



CITY OF POQUOSON, VIRGINIA Comprehensive Annual Financial Report

Fiscal Year July 1, 2007 - June 30, 2008



City of Poquoson, Virginia
Government Officials

City Council

Gordon C. Helsel, Jr., Mayor
Arthur V. Holloway, Jr., Vice Mayor
Herbert R. Green, Jr.
Carey L. Freeman
W. Eugene Hunt, Jr.
Frank A. Kreiger
E. Thomas Meree

City Officials

Charles W. Burgess, Jr., City Manager
Theresa S. Owens, CPA, Director of Finance
Michael E. McGraw, Treasurer
Graham P. Wilson, Commissioner of the Revenue
D. Wayne Moore, City Attorney
Judy F. Wiggins, City Clerk

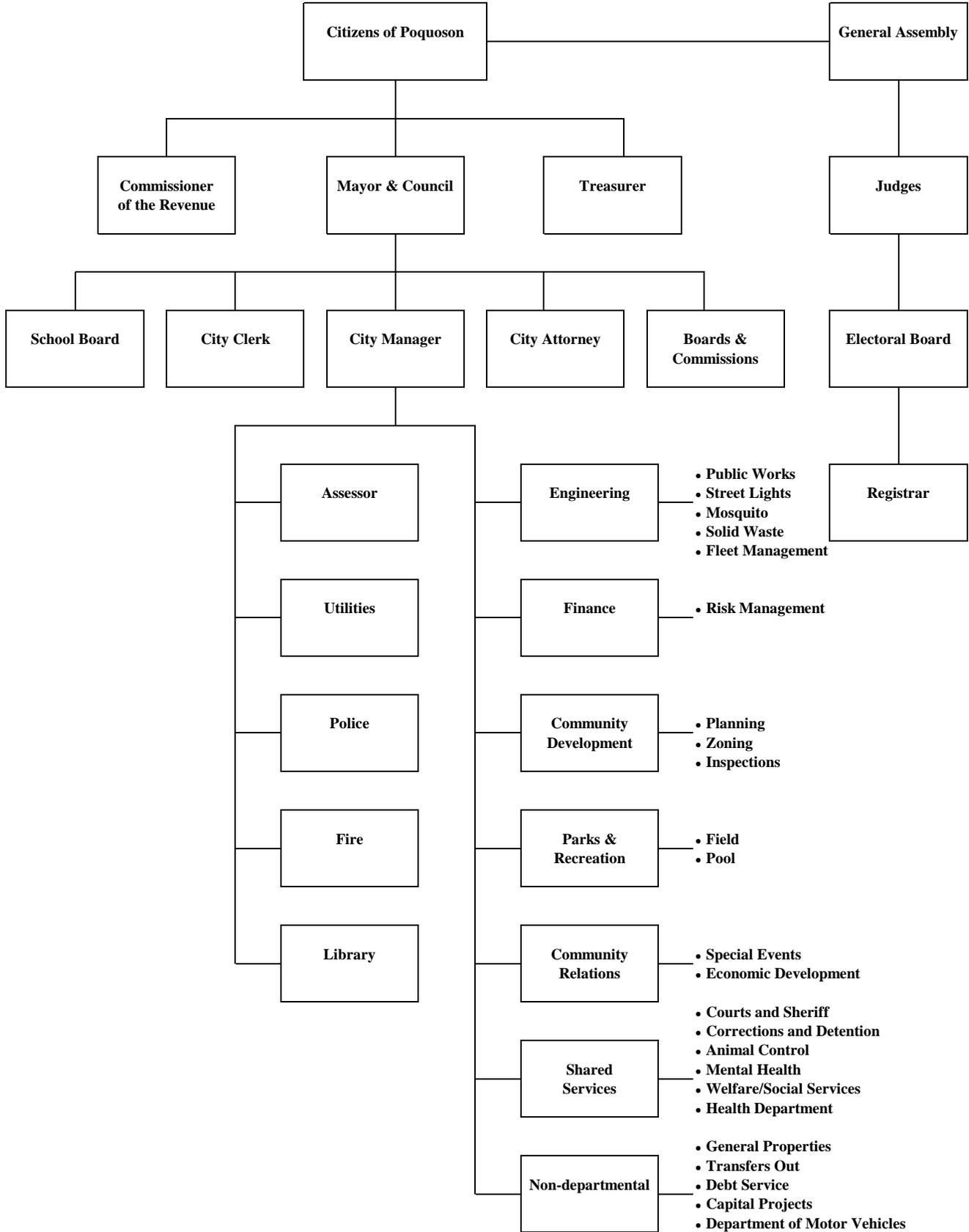
School Board

John A. Costulis, Chair
Kerry Y. Knowlton, Vice Chair
Deborah Ann Banton
Constance B. Sledd
Beth A. Wilson
R. Scott Diggs
Henry Ayer

School Officials

Dr. Marilyn F. Barr, Interim Superintendent
Janet A. Brown, Executive Director of Business and Finance
Steven G. Pappas, Executive Director of Operations

CITY OF POQUOSON, VIRGINIA
CITY GOVERNMENT ORGANIZATION CHART



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Poquoson
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

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



Charles S. Cox

President

Jeffrey R. Emen

Executive Director

City of Poquoson, Virginia
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2008

Table of Contents

| | Exhibit | Page |
|--|----------------|-------------|
| Introductory Section | | |
| Government Officials | | i |
| City Government Organization Chart..... | | ii |
| Certificate of Achievement for Excellence in Financial Reporting..... | | iii |
| Table of Contents..... | | iv - v |
| Letter of Transmittal to City Council..... | | vi - ix |
| Financial Section | | |
| Report of Independent Auditors..... | | 1 - 2 |
| Management's Discussion and Analysis | | 3 - 17 |
| Basic Financial Statements: | | |
| Government-wide Financial Statements: | | |
| Statement of Net Assets | A | 18 |
| Statement of Activities..... | B | 19 |
| Governmental Funds Financial Statements: | | |
| Balance Sheet – Governmental Funds..... | C | 20 |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets | C | 21 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds..... | D | 22 |
| Reconciliation of the Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities | D | 23 |
| Statement of Net Assets – Proprietary Funds..... | E | 24 |
| Statement of Revenue, Expenditures, and Changes in Fund Net Assets – Proprietary Funds..... | F | 25 |
| Statement of Cash Flows – Proprietary Funds | G | 26 |
| Statement of Fiduciary Net Assets..... | H | 27 |
| Combining Statement of Net Assets – Component Units | I | 28 |
| Combining Statement of Activities – Component Units | J | 29 |
| Notes to the Basic Financial Statements | | 30 - 53 |
| Required Supplementary Information | | |
| Budgetary Comparison Schedule – General Fund | K | 54 - 57 |
| Schedules of Funding Progress and Employer Contributions – Virginia Retirement System..... | L | 58 |
| Notes to Required Supplementary Information | | 59 |
| Other Supplementary Information | | |
| Combining Balance Sheet – Component Unit – School Board | 1 | 60 |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Component Unit – School Board..... | 2 | 61 |
| Budgetary Comparison Schedule – General Fund – School Board..... | 3 | 62 |
| Schedule of Changes in Capital Assets by Function and Activity – School Board..... | 4 | 63 |
| Combining Schedule of Changes in Assets and Liabilities – Agency Funds Discretely Presented Component Unit – School Board | 5 | 64 |

City of Poquoson, Virginia

Table of Contents (Continued)

| | Schedule | |
|---|-----------------|-------------|
| <i>Statement of Changes in Assets and Liabilities – Agency Funds</i> | 6 | 65 |
| <i>Statement of Cash Flows – Component Unit – Industrial Development Authority</i> | 7 | 66 |
| Statistical Section | Table | Page |
| <i>Statistical Section Overview</i> | | 67 |
| <i>Net Assets by Component</i> | 1 | 68 |
| <i>Change in Net Assets - Last Six Fiscal Years</i> | 2 | 69 - 71 |
| <i>Fund Balances - Governmental Funds - Last Ten Fiscal Years</i> | 3 | 72 |
| <i>Changes in Fund Balances - Governmental Funds - Last Ten Fiscal Years</i> | 4 | 73 - 74 |
| <i>Assessed Value and Estimated Actual Value of Taxable Real Property - Last Ten Fiscal Years</i> | 5 | 75 |
| <i>Property Tax Levies and Collections - Last Nine Fiscal Years</i> | 6 | 76 |
| <i>Principal Taxpayers - 2008 and Nine Years Ago</i> | 7 | 77 |
| <i>Computation of Legal Debt Margin</i> | 8 | 78 |
| <i>Ratios of Outstanding Debt by Type - Last Ten Fiscal Years</i> | 9 | 79 |
| <i>Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita - Last Ten Fiscal Years</i> | 10 | 80 |
| <i>Demographic Statistics - Last Ten Fiscal Years</i> | 11 | 81 |
| <i>Principal Employers in Poquoson - 2008 and Nine Years Ago</i> | 12 | 82 |
| <i>Full-time Equivalent City Government Employees by Function/Program - Last Ten Fiscal Years</i> | 13 | 83 |
| <i>Operating Indicators by Function/Program - Last Ten Fiscal Years</i> | 14 | 84 |
| <i>Capital Assets Statistics by Function/Program - Last Ten Fiscal Years</i> | 15 | 85 |
| Compliance Section | | |
| <i>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards</i> | | 86 - 87 |
| <i>Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133</i> | | 88 - 89 |
| <i>Report of Independent Auditors on Compliance with Commonwealth of Virginia Laws, Regulations, Contracts and Grants</i> | | 90 - 91 |
| <i>Schedule of Expenditures of Federal Awards</i> | | 92 - 93 |
| <i>Notes to Schedule of Expenditures of Federal Awards</i> | | 94 |
| <i>Schedule of Findings and Questioned Costs</i> | | 95 - 97 |



CITY OF POQUOSON

City Manager's Office

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

November 19, 2008

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

We are pleased to submit to you the Comprehensive Annual Financial Report of the City of Poquoson (City) for the fiscal year ended June 30, 2008. 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 accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with Government Auditing Standards and the Auditor of Public Accounts of the Commonwealth of Virginia by a firm of licensed certified public accountants.

Management assumes full responsibility for the reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has 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.

Goodman & Company, L.L.P. Certified Public Accountants has issued an unqualified opinion on the City's financial statements for the year ended June 30, 2008. The independent auditor's report 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 audited City's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards.

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

Profile of the City of Poquoson

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

The City is located in the southeastern part of the Commonwealth of Virginia (Commonwealth) in the Hampton Roads area. The region is the 27th largest metropolitan statistical area in the United States. The City of Poquoson is a suburban community in the Hampton Roads area and residents often work in neighboring cities and typically have the region's highest median income. The City of Poquoson occupies a land area of 14.7 square miles, and serves an estimated population of 11,900.

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

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

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

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

The annual budget serves as the foundation for the City of Poquoson's financial planning and control. All agencies and departments of the City of Poquoson are required to submit requests for appropriation to the City Manager in January. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manger presents a proposed budget to City Council for review in April. The Council is required to hold public hearings on the proposed budget and must adopt a final budget no later than May 31. The appropriated budget is prepared by fund and department. The City Manager may make transfers of appropriations within a department. Transfers of appropriations between departments and additional appropriations require approval of City Council. The City also maintains an encumbrance accounting system as one method of maintaining budgetary control. Encumbrances are included as budgetary expenditures and therefore do not lapse after year-end. The budget-to-actual comparison for the General Fund starts on page 54 of the report.

Local Economy

While the nation as well as the Commonwealth of Virginia has seen economic downturns, the City of Poquoson currently has not experienced that same kind of downturn. While the housing market in the City has not experienced the significant downturn that other parts of the United States have seen, real estate sales within the City are down. The City is primarily residential in nature and the lack of a strong commercial base in the City places a much higher burden on residents to fund the services of the City compared to neighboring localities who use business tax revenue. Although the City of Poquoson's tax base is challenged by few commercial enterprises, it is not as susceptible to change as other localities that depend on commercial revenue to fund services. Because of this, the City has seen other types of local revenue remain stable.

Long-Term Financial Planning

Budgets are adopted annually, taking into consideration input from all organizational levels of the City. The Planning Commission adopts the Capital Improvement Plan; the document then goes to City Council for 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

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. The City strives to maintain a minimum unobligated fund balance of 15% of the current year budgeted expenditure for operations as a reserve.

Major Initiatives

The City is reviewing and revising its Comprehensive Plan, which is an official public document adopted by the City of Poquoson Planning Commission and the Poquoson City Council. The plan is a general, long range policy and implementation guide for decisions concerning the overall growth and development of the City. The plan serves as a catalyst and guide to the establishment of, or revision to, other ordinances or planning tools for the City.

In response to Hurricane Isabel which occurred in September 2003, the City received a Federal Emergency Management Agency (FEMA) mitigation grant to help citizens raise their homes to prevent future flooding. The City has been required to provide a 5% match for the private assistance grants. A number of City and School Board properties were also flooded. The City is researching ways to mitigate future flooding of City and School Board properties as damaged City and School Board properties are rebuilt. A combination of "FEMA, State Community Development Block Grant (CDBG) funds, and City funds will address the rebuilding of damaged properties.

The City began construction on a new Fire Station #1 to replace the existing station which was damaged due to flooding from Hurricane Isabel. The City has contracted with David Nice Builders to construct the building. Financing was obtained to construct the new fire station. It is expected to be complete before December 2008.

In November 2006, the School Board contracted with WM Jordan, Inc. to construct a new Poquoson Elementary School. The present school built in 1952, contains many serious building deficiencies and fails to meet current educational program needs. Construction of the new building, equipment, furnishings, and demolition of the existing elementary school is expected to cost \$18,300,000. The City has completed the financing to pay for the new school building. This project was substantially complete by the beginning of the 2008-2009 School year. In September 2008, classes began at the new school.

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, 2007. This was the twentieth consecutive year that the government has received the prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both GAAP and applicable legal requirements.

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

The City also received the GFOA's Award for Distinguished Budget Presentation for its Annual Appropriated Budget for FY 2008. 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 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,



Theresa S. Owens, CPA
Director of Finance



Charles W. Burgess, Jr.
City Manager



Certified Public Accountants
Specialized Services
Business Solutions

Report of Independent Auditors

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Poquoson, Virginia*, as of and for the year ended June 30, 2008, which collectively comprise the *City of Poquoson, Virginia's* basic financial statements as listed in the table of contents. These financial statements are the responsibility of the *City of Poquoson, Virginia's* management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Poquoson, Virginia*, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2008, on our consideration of the *City of Poquoson, Virginia's* internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 17 and the other required supplementary information included at pages 54 through 59 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Fountain Plaza One
701 Town Center Drive, Suite 700
Newport News, VA 23606-4295

ph 757-873-1033
fax 757-873-1106

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

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

Newport News, Virginia
November 26, 2008



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, 2007 - June 30, 2008

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, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which can be found on pages vi through ix of this report.

Financial Highlights

- The assets of the City of Poquoson exceeded its liabilities as of June 30, 2008, by \$28.2 million (net assets). Of this amount, \$10.6 million (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$.6 million.
- As of June 30, 2008, the City's governmental funds reported combined ending fund balances of \$9.7 million, of which \$5 million is available to spend at the City's discretion.
- As of June 30, 2008, unreserved fund balance for the General Fund was \$3.6 million, or 14.2% of total General Fund expenditures.
- The City of Poquoson's total debt outstanding at June 30, 2008, was \$41.8 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30 through 53 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 54 through 66 of this report.

Government-Wide Financial Analysis

Summary of Statement of Net Assets
June 30, 2008

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
| | FY 2008 | FY 2007 | FY 2008 | FY 2007 | FY 2008 | FY 2007 |
| Current and other assets | \$12,569,137 | \$23,993,603 | \$1,706,808 | \$2,040,807 | \$14,275,945 | \$26,034,410 |
| Capital assets | 43,650,231 | 30,742,306 | 15,818,159 | 16,552,301 | 59,468,390 | 47,294,607 |
| Other noncurrent assets | 15,294 | 18,592 | 24,597 | 27,455 | 39,891 | 46,047 |
| Total assets | \$56,234,662 | \$54,754,501 | \$17,549,564 | \$18,620,563 | \$73,784,226 | \$73,375,064 |
| Current and other liabilities | \$2,993,272 | \$3,137,141 | \$253,750 | \$1,001,223 | \$3,247,022 | \$4,138,364 |
| Long-term liabilities | 32,031,125 | 31,376,731 | 10,322,539 | 10,294,352 | 42,353,664 | 41,671,083 |
| Total liabilities | 35,024,397 | 34,513,872 | 10,576,289 | 11,295,575 | 45,600,686 | 45,809,447 |
| Net assets: | | | | | | |
| Invested in capital assets - net of related debt | 12,045,582 | 17,183,471 | 5,518,765 | 5,516,767 | 17,564,347 | 22,700,238 |
| Unrestricted | 9,164,683 | 3,057,158 | 1,454,510 | 1,808,221 | 10,619,193 | 4,865,379 |
| Total net assets | \$21,210,265 | \$20,240,629 | \$6,973,275 | \$7,324,988 | \$28,183,540 | \$27,565,617 |

Net assets serve as a useful indicator of a government's financial position. The City's combined net assets total \$28.2 million, excluding discretely presented component units. By far, the largest portion of this represents investments in capital assets, such as land, buildings, machinery, and equipment. Capital assets net of related debt total \$17.6 million. The City of Poquoson uses these capital assets to provide services to citizens; and thus these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate liabilities. Total net assets of \$10.6 million are unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

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

Governmental Activities. The government's net assets increased by \$.6 million during FY 2008. The governmental activities increased by \$1.0 million and the business-type activities decreased by \$.34 million. The majority of increases in the governmental activities represent City investments in capital assets. The decrease of the net assets of the business-type activities is primarily due to the start up costs for implementation of a new solid waste program and a decrease in sewer availability fees.

The City continues to recover from widespread damage caused by Hurricane Isabel in FY 2004. The majority of damage came in the form of flooding, where the storm surge covered more than half of the City. The flood and wind damage caused extensive damage to both citizens' property and local government property. Both Federal and State grants have been obtained to elevate citizens' homes to prevent future flooding. The City will be required to provide a 5% match for these grants.

Summary of Changes in Net Assets
June 30, 2008

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|-------------------------|---------------------|--------------------------|--------------------|---------------------|---------------------|
| | FY 2008 | FY 2007 | FY 2008 | FY 2007 | FY 2008 | FY 2007 |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$365,764 | \$409,693 | \$2,203,924 | \$2,342,232 | \$2,569,688 | \$2,751,925 |
| Operating grants and Contributions | 2,290,305 | 2,094,100 | - | - | 2,290,305 | 2,094,100 |
| Capital grants and Contributions | 1,745,973 | 1,260,858 | - | - | 1,745,973 | 1,260,858 |
| General revenues: | | | | | | |
| Real estate and personal property taxes | 15,956,711 | 15,636,708 | - | - | 15,956,711 | 15,636,708 |
| Other local taxes | 2,613,196 | 2,541,189 | - | - | 2,613,196 | 2,541,189 |
| Reimbursements from Other agencies | 1,367,713 | 1,970,935 | - | - | 1,367,713 | 1,970,935 |
| Miscellaneous | 294,109 | 146,900 | 121,571 | 147,176 | 415,680 | 294,076 |
| Unrestricted investment earnings | 728,606 | 1,085,397 | 37,001 | 37,913 | 765,607 | 1,123,310 |
| Total revenues | 25,362,377 | 25,145,780 | 2,362,496 | 2,527,321 | 27,724,873 | 27,673,101 |
| Expenses | | | | | | |
| General government | 1,415,530 | 4,532,796 | - | - | 1,415,530 | 4,532,796 |
| Judicial | 278,201 | 226,198 | - | - | 278,201 | 226,198 |
| Public safety | 6,390,591 | 5,288,161 | - | - | 6,390,591 | 5,288,161 |
| Public works | 1,587,249 | 1,511,607 | - | - | 1,587,249 | 1,511,607 |
| Health and welfare | 1,081,767 | 862,689 | - | - | 1,081,767 | 862,689 |
| Education | 8,405,003 | 8,126,211 | - | - | 8,405,003 | 8,126,211 |
| Parks, recreation, cultural | 1,249,535 | 18,006 | - | - | 1,249,535 | 18,006 |
| Community development | 2,327,008 | 1,081,786 | - | - | 2,327,008 | 1,081,786 |
| Interest and fees on long-term debt | 1,399,427 | 1,246,037 | - | - | 1,399,427 | 1,246,037 |
| Sewer | - | - | 1,604,560 | 1,596,599 | 1,604,560 | 1,596,599 |
| Parks and Recreation | - | - | 463,668 | 473,754 | 463,668 | 473,754 |
| Solid Waste | - | - | 904,411 | 595,209 | 904,411 | 595,209 |
| Total expenses | 24,134,311 | 22,893,491 | 2,972,639 | 2,665,562 | 27,106,950 | 25,559,053 |
| Change in net assets before transfers | 1,228,066 | 2,252,289 | (610,143) | (138,241) | 617,923 | 2,114,048 |
| Transfers | (258,430) | (270,005) | 258,430 | 270,005 | - | - |
| Increase in net assets | 969,636 | 1,982,284 | (351,713) | 131,764 | 617,923 | 2,114,048 |
| Net assets - beginning of year | 20,240,629 | 18,258,345 | 7,324,988 | 7,193,224 | 27,565,617 | 25,451,569 |
| Net assets - end of year | \$21,210,265 | \$20,240,629 | \$6,973,275 | \$7,324,988 | \$28,183,540 | \$27,565,617 |

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

| | FY 2008 | FY 2007 |
|----------------------------------|----------------------|----------------------|
| Real estate tax revenue | \$ 13,314,331 | \$ 13,126,771 |
| Public service corporation taxes | 126,459 | 82,225 |
| Personal property taxes | 2,581,520 | 2,210,975 |
| Penalties and interest | 104,858 | 142,889 |
| Total | \$ 16,127,168 | \$ 15,562,860 |

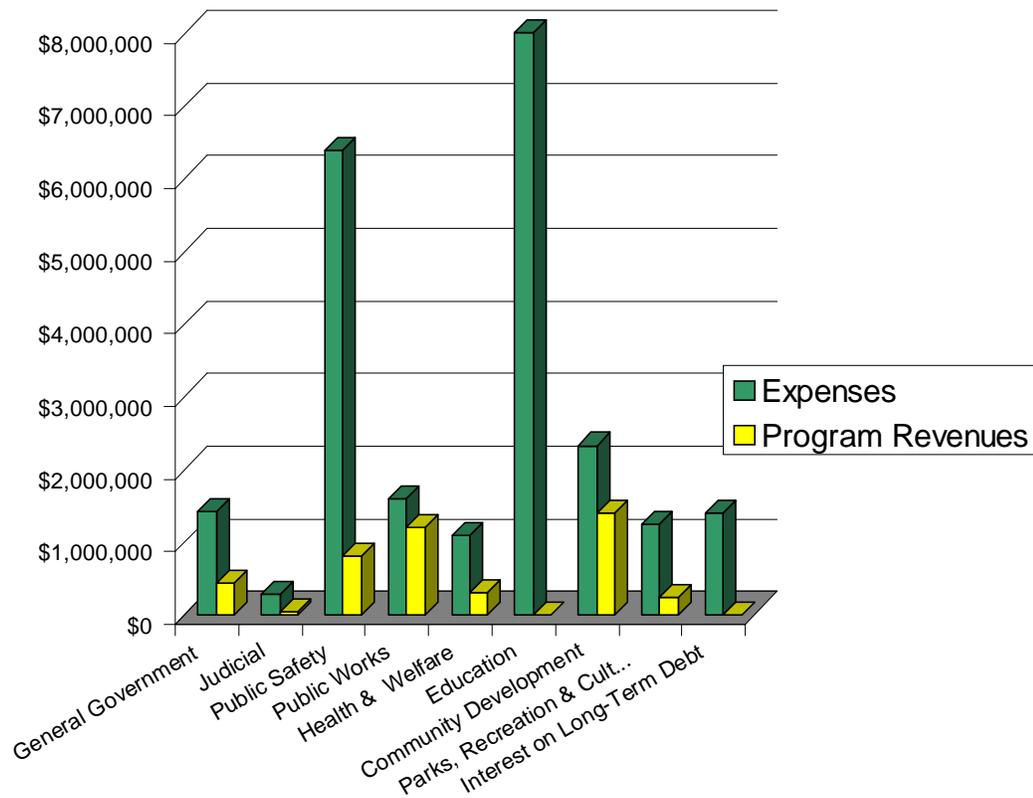
Real estate revenue increases in FY 2008 were due to growth and new buildings. The City's real estate property tax assessments were \$1,678,329,182 and \$1,637,487,196 for FY 2008 and FY 2007, respectively. The City's real estate tax rate was \$0.81 per \$100 of assessed value in FY 2008 and FY 2007.

The City's personal property tax assessments were \$145,063,716 and \$137,847,803 for FY 2008 and FY 2007 respectively. In FY 2008 and FY 2007 the City's personal property tax rate was \$4.15 per \$100 of assessed value for vehicles, \$1.50 per \$100 of assessed value for recreational vehicles and boats, and \$.81 per \$100 of assessed value for mobile homes. Under the provisions of the Personal Property Tax Relief Act (PPTRA), the State's share of local personal property tax was \$1,923,431 and \$1,942,140 for FY 2008 and FY 2007 respectively, and is classified as reimbursements from other agencies on the Statement of Activities.

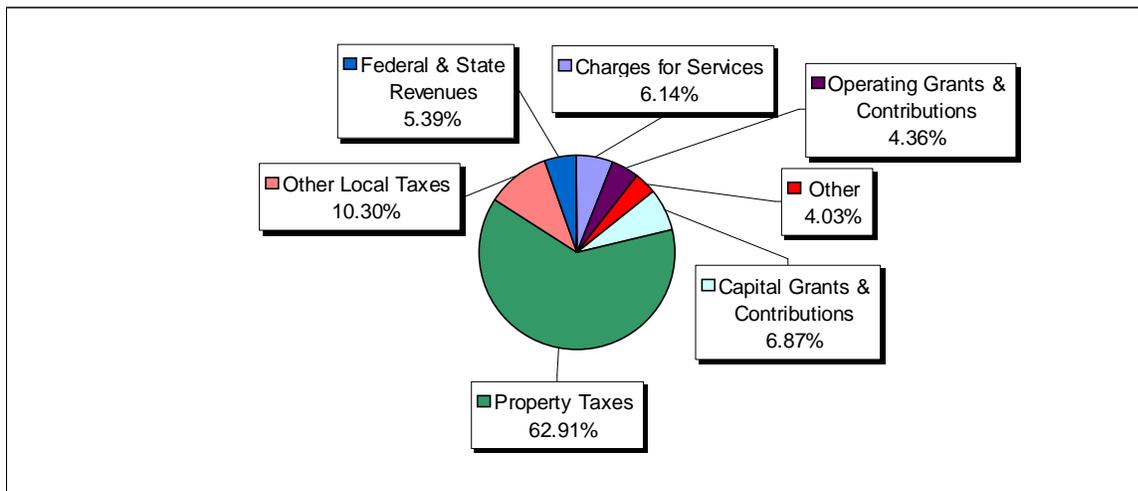
Other local taxes were \$2.6 million and \$2.5 million for FY 2008 and FY 2007, respectively, and consisted of meals taxes, consumers' utilities taxes, franchise license taxes, motor vehicle license taxes and a variety of other taxes.

For FY 2008, expenses for governmental activities totaled \$24.1 million, including a payment of \$8.1 million to the School Board component unit and a \$.11 million payment to the IDA component unit. For FY 2007, expenses for governmental activities totaled \$22.9 million, including a net payment of \$7.8 million to the School Board component unit and a \$.12 million payment to the IDA component unit. The School Board's increase related mainly to increased personnel and benefit costs. The City's increases related mainly to personnel and operating costs. The City experienced increased employee benefit costs. The majority of the increase in City capital expenditures was related to the construction of the new elementary school, beginning construction of the fire station, and improvements to recreational facilities at the high school and middle school.

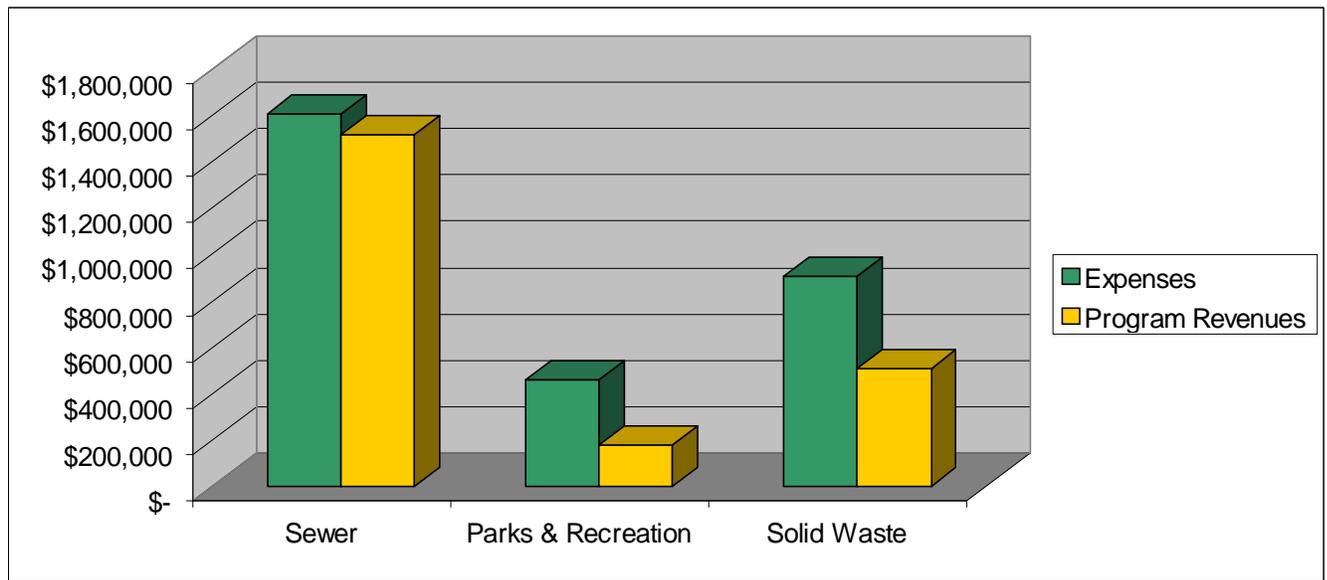
Expenses and Program Revenues – Governmental Activities



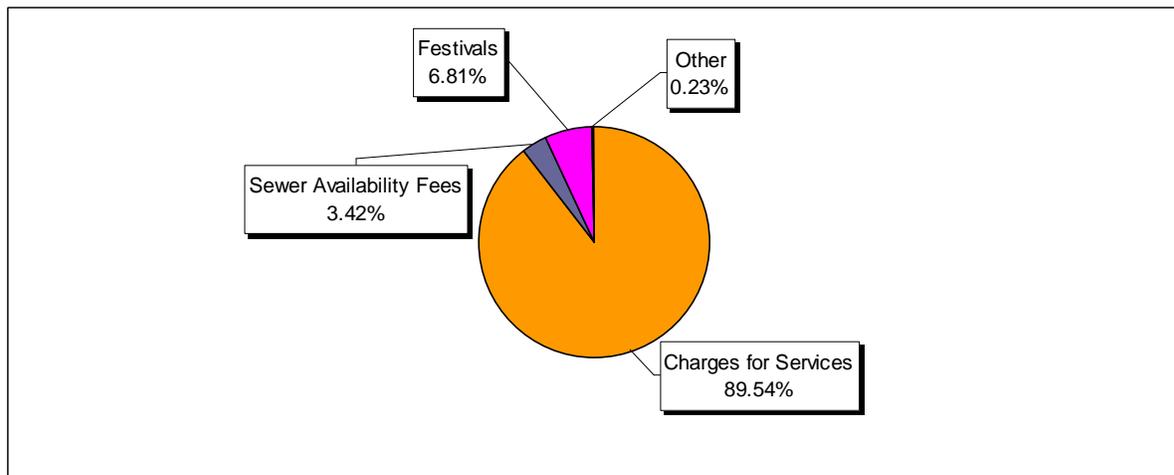
Revenues by Sources – Governmental Activities



Expense and Program Revenues – Business-Type Activities



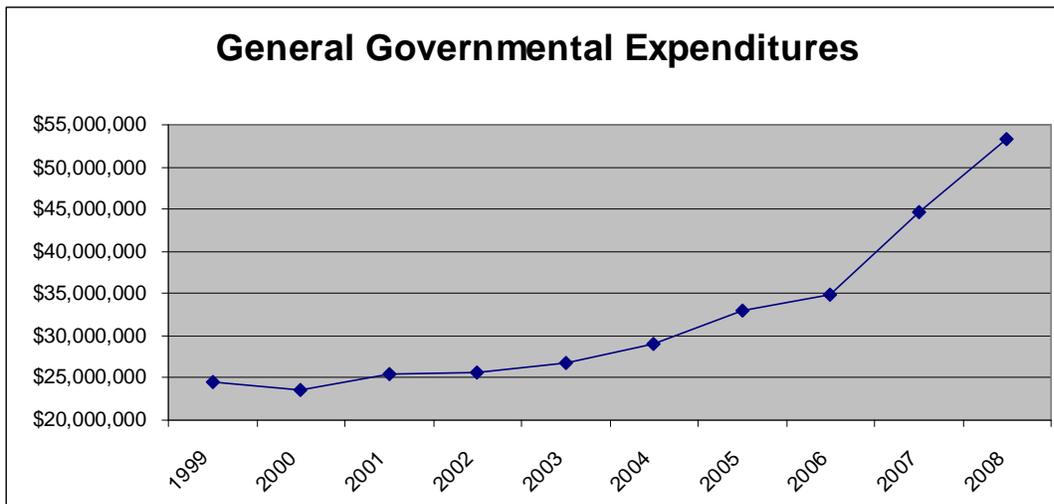
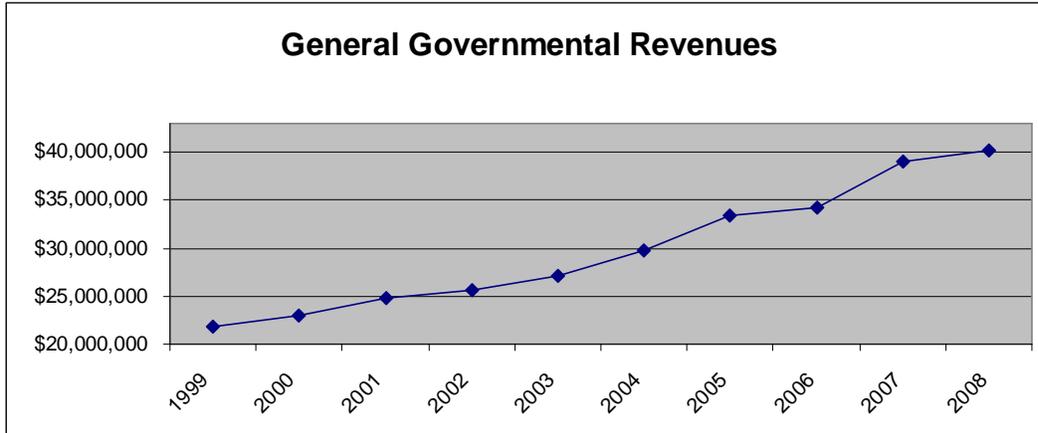
Revenues by Source – Business-Type Activities



Business-Type Activities. Business-type activities decreased the City’s net assets before transfers by \$.6 million and \$.4 million after transfers. In the past several years, the Sewer Fund issued debt for significant sewer expansion projects, which increased sewer rates to pay for the additional debt. In order to keep the sewer usage rates from increasing significantly, City Council has budgeted to use a portion of net assets. Parks and Recreation user charges continue to be held as low as possible to accommodate all citizens, but have increasing expenses. The Parks and Recreation Fund had net losses over the last few years, indicating the need to either raise user fees or to receive supplemental government funds. The Solid Waste Fund implemented a new garbage plan during Fiscal Year 2008. City Council elected to use a portion of net assets to cover the startup costs of the new tote/container program. The City supplements the bulky item and landscape trash pickup in the Solid Waste Fund.

Financial Analysis of the Government's Funds

Below is a summary of general governmental revenues and expenditures over a 10 year period. Amounts include the City's General, Debt Service, Grant, and Capital Projects Funds, and the School's General and Special Revenue Funds.



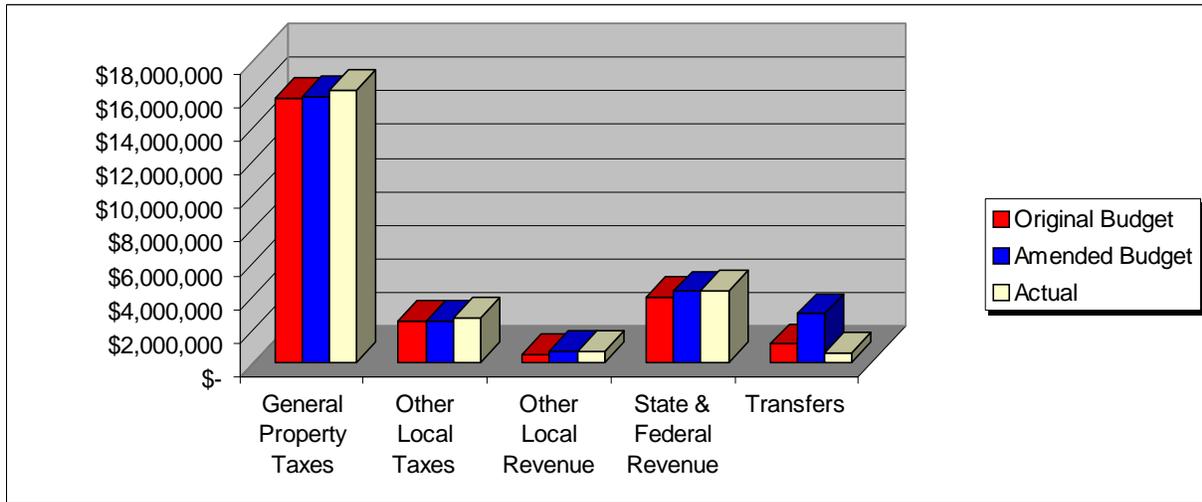
General Fund Budgetary Highlights

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 \$2.4 million between the original budget and the final amended budget can be briefly summarized as follows:

- \$765,000 additional transfers to the Capital Projects Fund were budgeted to pay for miscellaneous school projects, elementary school design and building contents, Geographic Information System (GIS) and purchase property.
- \$635,793 additional transfers to the Facilities Improvement Fund for projects including city and school tennis courts, middle school sports field lighting and press box.
- \$311,885 for Fire Department purchases of equipment, vehicles, grants, training, and fire station #1 contents.
- \$160,358 for Police Department purchases of equipment and vehicles.
- \$127,940 for additional expenditures for social services and mental health.
- \$108,000 for Parks and Recreation for grounds maintenance, dock master, and equipment rental.

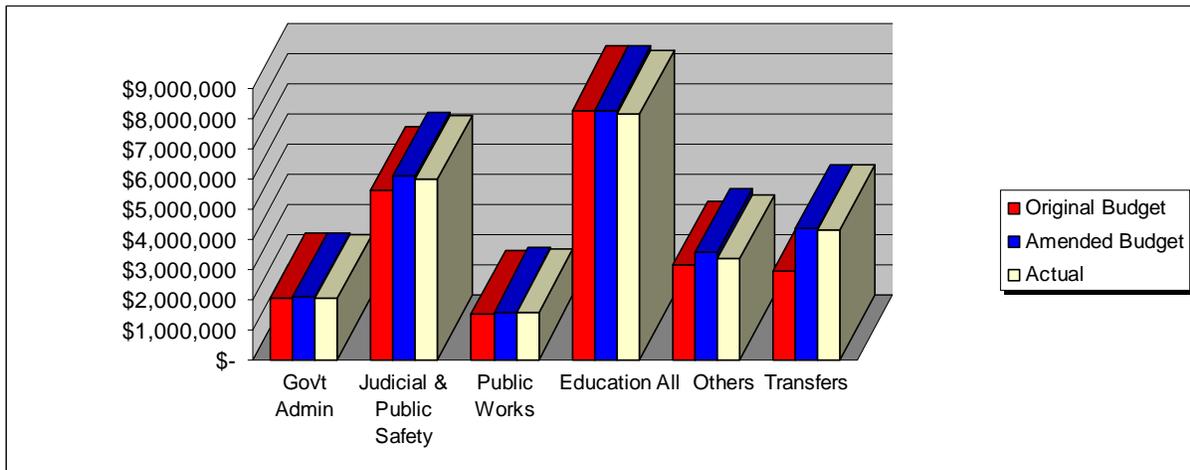
The charts on the following page show the original approved budget, the final amended budget, and actual amounts for both revenues and expenditures in the General Fund.

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



The City’s actual general fund revenues of \$24.1 million exceeded the original budget by \$.6 million but show a decrease of \$1.8 million from the amended budget. The City had higher than expected revenues for general property taxes and other local taxes, lower revenue for use of money, and State categorical aid. The City is conservative in budgeting tax revenues and typically has some overage.

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



As reflected above, actual General Fund expenditures were \$25.3 million. The increase in expenditures is primarily due to transfers to the Capital Projects Fund and Facilities Improvement Fund.

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 and Facilities Improvement 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 source of funding for the Capital Projects and Facilities Fund are transfers from the General Fund. The Capital Projects Fund also received Federal, State and community grants for projects.

The Facilities Improvement Fund is used by the City to account for the acquisition and construction of major City and School Board capital facilities, other than those accounted for in the capital projects fund.

During FY 2008, capital projects and facilities improvement expenditures of \$14 million included design and construction costs for the new elementary school, school capital expenditures, Geographic Information System (GIS), highway and drainage improvements, public safety equipment, fire station and improvements to the sports facilities at the high school and middle school.

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, 2008, amounted to \$59.5 million (net of accumulated depreciation). The investment in capital assets includes land, construction in progress, buildings, infrastructure, machinery and equipment, sewer system, and allocated school buildings. The City owns roads, streetlights, and other infrastructure, but has only capitalized these assets placed in service since July 1, 2002. Infrastructure was capitalized beginning in FY 2007. The School Board component unit owns their school buildings; however, the City has issued the debt and/or provided the resources to build and renovate school buildings. Thus the State Code allows the Schools to allocate a portion of their asset to the City, if the City has outstanding debt on the School building.

The following table summarizes capital assets, net of depreciation:

| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
| | FY 2008 | FY 2007 | FY 2008 | FY 2007 | FY 2008 | FY 2007 |
| Land | \$2,890,479 | \$2,948,810 | \$243,216 | \$243,216 | \$3,133,695 | \$3,192,026 |
| Construction in progress | 18,615,597 | 6,770,996 | - | - | 18,615,597 | 6,770,996 |
| Buildings | 4,329,026 | 4,963,322 | 10,739 | 14,319 | 4,339,765 | 4,977,641 |
| Infrastructure | 4,591,952 | 4,197,695 | - | - | 4,591,952 | 4,197,695 |
| Land Improvements | 2,138,102 | 1,158,508 | - | - | 2,138,102 | 1,158,508 |
| Machinery and equipment | 3,158,947 | 2,563,141 | 372,257 | 486,026 | 3,531,204 | 3,049,167 |
| Sewer System | - | - | 15,191,947 | 15,808,740 | 15,191,947 | 15,808,740 |
| Allocated school buildings | 7,926,128 | 8,139,834 | - | - | 7,926,128 | 8,139,834 |
| Total | \$43,650,231 | \$30,742,306 | \$15,818,159 | \$16,552,301 | \$59,468,390 | \$47,294,607 |

Debt Administration. Total outstanding general obligation debt at June 30, 2008, was \$41.8 million of which \$27.5 million is considered to be net direct tax supported debt. Included in the total debt are \$28.3 million in bonds and leases, and \$3.2 million in State Literary Loans. The remaining \$10.3 million are bonds for the sewer system that are essentially paid for by revenues in the Sewer Operations Fund.

In FY 2008, the City entered into two capital leases for Public Safety including a Police/Fire 800 MHz Radio system and Self Contained Breathing Apparatus (SCBA) equipment for the Fire Department.

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, 2008, debt limitation for the City of Poquoson is \$167.8 million, which is significantly in excess of the City of Poquoson's \$42.1 million outstanding net direct bonded debt.

Net Direct Tax Supported Debt
General Governmental Activities

| | FY 2008 | FY 2007 |
|--|--------------|--------------|
| Net direct bonded debt | \$31,604,649 | \$32,435,690 |
| Ratio of outstanding direct debt to assessed value | 1.88% | 1.98% |
| Net debt per capita | \$2,733 | \$2,804 |

More detailed information on the City of Poquoson's long-term debt activity and capital asset activity can be found in Notes 7, 8 and 9 on pages 41 through 48 of this report.

Economic Factors and Next Year's Budgets and Rates

The FY 2009 budget was prepared with economic trends within the City taken into account:

- The unemployment rate for the City of Poquoson was 3.7% compared to a state-wide rate of 4.0% and a national average of 5.5%.
- FY 2009 is not a reassessment year, minimal increase in real estate assessed values due to growth.
- The real estate tax rate of \$.81 per \$100 of assessed value and personal property tax rate of \$4.15.
- It is expected that there will be decreases in funding from the Commonwealth of Virginia in FY 2009 and FY 2010 due to economic conditions state wide and nationally.

Expenditures for the FY 2009 budget had more funding than prior years.

- The Schools received an increase of 4% and 7% in State and City funds, respectively for FY 2009.
- The Schools funded a 3% salary increase for teachers. The City funded an average salary increase of 4% for staff. Both the Schools and the City budgeted for increases in retirement costs and health insurance costs.

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, VA 23662

Basic Financial Statements

City of Poquoson, Virginia

Statement of Net Assets

June 30, 2008

| | Primary Government | | | Component Units |
|---|----------------------------|-----------------------------|----------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total | |
| Assets | | | | |
| Cash and investments | \$ 10,489,863 | \$ 1,303,459 | \$ 11,793,322 | \$ 2,622,893 |
| Property taxes receivable - net | 441,230 | - | 441,230 | - |
| Receivables-net | 75,180 | 378,150 | 453,330 | 4,940 |
| Due from component units | 126,537 | - | 126,537 | - |
| Due from other governmental units | 1,298,614 | - | 1,298,614 | 383,722 |
| Inventory | 37,713 | 4,188 | 41,901 | 13,013 |
| Prepaid items | - | 15,400 | 15,400 | - |
| Notes and interest receivable | 100,000 | 5,611 | 105,611 | - |
| Capital assets: | | | | |
| Land and construction-in-process | 21,506,076 | 243,216 | 21,749,292 | - |
| Other capital assets - net | 22,144,155 | 15,574,943 | 37,719,098 | 7,714,693 |
| Capital assets -net | 43,650,231 | 15,818,159 | 59,468,390 | 7,714,693 |
| Other assets | 15,294 | 24,597 | 39,891 | - |
| | \$ 56,234,662 | \$ 17,549,564 | \$ 73,784,226 | \$ 10,739,261 |
| Liabilities | | | | |
| Accounts payable and accrued liabilities | \$ 2,500,256 | \$ 122,490 | \$ 2,622,746 | \$ 2,352,023 |
| Accrued interest | 493,016 | 131,260 | 624,276 | - |
| Line of credit | - | - | - | 1,904,591 |
| Due to primary government | - | - | - | 126,537 |
| Noncurrent liabilities: | | | | |
| Due within one year | 1,510,141 | 797,360 | 2,307,501 | 25,965 |
| Due in more than one year | 30,520,984 | 9,525,179 | 40,046,163 | 96,169 |
| Total liabilities | 35,024,397 | 10,576,289 | 45,600,686 | 4,505,285 |
| Net Assets | | | | |
| Invested in capital assets - net of related debt | 12,045,582 | 5,518,765 | 17,564,347 | 5,810,102 |
| Unrestricted | 9,164,683 | 1,454,510 | 10,619,193 | 423,874 |
| Total net assets | 21,210,265 | 6,973,275 | 28,183,540 | 6,233,976 |
| | \$ 56,234,662 | \$ 17,549,564 | \$ 73,784,226 | \$ 10,739,261 |

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

Statement of Activities

Year Ended June 30, 2008

| Functions/Programs | Program Revenues | | | | Net (Expenses) Revenues and Changes in Net Assets | | | |
|--|----------------------|-------------------------|--|--|---|-----------------------------|----------------------|---------------------|
| | Expenses | Charges For Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | | Component Units |
| | | | | | Governmental Activities | Business-Type Activities | Total | |
| Primary Government | | | | | | | | |
| Government activities | | | | | | | | |
| General government and administration | \$ 1,415,530 | \$ 157,130 | \$ 278,798 | \$ - | \$ (979,602) | \$ - | \$ (979,602) | \$ - |
| Judicial | 278,201 | 38,135 | - | - | (240,066) | - | (240,066) | - |
| Public safety | 6,390,591 | 64,317 | 484,834 | 250,606 | (5,590,834) | - | (5,590,834) | - |
| Public works | 1,587,249 | - | 1,192,188 | 6,508 | (388,553) | - | (388,553) | - |
| Health and welfare | 1,081,767 | - | 296,533 | - | (785,234) | - | (785,234) | - |
| Education | 8,405,003 | - | - | - | (8,405,003) | - | (8,405,003) | - |
| Parks, recreation, cultural | 1,249,535 | 69,952 | 37,952 | 133,936 | (1,007,695) | - | (1,007,695) | - |
| Community development | 2,327,008 | 36,230 | - | 1,354,923 | (935,855) | - | (935,855) | - |
| Interest and fees on long-term debt | 1,399,427 | - | - | - | (1,399,427) | - | (1,399,427) | - |
| Total governmental activities | 24,134,311 | 365,764 | 2,290,305 | 1,745,973 | (19,732,269) | - | (19,732,269) | - |
| Business-type activities | | | | | | | | |
| Sewer | 1,604,560 | 1,514,893 | - | - | - | (89,667) | (89,667) | - |
| Parks and recreation | 463,668 | 177,858 | - | - | - | (285,810) | (285,810) | - |
| Solid waste | 904,411 | 511,173 | - | - | - | (393,238) | (393,238) | - |
| Total business-type activities | 2,972,639 | 2,203,924 | - | - | - | (768,715) | (768,715) | - |
| Total primary government | \$ 27,106,950 | \$ 2,569,688 | \$ 2,290,305 | \$ 1,745,973 | (19,732,269) | (768,715) | (20,500,984) | - |
| Component Units | | | | | | | | |
| Poquoson School Board | \$ 21,722,835 | \$ 597,329 | \$ 13,147,192 | \$ - | - | - | - | (7,978,314) |
| Industrial Development Authority | 168,322 | - | - | 679,074 | - | - | - | 510,752 |
| Total component units | \$ 21,891,157 | \$ 597,329 | \$ 13,147,192 | \$ 679,074 | - | - | - | (7,467,562) |
| General Revenues | | | | | | | | |
| Real estate and personal property taxes | | | | | 15,956,711 | - | 15,956,711 | - |
| Other local taxes | | | | | 2,613,196 | - | 2,613,196 | - |
| Payments from the City of Poquoson | | | | | - | - | - | 8,257,463 |
| Reimbursements from other agencies not restricted to specific programs | | | | | 1,367,713 | - | 1,367,713 | - |
| Miscellaneous | | | | | 294,109 | 167,035 | 461,144 | 334,340 |
| Unrestricted investment earnings | | | | | 728,606 | 37,001 | 765,607 | - |
| Loss on disposal of capital assets | | | | | - | (45,464) | (45,464) | (76,396) |
| Transfers | | | | | (258,430) | 258,430 | - | - |
| Total general revenues, transfers and miscellaneous | | | | | 20,701,905 | 417,002 | 21,118,907 | 8,515,407 |
| Change in net assets | | | | | 969,636 | (351,713) | 617,923 | 1,047,845 |
| Net assets - beginning of year | | | | | 20,240,629 | 7,324,988 | 27,565,617 | 5,186,131 |
| Net assets - end of year | | | | | \$ 21,210,265 | \$ 6,973,275 | \$ 28,183,540 | \$ 6,233,976 |

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

City of Poquoson, Virginia

Balance Sheet - Governmental Funds

June 30, 2008

| Assets | General | Debt Service | Capital Projects | Special Revenue | Total Governmental Funds |
|--|---------------------|-------------------|---------------------|--------------------|--------------------------------|
| Cash and cash equivalents | \$ 3,142,307 | \$ 258,724 | \$ 1,218,805 | \$ - | \$ 4,619,836 |
| Reserved cash | - | - | 5,789,935 | - | 5,789,935 |
| Property taxes receivable - net | 441,230 | - | - | - | 441,230 |
| Other receivables | 74,914 | - | - | - | 74,914 |
| Note receivable | 100,000 | - | - | - | 100,000 |
| Due from component units | 126,537 | - | - | - | 126,537 |
| Due from other governmental units | 1,150,168 | - | 22,788 | 125,658 | 1,298,614 |
| Inventory | 2,831 | - | - | - | 2,831 |
| | <u>\$ 5,037,987</u> | <u>\$ 258,724</u> | <u>\$ 7,031,528</u> | <u>\$ 125,658</u> | <u>\$ 12,453,897</u> |
| Liabilities | | | | | |
| Accounts payable and accrued liabilities | \$ 835,620 | \$ - | \$ 1,583,727 | \$ 58,099 | \$ 2,477,446 |
| Bank overdraft | - | - | - | 40,391 | 40,391 |
| Deferred revenue | 264,432 | - | - | - | 264,432 |
| Total liabilities | <u>1,100,052</u> | <u>-</u> | <u>1,583,727</u> | <u>98,490</u> | <u>2,782,269</u> |
| Fund Balances | | | | | |
| Fund balances | | | | | |
| Reserved for encumbrances | 276,571 | - | - | - | 276,571 |
| Reserved for asset forfeiture | 89,594 | - | - | - | 89,594 |
| Reserved for grants | - | - | - | 27,168 | 27,168 |
| Reserved for construction | - | - | 4,244,577 | - | 4,244,577 |
| Unreserved: | | | | | |
| Unreserved and undesignated | 3,571,770 | 258,724 | 1,203,224 | - | 5,033,718 |
| Total fund balances | <u>3,937,935</u> | <u>258,724</u> | <u>5,447,801</u> | <u>27,168</u> | <u>9,671,628</u> |
| | <u>\$ 5,037,987</u> | <u>\$ 258,724</u> | <u>\$ 7,031,528</u> | <u>\$ 125,658</u> | <u>\$ 12,453,897</u> |

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

*City of Poquoson, Virginia**Balance Sheet - Governmental Funds*

 June 30, 2008

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

| | | |
|--|-----------|--------------------------|
| Total fund balances - governmental funds | \$ | 9,671,628 |
| <p>Amounts reported for governmental activities in the statement of net assets are different because:</p> | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation. | | 43,650,231 |
| Other long-term assets are not financial resources and, therefore, are deferred in the funds. | | 264,432 |
| Internal service funds are used by management to charge the costs of fleet management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. | | 127,496 |
| Other liabilities not paid from current-period revenues are not reported in funds for: | | |
| Accrued interest | | (493,016) |
| Accrued compensated absences | | (528,568) |
| Long-term liabilities, including bonds payable, net of capitalized bond issuance costs and deferred bond issuance charge, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. | | <u>(31,481,938)</u> |
| Total net assets - governmental activities | \$ | <u>21,210,265</u> |

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

City of Poquoson, Virginia

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

| Year Ended June 30, 2008 | | | | | | Total |
|---|---------------------|--------------------|---------------------|--------------------|--------------------|-----------------------|
| | General | Debt Service | Capital Projects | Facilities Fund | Special Revenue | Governmental Funds |
| Revenues | | | | | | |
| General property taxes | \$ 16,127,168 | \$ - | \$ - | \$ - | \$ - | \$ 16,127,168 |
| Other local taxes | 2,613,195 | - | - | - | - | 2,613,195 |
| Permits, privilege fees and regulatory licenses | 98,233 | - | - | - | - | 98,233 |
| Fines and forfeitures | 38,201 | - | - | - | - | 38,201 |
| Revenue from use of money and property | 274,882 | - | 550,464 | - | - | 825,346 |
| Charges for services | 71,505 | - | - | - | - | 71,505 |
| Intergovernmental | 4,209,251 | - | 498,638 | - | 1,309,440 | 6,017,329 |
| Miscellaneous | 124,347 | - | 200 | 5,550 | 190,091 | 320,188 |
| Total revenues | 23,556,782 | - | 1,049,302 | 5,550 | 1,499,531 | 26,111,165 |
| Expenditures | | | | | | |
| Current: | | | | | | |
| General government and administration | 2,018,674 | - | - | - | - | 2,018,674 |
| Public safety and judicial | 5,951,144 | - | - | - | 1,018 | 5,952,162 |
| Public works | 1,503,219 | - | - | - | - | 1,503,219 |
| Health and welfare | 1,067,418 | - | - | - | - | 1,067,418 |
| Parks, recreation, and cultural | 1,161,296 | - | - | - | 13,930 | 1,175,226 |
| Community development | 713,724 | - | - | - | 1,508,934 | 2,222,658 |
| Nondepartmental | 218,133 | - | - | - | - | 218,133 |
| Education | 8,147,463 | - | - | - | - | 8,147,463 |
| Industrial Development Authority | 110,000 | - | - | - | - | 110,000 |
| Capital outlays | - | - | 13,395,009 | 640,784 | - | 14,035,793 |
| Debt service: | | | | | | |
| Principal retirement | - | 1,495,455 | - | - | - | 1,495,455 |
| Interest and fiscal charges | - | 1,258,222 | - | - | - | 1,258,222 |
| Total expenditures | 20,891,071 | 2,753,677 | 13,395,009 | 640,784 | 1,523,882 | 39,204,423 |
| Excess (deficiency) of revenue over expenditures | 2,665,711 | (2,753,677) | (12,345,707) | (635,234) | (24,351) | (13,093,258) |
| Other financing sources (uses) | | | | | | |
| Transfers from: | | | | | | |
| Capital projects | 97,690 | - | - | - | - | 97,690 |
| School Board | 318,610 | - | - | - | - | 318,610 |
| Sewer | 130,000 | - | - | - | - | 130,000 |
| General | - | 2,482,454 | 765,000 | 635,234 | 41,781 | 3,924,469 |
| Issuance of debt | - | 144,810 | 519,604 | - | - | 664,414 |
| Transfers to: | | | | | | |
| Debt service | (2,482,454) | - | - | - | - | (2,482,454) |
| Grant | (41,781) | - | - | - | - | (41,781) |
| General | - | - | (97,690) | - | - | (97,690) |
| Capital projects | (765,000) | - | - | - | - | (765,000) |
| Facilities Improvement | (635,234) | - | - | - | - | (635,234) |
| Parks and recreation | (131,010) | - | - | - | - | (131,010) |
| Solid waste | (257,420) | - | - | - | - | (257,420) |
| Total other financing sources (uses) | (3,766,599) | 2,627,264 | 1,186,914 | 635,234 | 41,781 | 724,594 |
| Net change in fund balances | (1,100,888) | (126,413) | (11,158,793) | - | 17,430 | (12,368,664) |
| Fund balances - July 1, 2007 | 5,038,823 | 385,137 | 16,606,594 | - | 9,738 | 22,040,292 |
| Fund balances - June 30, 2008 | \$ 3,937,935 | \$ 258,724 | \$ 5,447,801 | \$ - | \$ 27,168 | \$ 9,671,628 |

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

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

Year Ended June 30, 2008

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

| | |
|--|------------------------|
| Net change in fund balances - total governmental funds | \$ (12,368,664) |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Revenues in the Statement of Activities that do not provide financial resources are not reported as revenues in the funds. | 170,457 |
| 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 outlays | 13,507,147 |
| Depreciation expense | (974,191) |
| Proceeds from bond issuance provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. | |
| Bond issuance | (664,414) |
| Deferred refunding charge (net) | 17,693 |
| Repayment of debt principal | 1,495,455 |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | |
| Interest expense | (123,513) |
| Compensated absences | (73,220) |
| Internal service fund is used by management to charge the cost of fleet management to individual departments. The net gain of the fleet management fund is reported with governmental activities. | (17,114) |
| Change in net assets of governmental activities | \$ 969,636 |

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

City of Poquoson, Virginia

Statement of Net Assets - Proprietary Funds

June 30, 2008

| Assets | Business-type Activities Proprietary Funds | | | | Governmental Activities - Internal Service Funds |
|--|---|-------------------------|----------------|-------------------|---|
| | Sewer Operation | Parks and Recreation | Solid Waste | Totals | |
| Current assets | | | | | |
| Cash and investments | \$ 1,004,583 | \$ 51,797 | \$ 247,079 | \$ 1,303,459 | \$ 120,483 |
| Accounts receivable | 269,405 | - | 108,745 | 378,150 | 266 |
| Notes and interest receivable | 5,611 | - | - | 5,611 | - |
| Inventory | - | - | 4,188 | 4,188 | 34,882 |
| Prepaid expenses | - | 15,400 | - | 15,400 | - |
| Total current assets | 1,279,599 | 67,197 | 360,012 | 1,706,808 | 155,631 |
| Noncurrent assets | | | | | |
| Capital assets: | | | | | |
| Land | 214,666 | 28,550 | - | 243,216 | - |
| Buildings | - | 254,179 | 9,943 | 264,122 | 41,742 |
| Sewer system | 21,645,904 | - | - | 21,645,904 | - |
| Equipment | 476,423 | 152,756 | 314,713 | 943,892 | 31,887 |
| Less - accumulated depreciation | (6,823,983) | (287,484) | (167,508) | (7,278,975) | (58,333) |
| Total capital assets (net of accumulated depreciation) | 15,513,010 | 148,001 | 157,148 | 15,818,159 | 15,296 |
| Intangible assets | 24,597 | - | - | 24,597 | - |
| Total noncurrent assets | 15,537,607 | 148,001 | 157,148 | 15,842,756 | 15,296 |
| | \$ 16,817,206 | \$ 215,198 | \$ 517,160 | \$ 17,549,564 | \$ 170,927 |
| Liabilities | | | | | |
| Current liabilities | | | | | |
| Vouchers and accounts payable | \$ 10,686 | \$ 54,277 | \$ 35,723 | \$ 100,686 | \$ 14,812 |
| Accrued payroll | 8,973 | 9,998 | 2,833 | 21,804 | 8,000 |
| Accrued interest | 131,260 | - | - | 131,260 | - |
| Compensated absences | 13,211 | 8,410 | 1,524 | 23,145 | 20,619 |
| Bonds, notes payable and capital lease obligations - current portion | 795,971 | - | - | 795,971 | - |
| Total current liabilities | 960,101 | 72,685 | 40,080 | 1,072,866 | 43,431 |
| Noncurrent liabilities | | | | | |
| Bonds, notes payable and capital lease obligations - less current portion | 9,503,423 | - | - | 9,503,423 | - |
| Total noncurrent liabilities | 9,503,423 | - | - | 9,503,423 | - |
| Total liabilities | 10,463,524 | 72,685 | 40,080 | 10,576,289 | 43,431 |
| Net Assets | | | | | |
| Invested in capital assets - net of related debt | 5,213,616 | 148,001 | 157,148 | 5,518,765 | 15,296 |
| Unrestricted | 1,140,066 | (5,488) | 319,932 | 1,454,510 | 112,200 |
| Total net assets | 6,353,682 | 142,513 | 477,080 | 6,973,275 | 127,496 |
| | \$ 16,817,206 | \$ 215,198 | \$ 517,160 | \$ 17,549,564 | \$ 170,927 |

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

City of Poquoson, Virginia

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

| Year Ended June 30, 2008 | Proprietary Fund Types | | | | Internal Service Fund |
|---|------------------------|----------------------|-------------------|---------------------|-----------------------|
| | Sewer Operation | Parks and Recreation | Solid Waste | Total | |
| Operating revenues | | | | | |
| Charges for services | \$ 1,433,893 | \$ 177,858 | \$ 511,173 | \$ 2,122,924 | \$ 713,950 |
| Festivals | - | 161,491 | - | 161,491 | - |
| Miscellaneous | 80 | 5,464 | - | 5,544 | - |
| Total operating revenues | 1,433,973 | 344,813 | 511,173 | 2,289,959 | 713,950 |
| Operating expenses | | | | | |
| Personnel services | 237,374 | 149,260 | 99,628 | 486,262 | 270,978 |
| Contractual services | 125,893 | 228,282 | 18,602 | 372,777 | 34,308 |
| Materials and supplies | 35,913 | 10,373 | 211,223 | 257,509 | 402,836 |
| Utilities | 51,114 | 34,650 | 79 | 85,843 | 3,622 |
| Depreciation and amortization | 637,845 | 16,658 | 39,481 | 693,984 | 3,297 |
| Other charges | 71,051 | 24,445 | 80,501 | 175,997 | 15,970 |
| Waste disposal | - | - | 454,897 | 454,897 | - |
| Total operating expenses | 1,159,190 | 463,668 | 904,411 | 2,527,269 | 731,011 |
| Operating income (loss) | 274,783 | (118,855) | (393,238) | (237,310) | (17,061) |
| Nonoperating revenues (expenses) | | | | | |
| Interest income | 37,001 | - | - | 37,001 | - |
| Interest and fiscal charges | (445,370) | - | - | (445,370) | - |
| Loss on sale of capital assets | - | - | (45,464) | (45,464) | (53) |
| Sewer availability fees | 81,000 | - | - | 81,000 | - |
| Net nonoperating revenues (expenses) | (327,369) | - | (45,464) | (372,833) | (53) |
| Loss before transfers | (52,586) | (118,855) | (438,702) | (610,143) | (17,114) |
| Transfers | | | | | |
| Transfer in | - | 131,010 | 257,420 | 388,430 | - |
| Transfers out | (130,000) | - | - | (130,000) | - |
| Net transfers | (130,000) | 131,010 | 257,420 | 258,430 | - |
| Change in net assets | (182,586) | 12,155 | (181,282) | (351,713) | (17,114) |
| Net assets - July 1, 2007 | 6,536,268 | 130,358 | 658,362 | 7,324,988 | 144,610 |
| Net assets - June 30, 2008 | \$ 6,353,682 | \$ 142,513 | \$ 477,080 | \$ 6,973,275 | \$ 127,496 |

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

City of Poquoson, Virginia

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2008

| | Proprietary Fund Types | | | | Internal Service Fund |
|---|------------------------|----------------------------|---------------------|---------------------|-----------------------------|
| | Sewer Operation | Parks and Recreation | Solid Waste | Total | |
| Cash flows from operating activities | | | | | |
| Received from customers and users | \$ 1,422,698 | \$ 344,813 | \$ 433,185 | 2,200,696 | \$ 713,786 |
| Payments to suppliers for goods and services | (280,464) | (296,031) | (754,763) | (1,331,258) | (462,819) |
| Payments to employees | (232,701) | (143,498) | (100,006) | (476,205) | (265,419) |
| Net cash provided by (used in) operating activities | 909,533 | (94,716) | (421,584) | 393,233 | (14,452) |
| Cash flows from noncapital financing activities | | | | | |
| Transfers to other funds | (130,000) | - | - | (130,000) | - |
| Transfers from other funds | - | 131,010 | 257,420 | 388,430 | - |
| Net cash provided by (used in) noncapital financing activities | (130,000) | 131,010 | 257,420 | 258,430 | - |
| Cash flows from capital and related financing activities | | | | | |
| Principal paid on capital debt | (736,140) | - | - | (736,140) | - |
| Proceeds from sales of capital assets | - | - | 6,900 | 6,900 | (53) |
| Sewer availability fees | 81,000 | - | - | 81,000 | - |
| Interest paid on capital debt | (452,857) | - | - | (452,857) | - |
| Acquisition and construction of capital assets | - | (9,350) | - | (9,350) | - |
| Net cash used in capital and related financing activities | (1,107,997) | (9,350) | 6,900 | (1,110,447) | (53) |
| Cash flows from investing activities | | | | | |
| Interest received | 37,001 | - | - | 37,001 | - |
| Net increase (decrease) in cash and investments | (291,463) | 26,944 | (157,264) | (421,783) | (14,505) |
| Cash and investments - beginning of year | 1,296,046 | 24,853 | 404,343 | 1,725,242 | 134,988 |
| Cash and investments - end of year | \$ 1,004,583 | \$ 51,797 | \$ 247,079 | \$ 1,303,459 | \$ 120,483 |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities | | | | | |
| Operating income (loss) | \$ 274,783 | \$ (118,855) | \$ (438,702) | \$ (282,774) | \$ (17,061) |
| Adjustments: | | | | | |
| Depreciation and amortization | 637,845 | 16,658 | 39,481 | 693,984 | 3,297 |
| Loss on sales of capital assets | - | - | 45,464 | 45,464 | - |
| Changes in assets and liabilities: | | | | | |
| Receivables - net | (11,275) | - | (77,988) | (89,263) | (164) |
| Inventories | - | - | 6,329 | 6,329 | (9,852) |
| Prepaid items | - | (4,850) | - | (4,850) | - |
| Vouchers and accounts payable | 3,507 | 6,569 | 4,210 | 14,286 | 3,769 |
| Accrued compensated absences | (3,602) | (2,846) | (2,864) | (9,312) | (1,660) |
| Accrued payroll | 8,275 | 8,608 | 2,486 | 19,369 | 7,219 |
| Net cash provided by (used in) operating activities | \$ 909,533 | \$ (94,716) | \$ (421,584) | \$ 393,233 | \$ (14,452) |

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

City of Poquoson, Virginia

Statement of Fiduciary Net Assets

June 30, 2008

| | Assets | <u>Library Agency Fund</u> |
|--|--------------------|--------------------------------|
| Cash and cash equivalents | | <u>\$ 37,365</u> |
| | Liabilities | |
| Amounts held in trust for library building | | <u>\$ 37,365</u> |

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

City of Poquoson, Virginia

Combining Statement of Net Assets - Component Units

June 30, 2008

| Assets | Poquoson School Board | Industrial Development Authority | Total |
|--|-----------------------------|--|----------------------|
| Cash and cash equivalents | \$ 2,560,797 | \$ 62,096 | \$ 2,622,893 |
| Accounts receivable | 4,175 | 765 | 4,940 |
| Due from other governments | 383,722 | - | 383,722 |
| Inventory | 13,013 | - | 13,013 |
| Capital assets - net | 4,361,148 | 3,353,545 | 7,714,693 |
| | <u>\$ 7,322,855</u> | <u>\$ 3,416,406</u> | <u>\$ 10,739,261</u> |
| Liabilities | | | |
| Vouchers and accounts payable | \$ 2,351,973 | \$ 50 | \$ 2,352,023 |
| Line of credit | - | 1,904,591 | 1,904,591 |
| Compensated absences - current | 25,965 | - | 25,965 |
| Due to primary government | 126,537 | - | 126,537 |
| Compensated absences - noncurrent | 96,169 | - | 96,169 |
| Total liabilities | <u>2,600,644</u> | <u>1,904,641</u> | <u>4,505,285</u> |
| Net Assets | | | |
| Invested in capital assets - net of related debt | 4,361,148 | 1,448,954 | 5,810,102 |
| Unrestricted | 361,063 | 62,811 | 423,874 |
| Total net assets | <u>4,722,211</u> | <u>1,511,765</u> | <u>6,233,976</u> |
| | <u>\$ 7,322,855</u> | <u>\$ 3,416,406</u> | <u>\$ 10,739,261</u> |

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

City of Poquoson, Virginia

Combining Statement of Activities - Component Units

Year Ended June 30, 2008

| | Program Revenues | | | Net (Expense) Revenues and Changes in Net Assets | | Totals | |
|---|----------------------|----------------------|---------------------------------------|--|-----------------------|---------------------|----------------------------------|
| | Expense | Charges for Services | Operating Grants and Contributions | Capital Contributions | Poquoson School Board | | Industrial Development Authority |
| Poquoson School Board | | | | | | | |
| Education | \$ 21,722,835 | \$ 597,329 | \$ 13,147,192 | \$ - | \$ (7,978,314) | \$ - | \$ (7,978,314) |
| Industrial Development Authority | | | | | | | |
| Economic Development | 168,322 | - | - | 679,074 | - | 510,752 | 510,752 |
| Total component units | \$ 21,891,157 | \$ 597,329 | \$ 13,147,192 | \$ 679,074 | (7,978,314) | 510,752 | (7,467,562) |
| | | | General revenues | | | | |
| | | | City of Poquoson | | 8,147,463 | 110,000 | 8,257,463 |
| | | | Miscellaneous revenues | | 291,426 | 42,914 | 334,340 |
| | | | Loss on disposal of capital assets | | (76,396) | - | (76,396) |
| | | | Total general revenues | | 8,362,493 | 152,914 | 8,515,407 |
| | | | Change in net assets | | 384,179 | 663,666 | 1,047,845 |
| | | | Net assets - beginning of year | | 4,338,032 | 848,099 | 5,186,131 |
| | | | Net assets - end of year | | \$ 4,722,211 | \$ 1,511,765 | \$ 6,233,976 |

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

Notes to Basic Financial Statements

City of Poquoson, Virginia

Notes to Basic Financial Statements

June 30, 2008

1. Summary of Significant Accounting Policies

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

Reporting Entity

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

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

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

Therefore, the School Board is included in the component unit column of the City's financial statements because of the significance of its financial relationship with the City. Furthermore, the School Board meets the criteria for discrete presentation and is, therefore, presented in a separate component unit's column in the basic financial statements to emphasize that it is legally separate from the City. The School Board does not issue separate financial statements.

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

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

Financial Reporting Model

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

Management's Discussion and Analysis

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

Government-wide and Fund Financial Statements

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

The City reports the following major governmental funds:

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

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

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

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

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

The City reports the following major proprietary funds:

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

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

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

Additionally, the City reports the following proprietary fund type:

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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

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

Fiduciary Fund - Agency Fund Types

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

Component Unit - Industrial Development Authority

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

Component Unit - School Board

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

School Board General Fund

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

School Board Special Revenue Fund

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

School Board Agency Funds

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

Budgeting and Budgetary Accounting

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

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

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, 2008, for an increase in appropriations in the amount of \$2,389,778 and \$399,332 for the primary government General Fund and School Board General Fund, respectively.

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

Cash and Cash Equivalents

For purposes of the combined statement of cash flows for all proprietary fund types the City considers all highly liquid investments, including those classified as restricted cash which, when purchased, had a maturity of three months or less, to be cash equivalents.

Investments

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

Capital Assets

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

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

In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively to 1980. The City estimated the \$36 million in retroactive infrastructure capitalized at June 30, 2008, using current replacement costs for a similar asset and deflated this cost through the use of price indices to the acquisition year.

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

The estimated useful lives of capital assets are as follows:

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

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, or equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the 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, 2008, the allowance approximated \$305,000 in the General Fund. All other receivables have experienced a high collection rate; therefore, an allowance for doubtful accounts has not been established by City management for other receivables.

Inventory

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

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

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

Inventory is recognized as expenditures when consumed.

Encumbrances

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

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

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

Compensated Absences

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

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

Sewer Availability Fees

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

Deferred Revenue

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

Estimates

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

Credit Risk

The assessed value of real estate for the City's ten largest taxpayers comprises 2.65% of the City's real estate tax base. Concentration of credit risk with respect to receivables is limited due to the large number of customers comprising the City's customer base.

2. Deposits and Investments

Deposits

At year-end, the carrying value of the primary government's deposits with banks and savings institutions was \$4,614,620, including agency fund cash of \$37,365, and the bank balance was \$4,517,216 including cash with fiscal agents. Of the bank balance, 100% was covered by the Federal Deposit Insurance Corporation (FDIC) or collateralized in accordance with the Virginia Security for Public Deposits Act (Act).

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

However, all qualified bank's public deposits are considered 100% "insured" (per GASB Statement No. 3, paragraph 11) because the Act provides for additional assessments to be made. This means that if a qualified bank were to fail, all collateral in the pool would be used to recover the public deposits held at that bank. In addition, if the collateral were inadequate to cover all public deposits, additional amounts would be assessed on a pro rata basis to each member of the pool. Therefore, the Act ensures that there will be no loss of public funds and that makes the pool similar to depository insurance. At June 30, 2008, 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 \$2,560,797 and the bank balance was \$3,198,216. The bank balance was covered by Federal Depository Insurance Corporation or collateralized in accordance with the Act. At June 30, 2008, 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, 2008, the City had \$5,789,935 invested in the State Non-Arbitrage Program (SNAP). SNAP funds are rated AAA by Standard & Poor's. LGIP funds are rated AAAM by Standard & Poor's.

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

Core Portfolio

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

Bond Proceeds

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

Credit Risk

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

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

Concentration of Credit Risk

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

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

Interest Rate Risk

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

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

Custodial Risk

For an investment, custodial risk is the risk that in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Policy requires that all investment securities purchased by the City or held as collateral on deposits or investments shall be held by the City or by a third-party custodial agent who may not otherwise be counterparty to the investment transaction. As of June 30, 2008, 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.

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

| | Investment Maturities (in years) | | |
|--|----------------------------------|-----------------------|--------------|
| | Fair value | Less than One year | 1-3 years |
| Money market funds - Virginia LGIP | \$ 352,328 | \$ 352,328 | \$ - |
| Money market funds - Scott & Stringfellow | 346,754 | 346,754 | - |
| Money market funds - RBC Dain Rauscher | 191,220 | 191,220 | - |
| U.S. government agencies | 99,758 | - | 99,758 |
| Certificates of deposit | 459,350 | 459,350 | - |
| Virginia SNAP Accounts | 5,789,935 | - | 5,789,935 |
| Total investments | 7,239,345 | \$ 1,349,652 | \$ 5,889,693 |
| Reconciliation to total cash and investments | | | |
| Add - | | | |
| Cash on hand and in banks | 3,250,518 | | |
| Total cash and investments | \$ 10,489,863 | | |

3. Property Taxes Receivable

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

4. Notes Receivable

Notes receivable of the Sewer Operations Fund represents agreements between the City and residents for payment of sewer availability fees. The original face value of each note of \$3,000 is to be paid in 36 monthly principal installments of \$92.50 plus interest, at an effective annual rate of 7%.

The 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. As of June 30, 2008, the business has met all required conditions.

5. Due From Other Governmental Units

Due from other governmental units consists of the following:

Primary Government

| <u>Commonwealth of Virginia</u> | <u>General Fund</u> |
|---|---------------------|
| Comprehensive Services Act | \$ 124,529 |
| Sales tax | 41,623 |
| Division of Motor Vehicles reimbursement | 11,365 |
| Compensation Board | 18,941 |
| Wireless E911 PSAP Funding | 7,879 |
| Communications sales and use tax | 36,652 |
| VOPEX Grant | 10,637 |
| HMGP Grant | 14,627 |
| PPTRA | 884,118 |
| Virginia Port Authority | 22,788 |
| Total due from the Commonwealth of Virginia | <u>1,173,159</u> |

Federal Government

| | |
|---|---------------------|
| COPS Fast Grant | 10,000 |
| DUI Grants - Selective Enforcement | 4,425 |
| HMGP Grant | 77,305 |
| CDBG | 33,725 |
| Total due from the federal government | <u>125,455</u> |
| Total due from other governmental units | <u>\$ 1,298,614</u> |

Component Unit - School Board

Commonwealth of Virginia

| | |
|---|----------------|
| State sales tax | \$ 187,555 |
| State technology reimbursement | 26,086 |
| Total due from the Commonwealth of Virginia | <u>213,641</u> |

Federal Government

| | |
|---|-------------------|
| Department of Education Program | |
| Title I & II | 12,886 |
| Title IV | 3,054 |
| Title V | 6,691 |
| Title VI-B | 141,893 |
| Various grants | 5,557 |
| Total due from the federal government | <u>170,081</u> |
| Total due from the other governmental units | <u>\$ 383,722</u> |

6. Interfund Receivables and Payables

Details of the receivables and payables between the primary government and the component units are as follows:

| Primary Government Receivable Fund | Component Unit Payable Fund | Amount |
|---------------------------------------|--------------------------------|------------|
| City General Fund | School General Fund | \$ 126,537 |

7. Capital Assets

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

| | Balance July 1, 2007 | Increases | Decreases | Balance June 30, 2008 |
|---|----------------------------|------------|------------|-----------------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 2,948,810 | \$ 107,395 | \$ 165,726 | \$ 2,890,479 |
| Construction-in-process | 6,770,996 | 12,122,181 | 277,580 | 18,615,597 |
| Total capital assets not being depreciated | 9,719,806 | 12,229,576 | 443,306 | 21,506,076 |
| Other capital assets | | | | |
| Buildings | 7,177,071 | 188,210 | 709,100 | 6,656,181 |
| Infrastructure | 34,483,411 | 1,522,176 | - | 36,005,587 |
| Land improvements | 2,478,994 | 48,680 | - | 2,527,674 |
| Machinery and equipment | 5,319,681 | 983,428 | 302,039 | 6,001,070 |
| Total other capital assets | 49,459,157 | 2,742,494 | 1,011,139 | 51,190,512 |
| Less - accumulated depreciation | | | | |
| Buildings | 2,213,749 | 191,164 | 77,758 | 2,327,155 |
| Infrastructure | 31,393,568 | 20,067 | - | 31,413,635 |
| Land improvements | 212,634 | 176,938 | - | 389,572 |
| Machinery and equipment | 2,756,540 | 372,316 | 286,733 | 2,842,123 |
| Total accumulated depreciation | 36,576,491 | 760,485 | 364,491 | 36,972,485 |
| Other capital assets - net | 12,882,666 | 1,982,009 | 646,648 | 14,218,027 |
| | 22,602,472 | 14,211,585 | 1,089,954 | 35,724,103 |
| Allocation of School Board Assets | | | | |
| Buildings | 10,685,346 | - | - | 10,685,346 |
| Less - accumulated depreciation | | | | |
| Buildings | 2,545,512 | 213,706 | - | 2,759,218 |
| Total allocated to City | 8,139,834 | | | 7,926,128 |
| Total | \$ 30,742,306 | | | \$ 43,650,231 |

Depreciation was charged to governmental functions as follows:

| | |
|-----------------------------------|-------------------|
| General Government Administration | \$ 185,580 |
| Public Safety | 284,236 |
| Public Works | 62,512 |
| Health and Welfare | 17,123 |
| Parks, Recreation, and Cultural | 206,846 |
| Nondepartmental | 4,188 |
| Education | 213,706 |
| | <u>\$ 974,191</u> |

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

| | Balance July 1, 2007 | Increases | Decreases | Balance June 30, 2008 |
|---|-------------------------------------|---------------------|--------------------|--------------------------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 243,216 | \$ - | \$ - | \$ 243,216 |
| Other capital assets | | | | |
| Buildings | 264,122 | - | - | 264,122 |
| Machinery and equipment | 1,234,026 | 9,350 | 299,484 | 943,892 |
| Sewer system | 21,638,904 | - | - | 21,638,904 |
| Sewer easement | 7,000 | - | - | 7,000 |
| Total other capital assets | <u>23,144,052</u> | <u>9,350</u> | <u>299,484</u> | <u>22,853,918</u> |
| Less - accumulated depreciation | | | | |
| Buildings | 249,803 | 3,580 | - | 253,383 |
| Machinery and equipment | 748,000 | 70,754 | 247,119 | 571,635 |
| Sewer system | 5,837,164 | 616,793 | - | 6,453,957 |
| Total accumulated depreciation | <u>6,834,967</u> | <u>691,127</u> | <u>247,119</u> | <u>7,278,975</u> |
| Other capital assets - net | <u>16,309,085</u> | <u>(681,777)</u> | <u>52,365</u> | <u>15,574,943</u> |
| Total | <u>\$ 16,552,301</u> | <u>\$ (681,777)</u> | <u>\$ (52,365)</u> | <u>\$ 15,818,159</u> |

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

| | Balance July 1, 2007 | Increases | Decreases | Balance June 30, 2008 |
|---|-------------------------------------|----------------|----------------|--------------------------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 450,876 | \$ - | \$ - | \$ 450,876 |
| Other capital assets | | | | |
| Buildings | 18,206,781 | 634,614 | 231,268 | 18,610,127 |
| Machinery and equipment | 2,086,727 | 37,396 | 85,290 | 2,038,833 |
| Total other capital assets | <u>20,293,508</u> | <u>672,010</u> | <u>316,558</u> | <u>20,648,960</u> |
| Less - accumulated depreciation | | | | |
| Buildings | 6,986,073 | 370,972 | 161,502 | 7,195,543 |
| Machinery and equipment | 1,608,511 | 87,166 | 78,660 | 1,617,017 |
| Total accumulated depreciation | <u>8,594,584</u> | <u>458,138</u> | <u>240,162</u> | <u>8,812,560</u> |
| Other capital assets - net | <u>11,698,924</u> | <u>213,872</u> | <u>76,396</u> | <u>11,836,400</u> |
| | 12,149,800 | 213,872 | 76,396 | 12,287,276 |
| Allocation to City | | | | |
| Buildings | (10,685,346) | - | - | (10,685,346) |
| Less - accumulated depreciation | <u>2,545,512</u> | <u>213,706</u> | <u>-</u> | <u>2,759,218</u> |
| Total allocated to City | <u>(8,139,834)</u> | | | <u>(7,926,128)</u> |
| Total | <u>\$ 4,009,966</u> | | | <u>\$ 4,361,148</u> |

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

| | Balance July 1, 2007 | Increases | Decreases | Balance June 30, 2008 |
|---|-------------------------------------|-------------------|-------------|--------------------------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 2,267,815 | \$ 165,726 | \$ - | \$ 2,433,541 |
| Other capital assets | | | | |
| Buildings | 235,253 | 513,337 | - | 748,590 |
| Infrastructure | 315,273 | - | - | 315,273 |
| Total other capital assets | 550,526 | 513,337 | - | 1,063,863 |
| Less - accumulated depreciation | | | | |
| Buildings | 42,502 | 29,702 | - | 72,204 |
| Infrastructure | 57,324 | 14,331 | - | 71,655 |
| Total accumulated depreciation | 99,826 | 44,033 | - | 143,859 |
| Other capital assets - net | 450,700 | 469,304 | - | 920,004 |
| Total | \$ 2,718,515 | \$ 635,030 | \$ - | \$ 3,353,545 |

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, 2007 | Increases | Decreases | Balance June 30, 2008 | Amounts due within one year |
|--------------------------------------|-------------------------------------|------------|------------|--------------------------------------|-----------------------------------|
| General obligations | | | | | |
| Debts payable: | | | | | |
| General obligation bonds | \$ 28,341,971 | \$ - | \$ 881,188 | \$ 27,460,783 | \$ 941,472 |
| General obligation leases | 525,899 | 664,414 | 212,267 | 978,046 | 133,718 |
| State Literary Fund loans | 3,567,820 | - | 402,000 | 3,165,820 | 402,000 |
| Deferred charge - refunding | (139,073) | - | (16,362) | (122,711) | - |
| | 32,296,617 | 664,414 | 1,479,093 | 31,481,938 | 1,477,190 |
| Accrued benefits: | | | | | |
| Accrued compensated absences | 477,627 | 721,387 | 649,827 | 549,187 | 32,951 |
| Component Unit - School Board | | | | | |
| Accrued benefits: | | | | | |
| Accrued compensated absences | \$ 140,057 | \$ 542,986 | \$ 560,909 | \$ 122,134 | \$ 25,965 |

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

| | |
|--|----------------------|
| <i>School Serial Bonds of 1989</i> - \$1,500,000 bonds issued and due in annual installments varying from \$55,000 to \$90,000 through December 2009, with interest payable semi-annually at rates varying from 6.85% to 7.20%. | \$ 135,000 |
| <i>High School Serial Bonds of 1998</i> - \$650,000 bonds issued and due in annual installments varying from \$30,000 to \$35,000 through July 2018, with interest payable semi-annually at rates varying from 3.60% to 5.10%. | 335,000 |
| <i>General Obligation Court Facility Bond Series 1998A</i> - \$1,546,415 bonds issued and due in annual installments varying from \$43,594 to \$122,839, through March 2016, with interest paid semi-annually at 4.5%. | 846,696 |
| <i>General Obligation Fire Station Bond Series 2000</i> - \$925,000 bonds issued and due in semi-annual principal and interest installments of \$45,471 through September 2015. The bonds bear interest at 5.43%. | 552,685 |
| <i>General Obligation Refunding Note Series 2001</i> - \$647,428 note payable due in annual installments ranging from \$68,109 to \$68,690 including principal and interest at 6.82%, through January 2016. | 409,561 |
| <i>General Obligation Public Improvement Equipment Note Series 2002B</i> - \$597,000 bonds issued and due in annual installments of \$72,304, including principal and interest at 4.34%, through June 2011. | 203,941 |
| <i>General Obligation Refunding Note Series 2002</i> - \$3,405,000 bonds issued and due in annual installments varying from \$35,000 to \$385,000 through January 2016, with interest paid semi-annually at 2.5% to 3.72%. | 2,720,000 |
| <i>General Obligation Bond, Series 2005</i> - \$5,000,000 bonds issued and due in semi-annual installments beginning August 2007 varying from \$92,000 to \$400,000 through August 2026, with interest paid semi-annually at 3.86%. | 4,908,000 |
| <i>General Obligation Bond Literary Loan Anticipation Note, Series 2006A</i> - \$2,384,000 bonds issued and due in one payment of \$2,384,000 principal and interest of 3.4% in August 2010. Semi-annual interest payments of 3.4% are due until August 2010. | 2,384,000 |
| <i>General Obligation Public Bond, Series 2006B</i> - \$7,116,000 bonds issued and due in semi-annual installments beginning August 2007 varying from \$140,000 to \$605,900 through August 2027, with interest paid semi-annually at 3.99%. | 6,975,900 |
| <i>General Obligation Public Bond, Series 2007</i> - \$8,000,000 bonds issued and due in semi-annual installments beginning August 2007 varying from \$10,000 to \$724,100 through August 2027, with interest paid semi-annually at 3.85%. | 7,990,000 |
| | <hr/> |
| Total general obligation bonds | \$ 27,460,783 |
| | <hr/> |

Estimated annual debt service requirements to maturity for general obligation bonds for future years are as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> |
|-------------|----------------------|----------------------|
| 2009 | \$ 941,472 | \$ 1,075,383 |
| 2010 | 984,430 | 1,036,552 |
| 2011 | 3,467,044 | 952,325 |
| 2012 | 1,021,310 | 866,908 |
| 2013 | 1,062,570 | 823,853 |
| 2014-2018 | 6,023,557 | 3,360,648 |
| 2019-2023 | 7,362,600 | 2,037,265 |
| 2024-2028 | 6,597,800 | 524,618 |
| | <u>\$ 27,460,783</u> | <u>\$ 10,677,552</u> |

In October 2004, the City of Poquoson entered into a capital lease to purchase two fire trucks, which were capitalized in the financial statements at June 30, 2008, at a cost of \$708,522. At June 30, 2008, accumulated depreciation under this lease totaled \$70,852.

In August 2007, the City of Poquoson entered into a capital lease to purchase self contained breathing apparatus for the fire department, which were capitalized in the financial statements at June 30, 2008, at a cost of \$144,810. Prior to June 30, 2008, the capital lease was paid in full through grant funding.

In October 2007, the City of Poquoson entered into a capital lease to purchase radios for the fire and police departments, which were capitalized in the financial statements at June 30, 2008, at a cost of \$519,604. At June 30, 2008, accumulated depreciation under this lease totaled \$25,981.

The balance of these leases as of June 30, 2008, is \$978,046. Future minimum lease payments under capital leases and present value of the minimum lease payments are as follows:

| | |
|------------------------------|-------------------|
| 2009 | \$ 176,065 |
| 2010 | 176,065 |
| 2011 | 176,065 |
| 2012 | 176,065 |
| 2013 | 176,065 |
| 2014-2015 | <u>265,626</u> |
| Total minimum lease payments | 1,145,951 |
| Less - imputed interest | <u>(167,905)</u> |
| | 978,046 |
| Less - current portion | <u>(133,718)</u> |
| Long-term portion | <u>\$ 844,328</u> |

Advance Refunding

In November 2002, the City of Poquoson issued \$3,405,000 of general obligation refunding bonds to provide resources to purchase U.S. government bonds that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$3,175,000 of general obligation bonds. The initial payment from the escrowed funds was made in January 2007. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the City's governmental activities column on the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$230,000. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is the same life as the old debt. This advance refunding was undertaken to reduce total debt service payments over a 13 year period by \$333,000 and resulted in a net present value savings of \$281,070. The advance refunded debt was legally defeased on January 1, 2004.

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

| | |
|---|---------------------|
| Primary School Literary Fund Loan - \$2,500,000 loan issued September 15, 1989, due in annual installments of \$125,000 through August 2009, with interest at 3%. | \$ 250,000 |
| 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%. | 165,820 |
| High School Literary Fund Loan - \$5,000,000 loan issued November 17, 1998, due in annual installments of \$250,000 through December 2018, with interest at 3%. | 2,750,000 |
| Total state literary fund loans outstanding | <u>\$ 3,165,820</u> |

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

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> |
|-------------|---------------------|-------------------|
| 2009 | \$ 402,000 | \$ 94,975 |
| 2010 | 402,000 | 82,915 |
| 2011 | 277,000 | 70,855 |
| 2012 | 277,000 | 62,545 |
| 2013 | 277,000 | 54,235 |
| 2014-2018 | 1,280,820 | 150,925 |
| 2019-2020 | 250,000 | 7,500 |
| | <u>\$ 3,165,820</u> | <u>\$ 523,950</u> |

Debt Limit

The Commonwealth of Virginia imposes a legal limit on the general obligation debt that may be issued by the City to an amount equal to ten percent of total assessed value of real property. As of June 30, 2008, the City's aggregate general obligation indebtedness, excluding proprietary fund debt, was \$126,600,000 less than the allowable limit.

Overlapping Debt

There are no overlapping or underlying tax jurisdictions.

9. Long-Term Liabilities - Business-Type Activities

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

| | <u>Balance July 1, 2007</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance June 30, 2008</u> | <u>Amounts due within one year</u> |
|------------------------------|-------------------------------------|------------------|-------------------|--------------------------------------|--|
| Enterprise Funds | | | | | |
| General obligation bonds | \$ 11,280,327 | \$ - | \$ 771,689 | \$ 10,508,638 | \$ 795,971 |
| Accounting loss on refunding | (250,370) | 35,549 | - | (214,821) | - |
| Bond premium | 5,577 | - | - | 5,577 | - |
| | 11,035,534 | 35,549 | 771,689 | 10,299,394 | 795,971 |
| Accrued compensated absences | 32,457 | 29,985 | 39,297 | 23,145 | 1,389 |
| | <u>\$ 11,067,991</u> | <u>\$ 65,534</u> | <u>\$ 810,986</u> | <u>\$ 10,322,539</u> | <u>\$ 797,360</u> |

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

| | |
|---|----------------------|
| General Obligation Sewer System Refunding Bonds, Series 1998B (December 1998) - \$2,294,591 bonds issued and due in annual installments varying from \$21,809 to \$235,256, through September 2017, with interest payable semi-annually at 4.5%. | \$ 1,966,120 |
| General Obligation Sewer Bonds, Series 2000B (May 2000) - \$2,664,671 bonds issued with interest only due on the outstanding balance at March 1, 2001, at 3.5%. Commencing on September 1, 2001, principal and interest due in semi-annual installments of \$94,847 through September 2020, at a rate of 3.5%. | 1,907,243 |
| General Obligation Sewer Bonds, Series 2000A (May 2000) - \$7,335,329 bonds authorized and issued, with interest only due on the outstanding balance at March 1, 2001. Commencing on September 1, 2001, principal and interest due in semi-annual installments of \$261,093 through September 2020, at a rate of 3.5%. | 5,250,275 |
| General Obligation Sewer Bonds, Series 2002 - \$1,095,000 bonds issued and due in annual installments varying from \$55,057 to \$82,040 through April 2022, with interest payable semi-annually at rates varying from 3.10% to 5.10%. | 860,000 |
| General Obligation Sewer System Refunding Bonds Series 2003 (December 2003) - \$990,000 bonds issued and due in annual installments varying from \$110,000 to \$140,000, through January 2012, with interest payable semi-annually at 2.92%. | 525,000 |
| Accounting loss on refundings | 10,508,638 |
| Bond premium | (214,821) |
| | 5,577 |
| Total general obligation bonds outstanding | \$ 10,299,394 |

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

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> |
|-------------|------------------|-----------------|
| 2009 | \$ 795,971 | \$ 353,848 |
| 2010 | 825,565 | 324,062 |
| 2011 | 855,482 | 293,638 |
| 2012 | 885,888 | 262,106 |
| 2013 | 781,414 | 246,726 |
| 2014-2018 | 4,369,368 | 778,999 |
| 2019-2023 | 1,994,950 | 130,815 |
| | \$ 10,508,638 | \$ 2,390,194 |

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

Advanced and Current Refundings

In prior years, the City advanced refunded certain Sewer General Obligation Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At June 30, 2008, \$2,015,000 of the bonds outstanding is considered to be an in-substance defeasance. The debt was legally defeased on September 1, 2004.

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

The unamortized amount deferred on the sewer refundings of \$214,821 is reported in the accompanying financial statements as a reduction of bonds payable, and is being charged to operations as a component of interest through the year 2016 using the straight-line method.

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

Line of Credit

The IDA uses a \$3,000,000 line of credit with a bank to finance a variety of land purchases. The line of credit expires on March 31, 2010, and bears interest at 30 day LIBOR plus 1.25% and is unsecured. Short-term activity was as follows:

| | Balance July 1, 2007 | Draws | Repayments | Balance June 30, 2008 |
|----------------|---------------------------------|-------|------------|----------------------------------|
| Line of credit | \$ 1,904,591 | \$ - | \$ - | \$ 1,904,591 |

11. Conduit Debt Obligation

On July 1, 2001 and September 12, 2005, the IDA issued \$10,000,000 and \$5,000,000 YMCA Revenue Bonds, respectively, to finance the acquisition and construction of the Peninsula Metropolitan YMCA (YMCA). On November 1, 2003, the IDA issued \$5,000,000 Nansemond-Suffolk Academy (NSA) Revenue bonds to finance an addition. On July 13, 2004, the IDA issued \$7,500,000 Hampton-Newport News Community Services Board (HNNCSB) revenue bonds to acquire the former Hampton Medical Center and to finance improvements. The costs of financing the projects, all expenses of issuing the bonds and the payments of bond principals and interest are the responsibility of the YMCA, the NSA, and the HNNCSB, respectively. The bonds provide that neither the IDA nor the City shall be obligated to pay the bonds or interest thereon or other costs incident thereto. At June 30, 2008, \$23,832,041 remained outstanding.

12. Unearned Revenue

Unearned revenue for the primary government at June 30, 2008, consists of real and personal property taxes not collected within 45 days after June 30, 2008.

13. Contingency

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

14. Certain Interfund Transactions and Fund Results

Interfund Transfers

Interfund transfers were made up of the following:

| | Transfers In | Transfers Out |
|-----------------------------|--------------|---------------|
| General Fund | \$ 227,690 | \$ 4,422,899 |
| Debt Service Fund | 2,482,454 | - |
| Capital Projects Fund | 765,000 | 97,690 |
| Facilities Improvement Fund | 635,234 | - |
| Special Revenue Fund | 41,781 | - |
| Parks and Recreation Fund | 131,010 | - |
| Solid Waste Fund | 257,420 | - |
| Sewer Operations Fund | - | 130,000 |
| Component Unit - IDA Fund | 110,000 | - |
| | \$ 4,650,589 | \$ 4,650,589 |

Purpose:

Transfers from General Fund:

- \$ 2,482,454 Debt Service Fund: current year debt payments.
- \$ 765,000 Capital Projects Fund: funding for pay-as-you-go capital projects.
- \$ 131,010 Parks and Recreation Fund: fund deficit in special events and pool operations.
- \$ 257,420 Solid Waste Fund: fund bulk item pickup.
- \$ 41,781 Special Revenue Fund: funding for elevation project costs not covered by grants.
- \$ 110,000 IDA Fund: contribution to IDA for interest payments.
- \$ 635,234 Facilities Improvement Fund: funding for pay-as-you-go-improvements to public parks, fields and school facilities.

Transfers from Sewer Operations Fund:

- \$ 130,000 General Fund: allocate administration costs paid out of General Fund for sewer services.

Transfers from Capital Projects Fund:

- \$ 97,690 General Fund: cost of project construction manager.

15. Surety Bonds

The City maintained the following surety bond coverage's on certain employees of the primary government and component unit:

| <u>Description</u> | <u>Amount</u> |
|---|---------------|
| Virginia Municipal Liability Pool - All City employees - employee dishonesty blanket bond | \$ 1,000,000 |
| Forest T. Jones & Company, Inc.: | |
| Executive Director of Business and Finance, | |
| School Board, Clerk of the School Board | \$ 10,000 |
| 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 2.1-526.9 of the Code of Virginia. The coverage with respect to the Treasurer does not extend to the loss of any City funds.

| <u>Description</u> | <u>Amount</u> |
|--|---------------|
| Virginia Municipal Liability Pool - Surety, Faithful Performance of Duty Schedule, Position Bond: Treasurer and employees | \$ 500,000 |
| Commonwealth of Virginia Faithful Performance Of Duty Bond: | |
| Treasurer | \$ 500,000 |
| Director of Finance | \$ 500,000 |
| Clerk of the Court | \$ 103,000 |
| 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), Peninsula Council Workforce Development (PCWD), the Colonial Services Board (CSB) and the Hampton Roads Partnership (HRP). Expenditures of these agencies are financed by federal and state grants and fees, including contributions from the City. During the year ended June 30, 2008, the City provided support to HRPDC of \$27,544, VPPSA of \$230,226, PCWD of \$5,847, CSB of \$127,000 and HRPC of \$5,325.

In addition, a conglomerate of municipalities shares certain expenses for maintaining and operating a regional jail and juvenile detention center. During fiscal year 2008, the City incurred expenses for the regional jail and juvenile detention center of \$102,471 and \$55,275, respectively. Notes issued by the regional jail are limited obligations payable from revenues received from the member jurisdictions. The City, along with three other member jurisdictions, have agreed to provide funding makeup support to cover any deficiencies in the regional jail's debt service fund based on each member's utilization rate.

The City of Poquoson shares certain services and their associated costs with York County, including the Circuit Court, the Commonwealth's Attorney, the sheriff of York County and E911 operations. The City also shares social services with York County. During the year ended June 30, 2008, the City paid \$777,775 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, 2008, the School Board provided support of \$559,132 to the New Horizons Education Center.

17. Defined Benefit Retirement Plan

A. Plan Description

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

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

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

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

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. This 5% member contribution has been assumed by both the City and the School Board. In addition the City and School Board are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's and School Board's (nonprofessional employees) contribution rate for the year ended June 30, 2008, was 9.99% and 6.91%, 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 2008, 2007 and 2006 and were \$1,815,249, \$1,674,507, and \$1,320,551, respectively. The School Board contributed 100% of required contributions to the pool for fiscal year ended 2008 and each of the two preceding years.

C. Annual Pension Cost

For fiscal years 2008, 2007, and 2006, the City and School Board's annual pension costs of \$821,473, \$724,473 and \$538,299, respectively, and \$77,362, \$79,715 and \$93,198, respectively, were equal to the City and School Board's required and actual contributions. The required contributions were determined as part of the June 30, 2005, actuarial valuation using the entry age normal actuarial cost method. The contribution rate set by the June 30, 2005, valuation was in effect from July 1, 2006 through June 30, 2008. The actuarial assumptions included (1) 7.50% investment rate of return, (2) projected salary increases ranging from 3.75% to 5.60% per year, and (3) 2.50% per year cost-of-living adjustments. Both (1) and (2) included an inflation component of 2.50%.

The actuarial value of the City and School Board's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a 5-year period. The School Board's unfunded actuarial accrued liability is being amortized as a level percentage on an open basis within a period of 27 years or less.

The Schedules of Funding Progress and Employer Contributions are presented as required supplementary information. The information presented in the schedules of employer contributions and funding progress was determined as part of the actuarial valuation on June 30, 2007. Actuarial assumptions used include an investment rate of return of 7.50%.

18. Notes to Schedule of Employer Contributions and Funding Progress

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

| | |
|-------------------------------|---------------------|
| Valuation date | June 30, 2007 |
| Actuarial cost method | Entry age Normal |
| Amortization method | Level percent, open |
| Payroll growth rate | 2.50% |
| Remaining amortization period | 20 years |
| Asset valuation method | Modified market |
| Actuarial assumptions: | |
| Investment rate of return* | 7.50% |
| Projected salary increases* | |
| 1.) Non-LEO | 3.75% to 5.60% |
| 2.) LEO employees | 3.50% to 4.75% |
| Cost-of-living adjustments | 2.50% |

* Includes inflation at 2.50%

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's from the prior year, and settled claims have not exceeded the amount of insurance coverage in any of the past three years.

20. Construction Commitments

The City entered into a contract for the construction of a new elementary school. The contract totals \$17,522,180 with \$3,399,724 outstanding at June 30, 2008. Additionally, the City is obligated under another construction contract for a new fire station. The contract totals \$2,893,962 with \$2,175,767 outstanding at June 30, 2008.

21. Subsequent Events

On July 31, 2008, the City issued \$2,000,000 in General Obligation Bonds to provide resources to renovate the Middle School football stadium. The project was completed in September 2008.

On August 20, 2008, the City entered into a two-year noncancelable lease agreement to lease certain office space.

* * * * *

Required Supplementary Information

City of Poquoson, Virginia

General Fund
Budgetary Comparison Schedule

Year Ended June 30, 2008

| | 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 | \$ 13,175,000 | \$ 13,282,000 | \$ 13,314,331 | \$ 32,331 |
| Public service corporation property taxes | 96,000 | 96,000 | 126,459 | 30,459 |
| Personal property | 2,304,000 | 2,304,000 | 2,581,520 | 277,520 |
| Penalties and interest | 104,000 | 104,000 | 104,858 | 858 |
| Total general property taxes | 15,679,000 | 15,786,000 | 16,127,168 | 341,168 |
| Other local taxes: | | | | |
| Sales and use taxes | 900,000 | 900,000 | 962,735 | 62,735 |
| Meals taxes | 450,000 | 450,000 | 518,764 | 68,764 |
| Cigarette taxes | 90,000 | 90,000 | 74,601 | (15,399) |
| Consumers' utility taxes | 275,000 | 275,000 | 282,436 | 7,436 |
| Consumption tax | 38,000 | 38,000 | 39,642 | 1,642 |
| Business license taxes | 360,000 | 360,000 | 448,920 | 88,920 |
| Bank stock taxes | 28,000 | 28,000 | 19,517 | (8,483) |
| Recordation and wills taxes | 250,000 | 250,000 | 232,456 | (17,544) |
| Deeds of conveyance | 35,000 | 35,000 | 34,124 | (876) |
| Total other local taxes | 2,426,000 | 2,426,000 | 2,613,195 | 187,195 |
| Permits, privilege fees and regulatory licenses: | | | | |
| Animal license | 1,750 | 1,750 | 2,565 | 815 |
| Permits and other licenses | 141,950 | 141,950 | 95,668 | (46,282) |
| Total permits, privilege fees and regulatory licenses | 143,700 | 143,700 | 98,233 | (45,467) |
| Fines and forfeitures | 38,800 | 38,800 | 38,201 | (599) |
| Revenue from use of money and property: | | | | |
| Revenue from use of money | 120,000 | 200,000 | 178,141 | (21,859) |
| Revenue from use of property | 85,600 | 85,600 | 96,741 | 11,141 |
| Total revenue from use of money and property | 205,600 | 285,600 | 274,882 | (10,718) |
| Charges for services: | | | | |
| Charges for sales of maps | - | - | 292 | 292 |
| Charges for business promotional maps | - | 800 | 1,261 | 461 |
| Charges for copying | 4,000 | 4,000 | 2,756 | (1,244) |
| Charges for passport processing | 20,000 | 20,000 | 38,091 | 18,091 |
| Charges for library and fees | 19,000 | 19,000 | 29,105 | 10,105 |
| Total charges for services | 43,000 | 43,800 | 71,505 | 27,705 |
| Miscellaneous revenue: | | | | |
| Miscellaneous | 3,200 | 10,700 | 14,501 | 3,801 |
| Insurance recoveries | - | 2,239 | 2,239 | - |
| Donations-volunteer fire and rescue | - | 66,000 | 66,000 | - |
| Gain on sale of capital assets | - | 34,399 | 29,490 | (4,909) |
| Donations | - | 11,942 | 12,117 | 175 |
| Total miscellaneous revenue | 3,200 | 125,280 | 124,347 | (933) |

City of Poquoson, Virginia

General Fund
Budgetary Comparison Schedule

Year Ended June 30, 2008

| | Original Budget | Final Budget | Actual (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|----------------------|----------------------|--------------------------------|---|
| Revenues and other financing sources (Continued) | | | | |
| Intergovernmental | | | | |
| Revenue from the Commonwealth: | | | | |
| Noncategorical aid: | | | | |
| ABC profits | 6,780 | 6,780 | 6,780 | - |
| DMV reimbursement | 80,000 | 80,000 | 131,531 | 51,531 |
| Wine taxes | 7,100 | 7,100 | 7,107 | 7 |
| Mobile home titling taxes | 3,000 | 3,000 | 3,169 | 169 |
| Rolling stock tax | 80 | 80 | 8 | (72) |
| Personal property tax relief | 1,923,430 | 1,923,430 | 1,923,431 | 1 |
| Total noncategorical aid | 2,020,390 | 2,020,390 | 2,072,026 | 51,636 |
| Categorical aid: | | | | |
| Shared expenses: | | | | |
| Commissioner of the Revenue | 109,312 | 109,312 | 117,828 | 8,516 |
| Treasurer | 102,086 | 102,086 | 106,164 | 4,078 |
| Registrar/electoral board | 53,070 | 53,070 | 46,678 | (6,392) |
| Total categorical aid | 264,468 | 264,468 | 270,670 | 6,202 |
| Other categorical aid: | | | | |
| State 599 police funds | 291,860 | 291,860 | 277,264 | (14,596) |
| Fire program fund | 28,000 | 37,989 | 37,989 | - |
| Department of Emergency Services | 2,000 | 2,000 | 2,000 | - |
| Street and highway maintenance | 727,000 | 727,000 | 719,485 | (7,515) |
| Litter control | 6,000 | 6,508 | 6,508 | - |
| Library | 138,600 | 138,600 | 133,013 | (5,587) |
| Emergency medical services | 9,550 | 75,291 | 75,240 | (51) |
| Wireless E911 PSAP | 46,000 | 46,000 | 48,466 | 2,466 |
| Comprehensive services | 288,500 | 288,500 | 283,673 | (4,827) |
| State drug seizure | - | 6,707 | 6,707 | - |
| State matching FEMA grant | - | 11,000 | 10,174 | (826) |
| Other state grants | - | 674 | 673 | (1) |
| Vopex grant | - | - | 10,637 | 10,637 |
| Total other categorical aid | 1,537,510 | 1,632,129 | 1,611,829 | (20,300) |
| Total categorical aid | 1,801,978 | 1,896,597 | 1,882,499 | (14,098) |
| Total revenue from the Commonwealth | 3,822,368 | 3,916,987 | 3,954,525 | 37,538 |
| Revenue from the federal government: | | | | |
| Miscellaneous | 52,600 | 254,889 | 254,726 | (163) |
| Total revenue from the federal government | 52,600 | 254,889 | 254,726 | (163) |
| Other financing sources | | | | |
| Transfer from component unit-School Board | 325,828 | 325,828 | 318,610 | (7,218) |
| Transfer from capital projects fund | 97,690 | 97,690 | 97,690 | - |
| Transfer from sewer fund | 130,000 | 130,000 | 130,000 | - |
| Transfer from unappropriated fund | 514,899 | 2,297,888 | - | (2,297,888) |
| Total other financing uses | 1,068,417 | 2,851,406 | 546,300 | (2,305,106) |
| Total revenue and other financing sources | \$ 23,482,685 | \$ 25,872,462 | \$ 24,103,082 | \$ (1,769,380) |

City of Poquoson, Virginia

General Fund
Budgetary Comparison Schedule

Year Ended June 30, 2008

| | Original Budget | Final Budget | Actual (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|--|--------------------|------------------|--------------------------------|---|
| Expenditures and other financing uses | | | | |
| General government administration | | | | |
| Legislative - City Council | \$ 74,762 | \$ 77,762 | \$ 76,818 | \$ 944 |
| General and financial administration | | | | |
| City Manager | 464,710 | 464,710 | 462,504 | 2,206 |
| Legal services | 100,800 | 128,800 | 127,401 | 1,399 |
| Independent auditor | 27,300 | 39,300 | 37,143 | 2,157 |
| Commissioner of the Revenue | 284,020 | 284,020 | 278,253 | 5,767 |
| Assessor/equalization board | 218,885 | 218,885 | 209,059 | 9,826 |
| Treasurer | 273,075 | 279,075 | 277,701 | 1,374 |
| Finance | 314,510 | 314,510 | 312,718 | 1,792 |
| Technology | - | 22,000 | 21,144 | 856 |
| Risk management | 161,950 | 102,850 | 74,080 | 28,770 |
| Total general and financial administration | 1,845,250 | 1,854,150 | 1,800,003 | 54,147 |
| Board of elections - electoral board and registrar | 128,711 | 132,281 | 129,467 | 2,814 |
| Total general government administration | 2,048,723 | 2,064,193 | 2,006,288 | 57,905 |
| Public safety | | | | |
| General district court | 149,924 | 149,924 | 149,542 | 382 |
| Clerk of the circuit court | (37,845) | (37,845) | (37,845) | - |
| Sheriff | 119,677 | 119,677 | 119,677 | - |
| Building maintenance | 46,827 | 46,827 | 46,827 | - |
| Total judicial administration | 278,583 | 278,583 | 278,201 | 382 |
| Law enforcement and traffic control - police department | 2,226,623 | 2,386,981 | 2,364,756 | 22,225 |
| Fire and rescue services - fire department | 2,583,307 | 2,895,192 | 2,819,856 | 75,336 |
| Correction and detention - regional operated institutions | 181,441 | 182,306 | 173,317 | 8,989 |
| Inspections - various | 243,583 | 249,583 | 249,487 | 96 |
| Other protection - animal control | 76,450 | 76,450 | 76,441 | 9 |
| Total public safety | 5,311,404 | 5,790,512 | 5,683,857 | 106,655 |
| Public works | | | | |
| Maintenance of highways, streets, bridges and sidewalks: | | | | |
| General engineering/administration | 126,269 | 134,769 | 129,351 | 5,418 |
| Highways, streets, bridges and sidewalks | 1,082,879 | 1,090,026 | 1,067,785 | 22,241 |
| Street lights | 71,000 | 72,000 | 71,946 | 54 |
| Total maintenance of highways, streets, bridges and sidewalks | 1,280,148 | 1,296,795 | 1,269,082 | 27,713 |
| Maintenance of general buildings and grounds | 227,920 | 278,520 | 278,331 | 189 |
| Total public works | 1,508,068 | 1,575,315 | 1,547,413 | 27,902 |

City of Poquoson, Virginia

General Fund
Budgetary Comparison Schedule

Year Ended June 30, 2008

| Expenditures and other financing uses (Continued) | Original Budget | Final Budget | Actual (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|--|----------------------|----------------------|--------------------------------|---|
| Health and welfare | | | | |
| Health: | | | | |
| Local health department | 45,720 | 45,720 | 45,223 | 497 |
| Mosquito control | 274,389 | 274,389 | 271,793 | 2,596 |
| Total health | 320,109 | 320,109 | 317,016 | 3,093 |
| Mental health and mental retardation - mental health | 160,710 | 163,650 | 160,710 | 2,940 |
| Welfare: | | | | |
| Social services | 111,420 | 236,420 | 226,948 | 9,472 |
| Comprehensive services | 400,000 | 400,000 | 409,308 | (9,308) |
| Total welfare | 511,420 | 636,420 | 636,256 | 164 |
| Total health and welfare | 992,239 | 1,120,179 | 1,113,982 | 6,197 |
| Education - School Board | 8,274,000 | 8,274,000 | 8,147,463 | 126,537 |
| Parks, recreation and cultural - supervision of parks and recreation | 342,493 | 450,493 | 449,786 | 707 |
| Library - administration | 721,207 | 733,823 | 719,001 | 14,822 |
| Total parks, recreation and cultural | 1,063,700 | 1,184,316 | 1,168,787 | 15,529 |
| Community development | | | | |
| Planning | 449,903 | 450,903 | 380,250 | 70,653 |
| Economic development | 6,830 | 106,830 | 5,325 | 101,505 |
| Community development | 150,751 | 161,259 | 151,402 | 9,857 |
| Community development - IDA component unit | 120,000 | 120,000 | 110,000 | 10,000 |
| Community relations office | 175,564 | 176,364 | 175,979 | 385 |
| Total community development | 903,048 | 1,015,356 | 822,956 | 192,400 |
| Nondepartmental - miscellaneous | 56,500 | 64,000 | 63,807 | 193 |
| Department of motor vehicles | 99,494 | 99,494 | 98,078 | 1,416 |
| Recovery - hurricane isabel | - | 57,000 | 56,248 | 752 |
| Total nondepartmental | 155,994 | 220,494 | 218,133 | 2,361 |
| Other financing uses | | | | |
| Transfers to Debt Service Fund | 2,481,810 | 2,483,605 | 2,482,454 | 1,151 |
| Transfers to Capital Projects Fund | - | 765,000 | 765,000 | - |
| Transfers to Facilities Improvement Fund | - | 635,793 | 635,234 | 559 |
| Transfers to Special Revenue Fund | 76,686 | 76,686 | 41,781 | 34,905 |
| Transfers to Parks Recreation Fund | 131,010 | 131,010 | 131,010 | - |
| Transfers to Solid Waste Fund | 257,420 | 257,420 | 257,420 | - |
| Total other financing uses | 2,946,926 | 4,349,514 | 4,312,899 | 36,615 |
| Total expenditures and other financing uses | \$ 23,482,685 | \$ 25,872,462 | \$ 25,299,979 | \$ 572,483 |
| Excess of revenue and other financing sources over expenditures and other financing uses - budgetary basis | \$ - | \$ - | \$ (1,196,897) | |
| Less - encumbrances outstanding June 30, 2007, actually expended as of June 30, 2008 | | | (180,562) | |
| Add - encumbrances outstanding June 30, 2008 | | | 276,571 | |
| Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses, GAAP basis | | | (1,100,888) | |
| Fund balances - June 30, 2007 | | | 5,038,823 | |
| Fund balances - June 30, 2008 | | | \$ 3,937,935 | |

**Retirement Plan
Schedules of Funding Progress and Employer Contributions
Virginia Retirement System**

Year Ended June 30, 2008

| | Actuarial Valuation Date | Actuarial Valuation of Assets | Actuarial Accrued Liability | Over (Under) Funded Actuarial Accrued Liability | Funded Ratio | Covered Payroll | Over (Under) Funded Actuarial Liability as a Percent of Covered Payroll |
|---|--------------------------------|-------------------------------------|-----------------------------------|---|-----------------|--------------------|--|
| Schedules of Funding Progress | | | | | | | |
| City Employees | | | | | | | |
| | 6/30/07 | \$ 16,597,606 | \$ 17,743,747 | \$ (1,146,141) | 93.54% | \$ 5,303,994 | (21.61)% |
| | 6/30/06 | \$ 14,310,654 | \$ 16,662,854 | \$ (2,352,200) | 85.88% | \$ 5,003,885 | (47.01)% |
| | 6/30/05 | \$ 13,070,399 | \$ 15,732,821 | \$ (2,662,422) | 83.08% | \$ 4,719,239 | (56.42)% |
| | 6/30/04 | \$ 12,302,897 | \$ 12,826,677 | \$ (523,780) | 95.92% | \$ 4,351,660 | (12.04)% |
| | 6/30/03 | \$ 11,865,662 | \$ 11,671,875 | \$ 193,787 | 101.66% | \$ 4,053,858 | 4.78% |
| School Board Nonprofessional Employees | | | | | | | |
| | 6/30/07 | \$ 1,314,569 | \$ 1,856,849 | \$ (542,280) | 70.80% | \$ 557,851 | (97.21)% |
| | 6/30/06 | \$ 1,151,079 | \$ 1,641,274 | \$ (490,195) | 70.13% | \$ 675,990 | (72.52)% |
| | 6/30/05 | \$ 1,012,382 | \$ 1,411,419 | \$ (399,037) | 71.73% | \$ 656,255 | (60.81)% |
| | 6/30/04 | \$ 913,845 | \$ 1,186,159 | \$ (272,314) | 77.04% | \$ 625,284 | (43.55)% |
| | 6/30/03 | \$ 827,244 | \$ 949,503 | \$ (122,259) | 87.12% | \$ 467,736 | (26.14)% |
| Schedules of Employer Contributions | | | | | | | |
| City Employees | | | | | | | |
| | 6/30/08 | | \$ 547,466 | | 100.00% | | \$ - |
| | 6/30/07 | | \$ 464,805 | | 100.00% | | \$ - |
| | 6/30/06 | | \$ 293,618 | | 100.00% | | \$ - |
| | 6/30/05 | | \$ 269,921 | | 100.00% | | \$ - |
| | 6/30/04 | | \$ 42,679 | | 100.00% | | \$ - |
| School Board Nonprofessional Employees | | | | | | | |
| | 6/30/08 | | \$ 44,884 | | 100.00% | | \$ - |
| | 6/30/07 | | \$ 44,504 | | 100.00% | | \$ - |
| | 6/30/06 | | \$ 52,528 | | 100.00% | | \$ - |
| | 6/30/05 | | \$ 50,132 | | 100.00% | | \$ - |
| | 6/30/04 | | \$ 46,677 | | 100.00% | | \$ - |

City of Poquoson, Virginia

Notes to Required Supplementary Information

June 30, 2008

Budgets and Budgetary Accounting

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

- At least 75 days prior to June 30, the City Manager submits to City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- The budget is formulated from estimates of revenues and expected expenditures from each department. The School Board is treated as a single expenditure line item.
- When the City Manager submits the proposed budget to City Council, he also recommends an appropriation ordinance and an ordinance levying the tax rates for the ensuing year.
- City Council then holds public hearings on the proposed budget. Notice of such public hearing must appear in a local newspaper not less than 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 recommended by the City Manager is automatically adopted.
- The City Manager is authorized to transfer budgeted amounts within departments. Transfers between departments and additional appropriations must be approved by City Council.

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

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

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

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

* * * * *

Other Supplementary Information

City of Poquoson, Virginia

Component Unit - School Board
Combining Balance Sheet

June 30, 2008

| Assets | Governmental Activities | | Total School Board |
|-----------------------------------|-------------------------|------------------|---------------------|
| | General | Special Revenue | |
| Cash and cash equivalents | \$ 2,514,082 | \$ 46,715 | \$ 2,560,797 |
| Due from other governmental units | 383,722 | 4,175 | 387,897 |
| Due from special revenue fund | 31,822 | - | 31,822 |
| Inventory | - | 13,013 | 13,013 |
| | <u>\$ 2,929,626</u> | <u>\$ 63,903</u> | <u>\$ 2,993,529</u> |
| Liabilities | | | |
| Vouchers and accounts payable | \$ 2,351,973 | \$ - | \$ 2,351,973 |
| Due to primary government | 126,537 | - | 126,537 |
| Due to general fund | - | 31,822 | 31,822 |
| Total liabilities | <u>2,478,510</u> | <u>31,822</u> | <u>2,510,332</u> |
| Fund Balances | | | |
| Reserved | | | |
| Encumbrances | 451,116 | - | 451,116 |
| Inventory | - | 13,013 | 13,013 |
| Unreserved | - | 19,068 | 19,068 |
| Total fund balances | <u>451,116</u> | <u>32,081</u> | <u>483,197</u> |
| | <u>\$ 2,929,626</u> | <u>\$ 63,903</u> | <u>\$ 2,993,529</u> |

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

| | |
|--|---------------------|
| Total fund balances - component unit - School Board | \$ 483,197 |
| Amounts reported for component unit activities in the Statement of Net Assets are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds, net of accumulated depreciation | 4,361,148 |
| Noncurrent liabilities are not due and payable in the current period and therefore are not reported in the funds. | (122,134) |
| Total net assets - component unit - School Board | <u>\$ 4,722,211</u> |

City of Poquoson, Virginia

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

Year Ended June 30, 2008

| | General Fund | Special Revenue | Total School Board |
|---|--------------------|--------------------|--------------------------|
| Revenues | | | |
| Charges for services | \$ - | \$ 597,329 | \$ 597,329 |
| Intergovernmental: | | | |
| Commonwealth of Virginia | 12,098,375 | 16,781 | 12,115,156 |
| Federal government | 968,516 | 63,521 | 1,032,037 |
| Miscellaneous | 291,426 | - | 291,426 |
| Total revenues | 13,358,317 | 677,631 | 14,035,948 |
| Expenditures | | | |
| Current | | | |
| Education | 21,358,171 | 767,810 | 22,125,981 |
| Capital outlays | 42,356 | - | 42,356 |
| Total expenditures | 21,400,527 | 767,810 | 22,168,337 |
| Deficiency of revenues over expenditures | (8,042,210) | (90,179) | (8,132,389) |
| Other financing sources (uses) | | | |
| Transfer from primary government | 8,274,000 | - | 8,274,000 |
| Transfer to primary government | (126,537) | - | (126,537) |
| Transfers in - school general fund | - | 120,569 | 120,569 |
| Transfers out - school special revenue fund | (120,569) | - | (120,569) |
| Transfers in - school special revenue fund | 31,822 | - | 31,822 |
| Transfers out - school general fund | - | (31,822) | (31,822) |
| Total other financing sources - net | 8,058,716 | 88,747 | 8,147,463 |
| Net change in fund balance | 16,506 | (1,432) | 15,074 |
| Fund balance - July 1, 2007 | 434,610 | 33,513 | 468,123 |
| Fund balance - June 30, 2008 | \$ 451,116 | \$ 32,081 | \$ 483,197 |

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

Net change in fund balances - total school board funds \$ 15,074

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

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

| | |
|------------------------------------|-----------|
| Capital outlays | 672,011 |
| Depreciation expense | (244,433) |
| Loss on disposal of capital assets | (76,396) |

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

17,923

Change in net assets of governmental activities \$ 384,179

City of Poquoson, Virginia

School Board
Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2008

| | General Fund | | | Variance with Final Budget Positive (Negative) |
|---|--------------------|-------------------|-------------------|--|
| | Original Budget | Final Budget | Actual | |
| Revenues | | | | |
| Intergovernmental | | | | |
| Commonwealth of Virginia | \$ 12,589,084 | \$12,592,084 | \$ 12,098,374 | \$ (493,710) |
| Federal government | 794,034 | 1,057,857 | 968,516 | (89,341) |
| Miscellaneous | 338,088 | 470,597 | 291,426 | (179,171) |
| Total revenues | 13,721,206 | 14,120,538 | 13,358,316 | (762,222) |
| Expenditures | | | | |
| Current | | | | |
| General and financial administration | 765,052 | 762,014 | 733,362 | 28,652 |
| Instruction | 14,209,369 | 14,577,453 | 13,811,199 | 766,254 |
| Attendance and health services | 258,328 | 256,827 | 251,322 | 5,505 |
| Pupil transportation | 729,221 | 764,481 | 804,087 | (39,606) |
| Operation and maintenance of school plants | 1,515,242 | 1,515,959 | 1,649,500 | (133,541) |
| Fixed charges | 4,402,362 | 4,403,122 | 4,167,562 | 235,560 |
| Capital outlay | 3,800 | 2,850 | - | 2,850 |
| Total expenditures | 21,883,374 | 22,282,706 | 21,417,032 | 865,674 |
| Other financing sources (uses) | | | | |
| Transfer from primary government | 8,274,000 | 8,274,000 | 8,274,000 | - |
| Transfer to primary government | - | - | (126,537) | (126,537) |
| Transfer out - special revenue fund | (111,832) | (111,832) | (120,569) | (8,737) |
| Transfer in -special revenue fund | - | - | 31,822 | 31,822 |
| Total other financing sources-net | 8,162,168 | 8,162,168 | 8,058,716 | (103,452) |
| Excess of revenue and other financing sources over (under) expenditures and other financing uses - budgetary basis | \$ - | \$ - | - | \$ - |
| Less - encumbrances outstanding June 30, 2007, actually expended as of June 30, 2008 | | | (434,610) | |
| Add - encumbrances outstanding June 30, 2008 | | | <u>451,116</u> | |
| Excess of revenue and other financing sources over (under) expenditures and other financing uses - GAAP basis | | | 16,506 | |
| Fund balance - June 30, 2007 | | | <u>434,610</u> | |
| Fund balance - June 30, 2008 | | | <u>\$ 451,116</u> | |

*City of Poquoson, Virginia**School Board**Schedule of Changes in Capital Assets by Function and Activity***Year Ended June 30, 2008**

| | Balance June 30, 2007 | Additions | Deductions | Balance June 30, 2008 |
|------------------------------------|----------------------------------|-------------------|-------------------|----------------------------------|
| Education | \$ 20,744,384 | \$ 672,010 | \$ 316,558 | \$ 21,099,836 |
| Less - accumulated depreciation | (8,594,584) | (458,138) | 240,162 | (8,812,560) |
| | <u>12,149,800</u> | <u>213,872</u> | <u>76,396</u> | <u>12,287,276</u> |
| Allocation of assets to City - net | (8,139,834) | 213,706 | - | (7,926,128) |
| | <u>\$ 4,009,966</u> | <u>\$ 427,578</u> | <u>\$ 76,396</u> | <u>\$ 4,361,148</u> |

*City of Poquoson, Virginia**Discretely Presented Component Unit - School Board
Combining Schedule of Changes in Assets and Liabilities - Agency Funds*

June 30, 2008

| | Balance | | | Balance |
|---------------------------|----------------------|--------------|--------------|----------------------|
| | June 30, 2007 | Additions | Deductions | June 30, 2008 |
| Assets | | | | |
| Cash and cash equivalents | \$ 419,491 | \$ 1,034,960 | \$ 1,016,206 | \$ 438,245 |
| Liabilities | | | | |
| Due to students | \$ 419,491 | \$ 1,034,960 | \$ 1,016,206 | \$ 438,245 |

*City of Poquoson, Virginia**Statement of Changes in Assets and Liabilities - Agency Funds***June 30, 2008**

| | Balance June 30, 2007 | Additions | Deductions | Balance June 30, 2008 |
|---------------------------|----------------------------------|------------------|-------------------|----------------------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 35,824 | \$ 1,541 | \$ - | \$ 37,365 |
| Liabilities | | | | |
| Amounts held for others | \$ 35,824 | \$ 1,541 | \$ - | \$ 37,365 |

*City of Poquoson, Virginia**Statement of Cash Flows - Component Unit -
Industrial Development Authority***Year Ended June 30, 2008****Cash flows from operating activities**

Received from customers and users \$ 34,735

Payments to suppliers for goods and services (5,498)

Net cash used in operating activities 29,237**Cash flows from noncapital financing activities**Transfers from other funds 110,000**Cash flows from capital and related financing activities**Interest paid on capital debt (110,958)**Net increase (decrease) in cash and investments** 28,279**Cash and investments - beginning of year** 33,817**Cash and investments - end of year** \$ 62,096**Reconciliation of operating income (loss) to net cash
from operating activities**

Operating loss \$ (14,450)

Adjustments

Depreciation and amortization 44,045

Changes in assets and liabilities:

Receivables - net (211)

Vouchers and accounts payable (147)**Net cash from operating activities** \$ 29,237**Supplemental schedule**

Noncash capital and investing activity:

Acquisition of capital assets with capital contributions \$ 679,074

Statistical Section

City of Poquoson, Virginia

Statistical Section Overview

June 30, 2008

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 - 6

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

Debt Capacity

Tables 7 - 10

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

Demographic and Economic Information

Tables 11 - 12

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

Operation Information

Tables 13 - 15

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

Sources: Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in fiscal year 2003; tables presenting information relating to GASB Statement 34 include information beginning in that year.

* * * * *

Table 1

City of Poquoson, Virginia

Net Assets by Component

| Last Six Fiscal Years | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Governmental activities | | | | | | |
| Invested in capital assets - net of related debt | \$ 12,045,582 | \$ 17,183,471 | \$ 10,104,292 | \$ 7,579,069 | \$ 6,026,883 | \$ 5,133,636 |
| Unrestricted | 9,164,683 | 3,057,158 | 5,044,143 | 5,765,548 | 4,925,489 | 4,959,729 |
| Total governmental activities | \$ 21,210,265 | \$ 20,240,629 | \$ 15,148,435 | \$ 13,344,617 | \$ 10,952,372 | \$ 10,093,365 |
| Business-type activities | | | | | | |
| Invested in capital assets - net of related debt | \$ 5,518,765 | \$ 5,516,767 | \$ 5,502,832 | \$ 5,164,685 | \$ 5,232,966 | \$ 4,693,016 |
| Restricted - debt service | - | - | - | - | - | 598,114 |
| Restricted - sewer improvements | - | - | - | - | 71,623 | - |
| Unrestricted | 1,454,510 | 1,808,221 | 1,690,392 | 1,854,439 | 1,459,144 | 1,704,131 |
| Total business-type activities | \$ 6,973,275 | \$ 7,324,988 | \$ 7,193,224 | \$ 7,019,124 | \$ 6,763,733 | \$ 6,995,261 |
| Primary government | | | | | | |
| Invested in capital assets - net of related debt | \$ 17,564,347 | \$ 22,700,238 | \$ 15,607,124 | \$ 12,743,754 | \$ 11,259,849 | \$ 9,826,652 |
| Restricted - debt service | - | - | - | - | - | 598,114 |
| Restricted - sewer improvements | - | - | - | - | 71,623 | - |
| Unrestricted | 10,619,193 | 4,865,379 | 6,734,535 | 7,619,987 | 6,384,633 | 6,663,860 |
| Total primary government | \$ 28,183,540 | \$ 27,565,617 | \$ 22,341,659 | \$ 20,363,741 | \$ 17,716,105 | \$ 17,088,626 |

Table 2

City of Poquoson, Virginia

Change in Net Assets

| Last Six Fiscal Years | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Expenses | | | | | | |
| Governmental activities | | | | | | |
| General government | \$ 1,415,530 | \$ 4,532,796 | \$ 2,379,161 | \$ 1,716,083 | \$ 1,449,410 | \$ 1,401,639 |
| Judicial | 278,201 | 226,198 | 238,689 | 180,184 | 277,307 | 247,161 |
| Public safety | 6,390,591 | 5,288,161 | 4,657,932 | 4,750,969 | 3,823,700 | 3,721,021 |
| Public works | 1,587,249 | 1,511,607 | 1,327,111 | 1,694,612 | 1,659,214 | 1,472,320 |
| Health and welfare | 1,081,767 | 862,689 | 821,356 | 840,310 | 650,092 | 605,334 |
| Education | 8,405,003 | 8,126,211 | 7,426,666 | 7,087,769 | 6,965,522 | 6,459,434 |
| Parks and recreation | 1,249,535 | 18,006 | 1,030,174 | 1,343,537 | 839,537 | 775,359 |
| Community development | 2,327,008 | 1,081,786 | 817,214 | 563,788 | 636,477 | 514,618 |
| Interest on long-term debt | 1,399,427 | 1,246,037 | 462,508 | 500,461 | 525,850 | 561,580 |
| Nondepartmental | - | - | - | 130,551 | 120,404 | 78,826 |
| Total governmental activities | 24,134,311 | 22,893,491 | 19,160,811 | 18,808,264 | 16,947,513 | 15,837,292 |
| Business-type activities: | | | | | | |
| Sewer | 1,604,560 | 1,596,599 | 1,554,446 | 1,537,870 | 1,609,179 | 1,657,238 |
| Parks and recreation | 463,668 | 473,754 | 587,701 | 545,799 | 524,504 | 543,327 |
| Solid waste | 904,411 | 595,209 | 528,325 | 475,269 | 446,172 | 430,223 |
| Total business-type activities | 2,972,639 | 2,665,562 | 2,670,472 | 2,558,938 | 2,579,855 | 2,630,788 |
| Total expenses | \$ 27,106,950 | \$ 25,559,053 | \$ 21,831,283 | \$ 21,367,202 | \$ 19,527,368 | \$ 18,468,080 |
| Program revenue | | | | | | |
| Governmental activities: | | | | | | |
| Charges for services: | | | | | | |
| General government | \$ 157,130 | \$ 100,055 | \$ 104,747 | \$ 100,546 | \$ 92,864 | \$ - |
| Judicial | 38,135 | 72,482 | 36,268 | 29,008 | 23,955 | 23,373 |
| Public safety | 64,317 | 113,360 | 127,129 | 89,488 | 71,666 | 81,729 |
| Education | - | - | - | - | 21,800 | 21,200 |
| Parks and recreation | 69,952 | 72,253 | 24,367 | 24,543 | 25,849 | 22,835 |
| Community development | 36,230 | 51,543 | 53,397 | - | 109,087 | 40,392 |
| Nondepartmental | - | - | - | - | - | 60,266 |
| Operating grants and contributions | 2,290,305 | 2,094,100 | 2,122,034 | 2,705,293 | 1,718,011 | 1,326,011 |
| Capital grants and contributions | 1,745,973 | 1,260,858 | 342,400 | 1,187,904 | 193,425 | 694,324 |
| Total governmental activities | 4,402,042 | 3,764,651 | 2,810,342 | 4,136,782 | 2,256,657 | 2,270,130 |

Table 2

City of Poquoson, Virginia

Change in Net Assets

| Last Six Fiscal Years | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Business-type activities | | | | | | |
| Charges for services: | | | | | | |
| Sewer | 1,514,893 | 1,803,913 | 1,413,403 | 1,271,539 | 1,216,215 | 1,151,403 |
| Solid waste | 511,173 | 329,172 | 334,911 | 325,319 | 325,083 | 300,715 |
| Parks and recreation | 177,858 | 209,147 | 315,082 | 340,230 | 325,361 | 331,999 |
| Total business-type activities | 2,203,924 | 2,342,232 | 2,063,396 | 1,937,088 | 1,866,659 | 1,784,117 |
| Total program revenue | \$ 6,605,966 | \$ 6,106,883 | \$ 4,873,738 | \$ 6,073,870 | \$ 4,123,316 | \$ 4,054,247 |
| Governmental activities net expense | \$(19,732,269) | \$(19,128,840) | \$(16,350,469) | \$(14,671,482) | \$(14,690,856) | \$(13,567,162) |
| Business-type activities net expense | (768,715) | (323,330) | (607,076) | (621,850) | (713,196) | (846,671) |
| Total primary government net expense | \$(20,500,984) | \$(19,452,170) | \$(16,957,545) | \$(15,293,332) | \$(15,404,052) | \$(14,413,833) |
| General revenues and other changes in net assets | | | | | | |
| Governmental activities | | | | | | |
| Taxes: | | | | | | |
| Property taxes | \$ 15,956,711 | \$ 15,636,708 | \$ 13,053,028 | \$ 12,489,445 | \$ 11,135,298 | \$ 10,796,813 |
| Other taxes | 2,613,196 | 2,541,189 | 2,792,592 | 2,635,723 | 2,524,964 | 2,442,485 |
| Reimbursements from other agencies | 1,367,713 | 1,970,935 | 2,035,707 | 1,830,047 | 2,012,657 | 1,669,092 |
| Investment earnings | 728,606 | 1,085,397 | 415,638 | 119,801 | - | 52,492 |
| Miscellaneous | 294,109 | 146,900 | 75,005 | 116,511 | 83,401 | 67,633 |
| Transfers | (258,430) | (270,005) | (217,683) | (127,800) | (102,200) | (74,000) |
| Total governmental activities | 20,701,905 | 21,111,124 | 18,154,287 | 17,063,727 | 15,654,120 | 14,954,515 |

Table 2

City of Poquoson, Virginia

Change in Net Assets

| Last Six Fiscal Years | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Business-type activities | | | | | | |
| Investment earnings | 37,001 | 37,913 | 23,393 | 23,888 | 39,559 | 84,824 |
| Miscellaneous | 167,035 | 147,176 | 540,100 | 725,553 | 339,909 | 318,936 |
| Loss on disposal of capital assets | (45,464) | - | - | - | - | - |
| Transfers | 258,430 | 270,005 | 217,683 | 127,800 | 102,200 | 74,000 |
| Total business-type activities | 417,002 | 455,094 | 781,176 | 877,241 | 481,668 | 477,760 |
| Total general revenues and other changes in net assets | \$ 21,118,907 | \$ 21,566,218 | \$ 18,935,463 | \$ 17,940,968 | \$ 16,135,788 | \$ 15,432,275 |
| Extraordinary item | | | | | | |
| Governmental activities | | | | | | |
| Hurricane Isabel | \$ - | \$ - | \$ - | \$ - | \$ (104,257) | \$ - |
| Change in net assets | | | | | | |
| Governmental activities | \$ 969,636 | \$ 1,982,284 | \$ 1,803,818 | \$ 2,392,245 | \$ 859,007 | \$ 1,387,353 |
| Business-type activities | (351,713) | 131,764 | 174,100 | 255,391 | (231,528) | (368,911) |
| Total primary government | \$ 617,923 | \$ 2,114,048 | \$ 1,977,918 | \$ 2,647,636 | \$ 627,479 | \$ 1,018,442 |

City of Poquoson, Virginia

Fund Balances - Governmental Funds

| Last Ten Fiscal Years | | | | | | | | | | |
|---|---------------------|----------------------|----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
| General fund | | | | | | | | | | |
| Reserved for | | | | | | | | | | |
| Encumbrances | \$ 366,165 | \$ 180,562 | \$ 125,336 | \$ 71,459 | \$ 125,653 | \$ 114,656 | \$ 110,644 | \$ 149,263 | \$ 104,141 | \$ 79,098 |
| Unreserved for | | | | | | | | | | |
| Unreserved and undesignated | 3,571,770 | 4,858,261 | 4,550,535 | 4,764,304 | 4,015,477 | 4,239,425 | 3,861,831 | 3,946,030 | 3,957,859 | 4,058,440 |
| Total general fund | \$ 3,937,935 | \$ 5,038,823 | \$ 4,675,871 | \$ 4,835,763 | \$ 4,141,130 | \$ 4,354,081 | \$ 3,972,475 | \$ 4,095,293 | \$ 4,062,000 | \$ 4,137,538 |
| All other governmental funds | | | | | | | | | | |
| Reserved for | | | | | | | | | | |
| Purchase of fire truck | \$ - | \$ - | \$ - | \$ 339,000 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Grants | 27,168 | 9,738 | (73,569) | 52,055 | - | - | - | - | - | - |
| Construction - bond principal | 4,244,577 | 16,196,290 | 13,433,589 | - | - | - | - | - | - | - |
| Construction - bond earnings | - | 82,801 | 318,938 | - | - | - | - | - | - | - |
| Encumbrances | - | - | - | - | - | - | 221,203 | 457,695 | 22,268 | 249,401 |
| Unreserved, reported in | | | | | | | | | | |
| Capital projects fund | 1,203,324 | 327,503 | 1,273,130 | 747,677 | 1,024,626 | 767,291 | 628,969 | (34,009) | 170,486 | 714,685 |
| Debt service fund | 258,724 | 385,137 | 80,000 | - | - | - | - | - | - | - |
| Total all other governmental funds | \$ 5,733,793 | \$ 17,001,469 | \$ 15,032,088 | \$ 1,138,732 | \$ 1,024,626 | \$ 767,291 | \$ 850,172 | \$ 423,686 | \$ 192,754 | \$ 964,086 |

City of Poquoson, Virginia

Changes in Fund Balances - Governmental Funds

| Last Ten Fiscal Years | | | | | | | | | | |
|---|---------------------|--------------------|-------------------|-------------------|-------------------|--------------------|-------------------|--------------------|--------------------|--------------------|
| | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
| Revenues | | | | | | | | | | |
| General property taxes | \$ 16,127,168 | \$ 15,562,860 | \$ 13,012,958 | \$ 12,488,453 | \$ 11,226,560 | \$ 10,859,951 | \$ 9,716,038 | \$ 9,921,498 | \$ 9,247,685 | \$ 9,364,276 |
| Other local taxes | 2,613,195 | 2,541,189 | 2,792,592 | 2,635,722 | 2,524,964 | 2,442,485 | 2,402,784 | 1,984,354 | 1,890,427 | 1,825,575 |
| Permits, privilege fees and regulatory licenses | 98,233 | 162,218 | 173,401 | 172,455 | 173,525 | 116,843 | 144,907 | 108,412 | 100,194 | 107,561 |
| Fines and forfeitures | 38,201 | 73,942 | 37,283 | 30,583 | 24,605 | 27,970 | 22,596 | 25,448 | 35,957 | 36,062 |
| Revenue from use of money and property | 825,346 | 1,171,832 | 503,615 | 202,548 | 58,937 | 132,706 | 120,990 | 226,465 | 208,543 | 307,177 |
| Charges for services | 71,505 | 72,749 | 29,694 | 30,318 | 31,740 | 23,132 | 29,069 | 28,980 | 28,360 | 27,891 |
| Intergovernmental | 6,017,329 | 5,389,676 | 4,898,316 | 5,324,277 | 3,694,854 | 3,670,215 | 3,540,724 | 2,915,842 | 2,255,909 | 1,680,022 |
| Miscellaneous | 320,188 | 94,093 | 37,381 | 93,385 | 369,054 | 88,481 | 24,817 | 45,138 | 22,710 | 78,002 |
| Total revenues | 26,111,165 | 25,068,559 | 21,485,240 | 20,977,741 | 18,104,239 | 17,361,783 | 16,001,925 | 15,256,137 | 13,789,785 | 13,426,566 |
| Expenditures | | | | | | | | | | |
| Current | | | | | | | | | | |
| General government and administration | 2,018,674 | 1,938,236 | 1,754,223 | 1,543,930 | 1,330,271 | 1,273,661 | 1,257,684 | 1,172,028 | 1,149,086 | 1,059,567 |
| Public safety and judicial | 5,952,162 | 5,235,778 | 4,857,162 | 4,440,330 | 4,007,945 | 3,774,685 | 3,284,029 | 3,092,622 | 2,943,894 | 2,708,722 |
| Public works | 1,503,219 | 1,428,384 | 1,232,132 | 1,284,108 | 1,125,448 | 1,013,082 | 1,025,194 | 889,179 | 983,878 | 868,873 |
| Health and welfare | 1,067,418 | 843,523 | 802,295 | 819,499 | 657,485 | 601,282 | 447,294 | 464,380 | 448,376 | 440,107 |
| Parks, recreation, and cultural | 1,175,226 | 1,034,306 | 935,543 | 830,797 | 763,681 | 763,866 | 720,466 | 730,150 | 663,220 | 637,317 |
| Community development | 2,222,658 | 1,544,499 | 640,718 | 507,520 | 535,757 | 452,374 | 449,777 | 258,403 | 262,813 | 244,481 |
| Nondepartmental | 218,133 | 173,643 | 140,315 | 127,144 | 115,105 | 78,254 | 42,271 | 35,366 | 44,668 | 45,541 |
| Education | 8,147,463 | 7,880,000 | 7,555,104 | 7,311,063 | 6,728,536 | 6,901,085 | 6,696,939 | 6,981,148 | 5,850,281 | 5,437,111 |
| Industrial Development Authority | 110,000 | 123,861 | 147,530 | 59,900 | 95,000 | - | - | - | - | - |
| Capital outlays | 14,035,793 | 8,460,299 | 2,447,596 | 2,338,525 | 986,129 | 993,632 | 1,266,450 | 1,558,824 | 1,414,003 | 3,681,307 |
| Debt service | | | | | | | | | | |
| Principal retirement | 1,495,455 | 1,092,106 | 1,058,843 | 1,066,793 | 983,418 | 4,320,579 | 987,099 | 855,248 | 812,159 | 506,618 |
| Bond issuance costs | - | - | - | 500 | 2,000 | 17,300 | - | - | - | - |
| Interest and fiscal charges | 1,258,222 | 1,038,815 | 462,632 | 497,733 | 522,623 | 595,909 | 610,220 | 591,570 | 601,314 | 856,255 |
| Total expenditures | 39,204,423 | 30,793,450 | 22,034,093 | 20,827,842 | 17,853,398 | 20,785,709 | 16,787,423 | 16,628,918 | 15,173,692 | 16,485,899 |
| Excess (deficiency) of revenue over expenditures | (13,093,258) | (5,724,891) | (548,853) | 149,899 | 250,841 | (3,423,926) | (785,498) | (1,372,781) | (1,383,907) | (3,059,333) |

City of Poquoson, Virginia

Changes in Fund Balances - Governmental Funds

| Last Ten Fiscal Years | | | | | | | | | | |
|--|-----------------------|---------------------|----------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|---------------------|
| | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
| Other financing sources (uses) | | | | | | | | | | |
| Transfers from: | | | | | | | | | | |
| Capital projects | 97,690 | - | - | - | - | - | - | - | - | - |
| School Board | 318,610 | 327,417 | - | 437,000 | - | 441,651 | 662,208 | 547,963 | 531,037 | 489,166 |
| Sewer | 130,000 | 130,000 | 150,000 | 153,000 | 151,800 | 149,000 | 145,260 | 142,000 | 140,000 | 136,000 |
| General | 3,924,469 | 3,284,381 | 2,766,679 | 2,009,776 | 1,964,421 | - | - | - | - | - |
| Issuance of debt | 664,414 | 8,000,000 | 14,500,000 | 349,640 | - | 3,405,000 | 597,000 | 1,572,428 | - | 1,941,388 |
| Transfers to: | | | | | | | | | | |
| Debt service | (2,482,454) | (2,427,570) | (1,601,475) | (1,565,026) | (1,508,041) | - | - | - | - | - |
| Grant | (41,781) | (98,631) | - | - | - | - | - | - | - | - |
| General | (97,690) | - | - | - | - | - | - | - | - | - |
| Industrial Development Authority | - | - | - | - | - | (50,000) | (55,000) | (460,345) | - | - |
| Sewer | - | (18,337) | - | - | - | - | (4,337) | - | - | - |
| Fleet | - | (188) | - | - | - | - | (4,637) | - | - | - |
| Capital projects | (765,000) | (758,180) | (1,165,204) | (444,750) | (456,380) | - | - | - | - | - |
| Facilities Improvement | (635,234) | - | - | - | - | - | - | - | - | - |
| Parks and recreation | (131,010) | (116,046) | (184,350) | (83,600) | (56,000) | (25,000) | (28,149) | (27,040) | - | (10,160) |
| Solid waste | (257,420) | (265,622) | (183,333) | (197,200) | (198,000) | (198,000) | (194,277) | (138,000) | (134,000) | (129,000) |
| Total other financing sources (uses) | 724,594 | 8,057,224 | 14,282,317 | 658,840 | (102,200) | 3,722,651 | 1,118,068 | 1,637,006 | 537,037 | 2,427,394 |
| Net change in fund balances before extraordinary item | \$(12,368,664) | \$ 2,332,333 | \$ 13,733,464 | \$ 808,739 | \$ 148,641 | \$ 298,725 | \$ 332,570 | \$ 264,225 | \$ (846,870) | \$ (631,939) |
| Extraordinary item-Hurricane Isabel | | | | | | | | | | |
| Revenues | - | - | - | - | 2,693,258 | - | - | - | - | - |
| Expenditures | - | - | - | - | (2,797,515) | - | - | - | - | - |
| Total extraordinary item - Hurricane Isabel | - | - | - | - | (104,257) | - | - | - | - | - |
| Net change in fund balances | \$(12,368,664) | \$ 2,332,333 | \$ 13,733,464 | \$ 808,739 | \$ 44,384 | \$ 298,725 | \$ 332,570 | \$ 264,225 | \$ (846,870) | \$ (631,939) |
| Debt service as a percentage of noncapital expenditures | 11.23% | 9.73% | 9.78% | 8.50% | 9.28% | 24.98% | 10.14% | 9.53% | 10.09% | 10.25% |

City of Poquoson, Virginia

Assessed Value and Estimated Actual Value of Taxable Real Property

| Last Ten Fiscal Years | | | | | | | | |
|------------------------------|----------------------|--------------------------------|-----------------------|------------------------------|---------------------|-----------------------|--------------------------------|--|
| Fiscal Year | Residential Property | Commercial/Industrial Property | Agricultural Property | Total Taxable Assessed Value | Tax Exempt Property | Total Direct Tax Rate | Estimated Actual Taxable Value | Assessed Value as a Percentage of Actual Value |
| 2008 | \$1,577,324,400 | \$ 97,776,982 | \$ 3,227,800 | \$1,678,329,182 | \$ 81,410,750 | \$0.81 | \$1,730,236,270 | 97% |
| 2007 | \$1,543,797,900 | \$ 90,461,496 | \$ 3,227,800 | \$1,637,487,196 | \$ 80,948,613 | \$0.81 | \$1,817,410,872 | 90% |
| 2006 | \$ 955,801,900 | \$ 79,069,841 | \$ 2,431,400 | \$1,037,303,141 | \$ 71,268,800 | \$1.06 | \$1,548,213,643 | 67% |
| 2005 | \$ 933,021,200 | \$ 79,555,306 | \$ 2,425,800 | \$1,015,002,306 | \$ 71,118,562 | \$1.06 | \$1,318,184,813 | 77% |
| 2004 | \$ 772,269,200 | \$ 73,015,935 | \$ 1,998,600 | \$ 847,283,735 | \$ 63,679,146 | \$1.12 | \$ 901,365,676 | 94% |
| 2003 | \$ 755,651,100 | \$ 69,944,736 | \$ 2,008,300 | \$ 827,604,136 | \$ 59,679,816 | \$1.12 | \$ 962,330,391 | 86% |
| 2002 | \$ 677,825,700 | \$ 69,359,197 | \$ 1,836,400 | \$ 749,021,297 | \$ 54,070,535 | \$1.12 | \$ 851,160,565 | 88% |
| 2001 | \$ 677,062,200 | \$ 57,394,386 | \$ 2,253,800 | \$ 736,710,386 | \$ 52,326,710 | \$1.12 | \$ 775,484,617 | 95% |
| 2000 | \$ 611,512,900 | \$ 48,437,685 | \$ 1,179,500 | \$ 661,130,085 | \$ 49,084,235 | \$1.12 | \$ 718,619,658 | 92% |
| 1999 | \$ 599,391,000 | \$ 45,954,131 | \$ 1,308,800 | \$ 646,653,931 | \$ 47,968,293 | \$1.12 | \$ 673,597,845 | 96% |

Source: Commissioner of the Revenue and City Assessor

City of Poquoson, Virginia

Property Tax Levies and Collections

Last Nine Fiscal Years

| Fiscal Year | Net Taxes levied for fiscal year (Original Levy) | Subsequent Year Adjustments | Taxes levied for fiscal year | Collected within the fiscal year of the levy | | Collections in subsequent years | Total collected to date | |
|-------------|--|-----------------------------|------------------------------|--|-----------------|---------------------------------|-------------------------|--------------------|
| | | | | Amount | Percent of Levy | | Amount | Percentage of levy |
| 2008 | \$ 13,330,523 | \$ - | \$ 13,330,523 | \$ 13,186,765 | 98.92% | \$ - | \$ 13,186,765 | 98.92% |
| 2007 | \$ 13,075,301 | \$ 1,014 | \$ 13,076,315 | \$ 12,941,290 | 98.98% | \$ 91,279 | \$ 13,032,569 | 99.67% |
| 2006 | \$ 10,831,249 | \$ 3,096 | \$ 10,834,345 | \$ 10,643,194 | 98.26% | \$ 174,161 | \$ 10,817,355 | 99.84% |
| 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% | \$ 151,505 | \$ 9,255,772 | 99.90% |
| 2003 | \$ 9,178,628 | \$ (276) | \$ 9,178,352 | \$ 8,964,109 | 97.66% | \$ 207,855 | \$ 9,171,964 | 99.93% |
| 2002 | \$ 8,227,541 | \$ 40 | \$ 8,227,581 | \$ 7,988,231 | 97.09% | \$ 231,774 | \$ 8,220,005 | 99.91% |
| 2001 | \$ 8,104,735 | \$ 84 | \$ 8,104,819 | \$ 7,882,281 | 97.26% | \$ 214,023 | \$ 8,096,304 | 99.89% |
| 2000 | \$ 7,272,754 | \$ 347 | \$ 7,273,101 | \$ 7,094,200 | 97.54% | \$ 172,027 | \$ 7,266,227 | 99.91% |

Source: City Treasurer's Department

Property tax levies and collections amounts for fiscal years prior to 2000 are not available in this format.

Table 7

City of Poquoson, Virginia

Principal Taxpayers - 2008 and Nine Years Ago

| Years Ended June 30, | | 2008 | | 1999 | |
|---|---------------------------|--------------------------------|--|--------------------------------|--|
| Taxpayer | Type of Business | Assessed Valuation Real Estate | Percentage of Total Real Estate Assessment | Assessed Valuation Real Estate | Percentage of Total Real Estate Assessment |
| Poquoson Place Apartments | Apartment Rentals | \$ 8,096,800 | 0.48% | \$ 6,419,200 | 1.09% |
| Poquoson Commons Retail Investors, Inc. | Shopping Center | 7,907,600 | 0.47% | - | - |
| Poquoson Marina Associates | Marina / Mobile Home Park | 6,367,200 | 0.38% | - | - |
| Poquoson Shopping Center, L.L.C. | Shopping Center | 4,139,400 | 0.25% | - | - |
| SGC Wythe Creek L.L.C. | Shopping Center | 3,883,800 | 0.23% | - | - |
| GPH Poquoson L.L.C. | Nursing Home | 3,028,200 | 0.18% | - | - |
| Universal of Poquoson | Mobile Home Park | 3,020,400 | 0.18% | 1,840,300 | 0.31% |
| Islander Associates | Apartment Rentals | 3,012,200 | 0.18% | 2,326,900 | 0.40% |
| Hunt Properties of Poquoson Inc. | Storage Facilities | 2,760,300 | 0.16% | - | - |
| Wachovia Bank | Financial Institution | 2,291,400 | 0.14% | 1,402,600 | 0.24% |
| Carl B. Johnson | Shopping Center | - | - | 2,699,900 | 0.46% |
| Vantage Healthcare Corporation | Nursing Home | - | - | 1,943,400 | 0.33% |
| Carematrix of Dominion Village | Nursing Home | - | - | 1,680,500 | 0.29% |
| Suburban Land Company | Shopping Center | - | - | 3,140,000 | 0.54% |
| Langley Federal Credit Union | Financial Institution | - | - | 1,248,100 | 0.21% |
| David A. Carpenter | Mobile Home Park/Marina | - | - | 1,209,800 | 0.21% |
| | | <u>\$ 44,507,300</u> | <u>2.65%</u> | <u>\$ 23,910,700</u> | <u>4.08%</u> |

Source: Commissioner of the Revenue

City of Poquoson, Virginia

Computation of Legal Debt Margin

| Last Ten Fiscal Years | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
|--|------------------------|------------------------|------------------------|------------------------|-----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Total assessed value of taxed real property | | | | | | | | | | |
| General | \$1,662,716,070 | \$1,627,336,017 | \$1,025,497,078 | \$1,002,511,357 | \$ 832,002,644 | \$814,646,831 | \$732,405,108 | \$721,546,098 | \$647,091,321 | \$634,147,446 |
| Public service corporations | 15,613,112 | 10,151,179 | 11,806,063 | 12,490,949 | 15,281,091 | 12,957,305 | 16,616,189 | 15,164,288 | 14,038,764 | 12,506,485 |
| Total | \$1,678,329,182 | \$1,637,487,196 | \$1,037,303,141 | \$1,015,002,306 | \$ 847,283,735 | \$827,604,136 | \$749,021,297 | \$736,710,386 | \$661,130,085 | \$646,653,931 |
| Debt limit (10% of total assessed value) | \$ 167,832,918 | \$ 163,748,720 | \$ 103,730,314 | \$ 101,500,231 | \$ 84,728,374 | \$ 82,760,414 | \$ 74,902,130 | \$ 73,671,039 | \$ 66,113,009 | \$ 64,665,393 |
| Debt applicable to debt limit | | | | | | | | | | |
| General obligation bonds, other than those authorized for a specific revenue producing project | 27,460,783 | 28,341,971 | 20,966,951 | 7,060,912 | 7,645,953 | 8,189,853 | 8,455,597 | 8,385,678 | 7,192,080 | 7,527,821 |
| Capital leases | 978,046 | 525,899 | 591,024 | 653,906 | - | - | - | - | - | - |
| Sewer general obligation bonds | 10,508,638 | 11,280,327 | 12,049,089 | 12,791,016 | 13,506,624 | 14,131,490 | 14,779,335 | 13,108,140 | 8,699,313 | 4,052,084 |
| State literary fund loans | 3,165,820 | 3,567,820 | 3,969,820 | 4,371,820 | 4,811,338 | 5,250,856 | 5,690,374 | 6,150,392 | 6,626,810 | 7,103,228 |
| | 42,113,287 | 43,716,017 | 37,576,884 | 24,877,654 | 25,963,915 | 27,572,199 | 28,925,306 | 27,644,210 | 22,518,203 | 18,683,133 |
| Margin for additional borrowing | \$ 125,719,631 | \$ 120,032,703 | \$ 66,153,430 | \$ 76,622,577 | \$ 58,764,459 | \$ 55,188,215 | \$ 45,976,824 | \$ 46,026,829 | \$ 43,594,806 | \$ 45,982,260 |
| Total net debt applicable to the limit as a percentage of debt limit | 25.09% | 26.70% | 36.23% | 24.51% | 30.64% | 33.32% | 38.62% | 37.52% | 34.06% | 28.89% |

City of Poquoson, Virginia

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

| Fiscal Year | Governmental Activities | | | Business-Type Activities | Total Primary Government | Median Household Income | Per Capita |
|-------------|--------------------------|--------------------|----------------|--------------------------|--------------------------|-------------------------|------------|
| | General Obligation Bonds | Term Loans Payable | Capital Leases | Sewer Bonds | | | |
| 2008 | \$ 27,460,783 | \$ 3,165,820 | \$ 978,046 | \$ 10,508,638 | \$ 42,113,287 | N/A | \$ 3,525 |
| 2007 | \$ 28,341,971 | \$ 3,567,820 | \$ 525,899 | \$ 11,280,327 | \$ 43,716,017 | N/A | \$ 3,659 |
| 2006 | \$ 20,966,951 | \$ 3,969,820 | \$ 591,024 | \$ 12,049,089 | \$ 37,576,884 | N/A | \$ 3,167 |
| 2005 | \$ 7,060,912 | \$ 4,371,820 | \$ 653,906 | \$ 12,791,016 | \$ 24,877,654 | \$ 71,435 | \$ 2,115 |
| 2004 | \$ 7,645,953 | \$ 4,811,338 | \$ - | \$ 13,506,624 | \$ 25,963,915 | \$ 70,476 | \$ 2,219 |
| 2003 | \$ 8,189,853 | \$ 5,250,856 | \$ - | \$ 14,131,490 | \$ 27,572,199 | \$ 67,664 | \$ 2,398 |
| 2002 | \$ 8,455,597 | \$ 5,690,374 | \$ - | \$ 14,779,335 | \$ 28,925,306 | \$ 66,985 | \$ 2,515 |
| 2001 | \$ 8,385,678 | \$ 6,150,392 | \$ - | \$ 13,108,140 | \$ 27,644,210 | \$ 64,011 | \$ 2,404 |
| 2000 | \$ 7,192,080 | \$ 6,626,810 | \$ - | \$ 8,699,313 | \$ 22,518,203 | \$ 63,329 | \$ 1,947 |
| 1999 | \$ 7,527,821 | \$ 7,103,228 | \$ - | \$ 4,539,591 | \$ 19,170,640 | \$ 60,568 | \$ 1,653 |

79

N/A = information not available

Source: Director of Finance

City of Poquoson, Virginia

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

Last Ten Fiscal Years

| <u>Fiscal Year</u> | <u>Population</u> | <u>Assessed Value</u> | <u>Net Bonded Debt (3)</u> | <u>Ratio of Net Bonded Debt to Assessed Value</u> | <u>Net Bonded Debt per Capita</u> |
|--------------------|-------------------|-----------------------|----------------------------|---|-----------------------------------|
| 2008 | 11,565 (1) | \$ 1,678,329,182 | \$ 31,604,649 | 1.88% | \$ 2,733 |
| 2007 | 11,566 (1) | \$ 1,637,487,196 | \$ 32,435,690 | 1.98% | \$ 2,804 |
| 2006 | 11,566 (1) | \$ 1,037,303,141 | \$ 11,027,795 | 1.06% | \$ 953 |
| 2005 | 11,566 (1) | \$ 1,015,002,306 | \$ 12,086,638 | 1.19% | \$ 1,045 |
| 2004 | 11,566 (1) | \$ 847,283,735 | \$ 12,457,291 | 1.47% | \$ 1,077 |
| 2003 | 11,566 (1) | \$ 827,604,136 | \$ 13,440,709 | 1.62% | \$ 1,162 |
| 2002 | 11,566 (1) | \$ 749,021,297 | \$ 14,145,971 | 1.89% | \$ 1,223 |
| 2001 | 11,566 (1) | \$ 736,710,386 | \$ 14,536,070 | 1.97% | \$ 1,257 |
| 2000 | 11,566 (1) | \$ 661,130,085 | \$ 13,818,890 | 2.09% | \$ 1,195 |
| 1999 | 11,005 (2) | \$ 646,653,931 | \$ 14,631,049 | 2.26% | \$ 1,329 |

08

- (1) Source: 2000 United States Census
- (2) Source: 1990 United States Census
- (3) Does not include Enterprise and Internal Service general obligation debt, which are retired through revenues of the related operations.

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

| <u>Fiscal Year</u> | <u>Population</u> | <u>Per Capita Income</u> | <u>School Enrollment (4)</u> | <u>Unemployment Rate</u> | |
|--------------------|-------------------|--------------------------|------------------------------|--------------------------|-----|
| 2008 | 11,948 (2) | N/A | 2,478 | 3.7% | (5) |
| 2007 | 11,948 (2) | N/A | 2,583 | 2.3% | (6) |
| 2006 | 11,865 (2) | \$ 41,656 (5) | 2,572 | 2.3% | (6) |
| 2005 | 11,764 (2) | \$ 36,964 (3) | 2,563 | 2.8% | (6) |
| 2004 | 11,700 (2) | \$ 35,917 (3) | 2,503 | 3.0% | (6) |
| 2003 | 11,500 (2) | \$ 33,139 (3) | 2,503 | 3.1% | (6) |
| 2002 | 11,500 (2) | \$ 31,673 (3) | 2,492 | 2.7% | (6) |
| 2001 | 11,500 (2) | \$ 30,261 (3) | 2,483 | 2.4% | (6) |
| 2000 | 11,566 (1) | \$ 28,797 (3) | 2,474 | 1.8% | (6) |
| 1999 | 11,600 (2) | \$ 26,817 (3) | 2,485 | 2.1% | (6) |

N/A = information not available

- (1) Source: 2000 United States Census
- (2) Source: Weldon Cooper Center for Public Service
- (3) Source: Weldon Cooper Center for Public Service combined amount for York County/Poquoson.
- (4) Source: Poquoson School Board. Data is September enrollment for each fiscal year.
- (5) Source: Virginia Economic Development Partnership
- (6) Source: Virginia Employment Commission

Table 12

*City of Poquoson, Virginia**Principal Employers in Poquoson - 2008 and Nine Years Ago*

| Years Ended June 30, Employment | 2008 | | | 1999 | | |
|------------------------------------|------------------------|---------|---|------------------------|---------|---|
| | Number of Employees | Ranking | Percentage of Total City Employment | Number of Employees | Ranking | Percentage of Total City Employment |
| Poquoson City Public Schools | 348 | 1 | 16.96% | 276 | 1 | 16.64% |
| City of Poquoson | 157 | 2 | 7.65% | 122 | 2 | 7.35% |
| Farm Fresh | 82 | 3 | 4.00% | 75 | 3 | 4.52% |
| Gnsc Poquoson L.L.C. | 54 | 4 | 2.63% | 54 | 4 | 3.25% |
| Food Lion | 51 | 5 | 2.49% | 45 | 6 | 2.71% |
| McDonald's Restaurant | 50 | 6 | 2.44% | 20 | 7 | 1.21% |
| Village Williamsburg | 46 | 7 | 2.24% | 46 | 5 | 2.77% |
| Pizza Hut | 40 | 8 | 1.95% | - | - | - |
| Unity Business Systems | 27 | 9 | 1.32% | - | - | - |
| Stephen's Office Supply | 27 | 10 | 1.32% | 18 | 8 | 1.08% |
| | <u>882</u> | | <u>42.98%</u> | <u>656</u> | | <u>39.54%</u> |

Source: Department of Economic Development and Public Relations

City of Poquoson

Full-time Equivalent City Government Employees by Function/Program

| Last Ten Fiscal Years | | | | | | | | | | |
|------------------------------|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Function/Program | Full-time Equivalent Employees as of June 30 | | | | | | | | | |
| | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
| General government | | | | | | | | | | |
| Management services | 14.20 | 14.20 | 12.60 | 12.00 | 11.50 | 10.50 | 9.70 | 9.30 | 8.70 | 9.35 |
| Finance | 8.00 | 8.00 | 8.00 | 7.50 | 7.20 | 7.20 | 7.20 | 7.20 | 7.20 | 7.30 |
| Planning | 5.45 | 5.45 | 5.45 | 3.60 | 3.60 | 3.70 | 3.70 | 3.30 | 2.70 | 2.70 |
| Building | 4.00 | 4.00 | 4.00 | 3.10 | 2.10 | 2.25 | 2.50 | 2.50 | 2.50 | 2.50 |
| Other | 2.10 | 2.10 | 2.10 | 2.10 | 2.10 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 |
| Police | | | | | | | | | | |
| Officers | 22.50 | 22.50 | 22.50 | 20.50 | 20.50 | 20.90 | 20.90 | 21.25 | 21.25 | 18.75 |
| Civilians | 6.50 | 6.50 | 6.50 | 6.50 | 6.10 | 5.75 | 5.75 | 6.75 | 6.75 | 6.75 |
| Fire | | | | | | | | | | |
| Firefighters and officers | 29.00 | 28.00 | 26.00 | 26.00 | 26.00 | 26.00 | 22.00 | 22.50 | 22.50 | 21.50 |
| Civilians | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Refuse collection | 2.50 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| Other public works | 15.00 | 14.50 | 14.50 | 14.50 | 14.50 | 14.50 | 14.50 | 13.50 | 13.50 | 13.50 |
| Engineering | 1.00 | 1.00 | 1.00 | 2.85 | 2.85 | 2.75 | 2.75 | 3.75 | 3.75 | 3.75 |
| Other | 3.00 | 2.40 | 2.00 | 2.00 | 2.10 | 2.10 | 2.10 | 2.10 | 2.00 | 2.00 |
| Fleet | 4.50 | 4.50 | 4.60 | 4.60 | 4.75 | 5.00 | 5.00 | 5.00 | 5.00 | 4.80 |
| Parks and recreation | 13.50 | 13.50 | 15.70 | 13.50 | 13.50 | 14.00 | 14.00 | 12.40 | 12.00 | 11.50 |
| Library | 11.95 | 11.45 | 11.45 | 10.45 | 10.45 | 10.45 | 9.95 | 9.95 | 9.95 | 9.75 |
| Wastewater | 4.00 | 4.00 | 4.00 | 4.00 | 3.50 | 3.50 | 3.50 | 3.00 | 3.00 | 2.50 |
| Total | 148.20 | 146.10 | 144.40 | 137.20 | 134.75 | 134.60 | 128.55 | 127.50 | 125.80 | 121.65 |

83

Source: Department of Finance

City of Poquoson, Virginia

Operating Indicators by Function/Program

| Last Ten Fiscal Years | | | | | | | | | | |
|--------------------------------------|-------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Function/Program | Fiscal Year | | | | | | | | | |
| | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
| Police (1) | | | | | | | | | | |
| Physical arrests | 410 | 379 | 444 | 412 | 350 | 482 | 438 | 778 | 493 | 545 |
| Parking violations | 8 | 71 | N/A |
| Traffic violations | 804 | 1,041 | 550 | 712 | 468 | 701 | 762 | 795 | 1,075 | 1,415 |
| Fire (2) | | | | | | | | | | |
| Emergency responses | 1,362 | 1,687 | 1,466 | 1,194 | 1,106 | 1,127 | 1,055 | 1,183 | 1,183 | 1,096 |
| Fires extinguished | 38 | 35 | 52 | 85 | 180 | 76 | 85 | 63 | 63 | 165 |
| Inspections | 31 | 41 | 23 | 12 | 12 | 12 | 12 | 10 | 10 | 10 |
| Refuse collection (3) | | | | | | | | | | |
| Refuse collected (tons per day) | 2,160 | 1,663 | 1,603 | 1,610 | 1,604 | 1,646 | 1,550 | 1,535 | 1,573 | 1,606 |
| Recyclables collected (tons per day) | 1,490 | 1,445 | 1,484 | 1,312 | 1,578 | 1,396 | 1,174 | 1,153 | 1,230 | 1,205 |
| Other public works (3) | | | | | | | | | | |
| Street resurfacing (tons) | 3,910 | 4,943 | 3,620 | 3,019 | 2,737 | 2,536 | 3,409 | 4,725 | 5,900 | 4,725 |
| Library (4) | | | | | | | | | | |
| Volumes in collection | 58,266 | 58,401 | 57,196 | 53,856 | 52,644 | 51,684 | 50,755 | 47,496 | 42,703 | 40,141 |
| Total volumes borrowed | 208,534 | 193,354 | 190,000 | 181,360 | 179,276 | 197,299 | 189,127 | 186,450 | 193,785 | 218,590 |
| Wastewater (5) | | | | | | | | | | |
| Sewer connections | 4,871 | 4,790 | 4,649 | 4,544 | 4,494 | 4,440 | 4,200 | 3,881 | 3,907 | 3,740 |

N/A = information not available

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

City of Poquoson, Virginia

Capital Asset Statistics by Function/Program

Last Ten Fiscal Years

| Function/Program | Fiscal Year | | | | | | | | | |
|----------------------------|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
| Police (1) | | | | | | | | | | |
| Stations | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Patrol units | 23 | 23 | 23 | 21 | 21 | 20.9 | 21 | 21 | 21 | 19 |
| Fire stations (2) | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 1 | 1 |
| Refuse collection (3) | | | | | | | | | | |
| Collection trucks | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Other public works (5) | | | | | | | | | | |
| Street (miles) | 53.16 | 53.16 | 53.16 | 52.88 | 51.95 | 51.76 | 51.76 | 51.76 | 51.76 | 51.76 |
| Streetlights | 552 | 542 | 542 | 507 | 502 | 495 | 477 | 404 | 392 | 386 |
| Traffic signals | 4 | 4 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Park and recreation (4) | | | | | | | | | | |
| Acreage | 48 | 46 | 39 | 38 | 31 | 31 | 31 | 31 | 31 | 31 |
| Playgrounds | 3 | 4 | 3 | 3 | 2 | 2 | 2 | 2 | 2 | 2 |
| Baseball/softball diamonds | 6 | 5 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Soccer/football fields | 6 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Community centers | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Wastewater (5) | | | | | | | | | | |
| Sanitary sewers (miles) | 64 | 64 | 64 | 64 | 63 | 54 | 54 | 52 | 47 | 42 |
| Storm sewers (miles) | 16 | 16 | 16 | 15 | 14 | 13 | 12 | 10 | 9 | 7 |

N/A = information not available

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

Compliance Section



Certified Public Accountants
Specialized Services
Business Solutions

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

Honorable Mayor and City Council
City of Poquoson, Virginia

We have audited the financial statements of the ***City of Poquoson, Virginia***, as of and for the year ended June 30, 2008, and have issued our report thereon dated November 26, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 08-1 to be significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the *City of Poquoson, Virginia*'s internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this report and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all deficiencies that are considered to be material weaknesses. However, we consider the one significant deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness in internal control over financial reporting.

Compliance and Other Matters

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

We also noted certain other matters that we reported to management of *City of Poquoson, Virginia* in a separate letter dated November 26, 2008.

The *City of Poquoson, Virginia's* responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the *City of Poquoson, Virginia's* responses and, accordingly, we express no opinion on them.

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

Newport News, Virginia
November 26, 2008



Certified Public Accountants
Specialized Services
Business Solutions

***Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133***

Honorable Mayor and City Council
City of Poquoson, Virginia

Compliance

We have audited the compliance of the ***City of Poquoson, Virginia*** and Subsidiary, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The ***City of Poquoson, Virginia's*** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the management of the ***City of Poquoson, Virginia***. Our responsibility is to express an opinion on the ***City of Poquoson, Virginia's*** compliance based on our audit.

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

In our opinion, the ***City of Poquoson, Virginia*** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the ***City of Poquoson, Virginia*** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the ***City of Poquoson, Virginia's*** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 ***City of Poquoson, Virginia's*** internal control over compliance.

A control deficiency in the ***City of Poquoson, Virginia's*** internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the ***City of Poquoson, Virginia's*** ability to administer a federal program such that there is more than a remote likelihood that a noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the ***City of Poquoson, Virginia's*** internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirements of a federal program will not be prevented or detected by the ***City of Poquoson, Virginia's*** internal control.

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

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

Newport News, Virginia
November 26, 2008

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

Honorable Mayor and City Council
City of Poquoson, Virginia

We have audited the financial statements of the ***City of Poquoson, Virginia***, as of and for the year ended June 30, 2008, and have issued our report thereon dated November 26, 2008.

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

Compliance with Commonwealth of Virginia laws, regulations, contracts and grants applicable to the ***City of Poquoson, Virginia***, is the responsibility of the ***City of Poquoson, Virginia's*** management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the ***City of Poquoson, Virginia's*** compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Following is a summary of the Commonwealth of Virginia's laws, regulations, contracts and grants for which we performed tests of compliance:

Code of Virginia

- Budget and Appropriation Laws
- Cash and Investments
- Conflicts of Interest
- Retirement Systems
- Debt Provisions
- Procurement
- Unclaimed Property
- Enhanced 911 Services Taxes
- Personal Property Tax Relief Act

State Agency Requirements

- Education
- Comprehensive Services Act
- Highway Maintenance Funds

The results of our tests disclosed one instance of noncompliance with the provisions referred to in the preceding paragraph. This instance is discussed in the Schedule of Findings and Questioned Costs as Finding 08-2. With respect to items not tested, nothing came to our attention that caused us to believe that the *City of Poquoson, Virginia*, had not complied, in all material respects, with those provisions.

This report is intended solely for the information and use of *City of Poquoson, Virginia's* City Council, management, the Auditor of Public Accounts and all applicable state agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Newport News, Virginia
November 26, 2008

City of Poquoson, Virginia

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

| Federal granting agency/recipient state agency/grant Program/grant number | Federal CFDA Number | Federal Expenditures |
|--|---------------------------|-------------------------|
| U. S. Department of Agriculture | | |
| Pass through payments: | | |
| Department of Agriculture and Consumer Services: | | |
| National School Lunch Program | * | \$ 125,436 |
| State Department of Agriculture and Consumer Services: | | |
| National School Lunch Program | | |
| USDA donated commodities | 10.555 | 59,346 |
| U.S. Department of Transportation | | |
| Pass through payments: | | |
| Department of Motor Vehicles: | | |
| Alcohol Traffic Safety and Drunk Driving | | |
| Prevention Incentive | 20.607 | 22,013 |
| FHWA Virginia Recreational Trails | 20.219 | 25,935 |
| Highway Planning and Construction (Tea 21 Grant) | 20.205 | 10,322 |
| U.S. Department of Education | | |
| Direct payments: | | |
| Impact Aid | 84.041 | 149,813 |
| Pass through payments: | | |
| Virginia Department of Education : | | |
| Title I - Grants to local educational agencies | 84.010 | 77,824 |
| Improving teacher quality state grants | 84.367 | 45,681 |
| Title V | 84.298 | 2,616 |
| Title VI-B: | | |
| Assistance to states for education | | |
| of handicapped children: | | |
| Special Education Grants | * | 84.027 342,240 |
| Vocational education-basic grants to states | 84.048 | 12,271 |
| State and Drug-free Schools and Communities | 84.186 | 3,347 |
| Preschool Handicapped | 84.173 | 15,341 |
| Advanced Placement Grant | 84.330 | 636 |

City of Poquoson, Virginia

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

| | Federal CFDA Number | Federal Expenditures |
|---|---------------------------|-------------------------|
| U.S. Department of Justice | | |
| Direct payments: | | |
| COPS Fast Grant | 16.710 | 47,500 |
| Pass through payments: | | |
| Byrne Justice Assistance Grant | 16.738 | 662 |
| U.S. Department of Housing and Urban Development | | |
| Direct payments: | | |
| Community Development Block Grant | * 14.228 | 320,015 |
| U.S. Department of Homeland Security | | |
| Direct payments: | | |
| FEMA Public Assistance | 97.036 | 45,483 |
| State domestic preparedness equipment support program | 97.004 | 128,250 |
| Pass through payments: | | |
| Hazard Mitigation Grant | 97.039 | 748,693 |
| U.S. Department of the Interior | | |
| Direct payments: | | |
| Plum Tree Island Refuge | 15.611 | 4,562 |
| | | <u>\$ 2,187,986</u> |

* Represents a major program of the City of Poquoson.

City of Poquoson, Virginia

Notes to Schedule of Expenditures of Federal Awards

June 30, 2008

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, 2008, the food service organization had food commodities totaling \$14,353 in inventory.

* * * * *

City of Poquoson, Virginia

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

1. Summary of Auditors' Results

- a) The auditor's report expresses an unqualified opinion on the financial statements of the City.
- b) There was one significant deficiency noted in internal control over financial reporting that was considered to be a material weakness as reported below. In addition, there were several immaterial significant deficiencies that were reported in the letter to management dated November 26, 2008.
- c) No instances of noncompliance material to the financial statements of the City, which would be required to be reported in accordance with *Government Auditing Standards*, were noted during the audit.
- d) No significant deficiencies were noted during the audit of internal control over major federal programs.
- e) The auditor's report on compliance for the major federal programs of the City expressed an unqualified opinion on the major federal programs.
- f) The audit did not disclose any audit findings required to be reported.
- g) The major programs are:
 - i) Community Development Block Grant (CFDA No. 14.228)
 - ii) Special Education Cluster (CFDA No. 84.027 and No. 84.173)
 - iii) Child Nutrition Cluster (CFDA No. 10.553 and No. 10.555)
- h) The dollar threshold used to distinguish between Type A and Type B programs is \$300,000.
- i) The auditee qualified as a low-risk auditee.

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

Finding 08-1

Condition: There is a lack of segregation of duties in the recording of adjusting journal entries. Specifically, two of the entries tested possessed the same individual as the authorizer and poster of the entry into the general ledger.

Criteria: Internal controls should be in place to ensure adequate separation of duties for adjusting journal entries.

Effect: A lack of segregation of duties in adjusting journal entries could lead to improper or unauthorized adjustments to account balances.

Recommendation: We recommend that procedures be established to ensure that the duties in the approval and recording of adjusting journal entries are adequately segregated.

City of Poquoson, Virginia

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

Management's Response: We agree with the audit recommendation and will implement procedures to adequately segregate the adjusting journal entry process.

3. Findings and Questioned Costs - Federal Programs

None

4. Findings and Questioned Costs – Commonwealth of Virginia Laws, Regulations, Contracts and Grants

Finding 08-2

Condition: The State and Local Government Conflict of Interests Act contained in Chapter 31 of Title 2.2 of the Code of Virginia requires local government officials to file a statement of economic interests with the clerk of the governing body by January 15 of each year.

Criteria: Two School Board statements of economic interests were not filed timely with the clerk of the governing body.

Effect: The City is not in compliance with the State and Local Government Conflict of Interests Act.

Recommendation: The City should take steps to ensure that each local official files the statement of economic interests in a timely manner.

Management's Response: We agree with the audit finding. The School Board will take steps to help ensure that all officials required to file a statement of economic interests do so on a timely basis.

5. Status of Prior Year Audit Findings

Prior Year Audit Findings Relating to the Basic Financial Statements

Finding 07-1

Condition: There is a lack of segregation of duties in the recording of adjusting journal entries. Specifically, two of the entries tested possessed the same individual as the preparer, authorizer, and poster of the entry into the general ledger.

Criteria: Internal controls should be in place to ensure adequate separation of duties for adjusting journal entries.

Resolution: During the year ended June 30, 2008, we noted the same finding. See finding 08-1.

City of Poquoson, Virginia

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

Finding 07-2

Condition: A significant amount of appropriations were made to the 2006-2007 budget during the September, 2007 City Council meeting in order to correct significant deficits as a result of encumbrances.

Criteria: Procedures should be in place to ensure that budget vs. actual expenditures are reviewed on a monthly basis.

Resolution: We noted no such noncompliant activity during our testwork for the year ended June 30, 2008.

Prior Year Federal Audit Findings

None

Prior Year State Audit Findings

Finding 07-3

Condition: The State and Local Government Conflict of Interests Act contained in Chapter 31 of Title 2.2 of the Code of Virginia requires local government officials to file a statement of economic interests with the clerk of the governing body by January 15 of each year.

Criteria: One statement of economic interests was not filed timely with the clerk of the governing body.

Resolution: For the year ended June 30, 2008, we noted two instances of the same finding. See Finding 08-2.