

City of
Poquoson
Virginia



Comprehensive Annual Financial Report
Fiscal Year July 1, 2012 – June 30, 2013

***Comprehensive Annual
Financial Report***

City of Poquoson, Virginia

Fiscal Year Ended June 30, 2013

Prepared by:

The Department of Finance

Theresa S. Owens, CPA, Director of Finance

City of Poquoson
Government Officials

City Council

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

City Officials

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

School Board

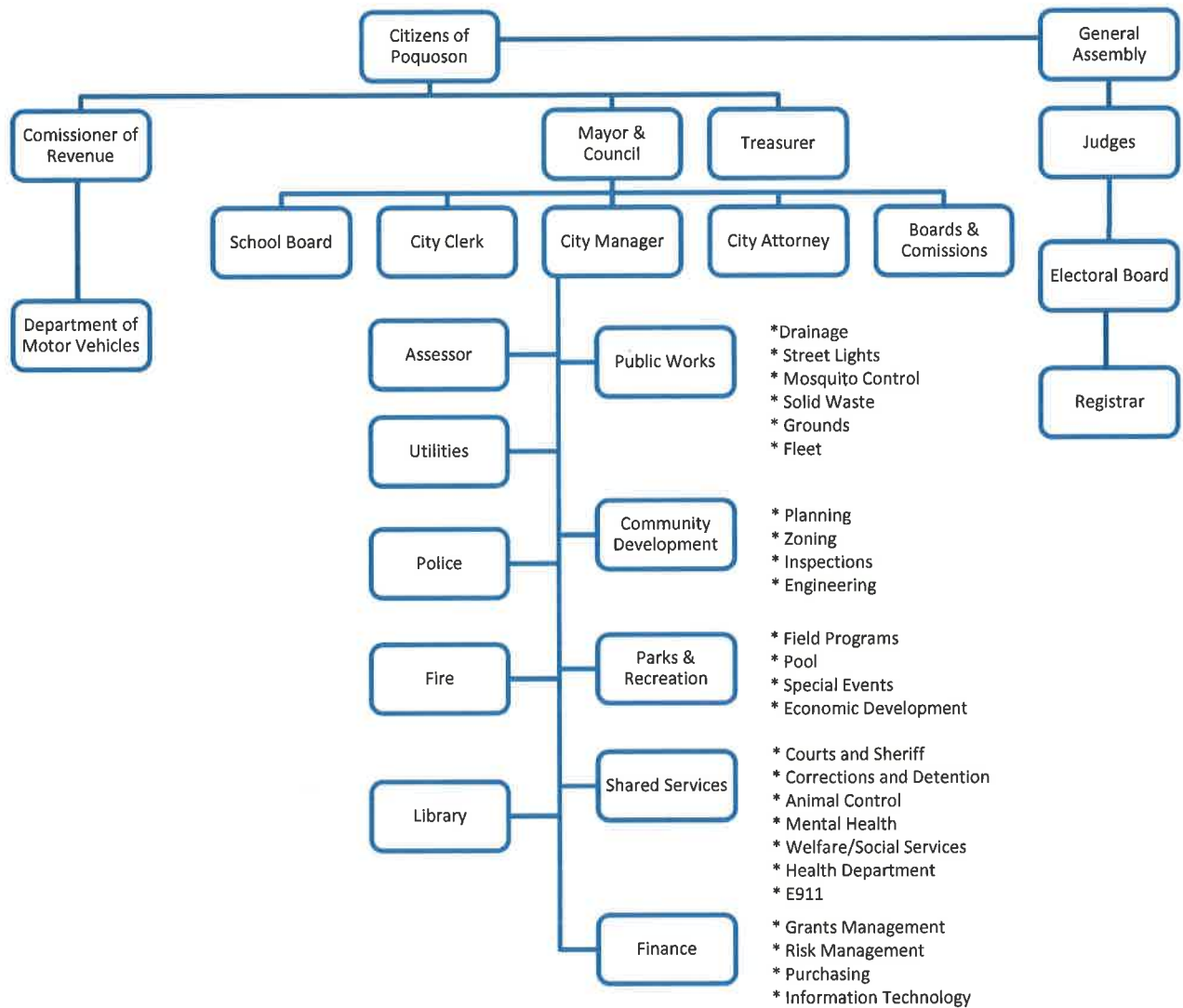
Garry W. Carter, Chair
Robin C. Sydnor, Vice Chair
David A. Hux
Allan Melton
Gail Whittaker
Beth A. Wilson
Steven S. Kast

School Officials

Jennifer Parrish, Ed.D., Superintendent
Amy Colley, Assistant Superintendent for Instruction and Support Services
Bill Bowen, Executive Director of Business and Finance
Steven Pappas, Executive Director of Operations

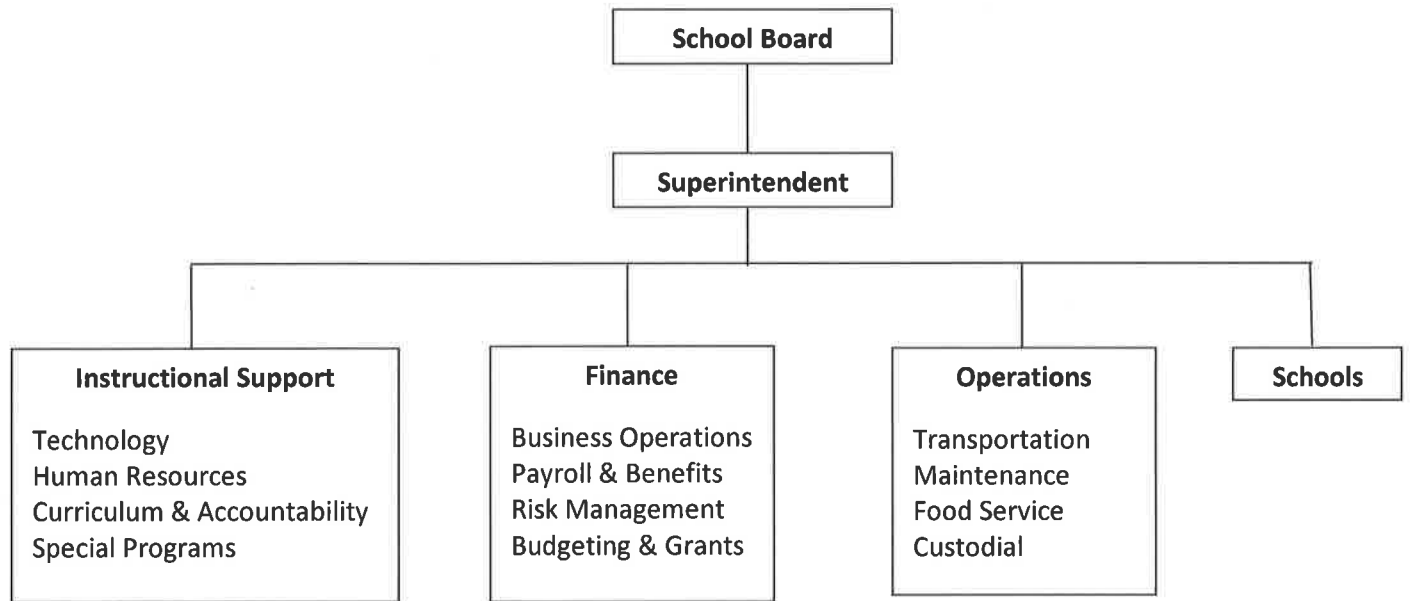
CITY OF POQUOSON, VIRGINIA

CITY GOVERNMENT ORGANIZATION CHART



Poquoson City Public Schools

A Component Unit of the City of Poquoson



Note: City Council appoints School Board Members



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Poquoson
Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

A handwritten signature in black ink, reading "Jeffrey R. Egan". The signature is written in a cursive, flowing style.

Executive Director/CBO



CITY OF POQUOSON

City Manager's Office

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

November 27, 2012

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

We are pleased to submit to you the Comprehensive Annual Financial Report of the City of Poquoson (City) for the fiscal year ended June 30, 2013. An audited annual financial report is required in accordance with Article V, Section 11 of the Poquoson City Charter and is presented in conformity with Generally Accepted Accounting Principles (GAAP) and audited in accordance with Government Auditing Standards and the Auditor of Public Accounts of the Commonwealth of Virginia by a firm of licensed certified public accountants.

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

Cherry Bekaert LLP, Certified Public Accountants, have issued an unmodified opinion on the City's financial statements for the year ended June 30, 2013. The unmodified report of Cherry Bekaert LLP, 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.

City of Poquoson
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2013

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Profile of the City of Poquoson

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

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

The City Council is the policy determining body of the City. Its responsibilities include: adoption of the City budget; creation, combination or elimination of City departments; approval of all tax levies; approval of amendments, supplements or repeals to ordinances and the City Code; and appointment of the City Manager, City Clerk, City Attorney 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 maintains sewage facilities; picks up trash, recycling, landscaping and bulky items; owns and operates a City pool; and manages various paid recreational activities. In addition to general governing activities, the governing body has significant financial influence over the Schools and the Economic Development Authority (EDA), both of which are reported separately within the City of Poquoson's financial statements. Additional information on these two legally separate entities can be found in Note 1 in the notes to basic financial statements starting on page 29.

The annual budget serves as the foundation for the City of Poquoson's financial planning and control. All agencies and departments of the City of Poquoson are required to submit requests for appropriation to the City Manager in January. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager presents a proposed budget to City Council for review in April. The Council is required to hold public hearings on the proposed budget and must adopt a final budget no later than May 31. The appropriated budget is prepared by fund and department. The City Manager may make transfers of appropriations within a fund. Transfers of appropriations between funds and additional appropriations require approval of City Council. The City also maintains an encumbrance accounting system as one method of maintaining budgetary control. Encumbrances are included as budgetary expenditures and therefore do not lapse after year-end. The budget-to-actual comparison for the General Fund starts on page 64 of the report.

Local Economy

The City is located in the southeastern part of the state in the Hampton Roads area. The region is the 27th largest metropolitan statistical area in the country. The City of Poquoson is a suburban community in the Hampton Roads area and residents often work in neighboring cities and typically have the region's highest median income. The City of Poquoson occupies a land area of 14.7 square miles, and according to The Weldon Cooper Center for Public Service, serves an estimated population of 12,097.

Although the City continues to feel the impact of the national and state economic downturns, and the federal government furloughs, according to the Virginia Employment Commission, the City's unemployment rate has decreased each of the last three years from a high of 6% in 2010 to a current rate of 4.7%. This is well below the current national average of 7.2% and the state average of 5.8%.

The City has also seen an increase in local revenue to include sales tax, meals tax and business licenses. While these revenues are increasing, it is not a level once seen prior to the recession.

The City's existing businesses continue to invest in the community. The Marinas have made capital improvements to their facilities to include two bait shops. New water based businesses have also opened.

In March 2012, the City received from Moody's and Standard & Poor inaugural bond rating "Aa3" and "AA+", respectively.

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

Standard & Poor's issues rating ranging from AAA to D to designate the relative investment qualities of bonds. The "AA" is the second major rating category of ten such categories. Standard & Poor describes its "AA" as "an obligation rated AA differs from the highest-rated obligation only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong. The rating from "AA" to "CCC" may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories."

Long-term Financial Planning

Budgets and Capital Improvement Plans are adopted annually, taking into consideration input from all organizational levels of the City. The Planning Commission recommends adoption of 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 and, in June 2011, modified these policies to incorporate GASB 54. The policies include debt policies as well as fund balance policies. The City believes that sound financial management principles require that sufficient funds be retained by the City to provide a stable financial base at all times, therefore one of the fund balance policies adopted included maintaining a minimum unassigned fund balance of 12%-15% of the current year budgeted expenditures. The unassigned fund balance at the end of the year was 19.63% of budget expenditures, well above the adopted policies.

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

Major Initiatives

In 2013, the City continued its comprehensive outreach campaign entitled "*Poquoson Is The Place*" to increase awareness of Poquoson as a wonderful place to live and in which to do business. The campaign folder cites Poquoson as the place to "*Live, Grow, Work, And Play*" and provides one-page informational overviews of the City's business-friendly focus, single and multi-family residential availability, community engagement opportunities, and its outstanding public school system. The City hosted a second annual residential realtor event and a commercial developer event to continue to promote the campaign.

Throughout fiscal year 2013, the City of Poquoson began or adopted several measures to encourage new development throughout the City. The most prominent measure affects the area known as the Big Woods, which consists of approximately 60 forested acres surrounding Victory Boulevard on the north and south and abutting the City line with York County to the west.

In April 2013, staff began working closely with the Planning Commission on language that would establish a mixed-use overlay district within the Big Woods area of the City. This mixed use district, which would comprise all three (3) zoning district designations found within the Big Woods, allows for highly flexible mixed use development. The district, identified as the Planned Unit Development-Mixed Use Overlay District, allows for tracts of land, consisting of at least five (5) acres or more, to be developed using a master plan, approved by City Council. The activation of the district requires at least 500 square feet of commercial use per developed acre. Additionally, developments may consist of no more than 12 residential dwelling units per acre. Lastly, the overlay provides for wetlands density credits that allow for density bonuses based upon much wetlands a property contains. This amendment, which was in development for six (6) months, was adopted in October 2013.

Additionally, the City adopted a change to grant relief of the required side yard setback to property owners in residential districts who do not meet current lot frontage and/or minimum lot size requirements. Other changes included allowance for the construction of sheds on vacant lots, allowance of storage yard in the Business Commercial, General Commercial and the Research and Development districts conditionally by-right and an amendment that would allow developments within the Village Commercial district to contain front yard areas.

The City also partnered with the National Aeronautics and Space Administration to produce a GIS base storm surge mapping tool that allows the City to map storm surge forecast for a variety of tidal conditions. It also has applications for sea level rise planning and storm drainage work. This mapping system will assist first responders and emergency personnel.

During the fiscal year 2013, the City continued implementing the Sanitation Sewer Evaluation Study plan (SSES) as required in order to be in full compliance with the 2007 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. Also included in the SSES work was the completion of the hydraulic model of the sanitary sewer system which is used to forecast peak flows during 10-year rain events and to measure performance on the improvements to the system.

During FY 2013, the City, along with twelve other localities party to the Consent Order, entered into a Memorandum of Understanding with Hampton Roads Sanitation District (HRSD), who is under a separate order, to evaluate regionalization of wastewater service. The Virginia Department of Environmental Quality and U.S. Environmental Protection Agency were receptive to evaluating the potential benefits of regionalization and have amended their respective orders and milestones to accommodate the Regionalization Study before the submittal of the Regional Wet Weather Management Plan. While the study is completed, the affected localities have not approved regionalization.

The City experienced a fire on Thanksgiving Day 2011 and the trailer that houses the administration of public works, utilities and fleet was completely destroyed. In June 2012, the City began construction of a replacement building and by Thanksgiving 2012 the building was completed and occupied by the departments.

The City began or completed three additional projects that will enhance the services for the community. These include the replacement of a public boat ramp, new VoIP phone system and the replacement of the Sewer Pump Station System Control and Data Acquisition Alarm System.

Awards and Acknowledgements

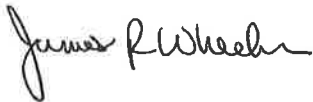
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Poquoson for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012. This was the twenty-fifth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both GAAP and applicable legal requirements.

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

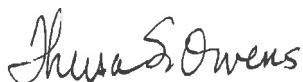
The City also received the GFOA's Award for Distinguished Budget Presentation for its Annual Appropriated Budget for FY 2013. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories including policy documentation, financial planning, and organization.

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

Respectfully submitted,



James R. Wheeler
City Manager



Theresa S. Owens, CPA
Director of Finance

Basic Financial Statements

Report of Independent Auditor

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Poquoson, Virginia, (the "City") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As described in Note 22 to the financial statements, effective July 1, 2012, the City adopted the provisions of Governmental Accounting Standards Board Statements ("GASBS") No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASBS No. 65 *Items Previously Reported as Assets and Liabilities*. Our opinions are not modified with respect to this matter.

Fund Reclassification

As described in Note 22 to the financial statements, effective July 1, 2012, the City has reclassified the beginning balance of the governmental and business activities net position and the general fund. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Poquoson, Virginia's basic financial statements. The introductory section, combining and individual nonmajor fund statements and schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Handwritten signature of Cherry Rehnert in black ink, followed by the letters "LLP".

Virginia Beach, Virginia
November 27, 2013



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, 2012 - June 30, 2013

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, 2013. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which can be found on pages viii through xiii of this report.

Financial Highlights

- The position of the City of Poquoson exceeded its liabilities as of June 30, 2013 by \$27.9 million (net position). Of this amount, \$6.1 million (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position decreased by \$0.1 million.
- As of June 30, 2013, the City's governmental funds reported combined ending fund balances of \$8.8 million, of which \$4.8 million is available to spend at the City's discretion.
- As of June 30, 2013, unassigned fund balance for the General Fund was \$4.8 million, or 22% of total General Fund expenditures.
- The City of Poquoson's total debt outstanding at June 30, 2013 was \$41.1 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.

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

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

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

Both of the government-wide financial statements distinguish functions of the City of Poquoson that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Poquoson include general government and administration; judicial; public safety; public works; health and welfare; recreation and cultural; community development; and grants. The business-type activities of the City of Poquoson include a Sewer Operations Fund, 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 Economic Development Authority (EDA) for which the City of Poquoson is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-63 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 64-68 of this report.

Government-Wide Financial Analysis

Summary of Statement of Net Position
June 30, 2013

	Governmental Activities		Business-Type Activities		Total	
	FY 2013	FY 2012*	FY 2013	FY 2012*	FY 2013	FY 2012*
Current and other assets	\$9,934,664	\$8,300,255	\$1,250,776	\$900,255	\$11,185,440	\$9,200,510
Capital assets	46,099,549	47,217,790	13,508,752	13,985,912	59,608,301	61,203,702
Deferred outflows of resources	331,375	355,129	314,485	353,424	645,860	708,553
Total assets and deferred outflows	\$56,365,588	\$55,873,174	\$15,074,013	\$15,239,591	\$71,439,601	\$71,112,765
Current and other liabilities	\$2,286,035	\$2,383,882	\$418,856	\$443,431	\$2,704,891	\$2,827,313
Long-term liabilities	32,062,911	31,156,271	8,790,753	9,216,378	40,853,664	40,372,649
Total liabilities	\$34,348,946	\$33,540,153	\$9,209,609	\$9,659,809	\$43,558,555	\$43,199,962
Net position:						
Net investment in capital assets	\$16,049,986	\$16,372,666	\$4,848,333	\$4,842,640	\$20,898,319	\$21,215,306
Restricted	878,402	1,037,956	-	-	878,402	1,037,956
Unrestricted	5,088,254	4,922,399	1,016,071	737,142	6,104,325	5,659,541
Total net position	\$22,016,642	\$22,333,021	\$5,864,404	\$5,579,782	\$27,881,046	\$27,912,803

*Restated

Net position serves as a useful indicator of a government's financial position. The City's combined net position total \$27.9 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. Net investment in capital assets total \$20.9 million. The City of Poquoson uses these capital assets to provide services to citizens; and thus these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate liabilities. Total net position of \$6.1 million are unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

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

Governmental Activities. The government's net position decreased by \$0.03 million during FY 2013. The governmental activities decreased by \$0.32 million and the business-type activities increased by \$0.29 million. The decrease in the governmental activities is due to an decrease in capital grants. The increase of the net position of the business-type activities is due to fewer than expected expenditures in the Sewer Fund.

Summary of Changes in Net Position
June 30, 2013

	Governmental Activities		Business-Type Activities		Total	
	FY 2013	FY 2012*	FY 2013	FY 2012*	FY 2013	FY 2012*
Revenues:						
Program revenues:						
Charges for services	\$1,036,178	\$971,896	\$2,697,943	\$2,263,953	\$3,734,121	\$3,235,849
Operating grants and contributions	1,670,603	1,575,285	-	-	1,670,603	1,575,285
Capital grants and contributions	458,320	732,846	-	-	458,320	732,846
General revenues:						
Real estate and personal property taxes	18,219,806	18,228,029	-	-	18,219,806	18,228,029
Other local taxes	2,881,297	2,529,995	-	-	2,881,297	2,529,995
Reimbursements from other agencies	84,883	58,458	-	-	84,883	58,458
Miscellaneous	236,197	322,674	2,677	2,049	238,874	324,723
Unrestricted investment earnings	189,710	181,274	26,440	32,131	216,150	213,405
Total revenues	\$24,776,994	\$24,600,457	\$2,727,060	\$2,298,133	\$27,504,054	\$26,898,590
Expenses:						
General government	3,081,068	3,058,270	-	-	3,081,068	3,058,270
Public safety and judicial	6,609,483	6,296,795	-	-	6,609,483	6,296,795
Public works	1,599,943	1,875,113	-	-	1,599,943	1,875,113
Health and welfare	909,035	913,826	-	-	909,035	913,826
Education	9,557,995	9,510,584	-	-	9,557,995	9,510,584
Parks, recreation, cultural	1,639,717	1,703,842	-	-	1,639,717	1,703,842
Community development	711,874	567,672	-	-	711,874	567,672
Interest and fees on long-term debt	1,114,258	1,219,966	-	-	1,114,258	1,219,966
Sewer	-	-	1,470,187	1,585,084	1,470,187	1,585,084
Solid waste	-	-	842,251	743,280	842,251	743,280
Total expenses	25,223,373	25,146,068	2,312,438	2,328,364	27,535,811	27,474,432
Change in net position before transfers	(446,379)	(545,611)	414,622	(30,231)	(31,757)	(575,842)
Transfers	130,000	(39,600)	(130,000)	39,600	-	-
Increase (decrease) in net position	(316,379)	(585,211)	284,622	9,369	(31,757)	(575,842)
Net position, beginning of year (restated)	22,333,021	22,918,232	5,579,782	5,570,413	27,912,803	28,488,645
Net position, end of year	\$22,016,642	\$22,333,021	\$5,864,404	\$5,579,782	\$27,881,046	\$27,912,803

*Restated

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

	FY 2013	FY 2012
Real estate tax revenue	\$13,639,693	\$13,623,706
Public service corporation taxes	167,060	188,519
Personal property taxes	2,417,444	2,394,121
Penalties and interest	147,619	154,725
Total	\$16,371,816	\$16,361,071

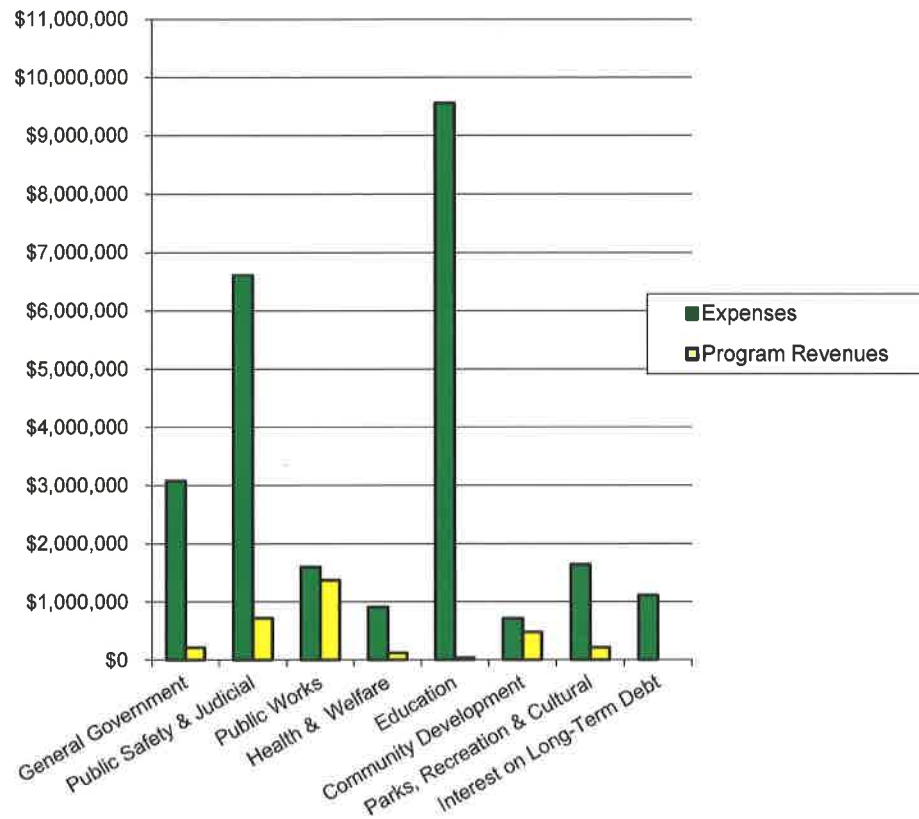
Real estate revenue was about equal in FY 2013 as compared to FY 2012, this was due to a modest increase in development. The City's real estate property tax assessments were \$1,526,769,279 and \$1,519,389,327 for FY 2013 and FY 2012, respectively. The City's real estate tax rate was \$0.92 per \$100 of assessed value in FY 2013 and FY 2012.

The City's personal property tax assessments were \$136,724,090 and \$131,995,740 for FY 2013 and FY 2012, respectively. In FY 2013 and FY 2012, the City's personal property tax rate was \$4.15 per \$100 of assessed value for vehicles. For boats and recreational vehicles the first half of FY 2013, the tax rate was \$1.50 per \$100 of assessed value and the second half was \$0.75 per \$100 of assessed value for boats and \$1.50 per \$100 of assessed value for recreational vehicles. In FY 2012, the City's tax rate for boats and recreational vehicles was \$1.50 per \$100 of assessed value. In FY 2013 and FY 2012, the City's tax rate for mobile homes was \$0.92. per assessed value. Under the provisions of the Personal Property Tax Relief Act (PPTRA), the state's share of local personal property tax was \$1,923,431 for FY 2013 and FY 2012, and is classified as personal property taxes on the statement of activities.

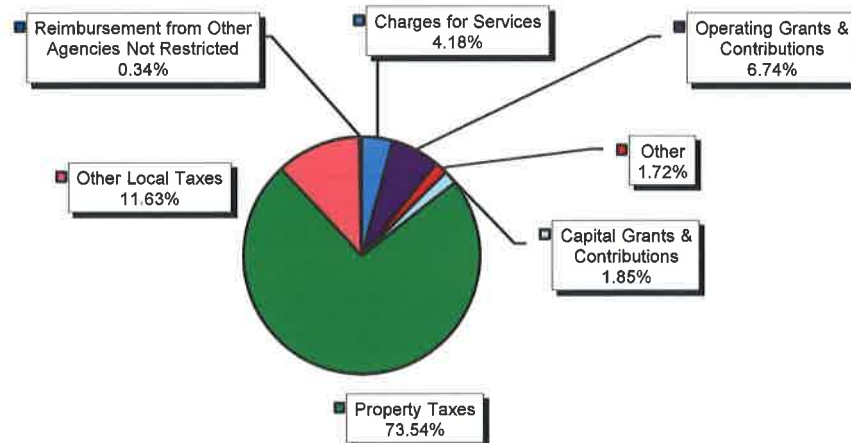
Other local taxes were \$2.9 million and \$2.5 million for FY 2013 and FY 2012, respectively, and consisted of meals taxes, consumers' utilities taxes, franchise license taxes, motor vehicle license taxes, and a variety of other taxes.

For FY 2013, expenses for governmental activities totaled \$25.2 million, including an expense of \$9.6 million to the component unit, Poquoson City School System. For FY 2012, expenses for governmental activities totaled \$25.1 million, including a net payment of \$9.5 million to the to the component unit, Poquoson City School System.

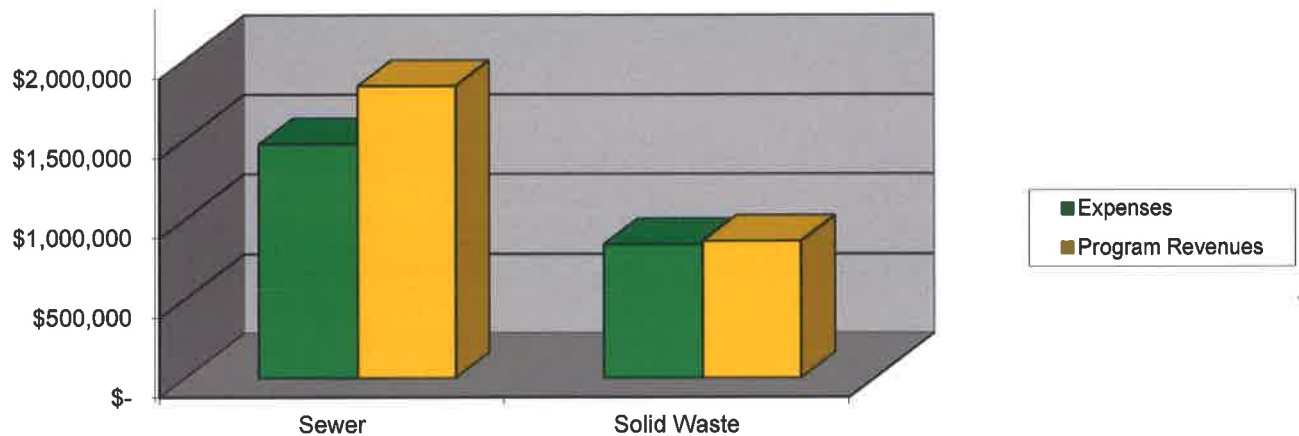
Expenses and Program Revenues - Governmental Activities



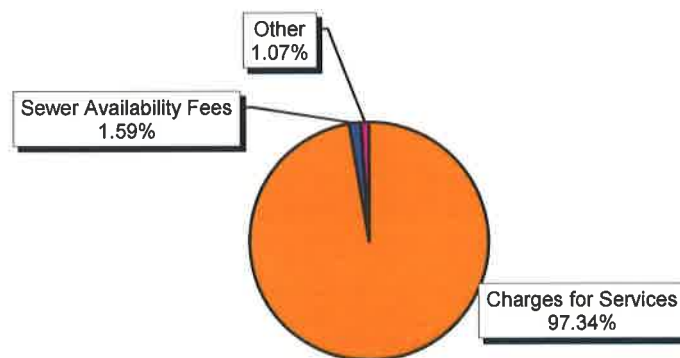
Revenues by Sources - Governmental Activities



Expense and Program Revenues - Business-Type Activities



Revenues by Source - Business-Type Activities

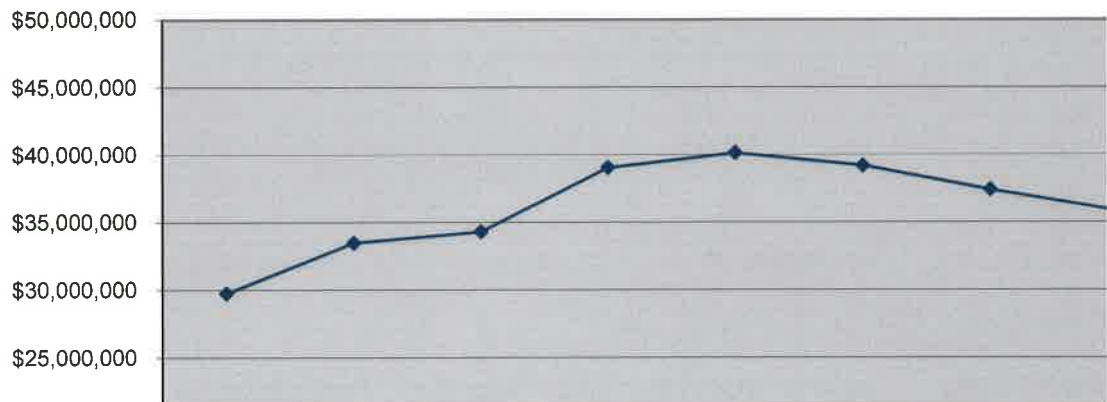


Business-Type Activities. Business-type activities increased the City's net position before transfers by \$.41 million and increased the net position by \$.28 million after transfers. This increase in net position can be attributable to a decrease in interest charges due to refinancing the debt in the previous year to take advantage of lowering interest rates and an increase in fees.

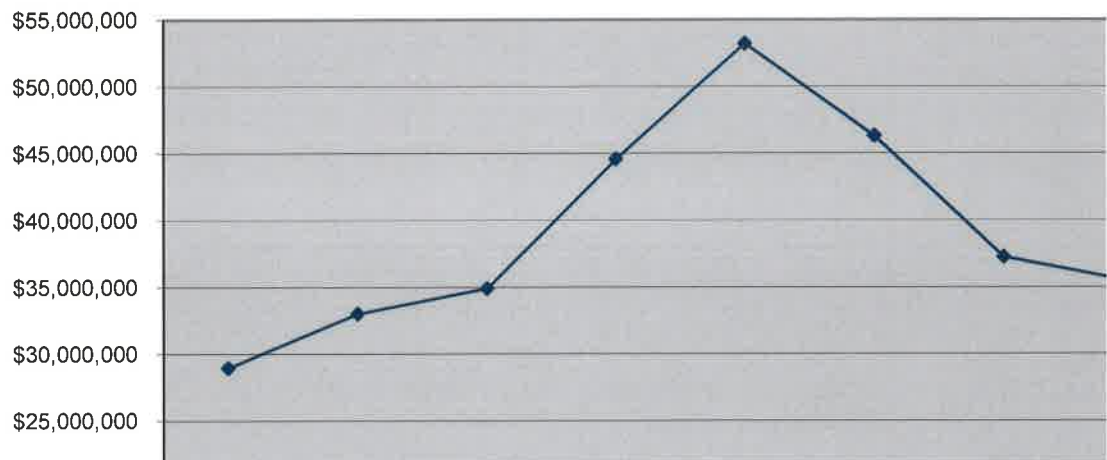
Financial Analysis of the Government's Funds

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

General Governmental Revenues



General Governmental Expenditures



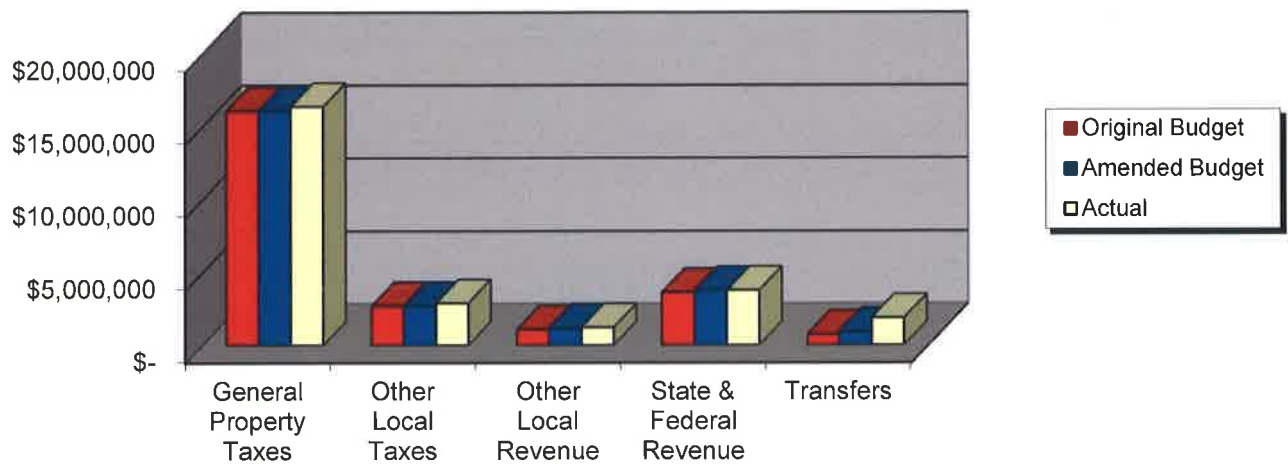
General Fund Budgetary Highlights

The City of Poquoson uses fund accounting and budgeting to ensure and demonstrate compliance with finance-related legal requirements. The General Fund budgetary comparison to actual can be found on Exhibit K. The City records actual revenues and expenditures using generally accepted accounting principles (GAAP) with the exception of encumbrances, which are included as budgetary expenditures. At the end of Exhibit K, the non-GAAP budgetary expenditures are reconciled to the GAAP statements. The budget differences of \$.38 million between the original budget and the final amended budget can be briefly summarized as follows:

- \$.03 million additional transfer to the schools for the prior year unspent transfer to support technology in the School System.
- \$.12 million re-appropriation of restricted revenue received for the Police Department, Fire Department and Library.
- \$.11 million appropriation for various grants for public safety.
- \$.01 million appropriation for various other grants.
- \$.03 million appropriation for small capital expenditures.
- \$.05 million appropriation for insurance recovery due to fire.
- \$.01 million appropriation for donations received for various departments.
- \$.01 million appropriation for additional funds received for Events.

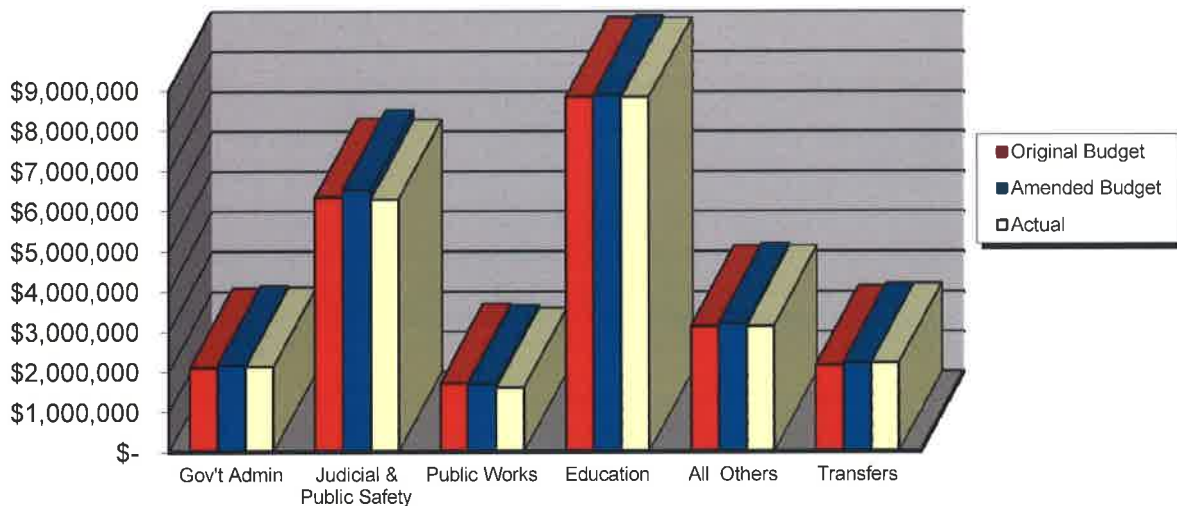
The charts on the following page show the original approved budget, the final amended budget, and actual amounts for both revenues and expenditures in the General Fund.

General Fund Revenue Comparison of Budget to Actual



The City's actual general fund revenues of \$26.1 million surpassed the original budget by \$1.8 million and \$1.5 million from the amended budget. The City issued \$1.7 million in general obligation debt late in FY 2013 that was loaned to the Economic Development Authority (EDA) for the EDA to repay a bank line of credit, therefore, the loan to the EDA is recorded as a note receivable.

General Fund Expenditures Comparison of Budget to Actual



As reflected above, actual General Fund expenditures were \$24.2 million. The increase in expenditures is a result of additional personnel costs and capital outlay in public safety.

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 2013, capital projects of \$.79 million included the construction costs for a new public works administration building and the beginning of a replacement for a public boat ramp 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, 2013, amounted to \$59.6 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 2013	FY 2012	FY 2013	FY 2012	FY 2013	FY 2012
Land	\$3,183,226	\$3,043,029	\$214,666	\$214,666	\$3,397,892	\$3,257,695
Construction in progress	139,749	385,915	-	-	139,749	385,915
Buildings	6,627,877	6,731,580	-	-	6,627,877	6,731,580
Infrastructure	6,982,919	7,111,437	-	-	6,982,919	7,111,437
Land improvements	1,733,175	1,490,174	-	-	1,733,175	1,490,174
Machinery and equipment	2,475,111	2,784,244	464,046	206,832	2,939,157	2,991,076
Sewer system	-	-	12,823,041	13,385,773	12,823,041	13,385,773
Sewer easement	-	-	7,000	7,000	7,000	7,000
Allocated school buildings	24,957,492	25,671,411	-	-	24,957,492	25,671,411
Total	\$46,099,549	\$47,217,790	\$13,508,753	\$13,814,271	\$59,608,302	\$61,032,061

Debt Administration. Total outstanding general obligation debt at June 30, 2013 was \$38.5 million of which \$30.2 million is considered to be net direct tax supported debt. Included in the total debt are \$28.7 million in bonds and leases, and \$1.5 million in State Literary Loans. The remaining \$8.3 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, 2013 debt limitation for the City of Poquoson is \$153 million, which is significantly in excess of the City of Poquoson's \$38.5 million outstanding net direct bonded debt.

Net Direct Tax Supported Debt
General Governmental Activities

	FY 2013	FY 2012
Net direct bonded debt	\$30,232,987	\$29,183,413
Ratio of outstanding direct debt to assessed value	1.98%	1.92%
Net debt per capita	\$2,499	\$2,384

More detailed information on the City of Poquoson's long-term debt activity and capital asset activity can be found in Notes 7, 8, 9 and 10 of this report.

Economic Factors and Next Year's Budgets and Rates

The FY 2014 budget was prepared with economic trends and factors within the City taken into account:

- FY 2014 is a reassessment year and property values declined slightly.
- The FY 2014 adopted budget included an equalized rate of an additional \$.02 and an increase in the real estate rate of \$.03 for a total tax rate of \$.97 per \$100 of assessed value.
- The FY 2014 adopted budget includes a decrease in boat tax.
- In FY 2014, expenditure increases included health insurance and retirement.

Taking the previous factors into account, the FY 2014 budget was an increase of less than 1%.

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

Statement of Net Position**June 30, 2013**

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and investments	\$ 6,081,847	\$ 843,501	\$ 6,925,348	\$ 2,461,467
Property taxes receivable, net	420,621	-	420,621	-
Other receivables, net	243,432	402,107	645,539	10,294
Due from component units	41,254	-	41,254	-
Notes receivable, component unit	1,734,000	-	1,734,000	-
Due from other governments	1,145,061	-	1,145,061	567,156
Inventory	33,854	3,112	36,966	15,153
Notes receivable	234,595	2,055	236,650	-
Capital assets				
Land and construction-in-process	3,322,975	214,666	3,537,641	2,943,037
Other capital assets, net	42,776,574	13,294,087	56,070,661	5,043,338
Capital assets, net	46,099,549	13,508,753	59,608,302	7,986,375
Total assets	56,034,213	14,759,528	70,793,741	11,040,445
Deferred Outflows of Resources				
Deferred refunding costs	331,375	314,485	645,860	-
Total assets and deferred outflows of resources	\$ 56,365,588	\$ 15,074,013	\$ 71,439,601	\$ 11,040,445
Liabilities				
Accounts payable and accrued liabilities	\$ 931,451	\$ 98,646	\$ 1,030,097	\$ 2,299,747
Accrued interest	456,388	113,307	569,695	-
Due to primary government	-	-	-	41,254
Noncurrent liabilities				
Due within one year	898,196	206,904	1,105,100	79,649
Due in more than one year	31,828,845	8,787,036	40,615,881	2,029,002
Other post-employment benefit obligation	234,066	3,716	237,782	120,994
Total liabilities	34,348,946	9,209,609	43,558,555	4,570,646
Net Position				
Net investment in capital assets	16,049,986	4,848,334	20,898,320	6,252,375
Restricted for:				
Capital projects	645,971	-	645,971	-
Other purposes	232,431	-	232,431	53,254
Unrestricted	5,088,254	1,016,070	6,104,324	164,170
Total net position	22,016,642	5,864,404	27,881,046	6,469,799
	\$ 56,365,588	\$ 15,074,013	\$ 71,439,601	\$ 11,040,445

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

Statement of Activities

Year Ended June 30, 2013

Functions/Programs	Program Revenues				Net Revenues (Expenses) and Changes in Net Position			
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	Component Units
Primary Government								
Government activities:								
General government and administration	\$ 3,081,068	\$ 218,338	\$ -	\$ -	\$ (2,862,730)	\$ -	\$ (2,862,730)	\$ -
Public safety and judicial	6,609,483	370,268	349,856	-	(5,889,359)	-	(5,889,359)	-
Public works	1,599,943	-	915,000	458,320	(226,623)	-	(226,623)	-
Health and welfare	909,035	-	118,597	-	(790,438)	-	(790,438)	-
Education	9,557,995	36,347	-	-	(9,521,648)	-	(9,521,648)	-
Parks, recreation, cultural	1,639,717	80,352	137,757	-	(1,421,608)	-	(1,421,608)	-
Community development	711,874	330,873	149,393	-	(231,608)	-	(231,608)	-
Interest and fees on long-term debt	1,114,258	-	-	-	(1,114,258)	-	(1,114,258)	-
Total governmental activities	25,223,373	1,036,178	1,670,603	458,320	(22,058,272)	-	(22,058,272)	-
Business-type activities:								
Sewer	1,470,187	1,835,646	-	-	-	365,459	365,459	-
Solid waste	842,251	862,297	-	-	-	20,046	20,046	-
Total business-type activities	2,312,438	2,697,943	-	-	-	385,505	385,505	-
Total primary government	\$ 27,535,811	\$ 3,734,121	\$ 1,670,603	\$ 458,320	(22,058,272)	385,505	(21,672,767)	-
Component Units								
Poquoson Public Schools	\$ 21,404,514	\$ 289,996	\$ 11,776,687	\$ -	-	-	-	(9,337,831)
Economic Development Authority	190,446	21,716	-	-	-	-	-	(168,730)
Total component units	\$ 21,594,960	\$ 311,712	\$ 11,776,687	\$ -	-	-	-	(9,506,561)
General Revenues								
Real estate and personal property taxes					18,219,806	-	18,219,806	-
Other local taxes					2,881,297	-	2,881,297	-
Payments from the City of Poquoson					-	-	-	9,052,462
Reimbursements from other agencies not restricted to specific programs					84,883	-	84,883	-
Miscellaneous					236,197	2,677	238,874	-
Unrestricted investment earnings					189,710	26,440	216,150	-
Transfers					130,000	(130,000)	-	-
Total general revenues, transfers and miscellaneous					21,741,893	(100,883)	21,641,010	9,052,462
Change in net position					(316,379)	284,622	(31,757)	(454,099)
Net position, beginning of year (restated)					22,333,021	5,579,782	27,912,803	6,923,898
Net position, end of year					\$ 22,016,642	\$ 5,864,404	\$ 27,881,046	\$ 6,469,799

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

Balance Sheet - Governmental Funds**June 30, 2013**

Assets	General	Debt Service	Capital Projects	Total Governmental Funds
Cash and cash investments	\$ 4,658,354	\$ 245,937	\$ 1,159,109	\$ 6,063,400
Property taxes receivable, net	420,621	-	-	420,621
Other receivables	243,373	-	-	243,373
Notes receivable	234,595	-	-	234,595
Due from component units	1,775,254	-	-	1,775,254
Due from other governmental units	1,141,077	-	3,984	1,145,061
Total assets	\$ 8,473,274	\$ 245,937	\$ 1,163,093	\$ 9,882,304
Liabilities				
Accounts payable and accrued liabilities	\$ 719,697	\$ -	\$ 111,313	\$ 831,010
Deferred Inflows of Resources				
Unavailable revenue - property taxes	286,279	-	-	286,279
Fund Balances				
Fund balances:				
Nonspendable	1,968,595	-	-	1,968,595
Restricted	234,126	-	645,971	880,097
Assigned	426,772	245,937	405,809	1,078,518
Unassigned	4,837,805	-	-	4,837,805
Total fund balances	7,467,298	245,937	1,051,780	8,765,015
Total liabilities, deferred inflows and fund balances	\$ 8,473,274	\$ 245,937	\$ 1,163,093	\$ 9,882,304

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

Balance Sheet - Governmental Funds

June 30, 2013

**Reconciliation of Balance Sheet - Governmental Funds to
Statement of Net Position**

Total fund balances - governmental funds	\$ 8,765,015
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation.	46,084,841
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Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	286,279
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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 position.	17,517
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Other liabilities not paid from current-period revenues are not reported in funds for:

Accrued interest	(456,388)
Accrued compensated absences	(596,818)
Accrued termination benefits	(68,848)
Other post-employment benefit obligation	(231,393)

Long-term liabilities, including bonds payable, net of deferred bond refunding charges, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(31,783,563)
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Total net position - governmental activities	\$ 22,016,642
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Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds**Year Ended June 30, 2013**

	General	Debt Service	Capital Projects	Total Governmental Funds
Revenues				
General property taxes	\$ 16,371,816	\$ -	\$ -	\$ 16,371,816
Other local taxes	2,881,297	-	-	2,881,297
Permits, privilege fees and regulatory licenses	76,040	-	-	76,040
Fines and forfeitures	58,103	-	-	58,103
Revenue from use of money and property	189,068	-	642	189,710
Charges for services	683,698	-	-	683,698
Intergovernmental	3,897,254	-	458,320	4,355,574
Miscellaneous	259,059	-	1,186	260,245
Total revenues	24,416,335	-	460,148	24,876,483
Expenditures				
General government administration	2,116,875	-	-	2,116,875
Public safety and judicial	6,247,962	-	-	6,247,962
Public works	1,587,114	-	-	1,587,114
Health and welfare	892,421	-	-	892,421
Parks, recreation, and cultural	1,545,578	-	-	1,545,578
Community development	705,927	-	-	705,927
Nondepartmental	144,213	-	-	144,213
Education	8,844,076	-	-	8,844,076
Capital outlay	-	-	794,678	794,678
Debt service:				
Principal retirement	-	684,426	-	684,426
Interest and fiscal charges	-	1,124,605	-	1,124,605
Total expenditures	22,084,166	1,809,031	794,678	24,687,875
Excess (deficiency) of revenues over expenditures	2,332,169	(1,809,031)	(334,530)	188,608
Other financing sources (uses)				
Transfers in	130,000	2,052,250	150,840	2,333,090
Transfers out	(2,203,090)	-	-	(2,203,090)
Issuance of debt:				
Bonds issued	1,734,000	-	-	1,734,000
Total other financing sources (uses)	(339,090)	2,052,250	150,840	1,864,000
Net change in fund balances	1,993,079	243,219	(183,690)	2,052,608
Fund Balances, July 1, 2012 (Restated)	5,474,219	2,718	1,235,470	6,712,407
Fund Balances, July 1, 2013	\$ 7,467,298	\$ 245,937	\$ 1,051,780	\$ 8,765,015

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, 2013**

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

Net change in fund balances - total governmental funds **\$ 2,052,608**

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

Some revenues will not be collected for several months after the City's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Unearned revenues decreased by this amount this year. (75,441)

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	1,007,276
Depreciation expense	(1,902,352)
Loss on disposal of capital assets	(220,280)

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

Debt issued	(1,734,000)
Amortization of premiums on debt issued, net	134,889
Amortization of deferred refunding charge, net	(23,754)
Repayment of debt principal	684,426

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

Accrued interest	(100,788)
Compensated absences	(84,723)
Other post-employment benefits liability	(67,262)
Accrued termination benefits	39,957

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

(26,935)

Change in net position - governmental activities **\$ (316,379)**

Statement of Net Position - Proprietary Funds**June 30, 2013**

Assets	Business-Type Activities Proprietary Funds			Governmental Activities - Internal Service Funds
	Sewer Operation	Solid Waste	Total	
Current assets				
Cash and investments	\$ 688,185	\$ 155,316	\$ 843,501	\$ 18,447
Accounts receivable	262,120	139,987	402,107	59
Note receivable	2,055	-	2,055	-
Inventory	-	3,112	3,112	33,854
Total current assets	952,360	298,415	1,250,775	52,360
Noncurrent assets				
Capital assets:				
Land	214,666	-	214,666	-
Buildings	-	9,943	9,943	41,742
Sewer system	22,176,691	-	22,176,691	-
Equipment	792,221	438,321	1,230,542	45,910
Less - accumulated depreciation	(9,804,735)	(318,354)	(10,123,089)	(72,944)
Total capital assets (net of accumulated depreciation)	13,378,843	129,910	13,508,753	14,708
Total noncurrent assets	13,378,843	129,910	13,508,753	14,708
Total assets	14,331,203	428,325	14,759,528	67,068
Deferred outflows of resources				
Deferred refunding costs	314,485	-	314,485	-
Total assets and deferred outflows of resources	\$ 14,645,688	\$ 428,325	\$ 15,074,013	\$ 67,068
Liabilities				
Current liabilities				
Vouchers and accounts payable	\$ 43,683	\$ 49,287	\$ 92,970	\$ 27,702
Accrued payroll	4,771	905	5,676	3,891
Accrued interest	113,307	-	113,307	-
Compensated absences	1,676	228	1,904	1,529
Bonds payable, current portion	205,000	-	205,000	-
Total current liabilities	368,437	50,420	418,857	33,122
Noncurrent liabilities				
Compensated absences	15,088	2,044	17,132	13,756
Bonds payable, less current portion	8,769,904	-	8,769,904	-
Other post-employment benefit obligation	3,201	515	3,716	2,673
Total noncurrent liabilities	8,788,193	2,559	8,790,752	16,429
Total liabilities	9,156,630	52,979	9,209,609	49,551
Net Position				
Net investment in capital assets	4,718,424	129,910	4,848,334	14,708
Unrestricted	770,634	245,436	1,016,070	2,809
Total net position	5,489,058	375,346	5,864,404	17,517
Total liabilities and net position	\$ 14,645,688	\$ 428,325	\$ 15,074,013	\$ 67,068

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

Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds**Year Ended June 30, 2013**

	Proprietary Fund Types			Governmental Activities - Internal Service Funds
	Sewer Operation	Solid Waste	Total	
Operating revenues				
Charges for services	\$ 1,792,346	\$ 862,297	\$ 2,654,643	\$ 694,987
Miscellaneous	2,677	-	2,677	-
Total operating revenues	1,795,023	862,297	2,657,320	694,987
Operating expenses				
Personnel services	272,332	81,079	353,411	229,054
Contractual services	135,309	174,668	309,977	31,353
Materials and supplies	62,439	33,858	96,297	444,882
Utilities	76,000	94	76,094	4,195
Depreciation	587,435	33,880	621,315	2,886
Other charges	38,983	20,021	59,004	9,552
Waste disposal	-	498,651	498,651	-
Total operating expenses	1,172,498	842,251	2,014,749	721,922
Operating income (loss)	622,525	20,046	642,571	(26,935)
Nonoperating revenues (expenses)				
Interest income	26,393	47	26,440	-
Interest and fiscal charges	(297,689)	-	(297,689)	-
Sewer availability fees	43,300	-	43,300	-
Net nonoperating revenues (expenses)	(227,996)	47	(227,949)	-
Income (loss) before transfers	394,529	20,093	414,622	(26,935)
Transfers				
Transfers out	(130,000)	-	(130,000)	-
Net transfers	(130,000)	-	(130,000)	-
Change in net position	264,529	20,093	284,622	(26,935)
Net position, July 1, 2012 (restated)	5,224,529	355,253	5,579,782	44,452
Net position, June 30, 2013	\$ 5,489,058	\$ 375,346	\$ 5,864,404	\$ 17,517

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

Statement of Cash Flows - Proprietary Funds**Year Ended June 30, 2013**

	Proprietary Fund Types			Internal Service Fund
	Sewer Operation	Solid Waste	Total	
Cash flows from operating activities				
Received from customers and users	\$ 1,798,217	\$ 876,541	\$ 2,674,758	\$ 695,136
Payments to suppliers for goods and services	(246,749)	(714,297)	(961,046)	(491,718)
Payments to employees	(275,061)	(82,657)	(357,718)	(233,788)
Net cash provided by (used in) operating activities	1,276,407	79,587	1,355,994	(30,370)
Cash flows from noncapital financing activities				
Transfers to other funds	(130,000)	-	(130,000)	-
Net cash provided by (used in) noncapital financing activities	(130,000)	-	(130,000)	-
Cash flows from capital and related financing activities				
Principal paid on capital debt	(300,000)	-	(300,000)	-
Sewer availability fees	43,300	-	43,300	-
Interest paid on capital debt	(308,901)	-	(308,901)	-
Acquisition and construction of capital assets	(315,798)	-	(315,798)	-
Net cash provided by (used in) capital and related financing activities	(881,399)	-	(881,399)	-
Cash flows from investing activities				
Interest received	26,394	46	26,440	-
Net increase (decrease) in cash and investments	291,402	79,633	371,035	(30,370)
Cash and investments, beginning of year	396,783	75,683	472,466	48,817
Cash and investments, end of year	\$ 688,185	\$ 155,316	\$ 843,501	\$ 18,447
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ 622,525	\$ 20,046	\$ 642,571	\$ (26,935)
Adjustments:				
Depreciation	587,435	33,880	621,315	2,886
Changes in assets and liabilities:				
Receivables, net	3,194	14,244	17,438	149
Inventories	-	3,078	3,078	(21,772)
Vouchers and accounts payable	65,258	9,060	74,318	18,784
Accrued compensated absences	2,547	1,598	4,145	2,626
Other post employment benefits liability	(1,823)	(741)	(2,564)	(1,374)
Accrued payroll	(2,729)	(1,578)	(4,307)	(4,734)
Net cash provided by (used in) operating activities	\$ 1,276,407	\$ 79,587	\$ 1,355,994	\$ (30,370)

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

Statement of Fiduciary Assets and Liabilities

June 30, 2013

		<u>Library Agency Fund</u>
	Assets	
Cash and cash equivalents		<u>\$ 38,320</u>
	Liabilities	
Amounts held in trust for library building		<u>\$ 38,320</u>

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

Combining Statement of Net Position - Component Units**June 30, 2013**

Assets	Poquoson Public Schools	Economic Development Authority	Total
Cash and cash equivalents	\$ 2,453,351	\$ 8,116	\$ 2,461,467
Accounts receivable	-	10,294	10,294
Due from other governments	567,156	-	567,156
Inventory	15,153	-	15,153
Land	450,876	2,492,161	2,943,037
Other capital assets, net	4,848,334	195,004	5,043,338
Total assets	\$ 8,334,870	\$ 2,705,575	\$ 11,040,445
Liabilities			
Vouchers and accounts payable	\$ 2,299,747	\$ -	\$ 2,299,747
Compensated absences, current	79,649	-	79,649
Note payable, primary government	41,254	1,734,000	1,775,254
Compensated absences, noncurrent	295,002	-	295,002
Other post-employment benefit obligation	120,994	-	120,994
Total liabilities	2,836,646	1,734,000	4,570,646
Net Position			
Net investment in capital assets	5,299,210	953,165	6,252,375
Restricted	53,254	-	53,254
Unrestricted	145,760	18,410	164,170
Total net position	5,498,224	971,575	6,469,799
Total liabilities and net position	\$ 8,334,870	\$ 2,705,575	\$ 11,040,445

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

Combining Statement of Activities - Component Units**Year Ended June 30, 2013**

		Program Revenues			Net Revenues (Expenses) and Changes in Net Position		
		Charges for	Operating	Capital	Poquoson	Economic	
	Expenses	Services	Grants and Contributions	Contributions	Public Schools	Development Authority	Total
Poquoson Public Schools							
Education	\$ 21,404,514	\$ 289,996	\$ 11,776,687	\$ -	\$ (9,337,831)	\$ -	\$ (9,337,831)
Economic Development Authority							
Economic Development	190,446	21,716	-	-	-	(168,730)	(168,730)
Total component units	\$ 21,594,960	\$ 311,712	\$ 11,776,687	\$ -	(9,337,831)	(168,730)	\$ (9,506,561)

General revenues

City of Poquoson and miscellaneous	9,052,462	-	9,052,462
Total general revenues	9,052,462	-	9,052,462
Change in net position	(285,369)	(168,730)	(454,099)
Net position, beginning of year	5,783,593	1,140,305	6,923,898
Net position, end of year	\$ 5,498,224	\$ 971,575	\$ 6,469,799

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

June 30, 2013

1. Summary of Significant Accounting Policies

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

Financial Reporting Entity

The City of Poquoson, which had been a part of York County for many years, became a town in 1952 and an independent city in 1975 upon referendum of the citizens. Certain municipal functions continue to be shared with York County to include the Courts, Social Services, Sheriff's Department and E-911 Center. The City is organized under the Council-Manager form of government. The Poquoson City Council is comprised of seven members who are elected by voters on a non-partisan basis and serve four-year staggered terms.

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

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

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

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

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

1. Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) 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. Under GASB 54 guidance, the Grant Fund is consolidated in the General Fund.

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

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

The City reports the following major proprietary funds:

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

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

Additionally, the City reports the following proprietary Fund type:

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

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

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

Fiduciary Fund - Agency Fund Types

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

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

Component Unit – Economic Development Authority

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

Component Unit - School Board

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

School Board General Fund

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

School Board Special Revenue Fund

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

School Board Agency Funds

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

Budgeting and Budgetary Accounting

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

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

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

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, 2013, for an increase in appropriations in the amount of \$380,131 and \$1,070,684 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 functions. Revisions that alter the total appropriations for a fund must be approved by City Council. Therefore, the level of control at which expenditures may not exceed appropriations is the total expenditure level of each fund. Unencumbered appropriations lapse at year-end.

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

1. Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

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

The estimated useful lives of capital assets are as follows:

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

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, or equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the 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, 2013, the allowance approximated \$305,000 in the General Fund. All other receivables have experienced a high collection rate; therefore, an allowance for doubtful accounts has not been established by City management for other receivables.

Inventory

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

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

Inventory is recognized as expenditures when consumed.

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, solid waste fund and internal service fund based upon employees' duties. Compensated absences are reported in governmental funds only if they have matured (i.e. unused reimbursable leave still outstanding following an employee's resignation or retirement).

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

Sewer Availability Fees

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

Fund Balances/Net Positions

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

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

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

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

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

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

1. Summary of Significant Accounting Policies (Concluded)

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

The General Fund unassigned minimum policy is at least 12%-15% of the Fund's operating expenditures.

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

Estimates

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

Credit Risk

The assessed value of real estate for the City's ten largest taxpayers comprises 3.01% 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 \$5,752,394 including agency fund cash of \$38,320. 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 the Federal Depository Insurance Corporation.

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

However, all qualified bank's public deposits are considered 100% "insured" because the Act provides for additional assessments to be made. This means that if a qualified bank were to fail, all collateral in the pool would be used to recover the public deposits held at that bank. In addition, if the collateral were inadequate to cover all public deposits, additional amounts would be assessed on a pro rata basis to each member of the pool. Therefore, the Act ensures that there will be no loss of public funds and that makes the pool similar to depository insurance. At June 30, 2013, 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 \$2,452,985 and the bank balance was \$3,024,924. The bank balance was covered by the Federal Depository Insurance Corporation or collateralized in accordance with the Act. At June 30, 2013, 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, 2013, the City had \$64,889 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 an outside brokerage and investment banking firm are rated AAA by Standard & Poor’s.

Concentration of Credit Risk

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

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

Interest Rate Risk

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

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

Custodial Risk

For an investment, custodial risk is the risk that in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Policy requires that all investment securities purchased by the City or held as collateral on deposits or investments shall be held by the City or by a third-party custodial agent who may not otherwise be counterparty to the investment transaction. As of June 30, 2013, 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	\$ 400,941	\$ 400,941	\$ -
Money market funds, Scott & Stringfellow	477,945	477,945	-
Money market funds, PNC Wealth Management	276,951	276,951	-
Virginia SNAP Accounts	64,889	-	64,889
Total investments	1,220,726	\$ 1,155,837	\$ 64,889
Reconciliation to total cash and investments			
Add:			
Cash on hand and in banks	8,204,409		
Total cash and investments	9,425,135		
Less:			
Cash held in fiduciary funds	38,320		
Total cash and investments, Exhibit A, Primary Government and Component Units	\$ 9,386,815		

3. Receivables

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

	Governmental Activities	Business-Type Activities	Total
Real estate taxes	\$ 396,612	\$ -	\$ 396,612
Personal property taxes	329,009	-	329,009
Accounts receivable	243,432	402,107	630,730
	969,053	402,107	1,371,160
Less - allowance for uncollectible accounts	(305,000)	-	(305,000)
Receivables, net	\$ 664,053	\$ 402,107	\$ 1,066,160

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. As of June 30, 2013, the balance was \$134,595.

4. Notes Receivable (Continued)

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

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	\$ 54,834
Sales tax	50,038
Division of Motor Vehicles reimbursement	10,001
Compensation Board	18,254
Public Assistance	12,833
Communications Sales and Use tax	32,336
Fire Fund Program	5,421
Mobile Home Titling Tax	2,500
PPTRA	884,118
Virginia Department of Transportation	3,984
Total due from the Commonwealth of Virginia	<u>1,074,319</u>
<u>Federal Government</u>	
Plum Tree Island	2,359
DUI Grants - Selective Enforcement - Speed	2,039
DUI Grants - Selective Enforcement - Alcohol	1,885
Citizen Corp 2011	6,809
FEMA Public Assistance	57,650
Total due from the federal government	<u>70,742</u>
Total due from other governments	<u>\$ 1,145,061</u>

5. Due From Other Governments (Continued)

Component Unit - School Board

Commonwealth of Virginia

State sales tax	\$ 172,031
State technology reimbursement	166,581
Total due from the Commonwealth of Virginia	<u>338,612</u>

Federal Government

Department of Education Program	
Title I	37,916
Title II	15,860
Title VI-B	105,653
Various grants	<u>69,115</u>
Total due from the federal government	<u>228,544</u>
 Total due from the other governments	 <u>\$ 567,156</u>

6. Receivables and Payables - Component Units

Details of the receivables and payables between the Primary Government and component units at June 30, 2013 are as follows:

<u>Primary Government Receivable</u>	<u>Component Unit Payable</u>	<u>Amount</u>
Due from EDA	Due to Primary Government	\$ 1,734,000
Due from School Board	Due to Primary Government	41,254
Total		<u>\$ 1,775,254</u>

See "Note 4. Notes Receivable" for more information regarding the \$1,734,000 receivable from the EDA to the City.

7. Capital Assets

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

	Balance July 1, 2012 (restated)	Increases	Decreases	Balance June 30, 2013
Capital assets not being depreciated				
Land	\$ 3,043,029	\$ 140,197	\$ -	\$ 3,183,226
Construction-in-process	385,915	391,013	637,179	139,749
Total capital assets not being depreciated	3,428,944	531,210	637,179	3,322,975
Other capital assets				
Buildings	10,281,742	440,299	228,301	10,493,740
Infrastructure	39,064,442	33,873	-	39,098,315
Land improvements	2,606,232	439,848	-	3,046,080
Machinery and equipment	6,934,646	199,226	152,154	6,981,718
Total other capital assets	58,887,062	1,113,246	380,455	59,619,853
Less - accumulated depreciation				
Buildings	3,550,162	341,172	25,471	3,865,863
Infrastructure	31,953,005	162,391	-	32,115,396
Land improvements	1,116,058	196,847	-	1,312,905
Machinery and equipment	4,150,402	490,909	134,704	4,506,607
Total accumulated depreciation	40,769,627	1,191,319	160,175	41,800,771
Other capital assets, net	18,117,435	(78,073)	220,280	17,819,082
	21,546,379	453,137	857,459	21,142,057
Allocation of School Board Assets				
Buildings	29,014,157	-	-	29,014,157
Less - accumulated depreciation				
Buildings	3,342,746	713,919	-	4,056,665
Total allocated to City	25,671,411	(713,919)	-	24,957,492
Total	\$ 47,217,790	\$ (260,782)	\$ 857,459	\$ 46,099,549

7. **Capital Assets (Continued)**

Depreciation was charged to governmental functions as follows:

General Government Administration	\$ 126,635
Public Safety	473,159
Public Works	337,396
Health and Welfare	15,068
Parks, Recreation, and Cultural	236,224
Community Development	2,837
Education	713,919
	<u>\$ 1,905,238</u>

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

	Balance July 1, 2012 (restated)	Increases	Decreases	Balance June 30, 2013
Capital assets not being depreciated				
Land	\$ 214,666	\$ -	\$ -	\$ 214,666
Total capital assets not being depreciated	214,666	-	-	214,666
Other capital assets				
Buildings	9,943	-	-	9,943
Machinery and equipment	914,744	315,798	-	1,230,542
Sewer system	22,169,691	-	-	22,169,691
Sewer easement	7,000	-	-	7,000
Total other capital assets	23,101,378	315,798	-	23,417,176
Less - accumulated depreciation				
Buildings	9,943	-	-	9,943
Machinery and equipment	707,912	58,583	-	766,495
Sewer system	8,783,919	562,732	-	9,346,651
Total accumulated depreciation	9,501,774	621,315	-	10,123,089
Other capital assets, net	13,599,604	(305,517)	-	13,294,087
Total	\$ 13,814,270	\$ (305,517)	\$ -	\$ 13,508,753

7. **Capital Assets (Concluded)**

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

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital assets not being depreciated				
Land	\$ 450,876	\$ -	\$ -	\$ 450,876
Other capital assets				
Buildings	39,465,263	197,949	42,318	39,620,894
Machinery and equipment	2,405,106	80,027	67,448	2,426,685
Total other capital assets	41,870,369	286,976	109,766	42,047,579
Less - accumulated depreciation				
Buildings	9,805,384	910,124	13,260	10,702,248
Machinery and equipment	1,455,530	147,186	63,210	1,539,505
Total accumulated depreciation	11,260,914	1,057,309	76,470	12,241,753
Other capital assets, net	30,609,455	(770,333)	-	29,805,826
Capital assets, net	31,060,331	(770,333)	-	30,256,702
Allocation to City				
Buildings	(29,014,157)	-	-	(29,014,157)
Less - accumulated depreciation	3,342,746	713,919	-	4,056,665
Total allocated to City	(25,671,411)	713,919	-	(24,957,492)
Total	\$ 5,388,920	\$ (56,414)	\$ 33,296	\$ 5,299,210

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

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital assets not being depreciated				
Land	\$ 2,623,976	\$ -	\$ 131,815	\$ 2,492,161
Other capital assets				
Buildings	185,542	-	116,395	69,147
Infrastructure	315,273	-	-	315,273
Total other capital assets	500,815	-	116,395	384,420
Less - accumulated depreciation				
Buildings	75,638	6,368	35,889	46,117
Infrastructure	128,978	14,321	-	143,299
Total accumulated depreciation	204,616	20,689	35,889	189,416
Other capital assets, net	296,199	(20,689)	80,506	195,004
Total	\$ 2,920,175	\$ (20,689)	\$ 212,321	\$ 2,687,165

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, 2012 (restated)	Increases	Decreases	Balance June 30, 2013	Amounts Due Within One Year
General obligations					
Debts payable					
General obligation bonds	\$ 27,212,000	\$ 1,734,000	\$ 326,999	\$ 28,619,001	\$ 473,000
General obligation leases	163,593	-	80,427	83,166	83,166
State Literary Fund loans	1,807,820	-	277,000	1,530,820	280,820
Unamortized Premium	2,016,840	-	134,889	1,881,951	-
	31,200,253	1,734,000	819,315	32,114,938	836,986
Accrued benefits					
Accrued compensated absences	524,753	765,641	678,291	612,103	61,210
Total	\$ 31,725,006	\$ 2,499,641	\$ 1,497,606	\$ 32,727,041	\$ 898,196
Component Unit - School Board					
Accrued benefits					
Accrued compensated absences	\$ 399,866	\$ 521,620	\$ 546,835	\$ 374,651	\$ 79,649

The net OPEB obligation and compensated absences are generally liquidated by the fund for which the employee works.

8. Long-term Obligations (Continued)

Governmental Activities (Continued)

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

High School Serial Bonds of 1998 - \$650,000 bonds issued and due in annual installments varying from \$30,000 to \$35,000 through July 2018, with interest payable semi-annually at rates varying from 3.60% to 5.10%. \$ 180,000

General Obligation Refunding Bonds, Series 2010 - \$4,670,000 bonds issued and due in annual installments varying from \$100,000 to \$665,000 beginning February 2014 through February 2027, with interest paid semi-annually at 4.28%. 4,670,000

General Obligation Refunding Bonds, Series 2010 - \$6,600,000 bonds issued and due in annual installments varying from \$140,000 to \$1,015,000 beginning February 2014 through February 2027, with interest paid semi-annually at 4.35%. 6,600,000

General Obligation Refunding Bonds, Series 2010 - \$3,900,000 bonds issued and due in annual installments varying from \$45,000 to \$580,000 beginning February 2014 through February 2027, with interest paid semi-annually at 4.49%. 3,900,000

General Obligation Bonds, Series 2010 - \$215,000 bonds issued and due in annual installments varying from \$20,000 to \$60,000 beginning February 2012 through February 2016, with interest paid semi-annually at 2.48%. 175,000

General Obligation Refunding Taxable Bonds, Series 2011B - \$3,495,000 bonds issued and due in annual installments varying from \$55,000 to \$313,000 beginning February 2012 through February 2029, with interest payable semi-annually at 2.98%. 3,415,000

General Obligation Refunding Bonds, Series 2012 - \$8,165,000 bonds issued and due in annual installments varying from \$35,000 to \$1,030,000 beginning February 2013 through February 2028, with interest payable semi-annually at rates from 2% to 5%. 7,945,001

General Obligation Bonds, Series 2013 - \$1,734,000 bonds issued and due in annual installments varying from \$157,000 to \$191,000 beginning August 2018 through August 2027, with interest payable semi-annually at 2.23%. 1,734,000

Total general obligation bonds \$ 28,619,001

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>
2014	\$ 473,000	\$ 1,164,882
2015	1,214,000	1,165,343
2016	1,536,001	1,130,779
2017	1,602,001	1,073,781
2018	1,678,000	1,005,418
2019 – 2023	11,365,001	3,759,643
2024 – 2028	10,486,998	1,179,972
2029	264,000	7,868
	<u>\$ 28,619,001</u>	<u>\$ 10,487,686</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, 2013, accumulated depreciation under this lease totaled \$212,554. The balance of this lease as of June 30, 2013, was \$83,166. Future minimum lease payments under capital lease and present value of the minimum lease payments are as follows:

2014	<u>\$ 86,299</u>
Total minimum lease payments	86,299
Less - imputed interest	<u>(3,133)</u>
	83,166
Less - current portion	<u>83,166</u>
Long-term portion	<u>\$ -</u>

8. Long-term Obligations (Continued)

Governmental Activities (Continued)

Current Bond Issuance

In June 2013, the City of Poquoson issued \$1,734,000 of general obligation bonds to currently provide a loan to the EDA to pay for the EDA's line of credit and to pay the costs of bond issuance. The line of credit was paid off by the EDA in June 2013.

The bonds are due in annual installments varying from \$157,000 to \$191,000 beginning August 2018 through August 2027, with interest payable semi-annually at 2.23%.

As noted in Note 4 above, the City has a \$1,734,000 note receivable from the EDA related to the bond issuance. The EDA has agreed to pay interest and principal when due, and will pay a minimum of 50% of the proceeds of any sale of property towards principal until the debt is paid in full. The \$1,734,000 receivable is recorded as a "due from component unit" on the City's financial statements, and, relatedly, the EDA has a \$1,734,000 "due to primary government" on their fund financial statements.

Related to the bond issuance, the City also obtained a \$300,000 taxable line of credit to be used for economic development purposes, including the purchase of land/real estate, infrastructure/site work, economic development incentives, etc. The line of credit bears interest at 1-month London Offered Rate (LIBOR) + 1.40%, resetting the 1st day of every month. The line of credit matures on February 15, 2016. As of June 30, 2013, there are no borrowings by the City on the line of credit.

Literary Loan Funds

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

Primary School Literary Fund Loan - \$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%.	\$ 30,820
High School Literary Fund Loan - \$5,000,000 loan issued November 17, 1998, due in annual installments of \$250,000 through December 2019, with interest at 3%.	<u>1,500,000</u>
Total state literary fund loans outstanding	<u>\$ 1,530,820</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>
2014	\$ 280,820	\$ 45,925
2015	250,000	37,500
2016	250,000	30,000
2017	250,000	22,500
2018	250,000	15,000
2019	250,000	7,500
	<u>\$ 1,530,820</u>	<u>\$ 158,425</u>

8. Long-term Obligations (Continued)

Debt Limit

The Commonwealth of Virginia imposes a legal limit on the general obligation debt that may be issued by the City to an amount equal to 10% of total assessed value of real property. As of June 30, 2013, the City's aggregate general obligation indebtedness was \$114,138,941 less than the allowable limit.

Overlapping Debt

There are no overlapping or underlying tax jurisdictions.

Business-type Activities

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

	Balance July 1, 2012 (restated)	Increases	Decreases	Balance June 30, 2013	Amounts Due Within One Year
Enterprise Funds					
General obligation bonds	\$ 8,605,000	\$ -	\$ 300,000	\$ 8,305,000	\$ 205,000
Bond premium	720,054	-	50,150	669,904	-
	9,325,054	-	350,150	8,974,904	205,000
Accrued compensated absences	14,891	34,498	30,353	19,036	1,904
	\$ 9,339,945	\$ 34,498	\$ 380,503	\$ 8,993,940	\$ 206,904

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

General Obligation Refunding Sewer Bonds, Series 2010 - \$740,000 bonds issued and due in annual principal installments varying from \$10,000 to \$80,000 through April 2022 with interest payable semi-annually at rates varying from 2.2% to 5.2%

\$ 615,000

General Obligation Sewer Bonds, Series 2010 - \$600,000 bonds issued and due in February 2015, with interest payable semi-annually at a rate of 2.75%.

600,000

General Obligation Refunding Sewer Bonds, Series 2012 - \$7,330,000 bonds issued and due in annual installments varying from \$150,000 to \$685,000 through February 2028, with interest payable semi-annually at rates from 3% to 5%.

7,090,000

Total general obligation bonds outstanding

\$ 8,305,000

8. Long-term Obligations (Concluded)

Business-Type Activities (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
2014	\$ 205,000	\$ 307,901
2015	880,000	302,036
2016	365,000	276,816
2017	445,000	262,071
2018	470,000	240,068
2019 – 2023	2,700,000	831,363
2024 – 2028	3,240,000	297,150
	<u>\$ 8,305,000</u>	<u>\$ 2,517,405</u>

The City anticipates that all amounts required for the payment of interest and principal on these bonds will be provided by the enterprise fund's revenue; however, the bonds are further collateralized by the full faith and credit of the City.

9. Current Liabilities - Component Unit - Economic Development Authority (EDA)

Line of Credit

Previously, the EDA used a \$2,300,000 unsecured line of credit with a bank to finance a variety of land purchases. The line of credit expired on June 30, 2013. Short-term activity was as follows:

	Balance July 1, 2012	Draws	Repayments	Balance June 30, 2013
Line of credit	\$ 1,796,527	\$ -	\$ 1,796,527	\$ -

As described in Notes 4 and 8 above, the City issued \$1,734,000 in general obligation bonds, and then loaned the proceeds to the EDA to repay the bank line of credit. The EDA has agreed to pay interest and principal when due, and will pay a minimum of 50% of the proceeds of any sale of property towards principal until the debt is paid in full. The line of credit is included in "due to primary government" in the fund financial statements of the EDA.

10. Conduit Debt Obligation

On July 1, 2001 and September 12, 2005, the EDA 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 July 13, 2004, the EDA 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 and the HNNCSB, respectively. The bonds provide that neither the EDA nor the City shall be obligated to pay the bonds or interest thereon or other costs incident thereto. At June 30, 2013, \$14,898,616 remained outstanding.

11. Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

	General	Debt Service	Capital Projects	Total Governmental Funds
Nonspendable				
EDA Note Receivable	\$ 1,734,000	\$ -	\$ -	\$ 1,734,000
Notes Receivable	234,595	-	-	234,595
Total nonspendable	1,968,595	-	-	1,968,595
Restricted				
Asset Forfeiture	11,374	-	-	11,374
4 For Life	14,124	-	-	14,124
Fire	91,816	-	-	91,816
Heritage Park Contributions	16,060	-	-	16,060
Library Contributions	15,186	-	-	15,186
CDBG Program Revenue	78,638	-	-	78,638
Department of Conservation Recreation Grants	2,740	-	-	2,740
Wet Land Creation	4,188	-	-	-
Streets and Drainage	-	-	576,904	576,904
Contributions – Kids Island	-	-	1,678	1,678
Poquoson Elementary School	-	-	67,389	67,389
Total restricted	234,126	-	645,971	880,097
Assigned				
General Government and Administration	20,849	-	-	20,849
Public Safety and Judicial	59,733	-	-	59,733
Public Works	32,421	-	-	32,421
Health & Welfare	7,339	-	-	7,339
Parks, Recreational and Cultural	3,970	-	-	3,970
Community Development	310	-	-	310
Non-departmental	7,150	-	-	7,150
Subsequent year's budget	295,000	-	-	295,000
Debt service	-	245,937	-	245,937
Capital projects	-	-	405,809	405,809
Total assigned	426,772	245,937	405,809	1,078,518
Unassigned	4,837,805	-	-	4,839,500
Total fund balances	\$ 7,467,298	\$ 245,937	\$ 1,051,780	\$ 8,765,015

12. Deferred Inflows of Resources

Unearned 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, 2013 not collected within 45 days after that date are reported as unearned revenue in the accompanying combined financial statements.

13. Contingency

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

14. Interfund Transfers

Interfund transfers for the year ended June 30, 2013 are as follows:

	Transfers In	Transfers Out
General Fund	\$ 130,000	\$ 2,203,090
Debt Service Fund	2,052,250	-
Capital Projects Fund	150,840	-
Sewer Operations Fund	-	130,000
	<u>\$ 2,333,090</u>	<u>\$ 2,333,090</u>

Purpose:

Transfers from General Fund:

\$ 2,052,250 Debt Service Fund: current year debt payments

\$ 150,840 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

15. Surety Bonds

The City maintained the following surety bond coverage's on certain employees of the Primary Government and component unit during the fiscal year ended June 30, 2013:

<u>Description</u>	<u>Amount</u>
Virginia Municipal Liability Pool - All City employees - employee dishonesty blanket bond	\$ 1,000,000
Virginia Municipal Liability Pool	
Patricia McDowell, Clerk of the School Board	10,000
Amy Colley, 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

16. Related Party Transactions

The City's financial statements do not include certain public commissions and authorities created as separate governmental entities under the laws of the Commonwealth of Virginia. These agencies are separate legal entities having governmental character and sufficient autonomy in the management of their own affairs to distinguish them as separate from the administrative organization of the City, although certain members of their governing bodies are appointed by Council. These entities are the Hampton Roads Planning District Commission (HRPDC), the Virginia Peninsula's Public Service Authority (VPPSA), the Peninsula Council Workforce Development (PCWD), the Colonial Behavioral Health (CBH) 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, 2013, the City provided support or paid for services to HRPDC of \$26,265, VPPSA of \$266,294, PCWD of \$5,847, CBH of \$149,980 and HRPC of \$4,900.

In June 2003, the Virginia Peninsula Regional Jail Authority (Jail Authority), of which the City is a member jurisdiction, issued \$21,655,000 of Regional Jail Facility Refunding Revenue Bonds, Series 2003. The original bonds were issued for the purpose of acquiring, constructing and equipping a Regional Jail Facility to serve its member jurisdictions. The bonds bear interest at 2% to 5%, paid semi-annually. The bonds mature in amounts ranging from \$570,000 on October 1, 2003 to \$2,765,000 on October 1, 2018. The outstanding balance at June 30, 2013 was \$10,410,000. The bonds are limited obligations of the Jail Authority, and do not constitute a general obligation debt or pledge of the faith and credit of any of the four member jurisdictions, nor do they obligate any member jurisdiction to levy or pledge any form of taxation therefore. However, the City has entered into a non-binding moral obligation pledge of the member jurisdictions in which the member jurisdictions have agreed to pay their proportionate share of the debt service on the bonds and any debt service funding requirements if the Jail Authority lacks sufficient funds to do so. The City's proportionate share is 10%.

16. Related-Party Transactions (Continued)

In addition, a conglomerate of municipalities shares certain expenses for maintaining and operating a regional jail and juvenile detention center. During FY 2013, the City incurred expenses for the regional jail and juvenile detention center of \$219,396 and \$89,760, respectively.

The City of Poquoson shares certain services and their associated costs with York County, including the Circuit Court, the Commonwealth's Attorney, Sheriff of York County and E911 operations. The City also shares social services with York County. During the year ended June 30, 2013, the City paid \$940,374 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, 2013, the School Board provided support of \$418,914 to the New Horizons Education Center.

17. 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.

VRS administers two defined benefit plans for the local government employees—Plan 1 and Plan 2:

Plan 1: Members hired before July 1, 2010 and who have service credits before July 1, 2010 and were vested as of January 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.

Plan 2: Members hired or rehired and withdrew the full account balance on or after July 1, 2010, or hired prior to July 1, 2010 and were not vested as of January 1, 2013, are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years if service credit.

Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

17. Retirement Plan (Continued)

A. Plan Description (Continued)

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013, unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6% if the retirement date is prior to February 1, 2013 and 3% for retirements on or after February 1, 2013. During years of no inflation or deflation, the COLA is 0.00%. 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 system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the report may be obtained from the VRS Web site at <http://www.varetire.org/> or by writing to the System's Chief Financial Officer 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 compensation toward their retirement. In addition, the City and School Board are required to contribute the remaining amounts necessary to fund its 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, 2013, was 9.21% and 14.63%, 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 2013, 2012 and 2011 were \$1,330,567, \$1,067,773 and \$1,032,312, respectively. The School Board contributed 100% of required contributions to the pool for fiscal year ended 2013 and each of the two preceding years.

17. Retirement Plan (Concluded)

C. Annual Pension Costs

For the Fiscal Year ended 2013, the City's annual pension cost of \$506,765 was equal to the City's required and actual contributions. For the Fiscal Year ended 2013, the School Board's annual pension cost of \$77,415 was equal to the School Board's required and actual contributions.

Three-Year Trend Information for the City of Poquoson

City of Poquoson

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2013	\$ 506,765	100%	\$ -
June 30, 2012	\$ 437,713	100%	\$ -
June 30, 2011	\$ 422,972	100%	\$ -

Component Unit - School Board (non-professional)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2013	\$ 77,415	100%	\$ -
June 30, 2012	\$ 67,371	100%	\$ -
June 30, 2011	\$ 75,750	100%	\$ -

The fiscal year 2013 required contribution was determined as part of the June 30, 2012 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2012 included (a) an investment rate of return (net of administrative expenses) of 7%, (b) projected salary increased ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% per year for employees eligible for enhances benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 members and 2.25% for Plan 2 members. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%. The actuarial value of the City'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 mark value of assets over a five-year period. The City's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012 for the Unfunded Actuarial Accrued Liability (UAAL) was 29 years decreasing by one each year in subsequent valuations until reaching 20 years.

D. Funded Status

As of June 30, 2012 for the City, the most recent actuarial valuation date, the plan was 76.94% funded. The actuarial accrued liability for benefits was \$26,069,736, and the actuarial value of assets was \$20,056,811, resulting in an unfunded actuarial accrued liability (UAAL) of \$6,012,925. The covered payroll (annual payroll of active employees covered by the plan) was \$5,070,916, and the ratio of the UAAL to the covered payroll was 118.58%.

As of June 30, 2012 for the School Board, the most recent actuarial valuation date, the plan was 69.58% funded. The actuarial accrued liability for benefits was \$2,372,284, and the actuarial value of assets was \$1,650,734, resulting in an unfunded actuarial accrued liability (UAAL) of \$721,550. The covered payroll (annual payroll of active employees covered by the plan) was \$545,421, and the ratio of the UAAL to the covered payroll was 132.29%.

18. 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 cover 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, 127 employees were participating in the City's plan at a cost of \$55,952 and 287 employees were participating in the School Board's plan at a cost of \$56,241. 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 2013, the City and School Board made contributions (credits) amounting to (\$7,371) and \$78,497, respectively.

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 thirty years. The following table shows the components of the City's and the School's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the net OPEB obligation:

	City of Poquoson	Component Unit School Board
Annual required contribution	\$ 56,096	\$ 56,359
Interest on net OPEB obligation	6,978	5,730
Adjustment to ARC	(7,122)	(5,848)
Annual OPEB cost	55,952	56,241
Credits (Contributions) made	7,371	(78,497)
Increase (Decrease) in net OPEB obligation	63,323	(22,256)
Net OPEB obligation - beginning of year	174,459	143,250
NET OPEB obligation - end of year	\$ 237,782	\$ 120,994

18. 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 2011, 2012 and 2013 were as follows:

City of Poquoson

Fiscal Year Ended	Annual OPEB Cost	Employer Credit (Contribution)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2013	\$ 55,952	\$ 7,371	13%	\$ 237,782
June 30, 2012	\$ 53,670	\$ (12,593)	-23%	\$ 174,458
June 30, 2011	\$ 66,611	\$ 11,189	17%	\$ 133,382

Component Unit - School Board

Fiscal Year Ended	Annual OPEB Cost	Employer Credit (Contribution)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2013	\$ 56,241	\$ (78,497)	-140%	\$ 120,994
June 30, 2012	\$ 53,959	\$ (99,200)	-184%	\$ 143,250
June 30, 2011	\$ 105,342	\$ 5,612	5%	\$ 188,491

Funded Status and Funding Progress

Based on the most recent actuarial valuation for the fiscal year ended June 30, 2013, the funded status of the plan was as follows:

	City of Poquoson	Component Unit School Board
Actuarial accrued liability (AAL)	\$ 858,838	\$ 507,199
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	\$ 858,838	\$ 507,199
Funded ratio (actuarial value of plan assets/AAL)	0%	0%
Covered payroll (active plan members)	\$ 6,304,830	\$ 11,347,601
UAAL as a percentage of covered payroll	13.62%	4.47%

18. 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 as required supplementary information, presents information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (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% 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, an inflation rate of 2.5% per year, and an annual healthcare cost trend rate of 9.0% initially for the year ended June 30, 2013, reduced annually by increments, to an ultimate rate of 5% for the fiscal year ending June 30, 2021. In calculating the fiscal year annual required contribution the initial unfunded actuarial accrued liability, actuarial gains and actuarial losses were amortized over a closed 30-year period for the City and an open 30-year period for the School Board as a level percentage of projected payroll.

18. Other Post-employment Benefit Obligation (Concluded)

Schedule of Funding Progress

City of Poquoson

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability Projected Unit Credit (b)	Unfunded AAL (UAAL (b-a))	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2013	\$ -	\$ 858,838	\$ 858,838	0%	\$ 6,304,830	13.62%
6/30/2012	\$ -	\$ 848,323	\$ 848,323	0%	\$ 6,251,323	13.57%
6/30/2011	\$ -	\$ 745,924	\$ 745,924	0%	\$ 5,561,270	13.41%

Component Unit - School Board

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability Projected Unit Credit (b)	Unfunded AAL (UAAL (b-a))	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2013	\$ -	\$ 507,199	\$ 507,199	0%	\$ 11,347,601	4.47%
6/30/2012	\$ -	\$ 503,390	\$ 503,390	0%	\$ 11,631,825	4.33%
6/30/2011	\$ -	\$ 781,287	\$ 781,287	0%	\$ 11,603,841	6.73%

19. Risk Management

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

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

20. Commitments

The City entered into a contract for the construction of an elementary school. The contract for the elementary school totaled \$17,872,219, with \$46,437 outstanding at June 30, 2013.

21. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to assign that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the General Fund of the City. At June 30, 2013, the General Fund had outstanding encumbrances in the amount of \$131,772 and the Capital Projects Fund has outstanding encumbrances in the amount of \$153,380.

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

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.

22. Restatement of Beginning Net Position

The City adopted GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62), GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63) and GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities* (GASB 65) for the fiscal year ending June 30, 2013.

Implementation of GASB 62 did not have any financial reporting impact on the City for fiscal year ended June 30, 2013. Implementation of GASB 63 required the reclassification of Net Assets to Net Position and it also required the new categories called Deferred Outflows of Resources and Deferred Inflows of Resources.

Implementation of GASB 65 required the City to reclassify deferred gains/losses on refundings, which were previously netted against long-term debt, as deferred outflows or inflows on the face of the financial statements. It also required recognition of cost of issuance of bonds as an expense; therefore the adoption of this statement resulted in an increase to the cost of issuance expense and a decrease to the unamortized bond issuance costs (previously reported as deferred charges in the financial statements) for the fiscal year ended June 30, 2012. The restatement of prior year net position for the fiscal year ended June 30, 2012 decreased both the deferred charges and net position by \$545,390 for Governmental Activities and \$171,641 for Business-Type Activities.

Additionally, because of reoccurring deficits, the City decided to eliminate the Parks and Recreation proprietary fund and include such activities within the governmental general fund. As a result, certain beginning fund balances and net position balances were required to be restated. The Parks and Recreation proprietary fund with an ending fund balance of (\$68,548) as of June 30, 2012 was eliminated, and the fund balance transferred from the restated beginning net position of business-type activities to governmental activities on the Statement of Net Position. Also as a result, the governmental general fund balance was restated by (\$133,587). The difference between (\$68,548) and (\$133,587) is due to certain items such as capital assets and liabilities, such as OPEB and compensated absences, of the Parks and Recreation proprietary fund which are recorded in proprietary funds, but are excluded from reporting in governmental funds.

As a result of the two items above, net position as of July 1, 2012 have been adjusted accordingly:

	General Fund	Total Net Position - Governmental Activities	Total Net Position - Business-Type Activities/ Enterprise Funds
Balances, as previously reported, June 30, 2012	\$ 5,607,806	\$22,946,959	\$ 5,682,875
Adjustments for implementation of GASB65:			
Bond issuance costs	-	(545,390)	(171,641)
Adjustment for transfer of Parks and Recreation fund to the General Fund	(133,587)	(68,548)	68,548
Balances, as restated, June 30, 2012	\$ 5,474,219	\$ 22,333,021	\$ 5,579,782

* * * * *

Budgetary Comparison Schedule - General Fund (Budget Basis)**Year Ended June 30, 2013**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
Revenues and other financing sources				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 13,472,000	\$ 13,472,000	\$ 13,639,693	\$ 167,693
Public service corporation property taxes	150,000	150,000	167,060	17,060
Personal property	2,319,625	2,319,625	2,417,444	97,819
Penalties and interest	150,000	150,000	147,619	(2,381)
Total general property taxes	16,091,625	16,091,625	16,371,816	280,191
Other local taxes:				
Sales and use taxes	973,000	973,000	1,011,835	38,835
Meals taxes	630,000	630,000	731,292	101,292
Cigarette taxes	136,500	136,500	142,520	6,020
Consumers' utility taxes	280,000	280,000	286,753	6,753
Consumption tax	41,500	41,500	41,345	(155)
Business license taxes	400,000	400,000	416,989	16,989
Bank stock taxes	32,000	32,000	32,431	431
Recordation and wills taxes	180,000	180,000	192,497	12,497
Deeds of conveyance	25,000	25,000	25,635	635
Total other local taxes	2,698,000	2,698,000	2,881,297	183,297
Permits, privilege fees and regulatory licenses:				
Animal license	4,500	4,500	5,731	1,231
Permits and other licenses	76,400	76,400	70,309	(6,091)
Total permits, privilege fees and regulatory licenses	80,900	80,900	76,040	(4,860)
Fines and forfeitures	53,200	53,200	58,103	4,903
Revenue from use of money and property:				
Revenue from use of money	30,000	30,000	15,800	(14,200)
Revenue from use of property	168,800	168,800	173,210	4,410
Total revenue from use of money and property	198,800	198,800	189,010	(9,790)

Budgetary Comparison Schedule - General Fund (Budget Basis)**Year Ended June 30, 2013**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
Revenues and other financing sources (Continued)				
Charges for services:				
Charges for sales of maps	-	-	30	30
Charges for copying	3,000	3,000	2,612	(388)
Charges for passport processing	30,000	30,000	52,444	22,444
Charges for library and fees	22,000	22,000	25,267	3,267
EMS revenue recovery	263,500	263,500	236,125	(27,375)
Charges for school grounds maintenance	45,000	45,000	36,347	(8,653)
Charges for Parks and Recreation Programs	125,630	125,630	131,943	6,313
Charges for Pool	81,250	81,250	70,664	(10,586)
Charges for Seafood Festival	119,761	129,657	128,266	(1,391)
Total charges for services	690,141	700,037	683,698	(16,339)
Miscellaneous revenue:				
Miscellaneous	13,000	26,818	17,190	(9,628)
Insurance recoveries	-	49,705	49,704	(1)
Donations-Library	-	9,721	17,522	7,801
Gain on sale of capital assets	-	-	73,282	73,282
Donations	50,000	50,100	50,920	820
Total miscellaneous revenue	63,000	136,344	208,618	72,274
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
DMV reimbursement	90,000	90,000	103,850	13,850
Local Aid Contra Revenue	(42,000)	(42,000)	(33,719)	8,281
Mobile home titling taxes	-	-	14,752	14,752
Personal property tax relief	1,923,435	1,923,435	1,923,431	(4)
Total noncategorical aid	1,971,435	1,971,435	2,008,314	36,879
Categorical aid:				
Shared expenses:				
Commissioner of the Revenue	96,383	96,383	96,577	194
Treasurer	86,188	86,188	86,549	361
Registrar/electoral board	34,000	34,000	35,212	1,212
Total categorical aid	216,571	216,571	218,338	1,767

Budgetary Comparison Schedule - General Fund (Budget Basis)**Year Ended June 30, 2013**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
Revenues and other financing sources (Continued)				
Other categorical aid:				
State 599 police funds	233,207	233,207	233,205	(2)
Fire and EMS	37,476	44,581	47,616	3,035
Department of Emergency Services	2,000	2,000	-	(2,000)
Department of Emergency Services - Public Assistance	-	-	5,519	5,519
Street and highway maintenance	915,000	915,000	915,000	-
Litter control	-	7,216	7,216	-
Library	134,618	134,618	134,618	-
Comprehensive services	121,814	121,814	118,597	(3,217)
State drug seizure	-	14,061	15,386	1,325
Other state grants	-	-	19,581	19,581
Total other categorical aid	1,444,115	1,472,497	1,496,738	24,241
Total categorical aid	1,660,686	1,689,068	1,715,076	26,008
Total revenue from the Commonwealth	3,632,121	3,660,503	3,723,390	62,887
Revenue from the federal government:				
Federal Grants	-	90,245	40,657	(49,588)
Miscellaneous	2,500	2,500	2,359	(141)
Total revenue from the federal government	2,500	92,745	43,016	(49,729)
Other financing sources:				
Transfer from sewer fund	130,000	130,000	130,000	-
Bond Proceeds			1,734,000	1,734,000
Transfer from unassigned fund balance	616,643	794,907	-	(794,907)
Total other financing uses	746,643	924,907	1,864,000	939,093
Total revenue and other financing sources	\$ 24,256,930	\$ 24,637,061	\$ 26,098,988	\$ 1,461,927

Budgetary Comparison Schedule - General Fund (Budget Basis)**Year Ended June 30, 2013**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
Expenditures and other financing uses				
General government administration:				
Legislative - City Council	\$ 66,467	\$ 66,967	\$ 66,949	\$ 18
General and financial administration:				
City Manager	411,407	422,507	422,488	19
Legal services	102,950	117,275	114,767	2,508
Independent auditor	35,800	35,800	35,460	340
Commissioner of the Revenue	293,222	305,472	300,803	4,669
Assessor/equalization board	178,787	178,787	174,275	4,512
Treasurer	343,314	327,139	318,199	8,940
Finance	348,013	350,763	350,241	522
Technology	65,000	65,000	55,589	9,411
Risk management	76,434	115,431	114,911	520
Total general and financial administration	1,854,927	1,918,174	1,886,733	31,441
Board of elections - electoral board and registrar	164,582	164,582	158,737	5,845
Total general government administration	2,085,976	2,149,723	2,112,419	37,304
Judicial Administration:				
Courts	242,361	222,861	218,562	4,299
Sheriff	183,610	183,610	186,819	(3,209)
Total judicial administration	425,971	406,471	405,381	1,090
Public Safety:				
Law enforcement and traffic control - police department	2,489,178	2,593,464	2,525,282	68,182
Fire and rescue services - fire department	2,659,354	2,762,930	2,601,435	161,495
Correction and detention - regional operated institutions	279,200	314,410	314,406	4
Inspections - various	393,146	366,806	363,537	3,269
Other protection - animal control	88,767	88,767	85,808	2,959
Total public safety	5,909,645	6,126,377	5,890,468	235,909

Budgetary Comparison Schedule - General Fund (Budget Basis)**Year Ended June 30, 2013**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
Expenditures and other financing uses (Continued)				
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
General engineering/administration	111,747	109,747	105,833	3,914
Highways, streets, bridges and sidewalks	1,437,870	1,409,078	1,335,010	74,068
Street lights	80,000	80,000	79,383	617
Total maintenance of highways, streets, bridges, and sidewalks	1,629,617	1,598,825	1,520,226	78,599
Maintenance of general buildings and grounds	72,403	72,403	71,122	1,281
Total public works	1,702,020	1,671,228	1,591,348	79,880
Health and welfare:				
Health:				
Local health department	36,420	37,420	37,155	265
Mosquito control	235,936	235,936	232,000	3,936
Total health	272,356	273,356	269,155	4,201
Mental health and mental retardation - mental health	203,964	198,964	198,715	249
Welfare:				
Social services	252,507	252,507	248,078	4,429
Comprehensive services	169,000	170,000	174,422	(4,422)
Total welfare	421,507	422,507	422,500	7
Total health and welfare	897,827	894,827	890,370	4,457
Education - School Board	8,855,403	8,885,313	8,844,076	41,237
Total education	8,855,403	8,885,313	8,844,076	41,237
Parks, recreation and cultural:				
Supervision of parks and recreation	402,562	417,362	415,874	1,488
Pool operations	110,149	113,774	113,766	8
Events	194,958	204,854	204,834	20
Library - administration	787,495	814,434	804,302	10,132
Total parks, recreation and cultural	1,495,164	1,550,424	1,538,776	11,648

Budgetary Comparison Schedule - General Fund (Budget Basis)**Year Ended June 30, 2013**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
Expenditures and other financing uses (Continued)				
Community development:				
Planning	331,353	329,353	312,545	16,808
Economic development	144,950	132,668	108,964	23,704
Community development	139,279	146,495	144,612	1,883
Total community development	615,582	608,516	566,121	42,395
Nondepartmental - miscellaneous	20,000	39,000	37,808	1,192
Department of motor vehicles	107,092	102,092	99,294	2,798
Total nondepartmental	127,092	141,092	137,102	3,990
Other Financing Uses				
Transfers to Debt Service Fund	2,052,250	2,052,250	2,052,250	-
Transfers to Capital Projects Fund	90,000	150,840	150,840	-
Total other financing uses	2,142,250	2,203,090	2,203,090	-
Total expenditures and other financing uses	\$ 24,256,930	\$ 24,637,061	\$ 24,179,151	\$ 457,910
Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses - budgetary basis	\$ -	\$ -	\$ 1,919,837	\$ 1,919,837
Less - Encumbrances outstanding June 30, 2012, actually expended as of June 30, 2013			(101,649)	
Add - Encumbrances outstanding June 30, 2013			131,772	
The Grant Fund is consolidated into the General Fund for reporting purposes:				
Revenues				
Investment Income			58	
Program Revenue			42,600	
Local matching funds			7,841	
State Grant			27,547	
Federal Grant			103,301	
Total Revenue			181,347	
Expenditures				
Community Development Expenditures			(138,228)	
Total Expenditures			(138,228)	
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses, GAAP basis			1,993,079	
Fund balances, July 1, 2012 (restated)			5,474,219	
Fund balances, June 30, 2013			\$ 7,467,298	

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

Year Ended June 30, 2013

Schedules of Funding Progress

	Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as a Percentage of Covered Payroll
City Employees	6/30/12	\$20,056,811	\$26,069,736	\$ 6,012,925	76.94%	\$ 5,070,916	118.58%
	6/30/11	\$20,118,943	\$25,082,346	\$ 4,963,403	80.21%	\$ 4,935,789	100.56%
	6/30/10	\$19,603,136	\$23,306,814	\$ 3,703,678	84.11%	\$ 5,022,695	73.74%
School Board							
Non-professional Employees	6/30/12	\$ 1,650,734	\$ 2,372,284	\$ 721,550	69.58%	\$ 545,421	132.29%
	6/30/11	\$ 1,659,101	\$ 2,333,948	\$ 674,847	71.09%	\$ 549,819	122.74%
	6/30/10	\$ 1,637,087	\$ 2,299,015	\$ 661,928	71.21%	\$ 631,722	104.78%

Schedules of Employer Contributions

	Valuation Date	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Pension Obligation
City Employees	6/30/13	\$ 506,765	100.00%	\$ -
	6/30/12	\$ 437,713	100.00%	\$ -
	6/30/11	\$ 422,972	100.00%	\$ -
School Board				
Non-professional Employees	6/30/13	\$ 77,415	100.00%	\$ -
	6/30/12	\$ 67,371	100.00%	\$ -
	6/30/11	\$ 75,750	100.00%	\$ -

Schedules of Funding Progress and Employer Contributions (Unaudited)
Other Post-employment Benefits

Year Ended June 30, 2013

Schedules of Funding Progress

	Actuarial Valuation Date	Actuarial Value of Assets	Accrued Liability Projected Unit Credit	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as a Percentage of Covered Payroll
City of Poquoson	7/1/12	\$ -	\$ 858,838	\$ 858,838	0.00%	\$ 6,304,830	13.62%
	7/1/11	\$ -	\$ 848,323	\$ 848,323	0.00%	\$ 6,251,323	13.57%
	7/1/10	\$ -	\$ 745,924	\$ 745,924	0.00%	\$ 5,561,270	13.41%
Component Unit - School Board	7/1/12	\$ -	\$ 507,199	\$ 507,199	0.00%	\$ 11,347,601	4.47%
	7/1/11	\$ -	\$ 503,390	\$ 503,390	0.00%	\$ 11,631,825	4.33%
	7/1/10	\$ -	\$ 781,287	\$ 781,287	0.00%	\$ 11,603,841	6.73%

Schedules of Employer Contributions

	Actuarial Valuation Date	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Pension Obligation
City of Poquoson	7/1/12	\$ 56,096	(13.14%)	\$ 237,782
	7/1/11	\$ 53,780	23.42%	\$ 174,459
	7/1/10	\$ 66,657	(16.79)%	\$ 133,382
Component Unit - School Board	7/1/12	\$ 56,359	139.28%	\$ 120,994
	7/1/11	\$ 54,114	183.32%	\$ 143,250
	7/1/10	\$ 105,407	(5.33)%	\$ 188,491

June 30, 2013

Budgets and Budgetary Accounting

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

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

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

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

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

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

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Combining Balance Sheet - Component Unit - School Board**June 30, 2013**

Assets	Governmental Activities		Total School Board
	General	Special Revenue	
Cash and cash equivalents	\$ 2,368,818	\$ 84,533	\$ 2,453,351
Due from other governmental units	567,156	-	567,156
Due from special revenue fund	8,691	-	8,691
Inventory	-	15,153	15,153
Total assets	\$ 2,944,665	\$ 99,686	\$ 3,044,351
Liabilities			
Vouchers and accounts payable	\$ 2,262,006	\$ 37,741	\$ 2,299,747
Due to primary government	41,254	-	41,254
Due to general fund	-	8,691	8,691
Total liabilities	2,303,260	46,432	2,349,692
Fund Balances			
Restricted	-	53,254	53,254
Assigned, education	641,405	-	641,405
Total fund balances	641,405	53,254	694,659
Total liabilities and fund balances	\$ 2,944,665	\$ 99,686	\$ 3,044,351

Combining Balance Sheet - Component Unit - School Board

June 30, 2013

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

Total fund balances - Component Unit - School Board	\$ 694,659
Amount reported for component unit activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation.	5,299,210
Noncurrent liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(495,645)
Total net position - Component Unit - School Board	\$ 5,498,224

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

Year Ended June 30, 2013

	General Fund	Special Revenue	Total School Board
Revenues			
Charges for services	\$ -	\$ 289,996	\$ 289,996
Intergovernmental:			
Commonwealth of Virginia	10,191,717	22,529	10,214,246
Federal government	1,424,007	138,434	1,562,441
Local government	8,844,076	-	8,844,076
Other	208,386	-	208,386
Total revenues	20,668,186	450,959	21,119,145
Expenditures			
Current:			
Education	20,812,926	549,349	21,362,275
Total expenditures	20,812,926	549,349	21,362,275
Excess (deficiency) of revenues over expenditures	(144,740)	(98,390)	(243,130)
Other financing sources (uses)			
Transfers in	-	152,375	152,375
Transfers out	(152,375)	-	(152,375)
Total other financing sources, net	(152,375)	152,375	-
Net change in fund balance	(297,115)	53,985	(243,130)
Fund balance, July 1, 2012	938,520	(731)	937,789
Fund balance, June 30, 2013	\$ 641,405	\$ 53,254	\$ 694,659

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

Year Ended June 30, 2013

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 \$ (243,130)

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

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

Capital outlay	286,976
Depreciation expense	(1,057,309)
Loss on disposal of capital assets	(33,296)

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	22,256
Compensated absences	25,215

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.

713,919

Change in net position of governmental activities \$ (285,369)

Budgetary Comparison Schedule - General Fund - School Board**Year Ended June 30, 2013**

	General Fund			Variance With Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Intergovernmental:				
Commonwealth of Virginia	\$ 10,035,840	\$ 10,224,160	\$ 10,191,717	\$ (32,443)
Federal government	968,859	1,879,003	1,424,007	(454,996)
Local government	8,875,403	8,905,313	8,844,076	(61,237)
Miscellaneous	150,140	236,950	208,386	(28,564)
Total revenues	20,030,242	21,245,426	20,668,186	(577,240)
Expenditures				
Current:				
Instruction	14,426,917	14,334,134	14,673,006	(338,872)
Division-wide	963,313	1,037,278	1,010,847	26,431
Transportation	819,786	899,317	816,454	82,863
Operation and maintenance	1,783,500	1,841,710	1,701,953	139,757
Food service	121,140	141,640	83,312	58,328
Technology	946,729	862,197	772,308	89,889
Grants	968,857	1,984,650	1,457,931	526,719
Total expenditures	20,030,242	21,100,926	20,515,811	585,115
Other financing sources (uses)				
Transfer out - special revenue fund	-	(144,500)	(152,375)	(7,875)
Total other financing sources (uses)	-	(144,500)	(152,375)	(7,875)
Excess of revenue and other financing sources over (under) expenditures and other financing uses - budgetary basis	\$ -	\$ -	-	\$ -
Less - encumbrances outstanding June 30, 2012, actually expended as of June 30, 2013			(938,520)	
Add - encumbrances outstanding June 30, 2013			641,405	
Excess of revenue and other financing sources over (under) expenditures and other financing uses - GAAP basis			(297,115)	
Fund balance, June 30, 2012			938,520	
Fund balance, June 30, 2013			\$ 641,405	

Schedule of Changes in Capital Assets by Function and Activity - School Board**Year Ended June 30, 2013**

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Education	\$ 42,321,245	\$ 286,976	\$ 109,766	\$ 42,498,455
Less - accumulated depreciation	(11,260,914)	(1,057,309)	76,470	(12,241,753)
	<u>31,060,331</u>	<u>(770,333)</u>	<u>33,296</u>	<u>30,256,702</u>
Allocation of assets to City, net	(25,671,411)	713,919	-	(24,957,492)
	<u>\$ 5,388,920</u>	<u>\$ (56,414)</u>	<u>\$ 33,296</u>	<u>\$ 5,299,210</u>

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

Year Ended June 30, 2013

(School Activity Funds and Instructional Support Fund)

	Balance			Balance
	July 1, 2012	Additions	Deductions	June 30, 2013
Assets				
Cash and cash equivalents	\$ 362,055	\$ 726,941	\$ 734,696	\$ 354,300
Liabilities				
Due to students	\$ 362,055	\$ 726,941	\$ 734,696	\$ 354,300

Statement of Changes in Assets and Liabilities - Library Agency Fund

Year Ended June 30, 2013

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Assets				
Cash and cash equivalents	\$ 38,258	\$ 62	\$ -	\$ 38,320
Liabilities				
Amounts held for others	\$ 38,258	\$ 62	\$ -	\$ 38,320

Statement of Cash Flows - Component Unit - Economic Development Authority**Year Ended June 30, 2013****Cash flows from operating activities**

Received from customers and users	\$ 21,311
Payments to suppliers for goods and services	(49,974)
Net cash used in operating activities	(28,663)

Cash flows from capital and related financing activities

Interest paid on capital debt	(40,349)
Sale of capital assets	129,062
Borrowing from primary government	1,734,000
Payments on line of credit	(1,796,527)
Net cash provided by capital and related financing activities	26,186

Net increase in cash and cash equivalents (2,477)

Cash and cash equivalents, beginning of year 10,593

Cash and cash equivalents, end of year \$ 8,116

Reconciliation of operating income to net cash provided by operating activities

Operating loss	\$ (45,122)
Adjustments	
Depreciation	20,689
Changes in assets and liabilities	
Accounts receivable	(405)
Accounts payable	(3,825)
Net cash used in operating activities	\$ (28,663)

June 30, 2013

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.

* * * * *

Net Position by Component (unaudited)

Last Ten Fiscal Years	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Governmental activities:										
Net investment in capital assets	\$ 16,049,986	\$ 16,838,143	\$ 17,593,261	\$ 17,493,727	\$ 18,654,461	\$ 12,045,582	\$ 17,183,471	\$ 10,104,292	\$ 7,579,069	\$ 6,026,883
Restricted	878,402	1,037,956	-	-	-	-	-	-	-	-
Unrestricted	5,088,254	5,070,860	5,902,110	5,235,762	4,668,824	9,164,683	3,057,158	5,044,143	5,765,548	4,925,489
Total governmental activities	\$ 22,016,642	\$ 22,946,959	\$ 23,495,371	\$ 22,729,489	\$ 23,323,285	\$ 21,210,265	\$ 20,240,629	\$ 15,148,435	\$ 13,344,617	\$ 10,952,372
Business-type activities:										
Net investment in capital assets	\$ 4,848,333	\$ 5,094,194	\$ 5,073,709	\$ 4,923,135	\$ 5,595,238	\$ 5,518,765	\$ 5,516,767	\$ 5,502,835	\$ 5,164,685	\$ 5,232,966
Restricted - debt service	-	-	-	-	-	-	-	-	-	-
Restricted - sewer improvements	-	-	-	-	-	-	-	-	-	71,623
Unrestricted	1,016,071	588,681	499,193	1,358,338	1,038,282	1,454,510	1,808,221	1,690,392	1,854,439	1,459,144
Total business-type activities	\$ 5,864,404	\$ 5,682,875	\$ 5,572,902	\$ 6,281,473	\$ 6,633,540	\$ 6,973,275	\$ 7,324,988	\$ 7,193,227	\$ 7,019,124	\$ 6,763,733
Primary government:										
Net investment in capital assets	\$ 20,898,319	\$ 21,932,337	\$ 22,199,083	\$ 22,416,862	\$ 24,249,719	\$ 17,564,347	\$ 22,700,238	\$ 15,607,127	\$ 12,743,754	\$ 11,259,849
Restricted - capital projects	645,971	862,106	-	-	-	-	-	-	-	-
Restricted - sewer improvements	-	-	-	-	-	-	-	-	-	71,623
Restricted - other	232,431	175,850	-	-	-	-	-	-	-	-
Unrestricted	6,104,325	5,659,541	6,401,303	6,594,100	5,707,106	10,619,193	4,865,379	6,734,535	7,619,987	6,384,633
Total primary government	\$ 27,881,046	\$ 28,629,834	\$ 28,600,386	\$ 29,010,962	\$ 29,956,825	\$ 28,183,540	\$ 27,565,617	\$ 22,341,662	\$ 20,363,741	\$ 17,716,105

Change in Net Position (unaudited)

Last Ten Fiscal Years	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Expenses										
Governmental activities:										
General government	\$ 3,081,068	\$ 3,058,270	\$ 2,328,395	\$ 2,960,944	\$ 2,735,018	\$ 1,415,530	\$ 4,532,796	\$ 2,379,161	\$ 1,846,634	\$ 1,569,814
Public safety and judicial	6,609,483	6,296,795	6,147,949	6,016,699	5,844,764	6,668,792	5,514,359	4,896,621	4,931,153	4,101,007
Public works	1,599,943	1,875,113	1,883,380	950,043	1,780,286	1,587,249	1,511,607	1,327,111	1,694,612	1,659,214
Health and welfare	909,035	913,826	817,008	1,022,735	1,162,301	1,081,767	862,689	821,356	840,310	650,092
Education	9,557,995	9,510,584	9,080,484	10,906,525	8,364,349	8,405,003	8,126,211	7,426,666	7,087,769	6,965,522
Parks and recreation	1,639,717	1,248,643	1,224,910	859,051	1,389,000	1,249,535	18,006	1,030,174	1,343,537	839,537
Community development	711,874	567,672	488,893	547,051	1,272,635	2,327,008	1,081,786	817,214	563,788	636,477
Interest on long-term debt	1,114,258	1,219,966	1,213,782	1,100,826	1,263,686	1,399,427	1,246,037	462,508	500,461	525,850
Total governmental activities	25,223,373	24,690,869	23,184,801	24,363,874	23,812,039	24,134,311	22,893,491	19,160,811	18,808,264	16,947,513
Business-type activities:										
Sewer	1,470,187	1,447,681	2,057,173	1,685,334	1,534,743	1,604,560	1,596,599	1,554,446	1,537,870	1,609,179
Parks and recreation	-	455,199	450,025	401,006	463,662	463,668	473,754	587,701	545,799	524,504
Solid waste	842,251	743,280	791,114	766,921	768,565	904,411	595,209	528,325	475,269	446,172
Total business-type activities	2,312,438	2,646,160	3,298,312	2,853,261	2,766,970	2,972,639	2,665,562	2,670,472	2,558,938	2,579,855
Total expenses	\$ 27,535,811	\$ 27,337,029	\$ 26,483,113	\$ 27,217,135	\$ 26,579,009	\$ 27,106,950	\$ 25,559,053	\$ 21,831,283	\$ 21,367,202	\$ 19,527,368
Program revenues										
Governmental activities:										
Charges for services:										
General government	\$ 218,338	\$ 223,152	\$ 223,887	\$ 254,482	\$ 274,901	\$ 157,130	\$ 100,055	\$ 104,747	\$ 100,546	\$ 92,864
Public safety and judicial	370,268	112,011	300,870	103,169	108,456	102,452	185,842	163,397	118,496	95,621
Education	36,347	49,188	36,347	-	-	-	-	-	-	21,800
Parks and recreation	80,352	74,609	61,820	217,372	55,288	69,952	72,253	24,367	24,543	25,849
Community development	330,873	300,206	33,721	22,614	22,741	36,230	51,543	53,397	-	109,087
Operating grants and contributions	1,670,603	1,575,285	1,881,297	1,986,470	1,658,180	2,290,305	2,094,100	2,122,034	2,705,293	1,718,011
Capital grants and contributions	458,320	732,846	419,225	330,892	2,873,294	1,745,973	1,260,858	342,400	1,187,904	193,425
Total governmental activities	3,165,101	3,067,297	2,957,167	2,914,999	4,992,860	4,402,042	3,764,651	2,810,342	4,136,782	2,256,657
Business-type activities:										
Charges for services:										
Sewer	1,835,646	1,520,017	1,531,319	1,487,157	1,528,438	1,514,893	1,803,913	1,413,403	1,271,539	1,216,215
Solid waste	8,662,297	212,730	189,782	743,965	586,277	511,173	329,172	315,082	340,230	325,361
Parks and recreation	-	743,936	755,834	179,070	171,459	177,858	209,147	334,911	325,319	325,083
Total business-type activities	10,497,943	2,476,683	2,476,935	2,410,192	2,286,174	2,203,924	2,342,232	2,063,396	1,937,088	1,866,659
Total program revenues	\$ 13,663,044	\$ 5,543,980	\$ 5,434,102	\$ 5,325,191	\$ 7,279,034	\$ 6,605,966	\$ 6,106,883	\$ 4,873,738	\$ 6,073,870	\$ 4,123,316
Governmental activities, net expense	\$ (22,058,272)	\$ (21,623,572)	\$ (20,227,634)	\$ (21,448,875)	\$ (18,819,179)	\$ (19,732,269)	\$ (19,128,840)	\$ (16,350,469)	\$ (14,671,482)	\$ (14,690,856)
Business-type activities, net expense	8,185,505	(169,477)	(821,377)	(443,069)	(480,796)	(768,715)	(323,330)	(607,076)	(621,850)	(713,196)
Total primary government, net expenses	\$ (13,872,767)	\$ (21,793,049)	\$ (21,049,011)	\$ (21,891,944)	\$ (19,299,975)	\$ (20,500,984)	\$ (19,452,170)	\$ (16,957,545)	\$ (15,293,332)	\$ (15,404,052)

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

Change in Net Position (unaudited)

Last Ten Fiscal Years	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
General revenues and other changes in net position										
Governmental activities:										
Taxes:										
Property taxes	\$ 18,219,806	\$ 18,228,029	\$ 18,235,363	\$ 18,054,307	\$ 17,989,555	\$ 15,956,711	\$ 15,636,708	\$ 13,053,028	\$ 12,489,445	\$ 11,135,298
Other taxes	2,881,297	2,529,995	2,464,223	2,451,932	2,537,554	2,613,195	2,541,189	2,792,592	2,635,723	2,524,964
Reimbursements from other agencies	84,883	58,458	75,318	102,239	95,694	1,367,713	1,970,935	2,035,707	1,830,047	2,012,657
Payments in lieu of taxes:										
Investment earnings	189,710	181,274	183,284	156,139	179,671	728,606	1,085,397	415,638	119,801	-
Miscellaneous	236,197	196,203	(25,102)	51,462	99,725	294,109	146,900	75,005	116,511	83,401
Transfers	130,000	(118,799)	80,400	39,000	30,000	(258,430)	(270,005)	(217,683)	(127,800)	(102,200)
Total governmental activities	21,741,893	21,075,160	21,013,486	20,855,079	20,932,199	20,701,904	21,111,124	18,154,287	17,063,727	15,654,120
Business-type activities:										
Investment earnings	26,440	32,131	29,476	30,522	29,264	37,001	37,913	23,393	23,888	39,559
Miscellaneous	2,677	128,520	132,530	99,480	141,797	167,035	147,176	540,100	725,553	339,909
Loss on disposal of capital assets	-	-	-	-	-	(45,464)	-	-	-	-
Transfers	(130,000)	118,799	(49,200)	(39,000)	(30,000)	258,430	270,005	217,683	127,800	102,200
Total business-type activities	(100,883)	279,450	112,806	91,002	141,061	417,002	455,094	781,176	877,241	481,668
Total general revenues and other changes in net assets	\$ 21,641,010	\$ 21,354,610	\$ 21,126,292	\$ 20,946,081	\$ 21,073,260	\$ 21,118,906	\$ 21,566,218	\$ 18,935,463	\$ 17,940,968	\$ 16,135,788
Extraordinary item										
Governmental activities:										
Hurricane Isabel	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (104,257)
Change in net position	\$ (316,379)	\$ (548,412)	\$ 785,852	\$ (593,796)	\$ 2,113,020	\$ 969,635	\$ 1,982,284	\$ 1,803,818	\$ 2,392,245	\$ 859,007
Governmental activities	8,084,622	109,973	(708,571)	(352,067)	(339,735)	(351,713)	131,764	174,100	255,391	(231,528)
Business-type activities										
Total primary government	\$ 7,768,243	\$ (438,439)	\$ 77,281	\$ (945,863)	\$ 1,773,285	\$ 617,922	\$ 2,114,048	\$ 1,977,918	\$ 2,647,636	\$ 627,479

Fund Balances - Governmental Funds (unaudited)**Last Ten Fiscal Years**

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
General fund:										
Non-Spendable	\$ 1,968,595	\$ 254,474	\$ 273,051	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	234,126	175,850	193,477	-	-	-	-	-	-	-
Assigned	426,772	679,065	447,892	-	-	-	-	-	-	-
Unassigned	4,837,805	4,498,417	4,776,356	-	-	-	-	-	-	-
Reserved for:										
Encumbrances & loans	-	-	-	347,863	392,810	276,571	180,562	125,336	71,459	125,653
Asset forfeiture	-	-	-	83,704	89,261	89,594	-	-	-	-
Fire department	-	-	-	100,858	69,671	-	-	-	-	-
Library	-	-	-	13,015	13,861	-	-	-	-	-
Heritage Park	-	-	-	6,060	-	-	-	-	-	-
Unreserved	-	-	-	4,338,582	3,389,561	3,571,770	4,858,261	4,550,535	4,764,304	4,015,477
Total general fund	\$ 7,467,298	\$ 5,607,806	\$ 5,690,776	\$ 4,890,082	\$ 3,955,164	\$ 3,937,935	\$ 5,038,823	\$ 4,675,871	\$ 4,835,763	\$ 4,141,130
All other governmental funds:										
Non-Spendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	645,971	862,106	478,967	-	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	651,746	376,082	391,118	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-
Unreserved for:										
Designated	-	-	-	-	-	1,203,324	327,503	1,273,130	747,677	1,024,626
Unreserved and undesignated	-	-	-	258,713	470,991	258,724	385,137	80,000	-	-
Total all other governmental funds	\$ 1,297,717	\$ 1,238,188	\$ 870,085	\$ 909,904	\$ 1,329,287	\$ 5,733,793	\$ 17,001,469	\$ 15,032,088	\$ 1,138,732	\$ 1,024,626

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

Changes in Fund Balances - Governmental Funds (unaudited)

Last Ten Fiscal Years	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues										
General property taxes	\$ 16,371,816	\$ 16,361,071	\$ 16,296,911	\$ 16,023,837	\$ 16,034,422	\$ 16,127,168	\$ 15,562,860	\$ 13,012,958	\$ 12,488,453	\$ 11,226,560
Other local taxes	2,881,297	2,529,995	2,464,223	2,451,932	2,537,554	2,613,195	2,541,189	2,792,592	2,635,722	2,524,964
Permits, privilege fees and regulatory licenses	76,040	97,314	78,464	70,947	83,775	98,233	162,218	173,401	172,455	173,525
Fines and forfeitures	58,103	43,603	54,907	54,836	46,859	38,201	75,942	37,283	30,583	24,605
Revenue from use of money and property	189,710	183,310	183,282	157,422	224,492	825,346	1,171,832	503,615	202,548	58,937
Charges for services	683,698	395,096	299,386	217,376	55,909	72,749	29,694	30,318	31,740	31,740
Intergovernmental	4,355,574	4,513,171	4,416,734	4,597,512	4,871,491	6,017,329	5,389,676	4,898,316	5,324,277	3,694,854
Miscellaneous	260,245	215,548	128,881	60,625	86,991	320,188	94,093	37,381	93,385	369,054
Total revenues	24,876,483	24,339,108	23,922,788	23,634,487	23,941,493	26,111,165	25,068,559	21,485,240	20,977,741	18,104,239
Expenditures										
Current:										
General government and administration	2,116,875	2,175,864	2,106,211	1,924,481	2,324,651	2,018,674	1,938,236	1,754,223	1,543,930	1,330,271
Public safety and judicial	6,247,962	5,909,331	5,765,369	5,601,358	5,328,217	5,952,162	5,235,778	4,857,162	4,440,330	4,007,945
Public works	1,587,114	1,596,143	1,516,878	1,530,904	1,535,411	1,503,219	1,428,384	1,232,132	1,284,108	1,125,448
Health and welfare	892,421	897,082	802,490	1,016,083	1,131,499	1,067,418	843,523	802,295	819,499	657,485
Parks, recreation, and cultural	1,545,578	1,057,553	1,016,944	1,003,795	1,169,328	1,175,226	1,034,306	935,543	830,797	763,681
Community development	705,927	577,990	490,912	529,529	1,236,529	2,222,658	1,544,499	640,718	507,520	535,757
Nondepartmental	144,213	359,518	112,981	329,279	134,282	218,133	173,643	140,315	127,144	115,105
Education	8,844,076	8,796,662	8,578,675	8,008,392	8,078,598	8,147,463	7,880,000	7,555,104	7,311,063	6,728,536
Industrial Development Authority	-	-	-	40,000	51,250	110,000	123,861	147,530	59,900	95,000
Capital outlays	794,678	1,119,347	814,871	838,069	7,085,050	14,035,793	8,460,299	2,447,596	2,338,525	986,129
Debt service	-	-	-	-	-	-	-	-	-	-
Principal retirement	684,426	867,647	896,963	1,358,073	1,414,131	1,495,455	1,092,106	1,058,843	1,066,793	983,418
Bond issuance costs	-	310,631	43,263	234,339	139,699	-	-	-	500	2,000
Interest and fiscal charges	1,124,605	1,266,380	1,136,670	1,201,041	1,244,582	1,258,222	1,038,815	462,632	497,733	522,623
Total expenditures	24,687,875	24,934,148	23,282,227	23,615,343	30,873,227	39,204,423	30,793,450	22,034,093	20,827,842	17,853,398
Excess (deficiency) of revenue over expenditures	188,608	(595,040)	640,561	19,144	(6,931,734)	(13,093,258)	(5,724,891)	(548,853)	149,899	250,841
Other financing sources (uses)										
Transfers in	2,333,090	2,253,807	2,248,182	2,387,735	2,708,519	448,610	457,417	150,000	590,000	151,800
Issuance of debt	1,734,000	998,972	39,914	457,391	2,514,557	664,414	8,000,000	14,500,000	349,640	-
Transfers out	(2,203,090)	(2,372,606)	(2,167,782)	(2,548,735)	(2,678,519)	(388,430)	(400,193)	(367,683)	(280,800)	(254,000)
Total other financing sources (uses)	1,864,000	880,173	120,314	496,391	2,544,557	724,594	8,057,224	14,282,317	658,840	(102,200)
Net change in fund balances before extraordinary item	2,052,608	285,133	760,875	515,535	(4,387,177)	(12,368,664)	2,332,333	13,733,464	808,739	148,641
Extraordinary item - Hurricane Isabel										
Revenues	-	-	-	-	-	-	-	-	-	2,693,258
Expenditures	-	-	-	-	-	-	-	-	-	(2,797,515)
Total extraordinary item - Hurricane Isabel	-	-	-	-	-	-	-	-	-	(104,257)
Net change in fund balances	\$ 2,052,608	\$ 285,133	\$ 760,875	\$ 515,535	\$ (4,387,177)	\$ (12,368,664)	\$ 2,332,333	\$ 13,733,464	\$ 808,739	\$ 44,384
Debt service as a percentage of noncapital expenditures	7.52%	8.88%	9.17%	12.75%	11.18%	11.23%	9.73%	9.78%	8.50%	9.28%

Assessed Value and Estimated Actual Value of Taxable Real Property (unaudited)

Last Ten Fiscal Years													
Fiscal Year	Commercial /			Total Taxable		Tax Exempt Property	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value				
	Residential Property	Industrial Property	Agricultural Property	Assessed Value									
2013	\$ 1,426,373,300	\$ 96,689,879	\$ 3,706,100	\$ 1,526,769,279	\$ 106,007,040	\$ 0.92	\$ 1,511,501,600	101%					
2012	\$ 1,417,474,500	\$ 98,208,727	\$ 3,706,100	\$ 1,519,389,327	\$ 105,532,630	\$ 0.92	\$ 1,519,389,327	100%					
2011	\$ 1,622,194,900	\$ 102,253,036	\$ 3,798,800	\$ 1,728,246,736	\$ 109,434,010	\$ 0.81	\$ 1,641,834,400	105%					
2010	\$ 1,612,987,500	\$ 103,065,821	\$ 3,798,800	\$ 1,719,852,121	\$ 109,430,730	\$ 0.81	\$ 1,719,852,121	100%					
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%					

∞

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

Property Tax Levies and Collections (unaudited)**Last Ten Fiscal Years**

Fiscal Year	Net Taxes Levied for Fiscal Year (Original Levy)	Subsequent Year Adjustments	Total Adjusted Net Levy	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collected to Date	
				Amount	Percent of Original Levy		Amount	Percent of Original Levy
2013	\$ 13,891,076	\$ -	\$ 13,891,076	\$13,709,910	98.70%	\$ -	\$ 13,709,910	98.70%
2012	\$ 13,808,493	2,902	\$ 13,811,395	\$13,617,311	98.59%	\$ 108,884	\$ 13,726,195	99.38%
2011	\$ 13,666,068	13,994	\$ 13,680,062	\$13,421,564	98.11%	\$ 213,377	\$ 13,634,941	99.67%
2010	\$ 13,614,366	3,219	\$ 13,617,585	\$13,371,918	98.22%	\$ 225,802	\$ 13,597,720	99.85%
2009	\$ 13,481,887	1,040	\$ 13,482,927	\$13,306,699	98.70%	\$ 163,238	\$ 13,469,937	99.90%
2008	\$ 13,330,523	(1,413)	\$ 13,329,110	\$13,186,765	98.92%	\$ 133,280	\$ 13,320,045	99.93%
2007	\$ 13,075,301	130	\$ 13,075,431	\$12,941,290	98.98%	\$ 124,621	\$ 13,065,911	99.93%
2006	\$ 10,831,249	2,552	\$ 10,833,801	\$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%	\$ 155,854	\$ 9,260,121	99.95%

Principal Taxpayers - 2013 and Nine Years Ago (unaudited)

Years Ended		2013		2004	
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	\$ 9,460,200	0.62%	\$ 7,441,900	0.88%
Poquoson Commons Retail Investors, Inc.	Shopping Center	6,415,500	0.42%	-	-
Whitehouse Cove, LLC	Marina / Mobile Home Park	6,151,800	0.40%	-	-
Dave Carpenter	Marina / Mobile Home Park	-	-	3,083,800	0.36%
Poquoson Shopping Center, L.L.C.	Shopping Center	4,532,700	0.30%	-	-
SGC Wythe Creek, L.L.C.	Shopping Center	4,089,300	0.27%	-	-
GPH Poquoson L.L.C.	Nursing Home	3,641,600	0.24%	-	-
Islander Associates	Apartment Rentals	3,444,200	0.23%	2,752,100	0.32%
Universal of Poquoson	Mobile Home Park	3,299,000	0.22%	2,552,400	0.30%
Hunt Properties of Poquoson, Inc.	Storage Facilities	2,671,900	0.18%	-	-
SNH CHS Properties Trust	Nursing Home	2,321,600	0.15%	-	-
Bristol-Cardiff	Shopping Center	-	-	6,201,900	0.73%
Suburban Land Company	Shopping Center	-	-	3,960,000	0.47%
WCP, L.L.C.	Shopping Center	-	-	3,668,400	0.43%
Vantage Healthcare Corporation	Nursing Home	-	-	1,927,600	0.23%
Wachovia Bank	Financial Institution	-	-	1,696,500	0.20%
Carematrix of Dominion Village	Nursing Home	-	-	1,451,700	0.17%
		-	-	-	-
		\$46,027,800	3.01%	\$34,736,300	4.10%

Source: Commissioner of the Revenue and City Assessor.

Computation of Legal Debt Margin (unaudited)

Last Ten Fiscal Years	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Total assessed value of taxed real property										
General	\$ 1,508,646,060	\$ 1,498,862,620	\$ 1,711,308,830	\$ 1,702,517,110	\$ 1,685,314,440	\$ 1,662,716,070	\$ 1,627,336,017	\$ 1,025,497,078	\$ 1,002,511,357	\$ 832,002,644
Public service corporations	18,123,219	20,526,707	16,937,906	17,335,011	13,481,068	15,613,112	10,151,179	11,806,063	12,490,949	15,281,091
Total	\$ 1,526,769,279	\$ 1,519,389,327	\$ 1,728,246,736	\$ 1,719,852,121	\$ 1,698,795,508	\$ 1,678,329,182	\$ 1,637,487,196	\$ 1,037,303,141	\$ 1,015,002,306	\$ 847,283,735
Debt limit (10% of total assessed value)										
	\$ 152,676,928	\$ 151,938,933	\$ 172,824,674	\$ 171,985,212	\$ 169,879,551	\$ 167,832,918	\$ 163,748,720	\$ 103,730,314	\$ 101,500,231	\$ 84,728,374
Debt applicable to debt limit										
General obligation bonds, other than those authorized for a specific revenue producing project	\$ 28,619,001	\$ 27,212,000	\$ 28,164,822	\$ 28,689,878	\$ 29,552,678	\$ 27,460,783	\$ 28,341,971	\$ 20,966,951	\$ 7,060,912	\$ 7,645,953
Capital leases	83,166	163,593	241,240	316,204	388,577	978,046	525,899	591,024	653,906	-
Sewer general obligation bonds	8,305,000	8,605,000	9,425,933	9,890,072	9,796,907	10,508,638	11,280,327	12,049,089	12,791,016	13,506,624
State literary fund loans	1,530,820	1,807,820	2,084,820	2,361,820	2,763,820	3,165,820	3,567,820	3,969,820	4,371,820	4,811,338
	38,537,987	37,788,413	39,916,815	41,257,974	42,501,982	42,113,287	43,716,017	37,576,884	24,877,654	25,963,915
Margin for additional borrowing										
	\$ 114,138,941	\$ 114,150,520	\$ 132,907,859	\$ 130,727,238	\$ 127,377,569	\$ 125,719,631	\$ 120,032,703	\$ 66,153,430	\$ 76,622,577	\$ 58,764,459
Total net debt applicable to the limit as a percentage of debt limit										
	25.24%	24.87%	23.10%	23.99%	25.02%	25.09%	26.70%	36.23%	24.51%	30.64%

Ratios of Outstanding Debt by Type (unaudited)**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						
2013	\$ 30,500,952	\$ 1,530,820	\$ 83,166	\$ 8,974,904			\$ 41,089,842	N/A	N/A	\$ 3,397
2012	\$ 27,212,000	\$ 1,807,820	\$ 163,593	\$ 8,605,000			\$ 37,788,413	N/A	N/A	\$ 3,087
2011	\$ 28,164,822	\$ 2,084,820	\$ 241,240	\$ 9,425,933			\$ 39,916,815	\$ 86,611	1.1%	\$ 3,285
2010	\$ 28,689,878	\$ 2,361,820	\$ 316,204	\$ 9,890,072			\$ 41,257,974	\$ 84,315	1.2%	\$ 3,473
2009	\$ 29,552,678	\$ 2,763,820	\$ 388,577	\$ 9,796,907			\$ 42,501,982	\$ 84,688	1.2%	\$ 3,605
2008	\$ 27,460,783	\$ 3,165,820	\$ 978,046	\$ 10,508,638			\$ 42,113,287	\$ 79,123	1.4%	\$ 3,563
2007	\$ 28,341,971	\$ 3,567,820	\$ 525,899	\$ 11,280,327			\$ 43,716,017	\$ 78,191	1.4%	\$ 3,659
2006	\$ 20,966,951	\$ 3,969,820	\$ 591,024	\$ 12,049,089			\$ 37,576,884	\$ 76,741	1.2%	\$ 3,167
2005	\$ 7,060,912	\$ 4,371,820	\$ 653,906	\$ 12,791,016			\$ 24,877,654	\$ 71,435	0.9%	\$ 2,115
2004	\$ 7,645,953	\$ 4,811,338	\$ -	\$ 13,506,624			\$ 25,963,915	\$ 70,476	1.0%	\$ 2,219

N/A - This information is not available.

City of Poquoson, Virginia

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

Last Ten Fiscal Years		Ratio of Net Bonded Debt to Assessed Value			Net Bonded Debt per Capita	
Fiscal Year	Population (1)	Assessed Value	Net Bonded Debt (2)	Value	Debt per Capita	
2013	12,097	\$ 1,526,769,279	\$ 32,114,938	2.10%	\$	2,655
2012	12,240	\$ 1,519,389,327	\$ 29,183,413	1.92%	\$	2,384
2011	12,150	\$ 1,728,246,736	\$ 30,490,882	1.76%	\$	2,510
2010	11,881	\$ 1,719,852,121	\$ 31,367,902	1.82%	\$	2,640
2009	11,791	\$ 1,698,795,508	\$ 32,705,075	1.93%	\$	2,774
2008	11,818	\$ 1,678,329,182	\$ 31,604,649	1.88%	\$	2,674
2007	11,948	\$ 1,637,487,196	\$ 32,435,690	1.98%	\$	2,715
2006	11,865	\$ 1,037,303,141	\$ 11,027,795	1.06%	\$	929
2005	11,764	\$ 1,015,002,306	\$ 12,086,638	1.19%	\$	1,027
2004	11,700	\$ 847,283,735	\$ 12,457,291	1.47%	\$	1,065

Source: (1) Weldon Cooper Center for Public Service.

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

Demographic Statistics (unaudited)**Last Ten Fiscal Years**

Fiscal Year	Population (1)	Personal Income (2) (in millions)	Per Capita Personal Income (2)	School Enrollment (3)	Unemployment Rate	
2013	12,097	N/A	N/A	2,184	4.7%	(5)
2012	12,240	N/A	N/A	2,222	5.5%	(5)
2011	12,150	\$ 3,716	\$ 47,564	2,231	5.7%	(5)
2010	11,881	\$ 3,517	\$ 45,334	2,390	6.0%	(5)
2009	11,791	\$ 3,456	\$ 47,380	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)

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.

Principal Employers in Poquoson - 2013 and Nine Years Ago (unaudited)

Employment	2013		2004	
	Number of Employees	Percentage of Total City Employment	Number of Employees	Percentage of Total City Employment
Poquoson City Public Schools	274	8.30%	313	13.81%
City of Poquoson	143	4.33%	139	6.13%
Farm Fresh	75	2.27%	80	3.53%
Golden Living Center/Bayside	55	1.67%	N/A	N/A
Surf Rider	55	1.67%	N/A	N/A
Food Lion	58	1.76%	60	2.65%
Dominion Village at Poquoson	42	1.27%	41	1.81%
McDonald's Restaurant	45	1.36%	55	2.43%
Wendy's Restaurant	19	0.58%	N/A	N/A
Stephen's Office Supply	19	0.58%	26	1.15%
	785	23.79%	714	31.51%

N/A - This information is not available.

Source: City of Poquoson Economic Development Department.

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

Function / Program	Full-time Equivalent Employees as of June 30,									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Last Ten Fiscal Years										
General government:										
Management services										
Finance	12.20	12.20	12.20	12.20	14.20	14.20	14.20	12.60	12.00	11.50
Planning	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	7.50	7.20
Building	4.00	4.00	4.35	4.45	5.45	5.45	5.45	5.45	3.60	3.60
Other	3.75	3.75	3.75	3.00	4.00	4.00	4.00	4.00	3.10	2.10
Police:	3.10	2.85	2.10	2.10	2.10	2.10	2.10	2.10	2.10	2.10
Officers	23.50	22.50	22.50	22.50	22.50	22.50	22.50	22.50	20.50	20.50
Civilians	1.00	1.00	1.00	1.00	2.00	6.50	6.50	6.50	6.50	6.10
Fire:										
Firefighters and officers	29.00	29.00	29.00	29.00	29.00	29.00	28.00	26.00	26.00	26.00
Civilians	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Refuse collection	1.00	1.00	1.00	1.00	2.00	2.50	3.00	3.00	3.00	3.00
Other public works:	17.10	16.50	16.50	16.50	15.50	15.00	14.50	14.50	14.50	14.50
Engineering	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	2.85	2.85
Other	2.00	2.00	2.00	2.00	3.00	3.00	2.40	2.00	2.00	2.10
Fleet	3.50	3.50	3.50	3.50	4.50	4.50	4.50	4.60	4.60	4.75
Parks and recreation	9.80	9.80	9.80	9.80	13.55	13.50	13.50	15.70	13.50	13.50
Library	11.95	11.95	11.95	11.95	11.95	11.95	11.45	11.45	10.45	10.45
Wastewater	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	3.50
Total	135.90	134.05	133.65	133.00	143.75	148.20	146.10	144.40	137.20	134.75

Source: Finance Department.

Operating Indicators by Function / Program (unaudited)**Last Ten Fiscal Years**

Function / Program	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Police (1)										
Physical arrests	291	307	259	335	362	109	294	326	344	245
Parking violations	41	18	39	34	29	9	71	32	87	37
Traffic violations	1,062	714	957	915	979	911	1,014	784	631	468
Fire (2)										
Emergency responses	2,122	2,028	1,827	1,870	1,574	1,362	1,687	1,466	1,194	1,106
Fires extinguished	22	20	51	79	44	38	35	52	85	180
Inspections	240	239	290	233	56	31	41	23	12	12
Refuse collection (3)										
Refuse collected (tons)	2,761	2,184	2,241	2,560	2,524	2,160	1,663	1,603	1,610	1,604
Recyclables collected (tons)	1,282	1,324	1,390	1,418	2,482	1,490	1,445	1,484	1,312	1,578
Other public works (3)										
Street resurfacing (tons)	2,524	2,991	2,645	2,481	3,315	3,910	4,943	3,620	3,019	2,737
Library (4)										
Volumes in collection	60,811	59,816	58,203	59,217	60,180	58,266	58,401	57,196	53,856	52,644
Total volumes borrowed	199,739	189,719	197,967	209,768	216,065	208,534	193,354	190,000	181,360	179,276
Wastewater (5)										
Sewer connections	4,782	4,816	4,805	4,803	4,876	4,871	4,790	4,649	4,544	4,494

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.

Capital Asset Statistics by Function/Program (unaudited)**Last Ten Fiscal Years**

Function/Program	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Police (1)	1	1	1	1	1	1	1	1	1	1
Stations	24.5	24.5	24.0	23.0	23.0	23.0	23.0	23.0	21.0	21.0
Patrol units	2	2	2	2	2	2	2	2	2	2
Fire stations (2)										
Refuse collection (3)	0	0	0	0	0	3	3	3	3	3
Collection trucks										
Other public works (3)										
Street (miles)	55.4	55.4	55.4	55.4	54.6	53.2	53.2	53.2	52.9	52.0
Streetlights	575	575	574	574	574	561	546	542	507	502
Traffic signals	4	4	4	4	4	4	4	3	3	3
Park and recreation (4)										
Acreage	63	63	48	48	48	48	46	39	38	31
Playgrounds	3	3	3	3	3	3	4	3	3	2
Baseball / softball diamond	4	4	6	6	6	6	5	3	3	3
Soccer / football fields	6	6	6	6	6	6	5	5	5	5
Community centers	2	2	1	1	1	1	1	1	1	1
Wastewater (5)										
Sanitary sewers (miles)	65	65	64	64	64	64	64	64	64	63
Storm sewers (miles)	34.24(*)	34.24(*)	34(*)	34(*)	32(*)	16	16	16	15	14

(*) 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.

**Independent Auditor's 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***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Poquoson, Virginia (the "City") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 27, 2013.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 2013-1.

City of Poquoson, Virginia's Response to Findings

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Cherry Rehnert" followed by "LLP". The signature is written in a cursive, flowing style.

Virginia Beach, Virginia
November 27, 2013

**Independent Auditor's Report on Compliance for Each Major
Federal Program and on Internal Control over Compliance Required by
OMB Circular A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Poquoson, Virginia's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2013. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Cherry Berkman LLP". The signature is written in a cursive, flowing style.

Virginia Beach, Virginia
November 27, 2013

City of Poquoson, Virginia

Schedule of Expenditures of Federal Awards

June 30, 2013

	Federal CFDA Number	Federal Expenditures
Federal granting agency / recipient state agency		
Grant program/grant number		
U.S. Department of Agriculture		
Pass through payments:		
Department of Agriculture and Consumer Services:		
Child Nutrition Cluster:		
National School Breakfast Program	10.553	\$ 20,700
National School Lunch Program	10.555	117,734
Donated Commodities	10.555	15,153
		<u>\$ 153,587</u>
U.S. Department of Defense		
Promoting K-12 Student Achievement at Military-Connected Schools (Reading)	12.556	68,138
U.S. Department of the Interior		
Direct payments:		
Plum Tree Island Refuge	15.611	2,359
U.S. Department of Transportation		
Pass through payments:		
Department of Motor Vehicles:		
Alcohol Traffic Safety and Drunk Driving Prevention Incentive (10/1/11-9/30/12)	20.600	5,993
Alcohol Traffic Safety and Drunk Driving Prevention Incentive (10/1/12-9/30/13)-Speed	20.600	4,445
Alcohol Traffic Safety and Drunk Driving Prevention Incentive (10/1/12-9/30/13)-Alcohol	20.600	5,772
U.S. Department of Education		
Direct payments:		
Impact Aid	84.041	149,107
Pass through payments:		
Virginia Department of Education:		
Title I: Grants to local educational agencies	84.010	100,268
Title II: Improving teacher quality state grants	84.367	51,147
Special Education (IDEA) Cluster:		
Title VI-B: Assistance to states for education of handicapped children:		
Special Education Grants	84.027	466,765
Preschool Handicapped	84.173	11,797
		<u>478,562</u>
Vocational education-basic grants to states	84.048	18,871
State and Drug-free Schools and Communities	84.186	-
ARRA - State Fiscal Stabilization Funds	84.394	-
ARRA - State Fiscal Stabilization Funds - Basic Aid	84.394A	
ARRA - Education Jobs Fund	84.410	411,966
U.S. Department of Homeland Security		
Pass through payments:		
Virginia Department of Emergency Management		
FEMA Public Assistance	97.036	4,907
2010 Port Security Grant	97.056	13,916
2009 Port Security Grant	97.056	-
2011 Port Security Grant	97.056	1,422
2010 State Homeland Security Program	97.073	2,850
2010 State Homeland Security Program	97.073	-
2011 State Homeland Security Program	97.073	9,489
2012 Local Emergency Management Performance Grant	97.042	5,000
2012 Supplemental Local Emergency Management Performance Grant	97.042	15,000
Hazard Mitigation Grant	97.039	103,301
		<u>\$ 1,606,100</u>

City of Poquoson

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

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, 2013, the food service organization had food commodities totaling \$15,153 in inventory.

City of Poquoson, Virginia
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013

1) Summary of Auditors' Results

Financial Statements:

Type of auditor's report issued on the financial statements:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified:	No
Significant deficiencies identified:	None reported
Noncompliance material to the financial statements noted?	No

Federal Awards:

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
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

Identification of major federal programs:

<u>Name of Program</u>	<u>CFDA #</u>
Department of Education:	
Special Education Cluster	84.027/84.173
Department of Education:	
Education Jobs Fund - ARRA	84.410

Dollar threshold to distinguish between Types A and B Programs:	\$300,000
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The City of Poquoson was qualified as a low risk auditee?	Yes
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2) Findings - Financial Statement Audit

None

3) Findings and Questioned Costs - Major Federal Awards Compliance

None

4) Findings and Questioned Costs – State Compliance

2013-1 Statement of Economic Interests

Criteria:

The State and Local Government Conflict of Interests Act is contained in Chapter 31 (Section 2.2-3100 et. seq.) of Title 2.2 of the Code of Virginia. The Act is designed to assure that the judgment of public employees is not compromised or affected by inappropriate conflicts. The Act requires local government officials to file a statement of economic interests with the clerk of the governing body annually. The Act sets out the format of this statement, which involves extensive disclosure of personal financial interests that may cause conflicts.

Condition:

While performing our audit procedures to ensure compliance with the State and Local Government Conflict of Interests Act noted above, we noted one specific Statement of Economic Interests form that was not signed by a City of Poquoson School Board ("School Board") member.

Cause:

The School Board member did not sign the Statement of Economic Interests form.

Effect:

The School Board member was not in compliance the Chapter 31 (Section 2.2-3115.A.) of Title 2.2 of the Code of Virginia, as they had not filed a Statement of Economic Interests on or before January 15th, as required by Statute.

Recommendation:

We recommend the Clerk of the School Board ensure that all such Statements of Economic Interests be obtained by the appropriate members of the governing body by the required due date(s) as noted in the Code of Virginia.

Management Response:

Management agrees with the finding. The Clerk of the School Board will work with all members of the School Board to ensure compliance.

5) Resolution of Prior Year's Findings

There were no findings reported in the prior year.