land	\$ 2,357,687	\$ -	\$ 90,000	\$ 2,267,687
Other capital assets				
Buildings	698,890	-	513,348	185,542
Infrastructure	315,273	-	-	315,273
Total other capital assets	1,014,163	-	513,348	500,815
Less - accumulated depreciation				
Buildings	90,584	22,119	55,620	57,083
Infrastructure	85,986	14,331	-	100,317
Total accumulated depreciation	176,570	36,450	55,620	157,400
Other capital assets, net	837,593	(36,450)	457,728	343,415
Total	\$ 3,195,280	\$ (36,450)	\$ 547,728	\$ 2,611,102

## 8. Long-term Obligations

### Governmental Activities

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

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010	Amounts Due Within One Year
General obligations					
Debts payable					
General obligation bonds	\$ 29,552,678	\$ 15,385,000	\$ 16,247,800	\$ 28,689,878	\$ 545,000
General obligation leases	388,577	-	72,373	316,204	74,793
State Literary Fund loans	2,763,820	-	402,000	2,361,820	277,000
Less refunding costs	(220,208)	(468,378)	(20,458)	(668,128)	-
Unamortized Premium	-	670,531	6,495	664,036	-
	32,484,867	15,587,153	16,708,210	31,363,810	896,793
Accrued benefits					
Accrued compensated absences	573,608	713,531	748,819	538,320	53,832
Total	\$ 33,058,475	\$ 16,300,684	\$ 17,457,029	\$ 31,902,130	\$ 950,625
Component Unit - School Board					
Accrued benefits					
Accrued compensated absences	\$ 358,442	\$ 541,608	\$ 521,721	\$ 378,329	\$ 80,431



8. Long-term Obligations (Continued)

Governmental Activities (Continued)

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

<b>High School Serial Bonds of 1998</b> - \$650,000 bonds issued and due in annual installments varying from \$30,000 to \$35,000 through July 2018, with interest payable semi-annually at rates varying from 3.60% to 5.10%.	\$ 270,000
<b>General Obligation Refunding Note Series 2002</b> - \$3,405,000 bonds issued and due in annual installments varying from \$35,000 to \$385,000 through January 2016, with interest paid semi-annually at 2.5% to 3.72%.	2,110,000
<b>General Obligation Refunding Bonds, Series 2010</b> - \$4,670,000 bonds issued and due in semi-annual installments varying from \$100,000 to \$385,000 through June 2027, with interest paid semi-annually at 4.28%.	4,670,000
<b>General Obligation Refunding Bonds, Series 2010</b> - \$6,600,000 bonds issued and due in semi-annual installments varying from \$140,000 to \$1,015,000 through June 2027, with interest paid semi-annually at 4.35%.	6,600,000
<b>General Obligation Refunding Bonds, Series 2010</b> - \$3,900,000 bonds issued and due in semi-annual installments varying from \$45,000 to \$580,000 through June 2027, with interest paid semi-annually at 4.49%.	3,900,000
<b>General Obligation Bonds, Series 2010</b> - \$215,000 bonds issued and due in semi-annual installments varying from \$20,000 to \$60,000 through June 2016, with interest paid semi-annually at 2.48%.	215,000
<b>General Obligation Public Bonds, Series 2007</b> - \$8,000,000 bonds issued and due in semi-annual installments beginning August 2007 varying from \$10,000 to \$724,100 through August 2027, with interest paid semi-annually at 3.85%.	3,918,400
<b>General Obligation Refunding Bonds, Series 2009A</b> - \$2,806,067 bonds issued and due in annual installments varying from \$10,000 to \$284,330 through February 2029, with interest payable semi-annually at 4.5%.	2,806,067
<b>General Obligation Refunding Bonds, Series 2009B</b> - \$1,975,156 bonds issued and due in annual installments varying from \$20,000 to \$180,027 through February 2021, with interest payable semi-annually at 3.65%.	1,975,156
<b>General Obligation Refunding Taxable Bonds, Series 2009C</b> - \$393,255 bonds issued and due in annual installments varying from \$11,874 to \$80,000 through February 2021, with interest payable semi-annually at 5.75%.	393,255
<b>General Obligation Bonds, Series 2008</b> - \$2,000,000 bonds issued and due in annual installments varying from \$168,000 to \$235,000 through August 2018, with interest payable semi-annually at 3.75%.	1,832,000
Total general obligation bonds	<u>\$ 28,689,878</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>Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 545,000	\$ 1,061,687
2012	821,645	1,174,364
2013	860,915	1,143,161
2014	1,232,765	1,109,669
2015	1,415,799	1,066,852
2016 - 2020	8,273,713	4,481,482
2021 - 2025	10,604,097	2,622,890
2026 - 2029	4,935,944	415,057
	<u>\$ 28,689,878</u>	<u>\$ 13,075,162</u>

In October 2004, the City of Poquoson entered into a capital lease to purchase two fire trucks, which were capitalized at a cost of \$708,522. At June 30, 2010, accumulated depreciation under this lease totaled \$127,532. The balance of this lease as of June 30, 2010, was \$316,204. Future minimum lease payments under capital lease and present value of the minimum lease payments are as follows:

2011	\$ 86,299
2012	86,299
2013	86,299
2014	<u>86,299</u>
Total minimum lease payments	345,196
Less - imputed interest	<u>(28,992)</u>
	316,204
Less - current portion	<u>74,793</u>
Long-term portion	<u>\$ 241,411</u>

## 8. Long-term Obligations (Continued)

### Current Refunding

In April 2010, the City of Poquoson issued \$15,385,000 of general obligation refunding bonds to currently refund \$15,364,100 of general obligation refunding bonds. The refunded bonds are considered to be legally defeased and the liability has been removed from the City's financial statements. The reacquisition price exceeded the net carrying amount of the old debt by \$20,900. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is the same life as the old debt. This current refunding resulted in an economic gain of \$223,050.

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

<b>Primary School Literary Fund Loan</b> - \$408,820 loan issued August 15, 1998, due in annual installments of \$27,000 through August 2012, and a final payment of \$30,820 due in August 2013, with interest at 3%.	\$ 111,820
<b>High School Literary Fund Loan</b> - \$5,000,000 loan issued November 17, 1998, due in annual installments of \$250,000 through December 2019, with interest at 3%.	2,250,000
<b>Total state literary fund loans outstanding</b>	<u>\$ 2,361,820</u>

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 277,000	\$ 70,855
2012	277,000	62,545
2013	277,000	54,235
2014	280,820	45,925
2015	250,000	37,500
2016 - 2020	1,000,000	75,000
	<u>\$ 2,361,820</u>	<u>\$ 346,060</u>

### 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, 2010, the City's aggregate general obligation indebtedness, excluding proprietary fund debt, was \$130,727,238 less than the allowable limit.

## 8. Long-term Obligations (Continued)

### Overlapping Debt

There are no overlapping or underlying tax jurisdictions.

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

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010	Amounts Due Within One Year
<b>Enterprise Funds</b>					
General obligation bonds	\$ 9,796,907	\$ 1,340,000	\$ 1,246,835	\$ 9,890,072	\$ 558,847
Less refunding costs	(208,773)	(43,275)	(39,014)	(213,034)	-
Bond premium	4,258	57,197	5,052	56,403	-
	9,592,392	1,353,922	1,212,873	9,733,441	558,847
Accrued compensated absences	25,734	30,295	26,177	29,852	29,852
	\$ 9,618,126	\$ 1,384,217	\$ 1,239,050	\$ 9,763,293	\$ 588,699

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

<b>General Obligation Sewer Bonds, Series 2000B (May 2000)</b> - \$2,664,671 bonds issued with interest only due on the outstanding balance at March 1, 2001, at 3.5%. Commencing on September 1, 2001, principal and interest due in semi-annual installments of \$94,847 through September 2020, at a rate of 3.5%.	\$ 1,654,835
<b>General Obligation Sewer Bonds, Series 2000A (May 2000)</b> - \$7,335,329 bonds authorized and issued, with interest only due on the outstanding balance at March 1, 2001. Commencing on September 1, 2001, principal and interest due in semi-annual installments of \$261,093 through September 2020, at a rate of 3.5%.	4,555,444
<b>General Obligation Sewer Bonds, Series 2002</b> - \$1,095,000 bonds issued and due in annual principal installments of \$50,000 through April 2011 with interest payable semi-annually at a rate of 4.225%.	50,000
<b>General Obligation Sewer system Refunding Bonds Series 2009B (April 2009)</b> - \$2,289,793 bonds issued and due in annual principal installments varying from \$170,000 to \$299,871 through February 2021, with interest payable semi-annually at a rate of 3.65%.	2,289,793
<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 a rates varying from 2.2% to 5.2%.	740,000
<b>General Obligation Sewer Bonds, Series 2010</b> - \$600,000 bonds issued and due in February 2015, with interest payable semi-annually at a rate of 2.75%.	600,000
<b>Total general obligation bonds outstanding</b>	<u>\$ 9,890,072</u>

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

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

Year	Principal	Interest
2011	\$ 558,847	\$ 339,603
2012	571,460	322,178
2013	841,428	302,479
2014	858,107	273,331
2015	1,512,240	243,313
2016 - 2020	4,794,286	625,471
2021 - 2022	753,704	21,376
	<u>\$ 9,890,072</u>	<u>\$ 2,127,751</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.

In May 2010, the City of Poquoson issued \$740,000 of general obligation refunding bonds to currently refund \$720,000 of general obligation bonds. The refunded bonds are considered to legally defeased and the liability has been removed from the City's financial statements. The reacquisition price exceeded the net carrying amount of the old debt by \$20,000. 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. This advance refunding was undertaken to reduce total debt service payments over the life of the debt by \$49,747 and resulted in a net present value savings of \$39,657.

**9. Current Liabilities - Component Unit - Industrial Development Authority (IDA)**

**Line of Credit**

The IDA uses a \$3,000,000 line of credit with a bank to finance a variety of land purchases. The line of credit expires on March 31, 2012, and bears interest at 30-day LIBOR plus 1.75% with a floor of 2.5%, and is unsecured. Short-term activity was as follows:

	Balance July 1, 2009	Draws	Repayments	Balance June 30, 2010
Line of credit	\$ 1,699,438	\$ -	\$ 283,000	\$ 1,416,438

**10. Conduit Debt Obligation**

On July 1, 2001 and September 12, 2005, the IDA issued \$10,000,000 and \$5,000,000 YMCA Revenue Bonds, respectively, to finance the acquisition and construction of the Peninsula Metropolitan YMCA (YMCA). On November 1, 2003, the IDA issued \$5,000,000 Nansemond-Suffolk Academy (NSA) Revenue bonds to finance an addition. On July 13, 2004, the IDA issued \$7,500,000 Hampton-Newport News Community Services Board (HNNCSB) revenue bonds to acquire the former Hampton Medical Center and to finance improvements. The costs of financing the projects, all expenses of issuing the bonds and the payments of bond principals and interest are the responsibility of the YMCA, the NSA, and the HNNCSB, respectively. The bonds provide that neither the IDA nor the City shall be obligated to pay the bonds or interest thereon or other costs incident thereto. At June 30, 2010, \$17,390,966 remained outstanding.

## 11. Deferred Revenue

Deferred revenue for the Primary Government at June 30, 2010, consists of real and personal property taxes not collected within 45 days after June 30, 2010.

## 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, 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, 2010 are as follows:

	Transfers In	Transfers Out
General Fund	\$ 130,000	\$ 2,548,735
Debt Service Fund	2,410,984	-
Capital Projects Fund	46,751	-
Parks and Recreation Fund	46,000	-
Solid Waste Fund	45,000	-
Sewer Operations Fund	-	130,000
	<u>\$ 2,678,735</u>	<u>\$ 2,678,735</u>

Purpose:

Transfers from General Fund:

\$ 2,410,894 Debt Service Fund: current year debt payments.  
\$ 46,000 Parks and Recreation Fund: fund deficit in special events  
\$ 45,000 Solid Waste Fund: fund deficit in bulky and landscaping programs.  
\$ 46,751 Capital Projects Fund: fund a capital project

Transfers from Sewer Operations Fund:

\$ 130,000 General Fund: allocate administration costs paid out of General Fund 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, 2010:

<u>Description</u>	<u>Amount</u>
Virginia Municipal Liability Pool - All City employees - employee dishonesty blanket bond	\$ 1,000,000
Forest T. Jones & Company, Inc.	
Doris Feltman, Clerk of the School Board	10,000
Linda Reviea, Deputy Clerk of the School Board	10,000
All School Board employees, blanket bond	1,000,000

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

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

#### 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), the Colonial Services Board (CSB) and the Hampton Roads Partnership (HRPC). Expenditures of these agencies are financed by federal and state grants and fees, including contributions from the City. During the year ended June 30, 2010, the City provided support or paid for services to HRPDC of \$27,542, VPPSA of \$331,248, PCWD of \$5,847, CSB of \$137,343 and HRPC of \$5,050.

In addition, a conglomerate of municipalities shares certain expenses for maintaining and operating a regional jail and juvenile detention center. During FY 2010, the City incurred expenses for the regional jail and juvenile detention center of \$122,057 and \$16,638, respectively. Notes issued by the regional jail are limited obligations payable from revenues received from the member jurisdictions. The City, along with three other member jurisdictions, have agreed to provide funding makeup support to cover any deficiencies in the regional jail's debt service fund based on each member's utilization rate.



**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 and the Sheriff of York County and E911 operations. The City also shares social services with York County. During the year ended June 30, 2010, the City paid \$856,299 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, 2010, the School Board provided support of \$509,951 to the New Horizons Education Center.

**16. Retirement Plan**

**A. Plan Description**

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

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

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

The VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. A copy of that report may be obtained by writing the VRS at P.O. Box 2500, Richmond, Virginia 23218-2500.

**B. Funding Policy**

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. This 5% member contribution has been assumed by both the City and the School Board. In addition the City and School Board are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's and School Board's (non-professional employees) contribution rate for the year ended June 30, 2010, was 8.23% and 11.84%, respectively, of annual covered payroll. The School Board's required employer contributions to the teacher cost-sharing pool for all professional employees for the fiscal years ended 2010, 2009 and 2008 and were \$1,554,807, \$1,722,715, and \$1,815,249, respectively. The School Board contributed 100% of required contributions to the pool for fiscal year ended 2010 and each of the two preceding years.

## 16. Retirement Plan (Continued)

### C. Annual Pension Costs

For FY 2010, 2009, and 2008, the City and School Board's annual pension costs of \$740,737, \$731,860 and \$547,466, respectively, and \$98,370, \$60,826, and \$44,884, respectively, were equal to the City and School Board's required and actual contributions. The required contributions were determined as part of the June 30, 2007, actuarial valuation using the entry age normal actuarial cost method. The contribution rate set by the June 30, 2008, valuation was in effect from July 1, 2008 through June 30, 2010. The actuarial assumptions included (1) 7.50% investment rate of return, (2) projected salary increases ranging from 3.75% to 5.60% per year, and (3) 2.50% per year cost-of-living adjustments. Both (1) and (2) included an inflation component of 2.50%.

The actuarial value of the City and School Board's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The School Board's unfunded actuarial accrued liability is being amortized as a level percentage on an open basis within a period of 27 years or less.

The Schedules of Funding Progress and Employer Contributions are presented as required supplementary information. The information presented in the schedules of employer contributions and funding progress was determined as part of the actuarial valuation on June 30, 2009. Actuarial assumptions used include an investment rate of return of 7.50%.

The information presented in the schedules of employer contributions and funding progress was determined as part of the actuarial valuations at the dates indicated. Additional information for both the City and the School Board actuarial valuation follows:

Valuation date	June 30, 2009
Actuarial cost method	Entry age Normal
Amortization method	Level percent, open
Payroll growth rate	3.00%
Remaining amortization period	20 years
Asset valuation method	5-year smoothed market Market Value
Actuarial assumptions:	
Investment rate of return*	7.50%
Projected salary increases*	
1.) Non-LEO	3.75% to 5.60%
2.) LEO employees	3.50% to 4.75%
Cost-of-living adjustments	2.50%
* Includes inflation at 2.50%	

### D. Funded Status

As of June 30, 2010 for the City, the most recent actuarial valuation date, the plan was 90.53% funded. The actuarial accrued liability for benefits was \$21,541,226, and the actuarial value of assets was \$19,500,696, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,040,530. The covered payroll (annual payroll of active employees covered by the plan) was \$5,561,622, and the ratio of the UAAL to the covered payroll was 36.69%.

As of June 30, 2010 for the School Board, the most recent actuarial valuation date, the plan was 74.99% funded. The actuarial accrued liability for benefits was \$2,120,722, and the actuarial value of assets was \$1,590,308, resulting in an unfunded actuarial accrued liability (UAAL) of \$530,414. The covered payroll (annual payroll of active employees covered by the plan) was \$694,281, and the ratio of the UAAL to the covered payroll was 76.40%.



## 17. Other Post Employment Benefit Obligation (OPEB)

### Plan Description

The City and School Board administer a single-employer defined benefit post-employment health care plan that covers all current retirees and covered dependents and will provide coverage for all future retirees and their covered dependents. Employees who are eligible for the health plan under normal retirement must have a combination of age (minimum 50 years) and years of service (minimum of 5 years) equal to 70. During the year, 107 employees were participating in the City's plan at a cost of \$59,873 and 158 employees were participating in the School Board's plan at a cost of \$77,655. 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 2010, the City contributed \$38,192 and the School Board contributed \$34,999.

### Annual OPEB Cost and Net OPEB Obligation

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

	City of Poquoson	Component Unit School Board
Annual required contribution	\$ 59,901	\$ 77,684
Interest on net OPEB obligation	1,356	1,395
Adjustment to ARC	(1,384)	(1,424)
Annual OPEB cost	59,873	77,655
Contributions made	(38,192)	(34,999)
Increase in net OPEB obligation	21,681	42,656
Net OPEB obligation, beginning of year	33,901	34,881
NET OPEB obligation, end of year	\$ 55,582	\$ 77,537

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

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

The City's and the School's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and 2010 were as follows:

**City of Poquoson**

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	\$ 54,302	\$ (20,401)	38%	\$ 33,901
June 30, 2010	\$ 59,873	\$ (38,192)	64%	\$ 55,582

**Component Unit - School Board**

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	\$ 70,732	\$ (35,851)	51%	\$ 34,881
June 30, 2010	\$ 77,655	\$ (34,999)	45%	\$ 77,537

**Funded Status and Funding Progress**

Based on the most recent actuarial valuation for the fiscal year ended June 30, 2010, the funded status of the plan was as follows:

	City of Poquoson	Component Unit School Board
Actuarial accrued liability (AAL)	\$ 636,500	\$ 681,279
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	\$ 636,500	\$ 681,279
Funded ratio (actuarial value of plan assets/AAL)	0%	0%
Covered payroll (active plan members)	\$ 5,675,321	\$ 12,452,785
UAAL as a percentage of covered payroll	11.20%	5.47%

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

**Actuarial Methods and Assumptions**

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

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

The OPEB liability was determined on the Projected Unit Credit cost actuarial method. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the City's and the School Board's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 2.5% per year, and an annual healthcare cost trend rate of 10% initially for the year ended June 30, 2010, reduced annually by increments, to an ultimate rate of 5% for the fiscal year ending June 20, 2018. In calculating the fiscal year annual required contribution the initial unfunded actuarial accrued liability, actuarial gains and actuarial losses were amortized over an open 30- year period as a level percentage of projected payroll.

**Schedule of Funding Progress**

**City of Poquoson**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/2008	\$ -	\$ 544,329	\$ 544,329	0%	\$ 5,480,141	9.93%
07/01/2009	\$ -	\$ 636,500	\$ 636,500	0%	\$ 5,675,321	11.20%

**Component Unit - School Board**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/2008	\$ -	\$ 611,610	\$ 611,610	0%	\$ 12,401,361	4.93%
07/01/2009	\$ -	\$ 681,279	\$ 681,279	0%	\$ 12,452,785	5.47%

## **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. Commitments**

The City entered into contracts for the construction of a new elementary school and capacity upgrade of a pump station. The contract for the elementary school totaled \$17,872,219 with \$272,967 outstanding at June 30, 2010. The contract for the pump station upgrade totaled \$450,669 with \$450,669 outstanding at June 30, 2010.

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***Required Supplementary Information***

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## City of Poquoson, Virginia

## Budgetary Comparison Schedule- General Fund

Year Ended June 30, 2010

	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	\$13,544,295	\$ 13,544,295	\$ 13,511,422	\$ (32,873)
Public service corporation property taxes	110,000	110,000	137,777	27,777
Personal property	1,930,000	1,930,000	2,251,205	321,205
Penalties and interest	109,000	109,000	123,433	14,433
<b>Total general property taxes</b>	<b>15,693,295</b>	<b>15,693,295</b>	<b>16,023,837</b>	<b>330,542</b>
Other local taxes				
Sales and use taxes	890,500	890,500	902,127	11,627
Meals taxes	510,000	510,000	511,639	1,639
Cigarette taxes	75,000	75,000	68,192	(6,808)
Consumers' utility taxes	275,000	275,000	276,745	1,745
Consumption tax	39,500	39,500	41,937	2,437
Business license taxes	430,000	430,000	400,260	(29,740)
Bank stock taxes	26,000	26,000	37,606	11,606
Recordation and wills taxes	230,000	230,000	190,430	(39,570)
Deeds of conveyance	30,000	30,000	22,996	(7,004)
<b>Total other local taxes</b>	<b>2,506,000</b>	<b>2,506,000</b>	<b>2,451,932</b>	<b>(54,068)</b>
Permits, privilege fees and regulatory licenses				
Animal license	3,000	3,000	4,765	1,765
Permits and other licenses	73,900	73,900	66,182	(7,718)
<b>Total permits, privilege fees and regulatory licenses</b>	<b>76,900</b>	<b>76,900</b>	<b>70,947</b>	<b>(5,953)</b>
Fines and forfeitures	39,100	39,100	54,836	15,736
Revenue from use of money and property				
Revenue from use of money	10,000	10,000	14,008	4,008
Revenue from use of property	96,300	122,378	142,130	19,752
<b>Total revenue from use of money and property</b>	<b>106,300</b>	<b>132,378</b>	<b>156,138</b>	<b>23,760</b>

*City of Poquoson, Virginia*

**Budgetary Comparison Schedule- General Fund**

**Year Ended June 30, 2010**

	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	600	600	229	(371)
Charges for copying	3,200	3,200	3,905	705
Charges for passport processing	35,000	35,000	22,246	(12,754)
Charges for library and fees	25,000	25,000	24,203	(797)
EMS revenue recovery	175,000	175,000	142,558	(32,442)
Charges for school grounds maintenance	52,000	52,000	24,231	(27,769)
<b>Total charges for services</b>	<b>290,800</b>	<b>290,800</b>	<b>217,372</b>	<b>(73,428)</b>
Miscellaneous revenue				
Miscellaneous	5,500	5,870	11,389	5,519
Insurance recoveries	-	1,000	3,267	2,267
Donations-library	-	-	16,346	16,346
Donations-volunteer fire and rescue	-	2,000	2,000	-
Donations-Heritage Park	-	67,500	8,010	(59,490)
Gain on sale of capital assets	-	317	738	421
Donations	-	75	18,875	18,800
<b>Total miscellaneous revenue</b>	<b>5,500</b>	<b>76,762</b>	<b>60,625</b>	<b>(16,137)</b>
Intergovernmental				
Revenue from the Commonwealth				
Noncategorical aid				
DMV reimbursement	115,000	115,000	138,593	23,593
Local Aid Contra Revenue	(42,088)	(42,088)	(41,510)	578
Mobile home titling taxes	2,000	2,000	5,153	3,153
Rolling stock tax	-	-	3	3
Personal property tax relief	1,923,431	1,923,431	1,923,431	-
<b>Total noncategorical aid</b>	<b>1,998,343</b>	<b>1,998,343</b>	<b>2,025,670</b>	<b>27,327</b>
Categorical aid				
Shared expenses				
Commissioner of the Revenue	119,000	119,000	108,752	(10,248)
Treasurer	106,800	106,800	102,434	(4,366)
Registrar/electoral board	50,875	50,875	43,296	(7,579)
<b>Total categorical aid</b>	<b>276,675</b>	<b>276,675</b>	<b>254,482</b>	<b>(22,193)</b>

**Budgetary Comparison Schedule- General Fund****Year Ended June 30, 2010**

	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	266,841	266,841	244,563	(22,278)
Fire and EMS	42,775	43,765	44,001	236
Department of Emergency Services	2,000	2,000	2,000	-
Department of Emergency Services - Public Assistance	-	32,085	49,353	17,268
Street and highway maintenance	840,000	840,000	840,000	-
Litter control	-	5,125	5,125	-
Library	151,562	152,926	145,280	(7,646)
Wireless E911 PSAP	-	-	-	-
Comprehensive services	275,000	275,000	290,992	15,992
State drug seizure	-	15,530	17,810	2,280
Other state grants	-	16,269	20,781	4,512
<b>Total other categorical aid</b>	<b>1,578,178</b>	<b>1,649,541</b>	<b>1,659,905</b>	<b>10,364</b>
<b>Total categorical aid</b>	<b>1,854,853</b>	<b>1,926,216</b>	<b>1,914,387</b>	<b>(11,829)</b>
<b>Total revenue from the Commonwealth</b>	<b>3,853,196</b>	<b>3,924,559</b>	<b>3,940,057</b>	<b>15,498</b>
Revenue from the federal government				
FEMA-Public Assistance	-	243,144	243,000	(144)
Miscellaneous	6,000	72,447	83,563	11,116
<b>Total revenue from the federal government</b>	<b>6,000</b>	<b>315,591</b>	<b>326,563</b>	<b>10,972</b>
Other financing sources				
Transfer from Component Unit - School Board	300,000	300,000	-	(300,000)
Transfer from sewer fund	130,000	130,000	130,000	-
Transfer from unappropriated fund	-	285,442	-	(285,442)
<b>Total other financing uses</b>	<b>430,000</b>	<b>715,442</b>	<b>130,000</b>	<b>(585,442)</b>
<b>Total revenue and other financing sources</b>	<b>\$23,007,091</b>	<b>\$ 23,770,827</b>	<b>\$ 23,432,307</b>	<b>\$ (338,520)</b>

**Budgetary Comparison Schedule- General Fund****Year Ended June 30, 2010**

	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	\$ 66,460	\$ 66,460	\$ 65,337	\$ 1,123
General and financial administration				
City Manager	390,905	398,575	398,568	7
Legal services	103,750	135,250	135,094	156
Independent auditor	35,000	35,000	31,289	3,711
Commissioner of the Revenue	292,680	295,866	295,762	104
Assessor/equalization board	161,810	162,526	160,374	2,152
Treasurer	288,630	292,999	292,598	401
Finance	323,490	326,879	326,867	12
Technology	17,090	20,090	20,080	10
Risk management	172,129	66,400	66,321	79
<b>Total general and financial administration</b>	<b>1,785,484</b>	<b>1,733,585</b>	<b>1,726,953</b>	<b>6,632</b>
Board of elections - electoral board and registrar	132,700	133,615	125,633	7,982
<b>Total general government administration</b>	<b>1,984,644</b>	<b>1,933,660</b>	<b>1,917,923</b>	<b>15,737</b>
Judicial Administration				
Courts	227,313	207,313	194,423	12,890
Sheriff	149,297	149,297	154,692	(5,395)
<b>Total judicial administration</b>	<b>376,610</b>	<b>356,610</b>	<b>349,115</b>	<b>7,495</b>
Public Safety				
Law enforcement and traffic control - police department	2,272,893	2,453,594	2,251,781	201,813
Fire and rescue services - fire department	2,565,475	2,702,001	2,442,232	259,769
Correction and detention - regional operated institutions	181,790	181,790	147,460	34,330
Inspections - various	193,076	348,252	320,988	27,264
Other protection - animal control	81,630	81,630	81,627	3
<b>Total public safety</b>	<b>5,294,864</b>	<b>5,767,267</b>	<b>5,244,088</b>	<b>523,179</b>

**Year Ended June 30, 2010**

	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	90,732	103,472	102,547	925
Highways, streets, bridges and sidewalks	1,048,238	1,052,427	985,609	66,818
Street lights	78,000	78,000	69,864	8,136
<b>Total maintenance of highways, streets, bridges, and sidewalks</b>	1,216,970	1,233,899	1,158,020	75,879
Maintenance of general buildings and grounds	535,722	377,823	364,983	12,840
<b>Total public works</b>	1,752,692	1,611,722	1,523,003	88,719
Health and welfare				
Health				
Local health department	42,330	42,330	41,002	1,328
Mosquito control	223,260	225,667	207,325	18,342
<b>Total health</b>	265,590	267,997	248,327	19,670
Mental health and mental retardation - mental health	182,650	182,650	179,074	3,576
Welfare				
Social services	260,000	260,000	228,470	31,530
Comprehensive services	390,000	390,000	353,264	36,736
<b>Total welfare</b>	650,000	650,000	581,734	68,266
<b>Total health and welfare</b>	1,098,240	1,100,647	1,009,135	91,512
Education - School Board	8,334,090	8,397,488	8,008,392	389,096
School buses	-	-	-	-
School capital contribution	-	-	-	-
<b>Total education</b>	8,334,090	8,397,488	8,008,392	389,096
Parks, recreation and cultural - supervision of parks and recreation	257,450	269,133	268,977	156
Library - administration	747,550	764,072	753,322	10,750
<b>Total parks, recreation and cultural</b>	1,005,000	1,033,205	1,022,299	10,906

**Budgetary Comparison Schedule- General Fund****Year Ended June 30, 2010**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
<b>Expenditures and other financing uses (Continued)</b>				
Community development				
Planning	332,820	328,445	326,407	2,038
Economic development	25,050	25,050	5,216	19,834
Community development	117,110	199,696	138,786	60,910
Community development - IDA component unit	40,000	40,000	40,000	-
<b>Total community development</b>	<b>514,980</b>	<b>593,191</b>	<b>510,409</b>	<b>82,782</b>
Nondepartmental - miscellaneous	42,500	49,409	49,379	30
Department of motor vehicles	100,990	103,167	101,373	1,794
Recovery - Noreaster IDA	-	275,229	168,591	106,638
<b>Total nondepartmental</b>	<b>143,490</b>	<b>427,805</b>	<b>319,343</b>	<b>108,462</b>
<b>Other Financing Uses</b>				
Transfers to Debt Service Fund	2,411,481	2,411,481	2,410,984	497
Transfers to Capital Projects Fund	-	46,751	46,751	-
Transfers to Solid Waste Fund	45,000	45,000	45,000	-
Transfers to Parks Recreation Fund	46,000	46,000	46,000	-
<b>Total other financing uses</b>	<b>2,502,481</b>	<b>2,549,232</b>	<b>2,548,735</b>	<b>497</b>
<b>Total expenditures and other financing uses</b>	<b>\$23,007,091</b>	<b>\$ 23,770,827</b>	<b>\$ 22,452,442</b>	<b>\$ 1,318,385</b>
<b>Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses - budgetary basis</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 979,865</b>	<b>\$ 979,865</b>
<b>Less - Encumbrances outstanding June 30, 2009, actually expended as of June 30, 2010</b>			<b>(100,531)</b>	
<b>Add - Encumbrances outstanding June 30, 2010</b>			<b>55,584</b>	
<b>Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses, GAAP basis</b>			<b>934,918</b>	
<b>Fund balances, July 1, 2009</b>			<b>3,955,164</b>	
<b>Fund balances, June 30, 2010</b>			<b>\$ 4,890,082</b>	

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

**Year Ended June 30, 2010**

**Schedules of Funding Progress**

	Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability	Over (Under) Funded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Over (Under) Funded Actuarial Liability as a Percent of Covered Payroll
<b>City Employees</b>	6/30/10	\$ 19,500,696	\$ 21,541,226	\$ (2,040,530)	90.53%	\$ 5,561,622	(36.69)%
	6/30/09	\$ 18,726,503	\$ 20,091,047	\$ (1,364,544)	93.21%	\$ 5,424,958	(25.15)%
	6/30/08	\$ 16,597,606	\$ 17,743,747	\$ (1,146,141)	93.54%	\$ 5,303,994	(21.61)%
	6/30/07	\$ 14,310,654	\$ 16,662,854	\$ (2,352,200)	85.88%	\$ 5,003,885	(41.01)%
	6/30/06	\$ 13,070,399	\$ 15,732,821	\$ (2,662,422)	83.08%	\$ 4,719,239	(56.42)%
<b>School Board</b>							
<b>Non-professional Employees</b>	6/30/10	\$ 1,590,308	\$ 2,120,722	\$ (530,414)	74.99%	\$ 694,281	(76.40)%
	6/30/09	\$ 1,479,453	\$ 1,975,378	\$ (495,924)	74.89%	\$ 619,656	(80.03)%
	6/30/08	\$ 1,314,569	\$ 1,856,849	\$ (542,280)	70.80%	\$ 557,851	(97.21)%
	6/30/07	\$ 1,151,079	\$ 1,641,274	\$ (490,195)	70.13%	\$ 675,990	(72.52)%
	6/30/06	\$ 1,012,382	\$ 1,411,419	\$ (399,037)	71.73%	\$ 656,255	(60.81)%

**Schedules of Employer Contributions**

	Valuation Date	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Pension Obligation
<b>City Employees</b>	6/30/10	\$ 740,737	100.00%	\$ -
	6/30/09	\$ 731,860	100.00%	\$ -
	6/30/08	\$ 547,466	100.00%	\$ -
	6/30/07	\$ 464,805	100.00%	\$ -
	6/30/06	\$ 293,618	100.00%	\$ -
<b>School Board</b>				
<b>Non-professional Employees</b>	6/30/10	\$ 98,370	100.00%	\$ -
	6/30/09	\$ 60,826	100.00%	\$ -
	6/30/08	\$ 44,884	100.00%	\$ -
	6/30/07	\$ 44,504	100.00%	\$ -
	6/30/06	\$ 52,528	100.00%	\$ -



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

**Year Ended June 30, 2010**

**Schedules of Funding Progress**

	Actuarial Valuation Date	Actuarial Value of Assets	Accrued Liability Projected Unit Credit	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
<b>City of Poquoson</b>	7/1/08	\$ -	\$ 544,329	\$ 544,329	0.00%	\$ 5,480,414	9.93%
	7/1/09	\$ -	\$ 636,500	\$ 636,500	0.00%	\$ 5,675,321	11.20%
<b>Component Unit - School Board</b>	7/1/08	\$ -	\$ 611,610	\$ 611,610	0.00%	\$ 12,401,361	4.93%
	7/1/09	\$ -	\$ 681,279	\$ 681,279	0.00%	\$ 12,452,785	5.47%

**Schedules of Employer Contributions**

	Fiscal Year Ended	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Pension Obligation
<b>City of Poquoson</b>	7/1/08	\$ 54,302	38.00%	\$ 33,901
	7/1/09	\$ 59,901	63.80%	\$ 55,582
<b>Component Unit - School Board</b>	7/1/08	\$ 70,732	51.00%	\$ 34,881
	7/1/09	\$ 77,684	45.00%	\$ 77,537

***Notes to Required Supplementary Information***

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**June 30, 2010**

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**1. Budgets and Budgetary Accounting**

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

- At least 60 days prior to June 30, the City Manager submits to City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- The budget is formulated from estimates of revenues and expected expenditures from each department. The School Board is treated as a single expenditure line item.
- When the City Manager submits the proposed budget to City Council, he also recommends an appropriation ordinance and an ordinance levying the tax rates for the ensuing year.
- City Council then holds public hearings on the proposed budget. Notice of such public hearing must appear in a local newspaper not less than seven days prior to the hearing.
- The budget must be approved by a majority vote of City Council and legally adopted within 40 days of submission to City Council, but no later than May 31. If City Council does not adopt the proposed budget before May 31, the budget as submitted is automatically adopted.
- The City Manager is authorized to transfer budgeted amounts within departments. Expenditures over the original budget of any department must be approved by City Council.

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

Therefore, the "actual" data included in statements comparing expenditures with budgets differs from the expenditures reported in accordance with 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.

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***Other Supplementary Information***

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*City of Poquoson, Virginia****Combining Balance Sheet - Component Unit - School Board*****June 30, 2010**

Assets	Governmental Activities		Total School Board
	General	Special Revenue	
Cash and cash equivalents	\$ 2,965,411	\$ 106,354	\$ 3,071,765
Due from other governmental units	405,411	-	405,411
Due from special revenue fund	30,044	-	30,044
Inventory	-	8,090	8,090
<b>Total assets</b>	<b>\$ 3,400,866</b>	<b>\$ 114,444</b>	<b>\$ 3,515,310</b>
<b>Liabilities</b>			
Vouchers and accounts payable	\$ 2,622,581	\$ 53,922	\$ 2,676,503
Due to primary government	89,096	-	89,096
Due to general fund	-	30,044	30,044
<b>Total liabilities</b>	<b>2,711,677</b>	<b>83,966</b>	<b>2,795,643</b>
<b>Fund Balances</b>			
Reserved			
Encumbrances	689,189	-	689,189
Inventory	-	8,090	8,090
Unreserved	-	22,388	22,388
<b>Total fund balances</b>	<b>689,189</b>	<b>30,478</b>	<b>719,667</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,400,866</b>	<b>\$ 114,444</b>	<b>\$ 3,515,310</b>

***Combining Balance Sheet - Component Unit - School Board***

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**June 30, 2010**

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

Total fund balances - Component Unit - School Board	\$ 719,667
Amount reported for component unit activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation.	5,855,665
Noncurrent liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(455,866)</u>
<b>Total net assets - Component Unit - School Board</b>	<b><u>\$ 6,119,466</u></b>



*City of Poquoson, Virginia****Combining Statement of Revenues, Expenditures, and Changes in Fund Balances***  
***Component Unit - School Board*****Year Ended June 30, 2010**

	General Fund	Special Revenue	Total School Board
<b>Revenues</b>			
Charges for services	\$ -	\$ 451,573	\$ 451,573
Intergovernmental			
Commonwealth of Virginia	11,040,795	15,679	11,056,474
Federal government	1,959,521	159,652	2,119,173
Local government	8,157,057	-	8,157,057
Miscellaneous	141,501	-	141,501
<b>Total revenues</b>	<b>21,298,874</b>	<b>626,904</b>	<b>21,925,778</b>
<b>Expenditures</b>			
Current			
Education	20,886,227	751,217	21,637,444
<b>Total expenditures</b>	<b>20,886,227</b>	<b>751,217</b>	<b>21,637,444</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>412,647</b>	<b>(124,313)</b>	<b>288,334</b>
<b>Other financing sources (uses)</b>			
Transfers in	-	124,284	124,284
Transfers out	(124,284)	-	(124,284)
<b>Total other financing sources, net</b>	<b>(124,284)</b>	<b>124,284</b>	<b>-</b>
<b>Net change in fund balance</b>	<b>288,363</b>	<b>(29)</b>	<b>288,334</b>
<b>Fund balance, July 1, 2009</b>	<b>400,826</b>	<b>30,507</b>	<b>431,333</b>
<b>Fund balance, June 30, 2010</b>	<b>\$ 689,189</b>	<b>\$ 30,478</b>	<b>\$ 719,667</b>

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

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**Year Ended June 30, 2010**

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

Net change in fund balances - total School Board funds	\$ 288,334
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Amount reported for governmental activities in the statement of net assets are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation. Also, in the statement of activities, the loss of disposal of assets is reported.

Depreciation expense	(322,891)
Loss on disposal of capital assets	(19,811)
Donated capital assets	2,195,091

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

Other post-employment benefit obligation	(42,656)
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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.

54,236

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

(19,887)

**Change in net assets of governmental activities**

\$ 2,132,416

## City of Poquoson, Virginia

**Budgetary Comparison Schedule - General Fund - School Boards****Year Ended June 30, 2010**

	General Fund			Variance With Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
<b>Revenues</b>				
Intergovernmental				
Commonwealth of Virginia	\$ 11,990,522	\$ 11,543,212	\$ 11,040,795	\$ (502,417)
Federal government	1,091,017	2,644,909	1,959,521	(685,388)
Local government	8,334,090	8,486,032	8,157,057	(328,975)
Miscellaneous	217,033	200,322	141,501	(58,821)
<b>Total revenues</b>	<b>21,632,662</b>	<b>22,874,475</b>	<b>21,298,874</b>	<b>(1,575,601)</b>
<b>Expenditures</b>				
Current				
Instruction	15,223,900	15,474,113	15,088,650	385,463
Division-wide	943,492	904,610	904,605	5
Transportation	869,899	332,251	319,493	12,758
Operation and maintenance	1,823,863	1,190,615	966,484	224,131
Food service	332,251	1,859,489	1,732,495	126,994
Technology	863,440	870,865	809,562	61,303
Grants	1,275,817	2,242,531	1,353,301	889,230
<b>Total expenditures</b>	<b>21,332,662</b>	<b>22,874,474</b>	<b>21,174,590</b>	<b>1,699,884</b>
<b>Other financing sources (uses)</b>				
Transfer out - special revenue fund	(300,000)	(300,000)	(124,284)	175,716
<b>Total other financing sources (uses)</b>	<b>(300,000)</b>	<b>(300,000)</b>	<b>(124,284)</b>	<b>175,716</b>
<b>Excess of revenue and other financing sources over (under) expenditures and other financing uses - budgetary basis</b>	<b>\$ -</b>	<b>\$ (299,999)</b>	<b>\$ -</b>	<b>\$ 299,999</b>
<b>Less - encumbrances outstanding June 30, 2009, actually expended as of June 30, 2010</b>			(400,826)	
<b>Add - encumbrances outstanding June 30, 2010</b>			689,189	
<b>Excess of revenue and other financing sources over (under) expenditures and other financing uses - GAAP basis</b>			288,363	
<b>Fund balance, June 30, 2009</b>			400,826	
<b>Fund balance, June 30, 2010</b>			\$ 689,189	

*City of Poquoson, Virginia****Schedule of Changes in Capital Assets by Function and Activity - School Board*****Year Ended June 30, 2010**

	<b>Balance July 1, 2009</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2010</b>
Education	\$ 22,554,469	\$ 19,635,279	\$ 268,354	\$ 41,921,394
Less - accumulated depreciation	(8,836,351)	(1,025,934)	(248,544)	(9,613,741)
	<u>13,718,118</u>	<u>18,609,345</u>	<u>19,810</u>	<u>32,307,653</u>
Allocation of assets to City, net	(9,769,078)	(18,878,001)	(2,195,091)	(26,451,988)
	<u>\$ 3,949,040</u>	<u>\$ (268,656)</u>	<u>\$ (2,175,281)</u>	<u>\$ 5,855,665</u>

*City of Poquoson, Virginia****Schedule of Changes in Assets and Liabilities - Agency Funds  
Discretely Presented Component Unit - School Board*****Year Ended June 30, 2010**

	<b>Balance July 1, 2009</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2010</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 402,987	\$ 924,367	\$ 867,625	\$ 459,729
<b>Liabilities</b>				
Due to students	\$ 402,987	\$ 924,367	\$ 867,625	\$ 459,729

*City of Poquoson, Virginia****Statement of Changes in Assets and Liabilities - Library Agency Fund*****Year Ended June 30, 2010**

	<b>Balance July 1, 2009</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2010</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 38,006	\$ 115	\$ -	\$ 38,121
<b>Liabilities</b>				
Amounts held for others	\$ 38,006	\$ 115	\$ -	\$ 38,121

*City of Poquoson, Virginia****Statement of Cash Flows - Component Unit -Industrial Development Authority*****Year Ended June 30, 2010****Cash flows from operating activities**

Received from customers and users	\$ 27,419
Payments to suppliers for goods and services	(20,228)
<b>Net cash provided by operating activities</b>	<b>7,191</b>

**Cash flows from capital and related financing activities**

Interest paid on capital debt	(26,768)
Proceeds from sale of capital assets	283,918
City appropriations	40,000
Borrowings repaid	(283,000)
<b>Net cash used in capital and related financing activities</b>	<b>14,150</b>

**Net increase in cash and cash equivalents** 21,341

**Cash and cash equivalents, beginning of year** 88,486

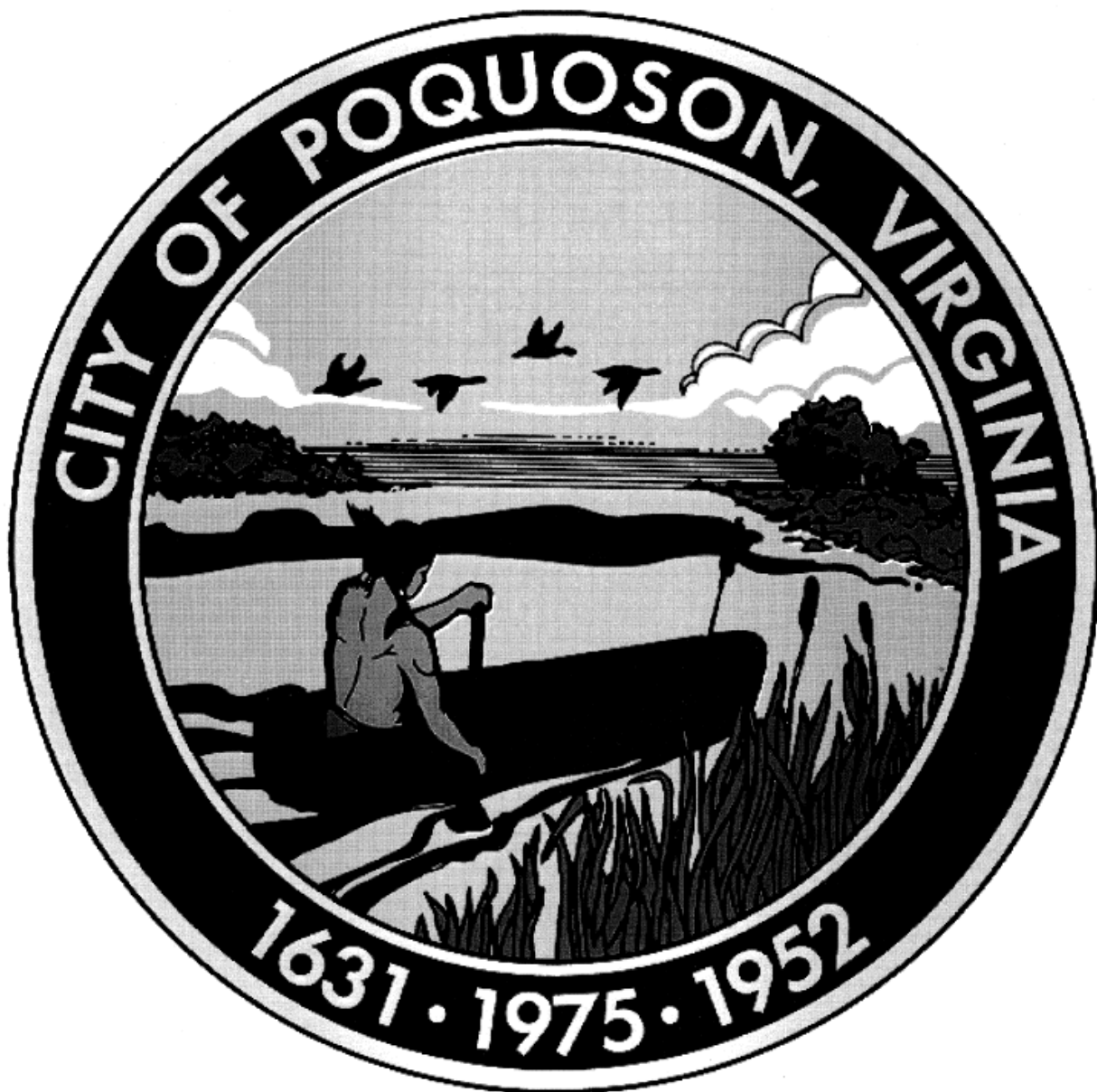
**Cash and cash equivalents, end of year** \$ 109,827

**Reconciliation of operating income to net cash provided by operating activities**

Operating income (loss)	\$ (48,274)
Adjustments	
Depreciation and amortization	36,450
Changes in assets and liabilities	
Accounts payable	19,015
<b>Net cash provided by operating activities</b>	<b>\$ 7,191</b>



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## *Statistical Section*

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

### ***Statistical Section Overview***

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**June 30, 2010**

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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.

#### **Contents**

##### **Financial Trends**

**Tables 1 - 4**

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

##### **Revenue Capacity**

**Tables 5 - 7**

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

##### **Debt Capacity**

**Tables 8 - 10**

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

##### **Demographic and Economic Information**

**Tables 11 - 12**

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

##### **Operation Information**

**Tables 13 - 15**

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

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

\* \* \* \* \*

Table 1

## City of Poquoson, Virginia

## Net Assets by Component

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

Note: GASB 34 was implemented by the City of Poquoson in FY 2003. Data for this schedule prior to FY 2003 is not available.

Table 2

## City of Poquoson, Virginia

## Change in Net Assets

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

City of Poquoson, Virginia

**Table 2**  
(Continued)

**Change in Net Assets**

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

Note: GASB 34 was implemented by the City of Poquoson in FY 2003. Data for this schedule prior to FY 2003 is not available.

Table 3

*City of Poquoson, Virginia***Fund Balances - Governmental Funds****Last Ten Fiscal Years**

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
General fund:										
Reserved for:										
Encumbrances & loans	\$ 347,863	\$ 392,810	\$ 276,571	\$ 180,562	\$ 125,336	\$ 71,459	\$ 125,653	\$ 114,656	\$ 110,644	\$ 149,263
Asset forfeiture	83,704	89,261	89,594	-	-	-	-	-	-	-
Fire department	100,858	69,671	-	-	-	-	-	-	-	-
Library	13,015	13,861	-	-	-	-	-	-	-	-
Heritage Park	6,060	-	-	-	-	-	-	-	-	-
Unreserved:										
Undesignated	4,338,582	3,389,561	3,571,770	4,858,261	4,550,535	4,764,304	4,015,477	4,239,425	3,861,831	3,946,030
<b>Total general fund</b>	<b>\$ 4,890,082</b>	<b>\$ 3,955,164</b>	<b>\$ 3,937,935</b>	<b>\$ 5,038,823</b>	<b>\$ 4,675,871</b>	<b>\$ 4,835,763</b>	<b>\$ 4,141,130</b>	<b>\$ 4,354,081</b>	<b>\$ 3,972,475</b>	<b>\$ 4,095,293</b>
All other governmental funds:										
Reserved for:										
Purchase of fire truck	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 339,000	\$ -	\$ -	\$ -	\$ -
Grants	-	32,077	27,168	9,738	(73,569)	52,055	-	-	-	-
Construction - bond principal	651,191	826,219	4,244,577	16,196,290	13,433,589	-	-	-	-	-
Construction - bond earnings	-	-	-	82,801	318,938	-	-	-	-	-
Encumbrances	-	-	-	-	-	-	-	-	221,203	457,695
Unreserved for:										
Designated	-	-	1,203,324	327,503	1,273,130	747,677	1,024,626	767,291	628,969	(34,009)
Unreserved and undesignated	258,713	470,991	258,724	385,137	80,000	-	-	-	-	-
<b>Total all other governmental funds</b>	<b>\$ 909,904</b>	<b>\$ 1,329,287</b>	<b>\$ 5,733,793</b>	<b>\$ 17,001,469</b>	<b>\$ 15,032,088</b>	<b>\$ 1,138,732</b>	<b>\$ 1,024,626</b>	<b>\$ 767,291</b>	<b>\$ 850,172</b>	<b>\$ 423,686</b>



Table 4

## City of Poquoson, Virginia

## Changes in Fund Balances - Governmental Funds

## Last Ten Fiscal Years

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
<b>Revenues</b>										
General property taxes	\$ 16,023,837	\$ 16,034,422	\$ 16,127,168	\$ 15,562,860	\$ 13,012,958	\$ 12,488,453	\$ 11,226,560	\$ 10,859,951	\$ 9,716,038	\$ 9,921,498
Other local taxes	2,451,932	2,537,554	2,613,195	2,541,189	2,792,592	2,635,722	2,524,964	2,442,485	2,402,784	1,984,354
Permits, privilege fees and regulatory licenses	70,947	83,775	98,233	162,218	173,401	172,455	173,525	116,843	144,907	108,412
Fines and forfeitures	54,836	46,859	38,201	73,942	37,283	30,583	24,605	27,970	22,596	25,448
Revenue from use of money and property	157,426	224,492	825,346	1,171,832	503,615	202,548	58,937	132,706	120,990	226,465
Charges for services	217,372	55,909	71,505	72,749	29,694	30,318	31,740	23,132	29,069	28,980
Intergovernmental	4,597,512	4,871,491	6,017,329	5,389,676	4,898,316	5,324,277	3,694,854	3,670,215	3,540,724	2,915,842
Miscellaneous	60,625	86,991	320,188	94,093	37,381	93,385	369,054	88,481	24,817	45,138
<b>Total revenues</b>	<b>23,634,487</b>	<b>23,941,493</b>	<b>26,111,165</b>	<b>25,068,559</b>	<b>21,485,240</b>	<b>20,977,741</b>	<b>18,104,239</b>	<b>17,361,783</b>	<b>16,001,925</b>	<b>15,256,137</b>
<b>Expenditures</b>										
Current										
General government and administration	1,924,481	2,324,651	2,018,674	1,938,236	1,754,223	1,543,930	1,330,271	1,273,661	1,257,684	1,172,028
Public safety and judicial	5,601,358	5,328,217	5,952,162	5,235,778	4,857,162	4,440,330	4,007,945	3,774,685	3,284,029	3,092,622
Public works	1,530,904	1,535,411	1,503,219	1,428,384	1,232,132	1,284,108	1,125,448	1,013,082	1,025,194	889,179
Health and welfare	1,016,083	1,131,499	1,067,418	843,523	802,295	819,499	657,485	601,282	447,294	464,380
Parks, recreation, and cultural	1,003,795	1,169,328	1,175,226	1,034,306	935,543	830,797	763,681	763,866	720,466	730,150
Community development	529,529	1,236,529	2,222,658	1,544,499	640,718	507,520	535,757	452,374	449,777	258,403
Nondepartmental	329,279	134,282	218,133	173,643	140,315	127,144	115,105	78,254	42,271	35,366
Education	8,008,392	8,078,598	8,147,463	7,880,000	7,555,104	7,311,063	6,728,536	6,901,085	6,696,939	6,981,148
Industrial Development Authority	40,000	51,250	110,000	123,861	147,530	59,900	95,000	-	-	-
Capital outlays	838,069	7,085,050	14,035,793	8,460,299	2,447,596	2,338,525	986,129	993,632	1,266,450	1,558,824
Debt service										
Principal retirement	1,358,073	1,414,131	1,495,455	1,092,106	1,058,843	1,066,793	983,418	4,320,579	987,099	855,248
Bond issuance costs	234,339	139,699	-	-	-	500	2,000	17,300	-	-
Interest and fiscal charges	1,201,041	1,244,582	1,258,222	1,038,815	462,632	497,733	522,623	595,909	610,220	591,570
<b>Total expenditures</b>	<b>23,615,343</b>	<b>30,873,227</b>	<b>39,204,423</b>	<b>30,793,450</b>	<b>22,034,093</b>	<b>20,827,842</b>	<b>17,853,398</b>	<b>20,785,709</b>	<b>16,787,423</b>	<b>16,628,918</b>
<b>Excess (deficiency) of revenue over expenditures</b>	<b>19,144</b>	<b>(6,931,734)</b>	<b>(13,093,258)</b>	<b>(5,724,891)</b>	<b>(548,853)</b>	<b>149,899</b>	<b>250,841</b>	<b>(3,423,926)</b>	<b>(785,498)</b>	<b>(1,372,781)</b>
<b>Other financing sources (uses)</b>										
Transfers in	2,587,735	2,708,519	448,610	457,417	150,000	590,000	151,800	590,651	807,468	689,963
Issuance of debt	457,391	2,514,557	664,414	8,000,000	14,500,000	349,640	-	3,405,000	597,000	1,572,428
Transfers out	(2,548,735)	(2,678,519)	(388,430)	(400,193)	(367,683)	(280,800)	(254,000)	(273,000)	(286,400)	(625,385)
<b>Total other financing sources (uses)</b>	<b>496,391</b>	<b>2,544,557</b>	<b>724,594</b>	<b>8,057,224</b>	<b>14,282,317</b>	<b>658,840</b>	<b>(102,200)</b>	<b>3,722,651</b>	<b>1,118,068</b>	<b>1,637,006</b>
<b>Net change in fund balances before extraordinary item</b>	<b>515,535</b>	<b>(4,387,177)</b>	<b>(12,368,664)</b>	<b>2,332,333</b>	<b>13,733,464</b>	<b>808,739</b>	<b>148,641</b>	<b>298,725</b>	<b>332,570</b>	<b>264,225</b>
<b>Extraordinary item - Hurricane Isabel</b>										
Revenues	-	-	-	-	-	-	2,693,258	-	-	-
Expenditures	-	-	-	-	-	-	(2,797,515)	-	-	-
<b>Total extraordinary item - Hurricane Isabel</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(104,257)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>\$ 515,535</b>	<b>\$ (4,387,177)</b>	<b>\$ (12,368,664)</b>	<b>\$ 2,332,333</b>	<b>\$ 13,733,464</b>	<b>\$ 808,739</b>	<b>\$ 44,384</b>	<b>\$ 298,725</b>	<b>\$ 332,570</b>	<b>\$ 264,225</b>
Debt service as a percentage of noncapital expenditures	12.26%	11.18%	11.23%	9.73%	9.78%	8.50%	9.28%	24.98%	10.14%	9.53%

Table 5

*City of Poquoson, Virginia**Assessed Value and Estimated Actual Value of Taxable Real Property***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
	2010	\$ 1,612,987,500	\$ 103,065,821	\$ 3,798,800	\$ 1,719,852,121	\$ 109,430,730	\$0.81	\$ 1,631,859,515	105%
	2009	\$ 1,604,471,900	\$ 91,095,808	\$ 3,227,800	\$ 1,698,795,508	\$ 81,348,380	\$0.81	\$ 1,705,314,450	99%
	2008	\$ 1,577,324,400	\$ 97,776,982	\$ 3,227,800	\$ 1,678,329,182	\$ 81,410,750	\$0.81	\$ 1,730,236,270	97%
	2007	\$ 1,543,797,900	\$ 90,461,496	\$ 3,227,800	\$ 1,637,487,196	\$ 80,948,613	\$0.81	\$ 1,817,410,872	90%
∞	2006	\$ 955,801,900	\$ 79,069,841	\$ 2,431,400	\$ 1,037,303,141	\$ 71,268,800	\$1.06	\$ 1,548,213,643	67%
	2005	\$ 933,021,200	\$ 79,555,306	\$ 2,425,800	\$ 1,015,002,306	\$ 71,118,562	\$1.06	\$ 1,318,184,813	77%
	2004	\$ 772,269,200	\$ 73,015,935	\$ 1,998,600	\$ 847,283,735	\$ 63,679,146	\$1.12	\$ 901,365,676	94%
	2003	\$ 755,651,100	\$ 69,944,736	\$ 2,008,300	\$ 827,604,136	\$ 59,679,816	\$1.12	\$ 962,330,391	86%
	2002	\$ 677,825,700	\$ 69,359,197	\$ 1,836,400	\$ 749,021,297	\$ 54,070,535	\$1.12	\$ 851,160,565	88%
	2001	\$ 677,062,200	\$ 57,394,386	\$ 2,253,800	\$ 736,710,386	\$ 52,326,710	\$1.12	\$ 775,484,617	95%

Source: Commissioner of the Revenue and City Assessor

Table 6

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

Fiscal Year	Net Taxes Levied			Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collected to Date	
	for Fiscal Year (Original Levy)	Subsequent Year Adjustments	Total Adjusted Net Levy	Amount	Percent of Original Levy		Amount	Percent of Original Levy
2010	\$ 13,614,366	\$ -	\$ 13,614,366	\$ 13,371,918	98.22%	\$ -	\$ 13,371,918	98.22%
2009	\$ 13,481,887	\$ 1,593	\$ 13,483,480	\$ 13,306,699	98.70%	\$ 86,285	\$ 13,392,984	99.33%
2008	\$ 13,330,523	\$ (742)	\$ 13,329,781	\$ 13,186,765	98.92%	\$ 115,563	\$ 13,302,328	99.79%
2007	\$ 13,075,301	\$ 553	\$ 13,075,854	\$ 12,941,290	98.98%	\$ 124,607	\$ 13,065,897	99.92%
2006	\$ 10,831,249	\$ 2,841	\$ 10,834,090	\$ 10,643,194	98.26%	\$ 185,639	\$ 10,828,833	99.95%
2005	\$ 10,566,343	\$ 5,748	\$ 10,572,091	\$ 10,399,214	98.42%	\$ 170,594	\$ 10,569,808	99.98%
2004	\$ 9,274,686	\$ (9,546)	\$ 9,265,140	\$ 9,104,267	98.16%	\$ 155,400	\$ 9,259,667	99.94%
2003	\$ 9,178,628	\$ (276)	\$ 9,178,352	\$ 8,964,109	97.66%	\$ 210,832	\$ 9,174,941	99.96%
2002	\$ 8,227,541	\$ 40	\$ 8,227,581	\$ 7,988,231	97.09%	\$ 235,071	\$ 8,223,302	99.95%
2001	\$ 8,104,735	\$ 84	\$ 8,104,819	\$ 7,882,281	97.26%	\$ 217,320	\$ 8,099,601	99.94%

Source: City of Poquoson Treasurer's Department

Table 7

*City of Poquoson, Virginia**Principal Taxpayers - 2010 and Nine Years Ago*

Years Ended		2010		2001	
Taxpayer	Type of Business	Assessed	Percentage	Assessed	Percentage
		Valuation	of Total	Valuation	of Total
		Real Estate	Real Estate	Real Estate	Real Estate
			Assessment		Assessment
Poquoson Place Apartments	Apartment Rentals	\$ 10,265,000	0.60%	\$ 6,796,800	0.92%
Poquoson Marina Associates	Marina / Mobile Home Park	6,912,100	0.40%	-	-
Poquoson Commons Retail Investors, Inc.	Shopping Center	6,844,500	0.40%	-	-
Poquoson Shopping Center, L.L.C.	Shopping Center	5,002,300	0.29%	-	-
SGC Wythe Creek, L.L.C.	Shopping Center	4,407,200	0.26%	-	-
Islander Associates	Apartment Rentals	3,960,000	0.23%	2,502,400	0.34%
Hunt Properties of Poquoson, Inc.	Storage Facilities	2,959,900	0.17%	-	-
Cosmus Investment Company, L.L.C.	Developer	2,523,000	0.15%	-	-
GPH Poquoson L.L.C.	Nursing Home	3,468,200	0.20%	-	-
Universal of Poquoson	Mobile Home Park	3,378,000	0.20%	2,241,200	0.30%
Wachovia Bank	Financial Institution	-	-	1,664,100	0.23%
Bristol-Cardiff	Shopping Center	-	-	5,622,700	0.76%
Vantage Healthcare Corporation	Nursing Home	-	-	2,092,100	0.28%
Carematrix of Dominion Village	Nursing Home	-	-	1,801,800	0.24%
WCP, L.L.C.	Shopping Center	-	-	3,660,800	0.50%
Suburban Land Company	Shopping Center	-	-	3,775,300	0.51%
Langley Federal Credit Union	Financial Institution	-	-	1,367,700	0.19%
		<u>\$ 49,720,200</u>	<u>2.89%</u>	<u>\$ 31,524,900</u>	<u>4.27%</u>

Source: Commissioner of the Revenue and City Assessor

Table 8

*City of Poquoson, Virginia*

**Computation of Legal Debt Margin**

Last Ten Fiscal Years	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
<b>Total assessed value of taxed real property</b>										
General	\$ 1,702,517,110	\$ 1,685,314,440	\$ 1,662,716,070	\$ 1,627,336,017	\$ 1,025,497,078	\$ 1,002,511,357	\$ 832,002,644	\$ 814,646,831	\$ 732,405,108	\$ 721,546,098
Public service corporations	17,335,011	13,481,068	15,613,112	10,151,179	11,806,063	12,490,949	15,281,091	12,957,305	16,616,189	15,164,288
<b>Total</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>\$ 1,037,303,141</b>	<b>\$ 1,015,002,306</b>	<b>\$ 847,283,735</b>	<b>\$ 827,604,136</b>	<b>\$ 749,021,297</b>	<b>\$ 736,710,386</b>
<b>Debt limit (10% of total assessed value)</b>	<b>\$ 171,985,212</b>	<b>\$ 169,879,551</b>	<b>\$ 167,832,918</b>	<b>\$ 163,748,720</b>	<b>\$ 103,730,314</b>	<b>\$ 101,500,231</b>	<b>\$ 84,728,374</b>	<b>\$ 82,760,414</b>	<b>\$ 74,902,130</b>	<b>\$ 73,671,039</b>
<b>Debt applicable to debt limit</b>										
General obligation bonds, other than those authorized for a specific revenue producing project	28,689,878	29,552,678	27,460,783	28,341,971	20,966,951	7,060,912	7,645,953	8,189,853	8,455,597	8,385,678
Capital leases	316,204	388,577	978,046	525,899	591,024	653,906	-	-	-	-
Sewer general obligation bonds	9,890,072	9,796,907	10,508,638	11,280,327	12,049,089	12,791,016	13,506,624	14,131,490	14,779,335	13,108,140
State literary fund loans	2,361,820	2,763,820	3,165,820	3,567,820	3,969,820	4,371,820	4,811,338	5,250,856	5,690,374	6,150,392
	<b>41,257,974</b>	<b>42,501,982</b>	<b>42,113,287</b>	<b>43,716,017</b>	<b>37,576,884</b>	<b>24,877,654</b>	<b>25,963,915</b>	<b>27,572,199</b>	<b>28,925,306</b>	<b>27,644,210</b>
<b>Margin for additional borrowing</b>	<b>\$ 130,727,238</b>	<b>\$ 127,377,569</b>	<b>\$ 125,719,631</b>	<b>\$ 120,032,703</b>	<b>\$ 66,153,430</b>	<b>\$ 76,622,577</b>	<b>\$ 58,764,459</b>	<b>\$ 55,188,215</b>	<b>\$ 45,976,824</b>	<b>\$ 46,026,829</b>
<b>Total net debt applicable to the limit as a percentage of debt limit</b>	<b>23.99%</b>	<b>25.02%</b>	<b>25.09%</b>	<b>26.70%</b>	<b>36.23%</b>	<b>24.51%</b>	<b>30.64%</b>	<b>33.32%</b>	<b>38.62%</b>	<b>37.52%</b>

Table 9

*City of Poquoson, Virginia**Ratios of Outstanding Debt by Type***Last Ten Fiscal Years**

Fiscal Year	Governmental Activities			Business-Type Activities		Total Primary Government	Median Household Income	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Term Loans Payable	Capital Leases	Sewer Bonds					
2010	\$ 28,689,878	\$ 2,361,820	\$ 316,204	\$ 9,890,072		\$ 41,257,974	N/A	N/A	\$ 3,473
2009	\$ 29,552,678	\$ 2,763,820	\$ 388,577	\$ 9,796,907		\$ 42,501,982	N/A	N/A	\$ 3,605
2008	\$ 27,460,783	\$ 3,165,820	\$ 978,046	\$ 10,508,638		\$ 42,113,287	\$ 79,123	0.014%	\$ 3,563
2007	\$ 28,341,971	\$ 3,567,820	\$ 525,899	\$ 11,280,327		\$ 43,716,017	\$ 78,191	0.014%	\$ 3,659
2006	\$ 20,966,951	\$ 3,969,820	\$ 591,024	\$ 12,049,089		\$ 37,576,884	\$ 76,741	0.012%	\$ 3,167
2005	\$ 7,060,912	\$ 4,371,820	\$ 653,906	\$ 12,791,016		\$ 24,877,654	\$ 71,435	0.009%	\$ 2,115
2004	\$ 7,645,953	\$ 4,811,338	\$ -	\$ 13,506,624		\$ 25,963,915	\$ 70,476	0.010%	\$ 2,219
2003	\$ 8,189,853	\$ 5,250,856	\$ -	\$ 14,131,490		\$ 27,572,199	\$ 67,664	0.011%	\$ 2,398
2002	\$ 8,455,597	\$ 5,690,374	\$ -	\$ 14,779,335		\$ 28,925,306	\$ 66,985	0.012%	\$ 2,515
2001	\$ 8,385,678	\$ 6,150,392	\$ -	\$ 13,108,140		\$ 27,644,210	\$ 64,011	0.013%	\$ 2,404

N/A - This information is not available

Source: Director of Finance

Table 10

*City of Poquoson, Virginia**Ratio of Net General Bonded Debt to Assessed***Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Population</u>	<u>Assessed Value</u>	<u>Net Bonded Debt (3)</u>	<u>Ratio of Net Bonded Debt to Assessed Value</u>	<u>Net Bonded Debt per Capita</u>
2010	11,881 (2)	\$ 1,719,852,121	\$ 31,367,902	1.82%	\$ 2,640
2009	11,566 (1)	\$ 1,698,795,508	\$ 32,705,075	1.93%	\$ 2,828
2008	11,566 (1)	\$ 1,678,329,182	\$ 31,604,649	1.88%	\$ 2,733
2007	11,566 (1)	\$ 1,637,487,196	\$ 32,435,690	1.98%	\$ 2,804
2006	11,566 (1)	\$ 1,037,303,141	\$ 11,027,795	1.06%	\$ 953
2005	11,566 (1)	\$ 1,015,002,306	\$ 12,086,638	1.19%	\$ 1,045
2004	11,566 (1)	\$ 847,283,735	\$ 12,457,291	1.47%	\$ 1,077
2003	11,566 (1)	\$ 827,604,136	\$ 13,440,709	1.62%	\$ 1,162
2002	11,566 (1)	\$ 749,021,297	\$ 14,145,971	1.89%	\$ 1,223
2001	11,566 (1)	\$ 736,710,386	\$ 14,536,070	1.97%	\$ 1,257

Source:

- (1) 2000 United States Census
- (2) Weldon Cooper Center for Public Service
- (3) 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.



Table 11

*City of Poquoson, Virginia**Demographic Statistics***Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Population (1)</u>	<u>Personal Income (2) (in millions)</u>	<u>Per Capita Personal Income (2)</u>	<u>School Enrollment (3)</u>	<u>Unemployment Rate</u>	
2010	11,881	N/A	N/A	2,390	6.0%	(5)
2009	11,791	N/A	N/A	2,531	5.4%	(4)
2008	11,818	\$ 3,429	\$ 46,844	2,478	3.7%	(4)
2007	11,948	\$ 3,222	\$ 44,148	2,583	2.3%	(5)
2006	11,865	\$ 3,061	\$ 42,146	2,572	2.3%	(5)
2005	11,764	\$ 2,868	\$ 39,603	2,563	2.8%	(5)
2004	11,700	\$ 2,603	\$ 35,917	2,503	3.0%	(5)
2003	11,500	\$ 2,444	\$ 34,029	2,503	3.1%	(5)
2002	11,500	\$ 2,316	\$ 32,685	2,492	2.7%	(5)
2001	11,500	\$ 2,174	\$ 31,460	2,483	2.4%	(5)

N/A - This information is not available

Source:

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

Table 12

*City of Poquoson, Virginia**Principal Employers in Poquoson - 2010 and Nine Years Ago*

Employment	2010		2001	
	Number of Employees	Percentage of Total City Employment	Number of Employees	Percentage of Total City Employment
Poquoson City Public Schools	313	13.81%	131	5.27%
City of Poquoson	132	5.83%	127	5.11%
Farm Fresh	68	3.00%	75	3.02%
Food Lion	50	2.21%	50	2.01%
McDonald's Restaurant	55	2.43%	55	2.21%
Golden Living Center	55	2.43%	55	2.21%
Pizza Hut	20	0.88%	N/A	N/A
Unity Business Systems	23	1.02%	N/A	N/A
Taylor Do-It Center	15	0.66%	N/A	N/A
Dominion Village at Poquoson	45	1.99%	38	1.53%
Stephen's Office Supply	25	1.10%	25	1.01%
	801	35.35%	556	22.73%

N/A - This information is not available.

Source: City of Poquoson Economic Development Department

Table 13

*City of Poquoson**Full-time Equivalent City Government Employees by Function / Program***Last Ten Fiscal Years**

Function / Program	Full-time Equivalent Employees as of June 30									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
General government:										
Management services	12.20	14.20	14.20	14.20	12.60	12.00	11.50	10.50	9.70	9.30
Finance	8.00	8.00	8.00	8.00	8.00	7.50	7.20	7.20	7.20	7.20
Planning	4.45	5.45	5.45	5.45	5.45	3.60	3.60	3.70	3.70	3.30
Building	2.00	4.00	4.00	4.00	4.00	3.10	2.10	2.25	2.50	2.50
Other	2.10	2.10	2.10	2.10	2.10	2.10	2.10	2.00	2.00	2.00
Police:										
Officers	22.50	22.50	22.50	22.50	22.50	20.50	20.50	20.90	20.90	21.25
Civilians	1.00	2.00	6.50	6.50	6.50	6.50	6.10	5.75	5.75	6.75
Fire:										
Firefighters and officers	29.00	29.00	29.00	28.00	26.00	26.00	26.00	26.00	22.00	22.50
Civilians	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0.00	0.00
Refuse collection	1.00	2.00	2.50	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Other public works:	17.50	15.50	15.00	14.50	14.50	14.50	14.50	14.50	14.50	13.50
Engineering	0.50	1.00	1.00	1.00	1.00	2.85	2.85	2.75	2.75	3.75
Other	2.00	3.00	3.00	2.40	2.00	2.00	2.10	2.10	2.10	2.10
Fleet	3.50	4.50	4.50	4.50	4.60	4.60	4.75	5.00	5.00	5.00
Parks and recreation	9.80	13.55	13.50	13.50	15.70	13.50	13.50	14.00	14.00	12.40
Library	11.95	11.95	11.95	11.45	11.45	10.45	10.45	10.45	9.95	9.95
Wastewater	4.00	4.00	4.00	4.00	4.00	4.00	3.50	3.50	3.50	3.00
<b>Total</b>	<b>132.50</b>	<b>143.75</b>	<b>148.20</b>	<b>146.10</b>	<b>144.40</b>	<b>137.20</b>	<b>134.75</b>	<b>134.60</b>	<b>128.55</b>	<b>127.50</b>

Source: Finance Department

Table 14

*City of Poquoson, Virginia**Operating Indicators by Function / Program***Last Ten Fiscal Years**

Function / Program	Fiscal Year									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Police (1)										
Physical arrests	315	357	410	379	444	412	350	482	438	778
Parking violations	54	N/A	8	71	N/A	N/A	N/A	N/A	N/A	N/A
Traffic violations	987	960	804	1,041	550	712	468	701	762	795
Fire (2)										
Emergency responses	1,870	1,574	1,362	1,687	1,466	1,194	1,106	1,127	1,055	1,183
Fires extinguished	79	44	38	35	52	85	180	76	85	63
Inspections	233	56	31	41	23	12	12	12	12	10
Refuse collection (3)										
Refuse collected (tons)	2,560	2,524	2,160	1,663	1,603	1,610	1,604	1,646	1,550	1,535
Recyclables collected (tons)	1,418	2,482	1,490	1,445	1,484	1,312	1,578	1,396	1,174	1,153
Other public works (3)										
Street resurfacing (tons)	2,481	3,315	3,910	4,943	3,620	3,019	2,737	2,536	3,409	4,725
Library (4)										
Volumes in collection	59,217	60,180	58,266	58,401	57,196	53,856	52,644	51,684	50,755	47,496
Total volumes borrowed	209,768	216,065	208,534	193,354	190,000	181,360	179,276	197,299	189,127	186,450
Wastewater (5)										
Sewer connections	4,803	4,876	4,871	4,790	4,649	4,544	4,494	4,440	4,200	3,881

N/A - This information is not available

Source:

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

Table 15

*City of Poquoson, Virginia**Capital Asset Statistics by Function/Program***Last Ten Fiscal Years**

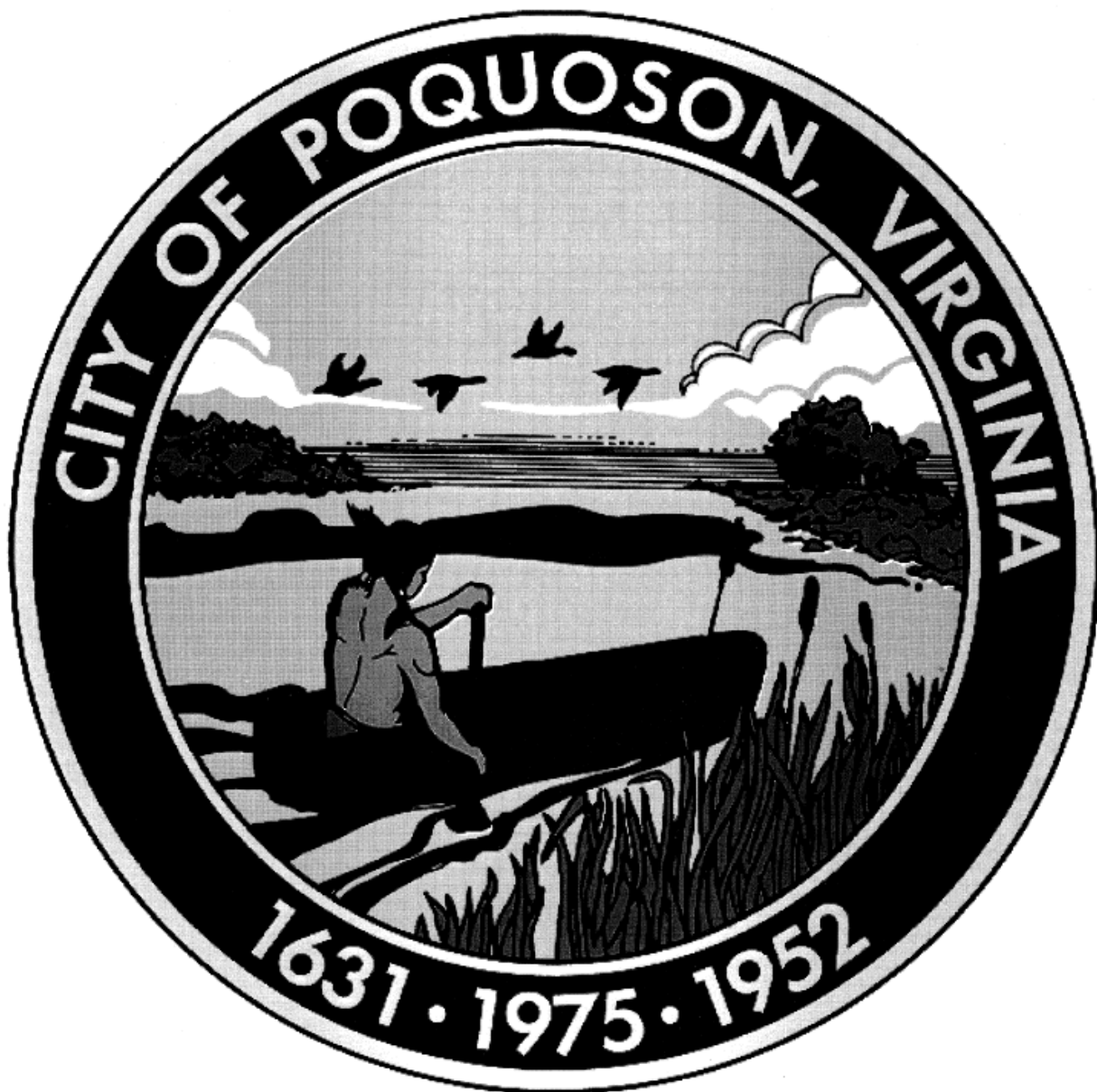
Function/Program	Fiscal Year									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Police (1)										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	23	23	23	23	23	21	21	20.9	21	21
Fire stations (2)	2	2	2	2	2	2	2	2	2	2
Refuse collection (3)										
Collection trucks	0	0	3	3	3	3	3	3	3	3
Other public works (3)										
Street (miles)	55.4	54.6	53.16	53.16	53.16	52.88	51.95	51.76	51.76	51.76
Streetlights	574	574	561	546	542	507	502	495	477	404
Traffic signals	4	4	4	4	3	3	3	3	3	3
Park and recreation (4)										
Acreage	48	48	48	46	39	38	31	31	31	31
Playgrounds	3	3	3	4	3	3	2	2	2	2
Baseball / softball diamonds	6	6	6	5	3	3	3	3	3	3
Soccer / football fields	6	6	6	5	5	5	5	5	5	5
Community centers	1	1	1	1	1	1	1	1	1	1
Wastewater (5)										
Sanitary sewers (miles)	64	64	64	64	64	64	63	54	54	52
Storm sewers (miles)	34(*)	32(*)	16	16	16	15	14	13	12	10

(\*) 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

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## *Compliance Section*



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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Poquoson, Virginia (the "City"), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 6, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

***Internal Control Over Financial Reporting***

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

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

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

***Compliance and Other Matters***

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



We did identify one matter of noncompliance with state compliance requirements which is described in the accompanying schedule of findings and questioned costs as finding 2010-1.

We noted certain other matters that we reported to management of the City in a separate letter dated December 6, 2010.

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

*Cherry, Bekant & Holland, L.L.P.*

Virginia Beach, Virginia  
December 6, 2010



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

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

***Compliance***

We have audited the compliance of City of Poquoson, Virginia (the "City") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

***Internal Control Over Compliance***

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

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

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

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

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

Virginia Beach, Virginia  
December 6, 2010

*City of Poquoson, Virginia*

***Schedule of Expenditures of Federal Awards***

**June 30, 2010**

	Federal CFDA Number	Federal Expenditures
<b>Federal granting agency / recipient state agency</b>		
<b>Grant program/grant number</b>		
<b>U.S. Department of Agriculture</b>		
Pass through payments:		
Department of Agriculture and Consumer Services:		
Child Nutrition Cluster:		
National School Breakfast Program	10.553	26,068
National School Lunch Program	10.555	128,259
		<u>\$ 154,327</u>
<b>U.S. Department of Transportation</b>		
Pass through payments:		
Department of Motor Vehicles:		
Alcohol Traffic Safety and Drunk Driving		
Prevention Incentive	20.607	24,097
Highway Planning and Construction (Tea 21 Grant)	20.205	240
<b>U.S. Department of Education</b>		
Direct payments:		
Impact Aid	84.041	195,732
Foreign Language Grant	84.293	115,995
Pass through payments:		
Virginia Department of Education:		
Title I: Grants to local educational agencies	84.010	43,996
Title II: Improving teacher quality state grants	84.367	55,760
Title IID: Technology	84.282	1,850
Special Education (IDEA) Cluster:		
Title VI-B: Assistance to states for education		
of handicapped children:		
Special Education Grants	84.027	310,012
ARRA - Special Education Grants, Part B, Section 611	84.391A	39,354
Preschool Handicapped	84.173	10,064
Vocational education-basic grants to states	84.048	16,002
State and Drug-free Schools and Communities	84.186	4,430
ARRA - State Fiscal Stabilization Funds	84.394A	932,135
<b>U.S. Department of Justice</b>		
Pass through payments:		
Byrne Justice Assistance Grant	16.738	733
<b>U.S. Department of Homeland Security</b>		
Pass through payments:		
FEMA Public Assistance	97.036	243,000
Hazard Mitigation Grant	97.039	4,300
Local Emergency Management Performance Grant	97.042	5,000
2007 Citizen Corps Program	97.053	16,523
2008 Citizen Corps Program	97.053	16,600
2008 State Homeland Security Program	97.073	14,600
<b>U.S. Department of the Interior</b>		
Direct payments:		
Plum Tree Island Refuge	15.611	3,326
		<u>\$2,208,076</u>

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

*City of Poquoson, Virginia*

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

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**Year Ended June 30, 2010**

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**1. Basis of Presentation**

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

**2. Food Distribution**

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2010, the food service organization had food commodities totaling \$8,090 in inventory.

***Schedule of Findings and Questioned Costs***

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**Year Ended June 30, 2010**

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**1.1. SUMMARY OF AUDITORS' RESULTS**

**Financial Statements:**

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

Internal control over financial reporting:

Material weaknesses identified: **No**

Significant deficiencies identified: **None reported**

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

**Federal Awards:**

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

Internal control over financial reporting:

Material weaknesses identified: **No**

Significant deficiencies identified: **None reported**

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

**Major Programs:**

- Special Education Grants (CFDA No. 84.027, 84.173, 84.391A)
- State Fiscal Stabilization Funds - ARRA (CFDA No. 84.394A)
- FEMA Public Assistance (CFDA No. 97.036)

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

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

*City of Poquoson, Virginia*

***Schedule of Findings and Questioned Costs (Continued)***

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**Year Ended June 30, 2010**

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**2. FINDINGS - FINANCIAL STATEMENT AUDIT - None**

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

**4. FINDINGS AND QUESTIONED COSTS FOR STATE COMPLIANCE**

**2010-1 Record-Keeping of Highway Maintenance Expenditures**

***Criteria:***

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

***Condition:***

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

***Cause:***

The individual was not aware of the requirement to record the specific location of highway maintenance work being completed.

***Effect:***

Highway maintenance expenditures could be recorded for work performed on ineligible streets.

***Recommendation:***

We recommend that exact address and street locations be recorded for all highway maintenance work performed by the City.

***Management Response:***

Specific street addresses and locations will be recorded for all highway maintenance work performed by the City in the future.

*City of Poquoson, Virginia*

***Summary Schedule of Prior Year Findings***

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**Year Ended June 30, 2010**

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**2009-1 Record-keeping of Highway Maintenance Expenditures**

***Criteria:***

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

***Condition:***

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

***Resolution:***

Not corrected. Repeat finding.



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