



City of Poquoson Virginia

Comprehensive Annual Financial Report



**Fiscal Year
July 1, 2002 to
June 30, 2003**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

CITY OF POQUOSON, VIRGINIA



Fiscal Year Ended June 30, 2003

Prepared by:

The Department of Finance
Pamela A. Moon, CPA, Director

CITY OF POQUOSON, VIRGINIA

CITY COUNCIL

Gordon C. Helsel, Jr., Mayor
Arthur V. Holloway, Jr., Vice Mayor
Herbert R. Green, Jr.
Walter W. Hill
W. Eugene Hunt, Jr.
Frank A. Kreiger
Debra D. Bunting

CITY OFFICIALS

Charles W. Burgess, Jr., City Manager
Pamela A. Moon, CPA, Director of Finance
Donald T. Joyner, CPA, Treasurer
Graham P. Wilson, Commissioner of the Revenue
D. Wayne Moore, City Attorney
Judy F. Wiggins, City Clerk

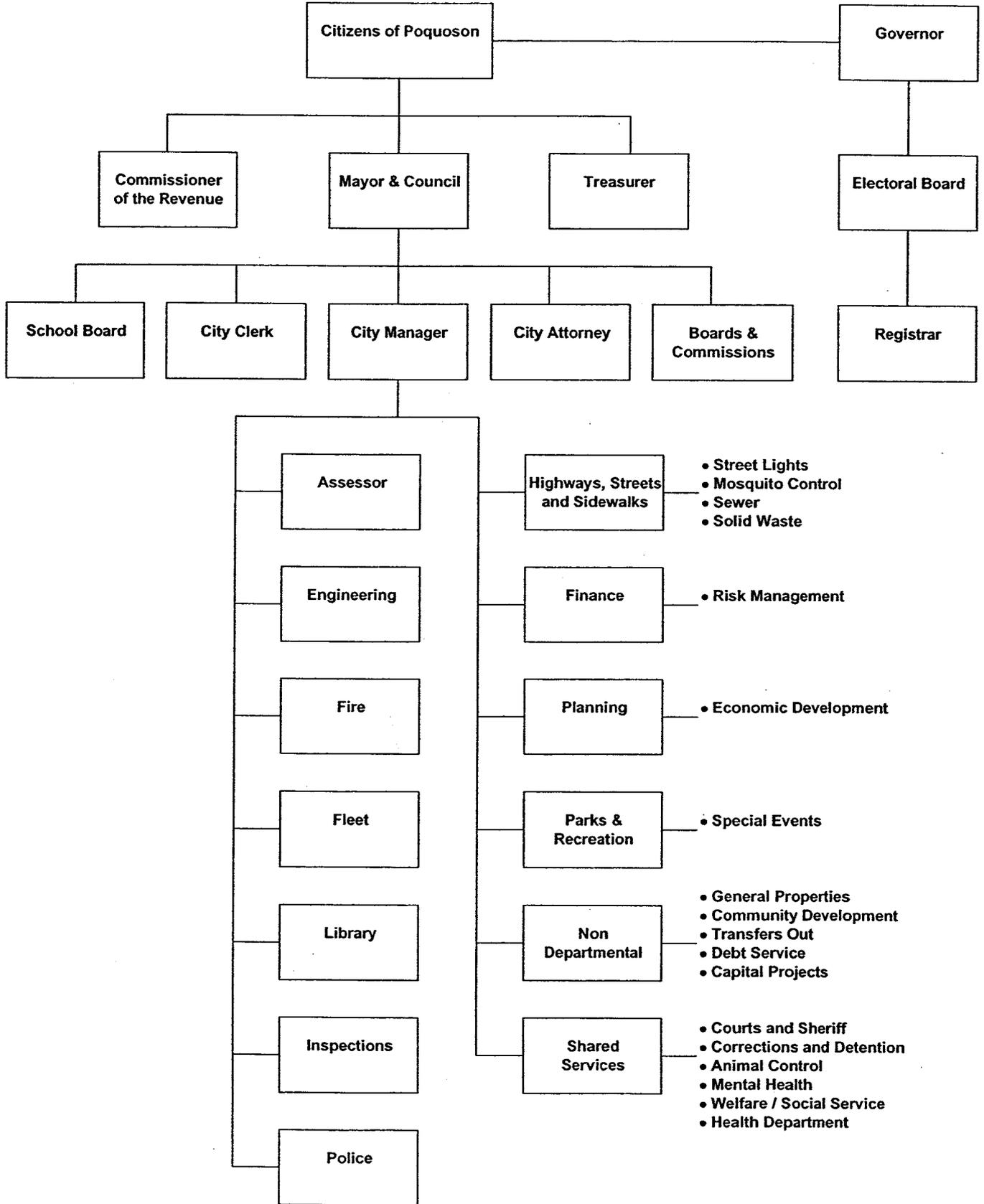
SCHOOL BOARD

Charles L. French, Chairman
Larry E. Marks, Vice Chairman
Deborah Ann Banton
Clifford T. Bowen
John A. Costulis
Kerry Y. Knowlton
Regina P. Wightman

SCHOOL OFFICIALS

Dr. Jonathan L. Lewis, Superintendent
Dr. Marilyn F. Barr, Assistant Superintendent of Instructions
Janet A. Brown, Executive Director of Business and Finance

CITY OF POQUOSON, VIRGINIA
CITY GOVERNMENT ORGANIZATION CHART



Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

City of Poquoson,
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

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.



William Robert Bate

President

Jeffrey R. Emmer

Executive Director

**CITY OF POQUOSON, VIRGINIA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 2003**

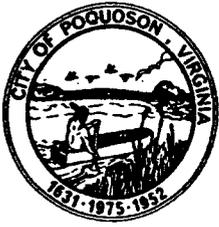
TABLE OF CONTENTS

	Exhibit	Page
INTRODUCTORY SECTION		
Government Officials		<i>i</i>
City Government Organization Chart.....		<i>ii</i>
Certificate of Achievement for Excellence in Financial Reporting.....		<i>iii</i>
Table of Contents.....		<i>iv - v</i>
Letter of Transmittal to City Council.....		<i>vi - x</i>
 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 Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	D	23
Statement of Net Assets - Proprietary Funds.....	E	24
Statement of Revenue, Expenses, 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
Statement of Net Assets - Component Units.....	I	28
Statement of Activities - Component Units	J	29
Notes to the Basic Financial Statements.....		30 - 55
Required Supplementary Information		
Budgetary Comparison Schedule - General Fund	K	56 - 59
Schedule of Funding Progress and Employee Contributions – Virginia Retirement System	L	60
Notes to Required Supplementary Information		61
Other Supplementary Information		
Schedule of Capital Assets by Function and Activity	1	62
Schedule of Changes in Capital Assets by Function and Activity.....	2	63
Combining Balance Sheet – Component Units.....	3	64
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Component Units.....	4	65
Budgetary Comparison Schedule - Operating Fund – School Board	5	66

CITY OF POQUOSON, VIRGINIA

TABLE OF CONTENTS (Continued)

	Schedule	Page
FINANCIAL SECTION (Continued)		
<i>Other Supplementary Information: (Continued)</i>		
<i>Schedule of Changes in Capital Assets by Function and Activity - School Board.....</i>	6	67
<i>Combining Balance Sheets – Agency Funds Discretely Presented Component Unit – School Board</i>	7	68
 STATISTICAL SECTION		
	Table	
<i>Government-wide Revenues</i>	1	69
<i>Government-wide Expenditures by Function</i>	2	70
<i>General Governmental Revenues by Source - Last Ten Fiscal Years.....</i>	3	71
<i>General Governmental Expenditures by Function - Last Ten Fiscal Years.....</i>	4	72
<i>Property Tax Levies and Collections - Last Ten Fiscal Years</i>	5	73
<i>Assessed Value of Taxable Property - Last Ten Fiscal Years.....</i>	6	74
<i>Property Tax Rates (Per \$100 of Assessed Value) - Last Ten Fiscal Years.....</i>	7	75
<i>Ratio of Net General Obligation Debt to Assessed Value and Net Bonded Debt Per Capita – Last Ten Fiscal Years.....</i>	8	76
<i>Computation of Legal Debt Margin</i>	9	77
<i>Ratio of Annual Debt Service Expenditures Total General Governmental Expenditures – Last Ten Fiscal Years.....</i>	10	78
<i>Demographic Statistics – Last Ten Fiscal Years.....</i>	11	79
<i>Property Value, Construction, and Bank Deposits – Last Ten Fiscal Years</i>	12	80
<i>Principal Taxpayers – 2003 Assessed Values -</i>	13	81
<i>General Information and Miscellaneous Statistics</i>	14	82 - 83
 COMPLIANCE SECTION		
<i>Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....</i>		84
<i>Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.....</i>		85- 86
<i>Report on Compliance with Commonwealth of Virginia Laws, Regulations, Contracts and Grants</i>		87 - 88
<i>Schedule of Expenditures of Federal Awards</i>		89 - 90
<i>Notes to Schedule of Expenditures of Federal Awards.....</i>		91
<i>Schedule of Findings and Questioned Costs</i>		92



CITY OF POQUOSON

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

Office of the City Manager

January 16, 2004

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

We are pleased to submit to you the Comprehensive Annual Financial Report of the City of Poquoson (the "City") for the fiscal year ended June 30, 2003. The report is required in accordance with Article V, Section 11 of the Poquoson City Charter and is prepared in accordance with the standards of financial reporting prescribed by the Governmental Accounting Standards Board (GASB), and the Auditor of Public Accounts of the Commonwealth of Virginia.

This report consists of management's representations concerning the finances of the City of Poquoson. Consequently, management assumes full responsibility for both the accuracy of the data, the completeness and fairness of the presentation, and all disclosures. To provide a reasonable basis for making these representations, management of the City of Poquoson has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Poquoson's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City of Poquoson's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements are free from material misstatement. As management, we assert that, to the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds and the component units of the City of Poquoson.

The City of Poquoson's financial statements have been audited by Goodman & Company, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Poquoson for the fiscal year ended June 30, 2003, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Poquoson's financial statements for the fiscal year ended June 30, 2003, are fairly presented in conformity with GAAP. The independent auditor's report is presented on page 1 of this report.

The independent audit of the financial statements of the City of Poquoson was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies and a state compliance audit. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. The Commonwealth of Virginia also has audit requirements on compliance with specific Commonwealth of Virginia laws, regulations, contracts, and grants. The compliance section of the report starts on page 84.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Poquoson's MD&A can be found immediately following the report of the independent auditors starting on page 3.

Profile of the City of Poquoson

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

The City is located in the southeastern part of the state in the Hampton Roads area. The region is the 27th largest metropolitan statistical area in the country. Poquoson is a suburban community in the Hampton Roads area and residents often work in neighboring cities and typically have the region's highest median income. The City of Poquoson occupies a land area of 14.7 square miles, and serves an estimated population of 11,845.

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

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

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

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

The annual budget serves as the foundation for the City of Poquoson's financial planning and control. All agencies and departments of the City of Poquoson are required to submit requests for appropriation to the City Manager in January. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager presents a proposed budget to City Council for review in April. The Council is required to hold public hearings on the proposed budget and must adopt a final budget by no later than May 31. The appropriated budget is prepared by fund and department. Department heads may make transfers of appropriations within a department. Transfers of appropriations between departments and additional appropriations require the special approval of City Council. The City also maintains an encumbrance accounting system as one method of maintaining budgetary control. Encumbrances are included as budgetary expenditures and therefore do not lapse after year-end. The budget-to-actual comparison for the General Fund starts on page 56 of the report.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Poquoson operates.

Local Economy. The City of Poquoson currently has a favorable economic environment and local indicators point to continued stability. While the City of Poquoson's tax base is challenged by few commercial enterprises, Poquoson's close proximity to other cities provides citizens shopping, jobs, and cultural events. The median household income was \$60,568 in 1999 (latest available data). Hampton Roads economy is strong and has a low unemployment rate. In 2002, Poquoson had a 2.2% unemployment rate as compared to a state-wide rate of 4.1% and a national average of 5.8%.

The 2000 census population of 11,566 reflects growth of 5% since the 1990 census. The Planning Department estimates Poquoson's population to be 11,845 in 2002.

The 2002 taxable sales of \$37,836,130 were up 9.25% from the 2001 level.

Poquoson is primarily residential in nature and the lack of a strong commercial base in the City places a much higher burden on residents to fund the services of the City compared to neighboring cities who use business tax revenue to fund part of the locality's services. The City's largest source of revenue comes from the real estate tax. The City's tax rate of \$1.12 per \$100 of assessed value has not increased since FY 1995, but the City has had increases in real estate tax revenue primarily due to increased assessments and growth of new buildings in the City. In the past 5 years assessments on housing and commercial property, including tax exempt property, increased by 25.6%. Many properties in the City enjoy waterfront views and access to water and the growth in assessments in these properties have outpaced other properties.

Long-Term Financial Planning. In September 2003, more than 50% of the City suffered from flooding and wind damage from Hurricane Isabel. The City submitted a FEMA mitigation grant to see if assistance can be received to help citizens raise their homes to prevent future flooding. The City will be required to provide a 5% match for the private assistance grants. A number of City and School properties were also flooded. The City is researching ways to mitigate future flooding of City and School properties as damaged City and School properties are rebuilt. Insurance proceeds, FEMA and State funds, and City funds combined will address the rebuilding of damaged properties.

The City has recently completed a dredge of the channel from the Back River to Messick Point, which significantly improved the navigation, access and use of the Messick Point area. The City has started construction to improve the boat launch area and plans to improve and add parking spaces in the area and to build a public pier. The IDA, working in conjunction with the City, is negotiating the acquisition of isolated lots in the Messick area and has hired an architect firm to lay out a conceptual plan for development of the Messick area.

The School Board has requested that the Poquoson Elementary School undergo a major renovation or be completely replaced. This school was built in 1952, contains many serious building deficiencies, and fails to meet current education program needs. The cost is expected to be between \$8,000,000 and \$12,000,000, depending on the scope of the project.

Cash Management Policies and Practices. The primary government maintains one centralized bank account for the operation of all funds with the exception of the Sewer Fund, the Library Building Agency Fund, and the School system (a component unit), which have separate accounts. All of the City's cash is deposited with the City Treasurer, an elected officer, who is responsible for investing all City funds. City cash is invested primarily in the Local Government Investment Pool, Federal government obligations, and other short-term investments permissible under the Virginia Public Investment Act. The amount of interest earned during the year by the General Fund was \$52,492, down 70.1% from previous year due to declining interest rates. The average yield on investments was 1.8% for the City. The City also has restricted cash and investments that are monitored by the Finance Department and used for the payment of bond projects. At June 30, 2003, the various cash balances included cash on hand, investments, cash on deposit in banks, and restricted cash in the amount of \$6,802,216 for the City and \$1,932,146 for the Schools.

Risk Management. The City maintains liability and property coverage through the Virginia Municipal Liability Pool and workers compensation coverage through the Virginia Municipal Group Self-Insurance Association. These are nonprofit, tax exempt associations of Virginia local political subdivisions. Local political subdivisions of the Commonwealth of Virginia eligible to participate in the program include cities, towns, counties, school systems and other local government agencies. In response to the flood damage incurred by Hurricane Isabel in September 2003, the City is increasing the number of buildings that have flood insurance coverage. Also, the City is forming a Safety Committee in FY 2004 in an attempt to decrease worker's compensation claims.

Pension Benefits. The City and Schools contribute to the Virginia Retirement System (VRS), an agent multiple-employer public retirement system, that acts as a common investment and administrative agent for political subdivisions. For more information on the defined benefit retirement plan, see page 53 of the notes to the basic financial statements and page 60.

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, 2002. This was the sixteenth 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 generally accepted accounting principles 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 dated May 22, 2003. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories including policy documentation, financial planning and organization.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department, the School Board Finance Department, the Treasurer's Office and our Certified Public Accountants, Goodman & Company, LLP. Credit is also given to City Council for their interest and support in planning and conducting the operations of the City of Poquoson in a responsible and progressive manner.

Respectfully submitted,



Pamela A. Moon, CPA
Director of Finance



Charles W. Burgess, Jr.
City Manager



REPORT OF INDEPENDENT AUDITORS

Certified Public Accountants
Financial Planning
Specialized Services

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** (City), as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the **City of Poquoson's** management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic 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, 2003, 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.

As described in Note 1 to the basic financial statements, the City has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, an amendment of GASB Statements No. 21 and No. 34; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Statement No. 41, *Budgetary Comparison Schedules – Perspective Differences – an amendment of GASB Statement No. 34*, for the year ended June 30, 2003.

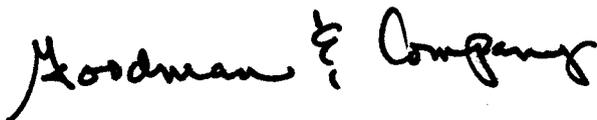
Fountain Plaza One, 701 Town Center Drive, Suite 700
Newport News, VA 23606-4295
ph: 757.873.1033
fax: 757.873.1106
www.goodmanco.com

The Management's Discussion and Analysis on pages 3 through 17 and the other required supplementary information included at pages 56 through 61 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2003, on our consideration of the **City of Poquoson's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City'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 is 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 are not a required part of the basic financial statements, and we did not audit and do not express an opinion on such information.

A handwritten signature in black ink that reads "Goodman & Company". The signature is written in a cursive, flowing style.

Newport News, Virginia
October 17, 2003



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
- Capital Assets and Debt Administration
- Economic Factors and Next Year's Budgets
- Requests for Information

Management's Discussion and Analysis

FISCAL YEAR JULY 1, 2002—JUNE 30, 2003

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, 2003. 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 x of this report.

Financial Highlights

- The assets of the City of Poquoson exceeded its liabilities as of June 30, 2003 by \$17,088,626 (*net assets*). Of this amount, \$6,663,860 (*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 \$1,018,442. Most of the increase is attributable to growth in assessments in the residential real estate, which resulted in increased real property taxes; increases in other local taxes due to commercial growth in the City; and scrutiny of City expenditures.
- As of June 30, 2003, the City's governmental funds reported combined ending fund balances of \$5,121,372, of which \$4,239,425 of is available to spend at the City's discretion.
- As of June 30, 2003, unreserved fund balance for the General Fund was \$4,239,425, or 24.6% of total General Fund expenditures, and 15.9% of total General Fund and School expenditures (net of transfers).
- The City of Poquoson's total debt outstanding at June 30, 2003 was \$27,015,443, a decrease of \$1,527,569 from the prior year. During the year, the City refunded a general obligation bond issue and paid down debt.

Overview of the Financial Statements

The Comprehensive Annual Financial Report consists of four (4) sections: the introductory section, the financial section, the statistical section, and the compliance section. 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.

The City of Poquoson implemented Governmental Accounting Standards Board (GASB) Statement No. 34 in FY 2003, which changed the accounting and presentation of the financial statements. In prior years, the City presented fund-type information on a current financial resource basis. GASB Statement No. 34 presents two kinds of statements, each with a different perspective of the City's finances. The financial statements continue to present the fund financial statements, but now includes a new presentation that focuses on the City as a whole (government-wide). The government-wide financial statements 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; parks, recreation and cultural; and community development. The business-type activities of the City of Poquoson include a Sewer 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 district, Poquoson Public Schools, and a legally separate 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 does not address the long-term focus of the government-wide financial statements, information is presented at the bottom of *governmental funds* which reconciles the differences between *governmental funds* and *governmental activities*.

The City of Poquoson maintains three 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, and the Capital Projects Fund.

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

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

Proprietary Funds. The City of Poquoson maintains three 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. Because this service predominantly benefits governmental rather than business-type functions, the Fleet Management internal service 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 30-55 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 School Board component unit. Supplementary information can be found on pages 56-68 of this report.

Government-Wide Financial Analysis

Summary of Statement of Net Assets June 30, 2003

	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 5,929,816	\$ 2,607,337	\$8,537,153
Capital assets	18,367,443	18,474,652	36,842,095
Total assets	24,297,259	21,081,989	45,379,248
Current and other liabilities	1,954,582	983,996	2,938,578
Long-term liabilities	12,249,312	13,102,732	25,352,044
Total liabilities	14,203,894	14,086,728	28,290,622
Net assets:			
Invested in capital assets, net of related debt	5,133,636	4,693,016	9,826,652
Restricted	-	598,114	598,114
Unrestricted	4,959,729	1,704,131	6,663,860
Total net assets	\$ 10,093,365	\$ 6,995,261	\$ 17,088,626

The City's combined net assets total \$17,088,626, 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 \$9,826,652. 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. Net assets includes \$598,114 that is restricted for sewer rehabilitation projects. The

remaining \$6,663,860 is 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 \$1,018,442 during FY 2003. The governmental activities increased by \$1,387,353, while the business-type activities decreased by \$368,911. The majority of increases in the governmental activities represents the degree to which increases in ongoing revenues (primarily real estate and other local taxes) have exceeded similar increases in ongoing expenses.

Summary of Changes in Net Assets June 30, 2003

	Governmental Activities	Business-Type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$249,795	\$1,784,117	\$2,033,912
Operating grants and contributions	1,326,011	-	1,326,011
Capital grants and contributions	694,324	-	694,324
General revenues:			
Real estate and personal property taxes	10,796,813	-	10,796,813
Other local taxes	2,442,485	-	2,442,485
Reimbursements from other agencies	1,669,092	-	1,669,092
Miscellaneous	67,633	318,936	386,569
Unrestricted investment earnings	52,492	84,824	137,316
Total revenues	17,298,645	2,187,877	19,486,522
Expenses:			
General government	1,401,639	-	1,401,639
Judicial	247,161	-	247,161
Public safety	3,721,021	-	3,721,021
Public works	1,472,320	-	1,472,320
Health and welfare	605,334	-	605,334
Education	6,459,434	-	6,459,434
Parks, recreation, cultural	775,359	-	775,359
Community development	514,618	-	514,618
Interest and fees on long-term debt	561,580	-	561,580
Nondepartmental	78,826	-	78,826
Sewer	-	1,657,238	1,657,238
Parks and Recreation	-	543,327	543,327
Solid Waste	-	430,223	430,223
Total expenses	15,837,292	2,630,788	18,468,080
Change in net assets before transfers	1,461,353	(442,911)	1,018,442
Transfers	(74,000)	74,000	-
Change in net assets	1,387,353	(368,911)	1,018,442
Net assets, 6/30/2002 (as restated)	8,706,012	7,364,172	16,070,184
Net assets 6/30/2003	\$10,093,365	\$6,995,261	\$17,088,626

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

Real estate tax revenue	\$ 9,180,557
Public service corporation property taxes	145,365
Personal property taxes	1,322,979
Penalties and interest	<u>147,912</u>
Total	<u>\$10,796,813</u>

The City's real estate property tax assessments for FY 2003 were \$814,646,831. The City's real estate tax rate is \$1.12 per \$100 of assessed value. The City's personal property tax assessments for the year were \$90,623,115. The City's personal property tax rate is \$3.85 per \$100 of assessed value for vehicles, \$1.50 per \$100 of assessed value for recreational vehicles and boats, and \$1.12 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 \$1,630,817 and is classified as reimbursements from other agencies on the Statement of Activities.

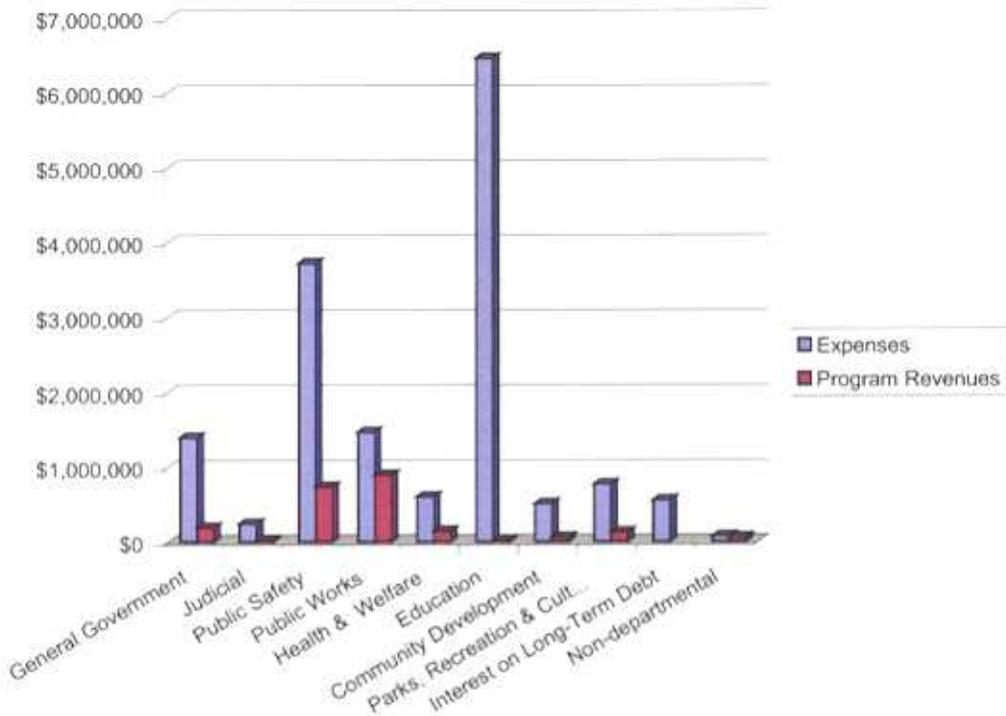
Other local taxes were \$2,442,485 for the year and consist of meals taxes, consumers' utilities taxes, franchise license taxes, motor vehicle license taxes and a variety of other taxes.

Operating grants and contributions and capital grants and contributions amounted to \$1,462,047, \$151,975, and \$406,313 from the State, Federal, and other funding, respectively.

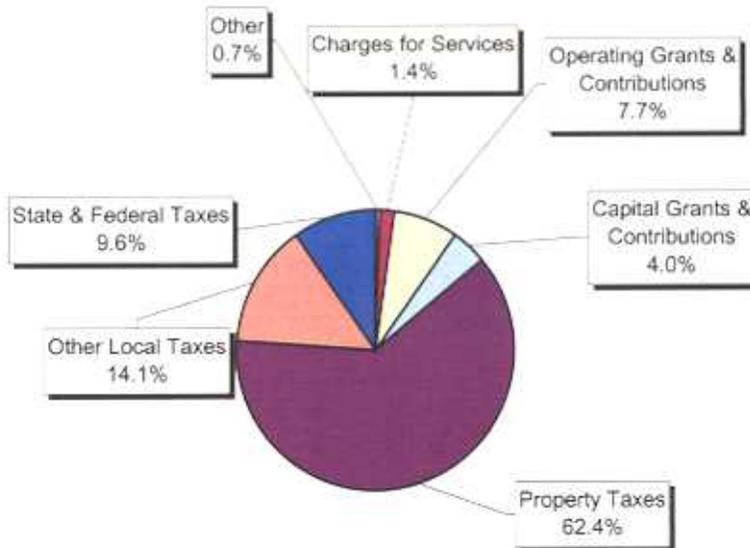
For FY 2003, expenses for governmental activities totaled \$15,837,292, including a net payment of \$6,459,434 to the School Board component unit and a \$50,000 payment to the IDA component unit.

Business-Type Activities. Business-type activities decreased the City's net assets before transfers by \$442,911, and \$368,911 after transfers. The business-type activities had net losses in both the Sewer Operations Fund and Parks and Recreation Fund, while the Solid Waste has net income. In the past three years, the Sewer Fund issued debt for significant sewer expansion projects, which caused large increases in the sewer rates to pay for most of the additional debt. Connection fee to the sewer system was mandatory causing a large influx of cash into the system. In order to keep the usage rates from increasing significantly, Council has budgeted to use a portion of net assets that had increased in prior years. Parks and Recreation user charges continue to be held as low as possible to accommodate all citizens, but has increasing expenses. The Parks and Recreation Fund have 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 utilizes a pay-as-you throw green bag system, which funds trash pickup and disposal, recycling, and hazardous materials collection. The City supplements the bulky item and landscape trash pickup in the Solid Waste Fund.

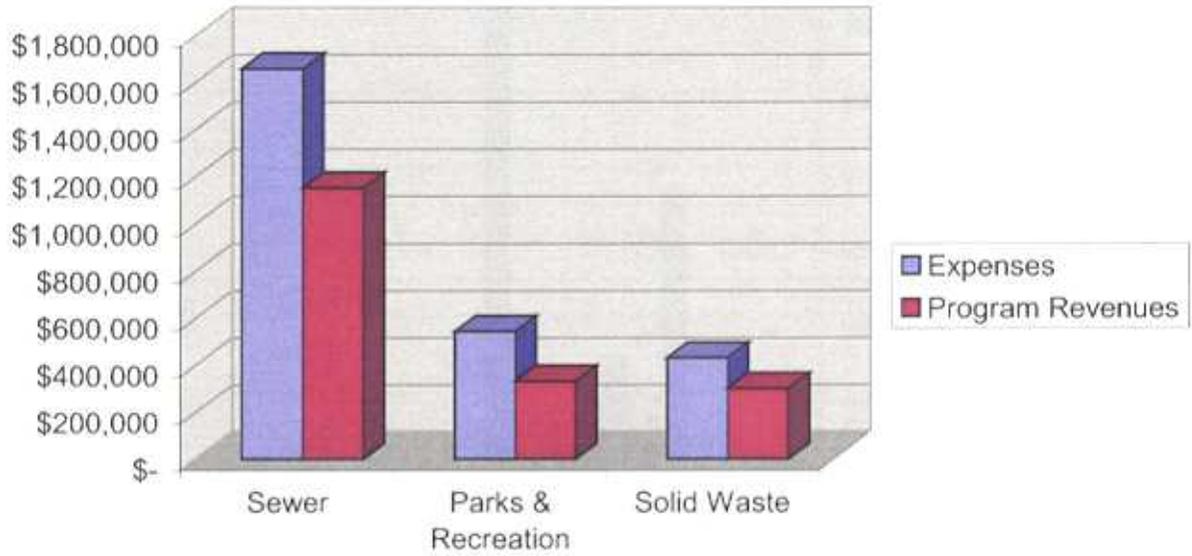
Expenses and Program Revenues – Governmental Activities



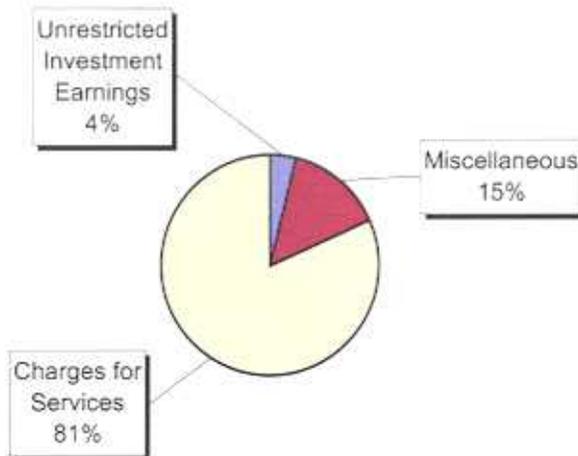
Revenues by Sources – Governmental Activities



Expense and Program Revenues – Business-Type Activities

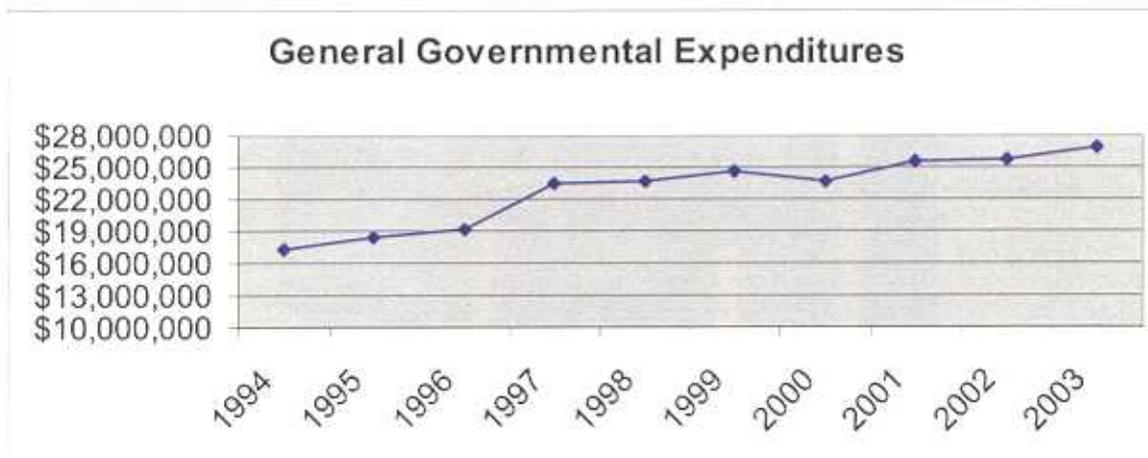
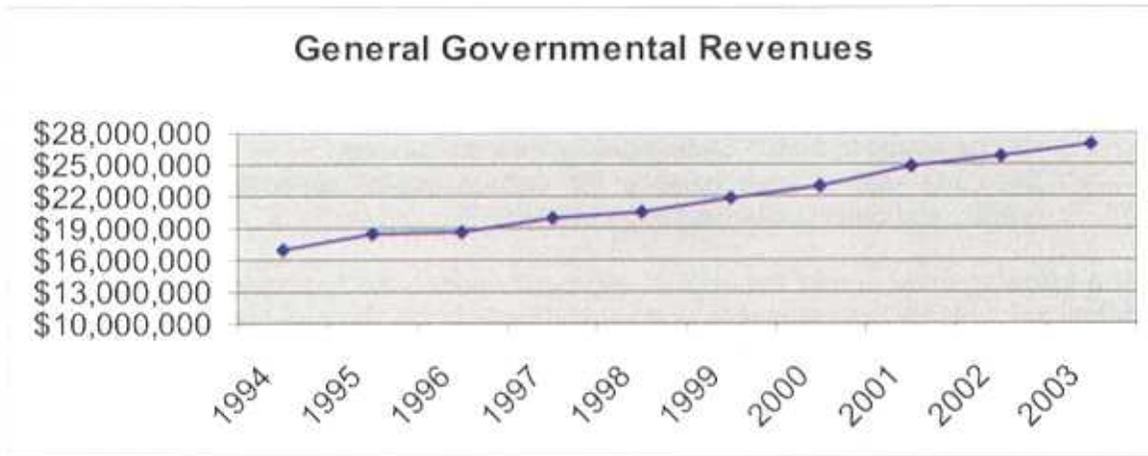


Revenues by Source – Business-Type Activities



Financial Analysis of the Government's Funds

Below is a summary of general government revenue and expenditures over a 10 year period. As shown below, expenditures have exceeded revenues during recent years, thus using much of the City's fund balance. Amounts include the City's General, Debt Service, and Capital Projects Funds, and the School's General and Special Revenue Funds. In the past two fiscal years, governmental revenues exceeded expenditures, which ended six years of expenditures exceeding revenues.



The City of Poquoson uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

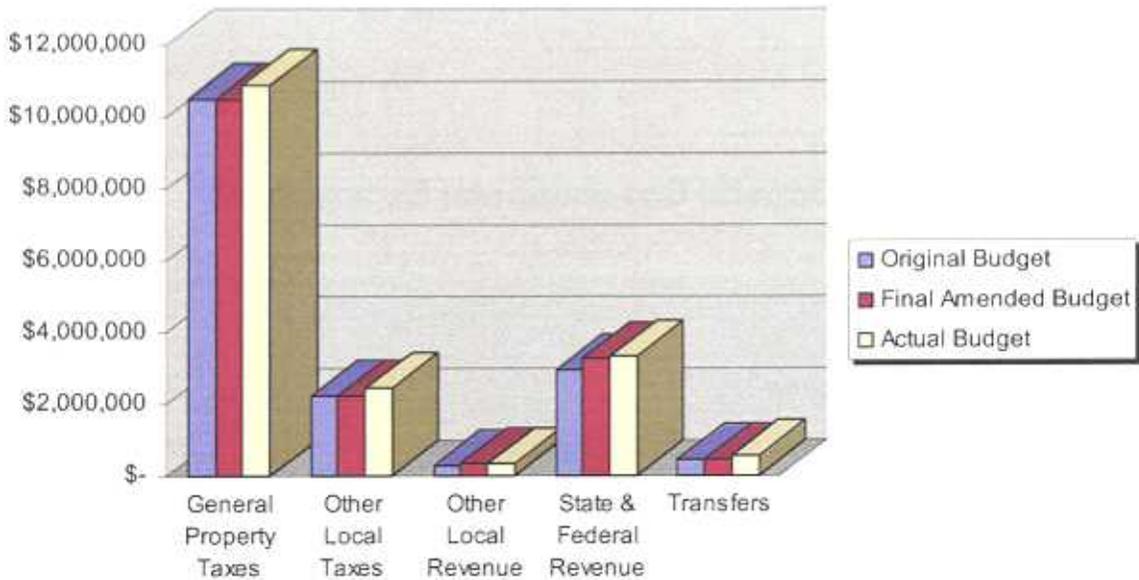
General Fund Budgetary Highlights

Differences of \$815,566 between the original budget and the final amended budget can be briefly summarized as follows:

- \$214,485 in additional State funds
 - Department of Motor Vehicle (DMV) reimbursement for DMV office located in City Hall and operated by City Staff.
 - Additional library funding
 - Additional public safety grants, including wireless E-911 funding.
- \$77,624 in additional Federal funds, primarily to improve homeland security.
- \$59,116 in donations and miscellaneous revenue, primarily from the volunteer rescue squad to match State grant for new ambulance.
- \$464,341 use of fund balance for various capital expenditures, matches to grants, and other unplanned expenditures.

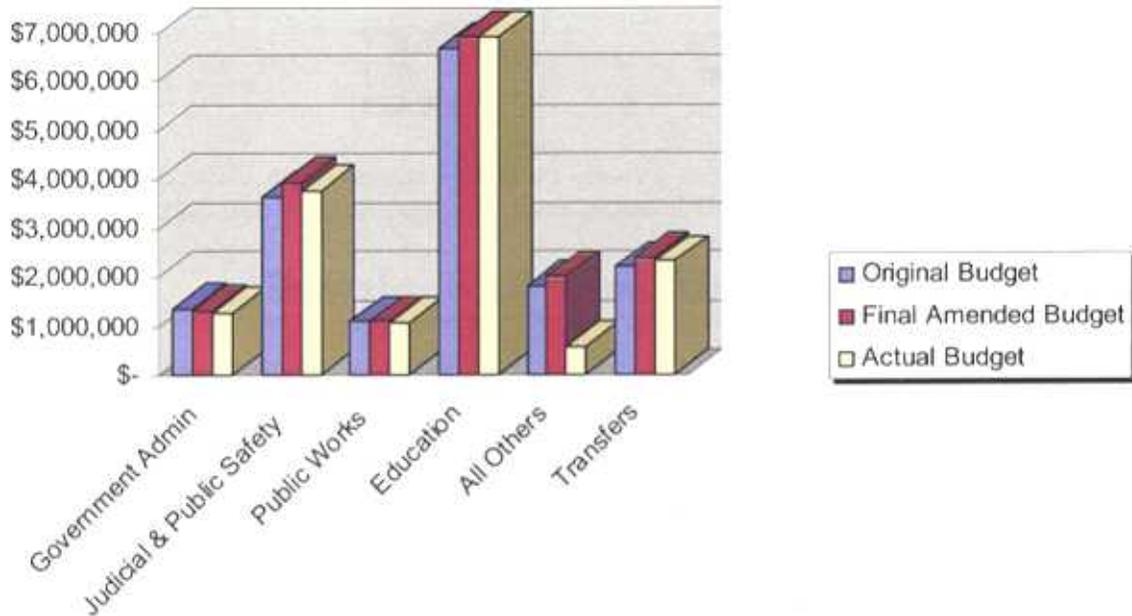
The following chart shows the original approved budget, the final amended budget, and actual amounts for both revenues and expenditures in the General Fund.

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



The City's actual revenue exceeded the amended budget by \$377,151 in general property taxes. This is mainly due to higher than expected increases in the real estate tax reassessment. Other local taxes also exceeded the amended budget by \$191,485 primarily due to retroactive back assessment of business license taxes and increase of recordation taxes due to low interest rates spurring refinancing of homes. The increase in State and Federal revenue is mainly due to additional money received from state personal property relief funds, and the federal police program.

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



As reflected above, actual General Fund expenditures were 1.9% below the amended budget. In April, City departments were asked to limit expenditures to necessities to try and offset planned use of fund balance. The combination of higher than expected revenues and scrutinized expenditures resulted in \$375,676 excess of revenue and other financing sources over expenditures and other financing uses.

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

Capital Projects Fund

The Capital Projects Fund is used by the City to account for the acquisition and construction of major capital projects and large equipment purchases for the general government. A major source of funding for Capital Projects is a transfer from the General Fund. The Capital Projects Fund also received State and community grants for projects.

During FY 2003, capital projects expenditures of \$993,632 included highway and drainage improvements, a land purchase, large equipment purchases, park improvements, and school capital expenditures.

Proprietary Funds

The City of Poquoson's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. As of June 30, 2003, unrestricted net assets of the following funds were:

Sewer Operation Fund	\$1,396,867
Parks and Recreation	777
Solid Waste	306,487

Concerns of these funds have already been addressed in the discussion of the City of Poquoson's government-wide financial analysis business-type activities.

Capital Assets and Debt Administration

Capital Assets. As of June 30, 2003, the City's investment in capital assets for its governmental and business-type activities amounted to \$36,777,272 (net of accumulated depreciation). The investment in capital assets includes land, construction in progress, buildings, improvements other than buildings, machinery and equipment, sewer system, and allocated school buildings. The City owns roads, streetlights, and other infrastructure, but has not capitalized these assets. Infrastructure is planned to be capitalized 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
Land	\$2,583,903	\$237,766	\$2,821,669
Construction in progress	190,995	312,444	503,439
Buildings	4,683,247	33,225	4,716,472
Improvements other than buildings	6,553	-	6,553
Machinery and equipment	1,891,452	470,479	2,361,931
Sewer System	-	17,372,550	17,372,550
Allocated school buildings	8,994,658	-	8,994,658
Total	\$18,350,808	\$18,426,464	\$36,777,272

Debt Administration. Total outstanding general obligation debt at June 30, 2003 was \$27,015,443, of which \$13,233,807 is considered to be net direct tax supported debt. Included in the total is \$8,189,853 in bonds and \$5,250,856 in State Literary Loans. The remaining \$13,781,636 is bonds for the sewer system that are essentially paid for by revenues in the Sewer Operations Fund. On the government-wide financial statements, long-term liabilities are netted against deferred refunding charges and bond premiums of \$206,902 in governmental activities and \$349,854 business-type activities.

The City's debt decreased by \$1,527,569, primarily due to debt payments during the fiscal year. The City did not issue any new debt during FY 2003, but did refinance some of its existing debt to take advantage of favorable interest rates.

The ratio of net bonded debt to assessed valuation and the amount of bonded debt per capita are useful indicators of the City's debt position to municipal management, citizens and investors.

This data for the past two years is presented below:

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

	<u>FY 2003</u>	<u>FY 2002</u>
Net direct bonded debt	\$13,440,709	\$14,145,971
Ratio of outstanding direct debt to assessed value	1.46%	1.70%
Net debt per capita	\$1,162	\$1,223

**Net Direct Tax Supported Debt
Including Business-Type Funds**

	<u>FY 2003</u>	<u>FY 2002</u>
Net direct bonded debt	\$27,572,199	\$28,925,306
Ratio of outstanding direct debt to assessed value	3.00%	3.48%
Net debt per capita	\$2,384	\$2,501

Economic Factors and Next Year's Budgets

The FY 2004 budget was prepared with economic trends within the City taken into account:

- The unemployment rate for the City of Poquoson was 2.2% compared to a state-wide rate of 4.1% and a national average of 5.8%.
- Property values continued to increase significantly and the majority of new construction projects were homes over \$300,000, where the taxes generated from the property exceed the average governmental cost per citizen.
- Taxable sales were up 9.25% from the previous year.
- Other local taxes have been trending upwards for the last several years.

Expenditures for the FY 2004 budget were lean with departments given only essential funding to operate. The budget did include funding to cover a 4% raise for City and School employees, a few additional School employees, rising health care costs, additional funds for mosquito control to do fly-over spraying, and outsourcing of the

comprehensive plan. The biggest concern is that the FY 2004 budget has capital expenditures funded out of unappropriated fund balance, which should produce a decrease in net assets during FY 2004.

While the FY 2004 budget has its typical challenges, these items seem practically insignificant when compared to what has happened subsequent to the budget preparation. On September 18, 2003, the City experienced extensive damage from Hurricane Isabel. The majority of damage came in the form of flooding, where the storm surge covered more than half of the City. This caused extensive damage to both citizens' property and local government property. The City was declared a disaster and FEMA and the State have agreed to provide assistance for 75% and 17%, respectively, of eligible disaster expenses, leaving the City to fund 8% of the costs.

- The City, Schools, and IDA all had damaged properties from the hurricane. Some of the City, School and IDA owned damaged property was covered by insurance and will be repaired to its prestorm condition. The insurance; however, does not cover all the damage. The vehicles that were flooded received little insurance reimbursements due to the age of the equipment, but still needed to be replaced. All outside facilities, such as damage to boat launch areas and park facilities are not insurable for flood damage, but may be eligible for repairing through FEMA funding. Certain City and School buildings did not always have adequate (or in some cases any) flood insurance, but incurred damage. Certain buildings, such as Fire Station No. 1 and the Poquoson Elementary School, were covered under flood insurance, but after assessing the damage to those buildings, the governing bodies are looking at ways to mitigate damage in the future. The repairs needed to restore City, School, and IDA property to its original condition could total \$1,000,000, which will partially be covered by insurance, and FEMA and State grants. Rebuilding properties or relocating them to an area out of the flood zone would cost much more.
- The City has been picking up all the storm debris for citizens, businesses, and the government. It is estimated that 180,000 cubic yards of vegetative debris and bulky items will be picked up and disposed of by City contractors. The City also removed dangerous trees in rights-of-way, picked up stumps of trees, picked up hazardous materials, and cleaned ditches of storm debris. It is estimated that these costs could be as high as \$4,000,000. These costs should be eligible for FEMA and State grants.
- The City incurred numerous expenses for emergency measures associated with the storm and providing immediate relief to citizens. These costs could be as high as \$500,000 and are eligible for FEMA and State grants.
- Damage to citizens' property from Hurricane Isabel is estimated to be \$92,000,000. If citizens are displaced from their home for more than 30 days, they are eligible for an abatement of tax due in the amount of the estimated damage. The City estimates that total abatements of FY 2004 revenues could be as much as \$100,000. The loss of revenue is not reimbursable by FEMA or the State. The City does not foresee the abatement of taxes to be an ongoing problem. We foresee that the majority of citizens will repair their damaged property and in the long run assessments should return to the original value.

While FY 2004 will be devoted to rebuilding the City, this is a time for pause and regrouping for the entire City. Repairs and rebuilding are going on throughout the City. Many citizens in the City of Poquoson have received direct assistance from FEMA to

raise their homes up on cinder blocks so that the lowest floor level is out of the flood zone. However, in cases where the homeowner did not qualify for direct assistance, or in cases where the FEMA direct assistance funds to homeowners were not sufficient to raise the home, the City has applied for additional FEMA mitigation grants to assist citizens in elevating the living quarter area of their homes to a higher level. The City is also applying for other FEMA mitigation grants to move critical public buildings out of flood zones, to add flood doors to public buildings that cannot be moved, and to raise up the floor level of the flooded Fire Station No. 1. If these grants are received, the City may need to match up to 25% of the grant.

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:

City of Poquoson
Pamela A. Moon, CPA
Director of Finance
500 City Hall Avenue
Poquoson, VA 23662

CITY OF POQUOSON, VIRGINIA

STATEMENT OF NET ASSETS

June 30, 2003

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and investments	\$ 4,825,720	\$ 1,378,382	\$ 6,204,102	\$ 1,940,304
Property taxes receivable - net	503,779	-	503,779	-
Receivables-net	112,837	335,131	447,968	5,985
Due from component units	120,608	-	120,608	-
Due from other governments	352,077	-	352,077	367,888
Inventory	14,795	2,746	17,541	1,136
Prepaid items	-	3,283	3,283	-
Notes and interest receivable	-	289,681	289,681	-
Restricted assets - cash and cash equivalents	-	598,114	598,114	-
Capital assets - net	18,350,808	18,426,464	36,777,272	5,638,132
Other assets	16,635	48,188	64,823	-
Total assets	\$ 24,297,259	\$ 21,081,989	\$ 45,379,248	\$ 7,953,445
LIABILITIES				
Accounts payable and accrued liabilities	\$ 323,422	\$ 91,801	\$ 415,223	\$ 1,747,344
Accrued compensated absences	416,563	21,171	437,734	97,475
Accrued interest	230,102	192,120	422,222	-
Line of credit	-	-	-	945,525
Due to primary government	-	-	-	120,608
Deferred revenue	-	-	-	8,220
Noncurrent liabilities:				
Due within one year	984,495	678,904	1,663,399	45,000
Due in more than one year	12,249,312	13,102,732	25,352,044	-
Total liabilities	14,203,894	14,086,728	28,290,622	2,964,172
NET ASSETS				
Invested in capital assets - net of related debt	5,133,636	4,693,016	9,826,652	4,647,607
Restricted:				
Debt service	-	598,114	598,114	-
Unrestricted	4,959,729	1,704,131	6,663,860	341,666
Total net assets	10,093,365	6,995,261	17,088,626	4,989,273
Total liabilities and net assets	\$ 24,297,259	\$ 21,081,989	\$ 45,379,248	\$ 7,953,445

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

STATEMENT OF ACTIVITIES

Year Ended June 30, 2003

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	\$ 1,401,639	\$ -	\$ 194,119	\$ -	\$ (1,207,520)	\$ -	\$ (1,207,520)	\$ -
Judicial	247,161	23,373	-	-	(223,788)	-	(223,788)	-
Public safety	3,721,021	81,729	385,763	268,627	(2,984,902)	-	(2,984,902)	-
Public works	1,472,320	-	600,000	299,234	(573,086)	-	(573,086)	-
Health and welfare	605,334	-	145,140	-	(460,194)	-	(460,194)	-
Education	6,459,434	21,200	-	-	(6,438,234)	-	(6,438,234)	-
Parks, recreation, cultural	775,359	22,835	989	106,147	(645,388)	-	(645,388)	-
Community development	514,618	40,392	-	20,316	(453,910)	-	(453,910)	-
Interest and fees on long-term debt	561,580	-	-	-	(561,580)	-	(561,580)	-
Nondepartmental	78,826	60,266	-	-	(18,560)	-	(18,560)	-
Total governmental activities	15,837,292	249,795	1,326,011	694,324	(13,567,162)	-	(13,567,162)	-
Business-type activities:								
Sewer	1,657,238	1,151,403	-	-	-	(505,835)	(505,835)	-
Parks and recreation	543,327	331,999	-	-	-	(211,328)	(211,328)	-
Solid waste	430,223	300,715	-	-	-	(129,508)	(129,508)	-
Total business-type activities	2,630,788	1,784,117	-	-	-	(846,671)	(846,671)	-
Total primary government	18,468,080	2,033,912	1,326,011	694,324	(13,567,162)	(846,671)	(14,413,833)	-
Component Units								
Poquoson Public Schools	16,680,744	440,488	9,370,268	-	-	-	-	(6,869,988)
Industrial Development Authority	63,457	12,500	-	-	-	-	-	(50,957)
Total component units	\$ 16,744,201	\$ 452,988	\$ 9,370,268	\$ -	-	-	-	(6,920,945)
General Revenues:								
Real estate and personal property taxes					10,796,813	-	10,796,813	-
Other local taxes					2,442,485	-	2,442,485	-
Payments from City of Poquoson					-	-	-	6,509,434
Reimbursements from other agencies					1,669,092	-	1,669,092	-
Basic aid					-	-	-	-
Miscellaneous					67,633	318,936	386,569	-
Unrestricted investment earnings					52,492	84,824	137,316	47
Transfers					(74,000)	74,000	-	-
Total general revenues, transfers and miscellaneous					14,954,515	477,760	15,432,275	6,509,481
Change in net assets					1,387,353	(368,911)	1,018,442	(411,464)
Net assets - beginning of year, as restated for GASB 34					8,706,012	7,364,172	16,070,184	8,151,567
Net assets - end of year					\$ 10,093,365	\$ 6,995,261	\$ 17,088,626	\$ 7,740,103

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

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2003

ASSETS	General	Capital Projects	Total Governmental Funds
Cash and cash equivalents	\$ 4,001,786	\$ 741,131	\$ 4,742,917
Property taxes receivable - net	503,779	-	503,779
Other receivables	112,770	-	112,770
Due from component units	120,608	-	120,608
Due from other governmental units	278,464	73,613	352,077
Inventory	2,796	-	2,796
Total assets and other debits	\$ 5,020,203	\$ 814,744	\$ 5,834,947
LIABILITIES			
Accounts payable and accrued liabilities	\$ 254,882	\$ 47,453	\$ 302,335
Deferred revenue	411,240	-	411,240
Total liabilities	666,122	47,453	713,575
FUND BALANCES			
Fund balances:			
Reserved for encumbrances	114,656	-	114,656
Unreserved:			
Designated for fiscal year 2004 budget	-	767,291	767,291
Unreserved and undesignated	4,239,425	-	4,239,425
Total fund balances	4,354,081	767,291	5,121,372
Total liabilities and fund balances	\$ 5,020,203	\$ 814,744	\$ 5,834,947

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

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2003

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

Total fund balances - governmental funds	\$ 5,121,372
Amount reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation.	18,346,774
Other long-term assets are not financial resources and, therefore, are deferred in the funds.	411,240
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.	61,482
Other liabilities not paid from current-period revenues are not reported in funds for:	
Accrued interest	(230,102)
Accrued compensated absences	(400,229)
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>(13,217,172)</u>
Total net assets - governmental activities	<u>\$ 10,093,365</u>

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2003

	Governmental Fund Types			Total Governmental Funds
	General	Debt Service	Capital Projects	
Revenue				
General property taxes	\$ 10,859,951	\$ -	\$ -	\$ 10,859,951
Other local taxes	2,442,485	-	-	2,442,485
Permits, privilege fees and regulatory licenses	116,843	-	-	116,843
Fines and forfeitures	27,970	-	-	27,970
Revenue from use of money and property	132,706	-	-	132,706
Charges for services	23,132	-	-	23,132
Intergovernmental	3,343,380	-	326,835	3,670,215
Miscellaneous	68,165	-	20,316	88,481
Total revenue	17,014,632	-	347,151	17,361,783
Expenditures				
Current:				
General government and administration	1,273,661	-	-	1,273,661
Public safety and judicial	3,774,685	-	-	3,774,685
Public works	1,013,082	-	-	1,013,082
Health and welfare	601,282	-	-	601,282
Parks, recreation, and cultural	763,866	-	-	763,866
Community development	452,374	-	-	452,374
Nondepartmental	78,254	-	-	78,254
Capital outlays	-	-	993,632	993,632
Debt service:				
Principal retirement	-	4,320,579	-	4,320,579
Bond issuance costs	-	17,300	-	17,300
Interest and fiscal charges	-	595,909	-	595,909
Total expenditures	7,957,204	4,933,788	993,632	13,884,624
Excess (deficiency) of revenue over expenditures	9,057,428	(4,933,788)	(646,481)	3,477,159
Other financing sources (uses)				
Transfers from:				
Component unit - School Board	441,651	-	-	441,651
Sewer	149,000	-	-	149,000
General	-	1,528,788	563,600	2,092,388
Bond proceeds	-	3,405,000	-	3,405,000
Transfers to:				
Component unit - School Board	(6,901,085)	-	-	(6,901,085)
Component unit - IDA	(50,000)	-	-	(50,000)
Debt service	(1,528,788)	-	-	(1,528,788)
Capital projects	(563,600)	-	-	(563,600)
Parks and recreation	(25,000)	-	-	(25,000)
Solid waste	(198,000)	-	-	(198,000)
	(8,675,822)	4,933,788	563,600	(3,178,434)
Net change in fund balances	381,606	-	(82,881)	298,725
Fund balances - July 1, 2002	3,972,475	-	850,172	4,822,647
Fund balances - June 30, 2003	\$ 4,354,081	\$ -	\$ 767,291	\$ 5,121,372

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

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS**

Year Ended June 30, 2003

**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	\$ 298,725
Amount reported for governmental activities in the Statement of Net Assets are different because:	
Revenues in the Statement of Activities that do not provide financial resources are not reported as revenues in the funds.	(63,138)
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. Also, in the Statement of Activities, the loss or disposal of assets is reported.	
Capital outlays	802,400
Depreciation expense	(416,427)
Loss on disposal of capital assets	(19,089)
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 repay	
Bond issuance	(3,405,000)
Advance refunding	3,175,000
Costs of debt issuance (net)	16,635
Deferred refunding charge (net)	202,136
Repayment of debt principal	935,262
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	43,175
Compensated absences	(172,271)
Internal service fund is used by management to charge the cost of fleet management to individual departments. The net loss of the fleet management fund is reported with governmental activities.	<u>(10,055)</u>
Change in net assets of governmental activities	\$ <u>1,387,353</u>

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

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

June 30, 2003

ASSETS	Business-type Activities Enterprise Funds			Totals	Governmental Activities- Internal Service Funds
	Sewer Operation	Parks and Recreation	Solid Waste		
Current assets					
Cash and investments	\$ 1,042,088	\$ 44,600	\$ 291,694	\$ 1,378,382	\$ 82,803
Accounts receivable	303,350	-	31,781	335,131	67
Notes receivable	178,627	-	-	178,627	-
Inventory	-	-	2,746	2,746	11,999
Prepaid expenses	-	3,283	-	3,283	-
Total current assets	1,524,065	47,883	326,221	1,898,169	94,869
Noncurrent assets					
Restricted cash and investments	598,114	-	-	598,114	-
Capital assets:					
Land	209,216	28,550	-	237,766	-
Construction in progress	312,444	-	-	312,444	-
Buildings	-	254,179	9,943	264,122	41,742
Sewer system	20,904,392	-	-	20,904,392	-
Equipment	522,290	6,000	469,851	998,141	20,800
Less - accumulated depreciation	(3,771,372)	(232,091)	(286,938)	(4,290,401)	(58,508)
Total capital assets (net of accumulated depreciation)	18,176,970	56,638	192,856	18,426,464	4,034
Intangible assets	48,188	-	-	48,188	-
Notes receivable - less current portion	111,054	-	-	111,054	-
Total noncurrent assets	18,934,326	56,638	192,856	19,183,820	4,034
Total assets	\$ 20,458,391	\$ 104,521	\$ 519,077	\$ 21,081,989	\$ 98,903
LIABILITIES					
Current liabilities					
Vouchers and accounts payable	\$ 30,110	\$ 32,542	\$ 13,584	\$ 76,236	\$ 18,605
Accrued payroll	2,381	10,984	2,200	15,565	2,482
Accrued interest	192,120	-	-	192,120	-
Compensated absences	13,641	3,580	3,950	21,171	16,334
Bonds, notes payable and capital lease obligations - current portion	678,904	-	-	678,904	-
Total current liabilities	917,156	47,106	19,734	983,996	37,421
Noncurrent liabilities					
Bonds, notes payable and capital lease obligations - less current portion	13,102,732	-	-	13,102,732	-
Total noncurrent liabilities	13,102,732	-	-	13,102,732	-
Total liabilities	14,019,888	47,106	19,734	14,086,728	37,421
NET ASSETS					
Invested in capital assets - net of related debt	4,443,522	56,638	192,856	4,693,016	4,034
Restricted for sewer construction	598,114	-	-	598,114	-
Unrestricted	1,396,867	777	306,487	1,704,131	57,448
Total net assets	6,438,503	57,415	499,343	6,995,261	61,482
Total liabilities and net assets	\$ 20,458,391	\$ 104,521	\$ 519,077	\$ 21,081,989	\$ 98,903

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

CITY OF POQUOSON, VIRGINIA

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS

Year Ended June 30, 2003

	Proprietary Fund Types				Internal Service Fund
	Sewer Operation	Parks and Recreation	Solid Waste	Total	
Operating revenue					
Charges for services	\$ 1,151,403	\$ 331,999	\$ 300,715	\$ 1,784,117	\$ 538,942
Festivals	-	144,840	-	144,840	-
Miscellaneous	258	18,438	-	18,696	-
Total operating revenue	1,151,661	495,277	300,715	1,947,653	538,942
Operating expenses					
Personnel services	162,273	242,344	93,331	497,948	211,553
Contractual services	86,888	193,264	1,339	281,491	40,867
Materials and supplies	29,004	69,974	62,438	161,416	256,346
Utilities	41,077	5,294	68	46,439	4,289
Depreciation and amortization	609,798	5,818	42,858	658,474	2,016
Other charges	128,005	26,633	41,419	196,057	33,926
Waste disposal	-	-	188,770	188,770	-
Total operating expenses	1,057,045	543,327	430,223	2,030,595	548,997
Operating income (loss)	94,616	(48,050)	(129,508)	(82,942)	(10,055)
Nonoperating revenue (expenses)					
Interest income	84,824	-	-	84,824	-
Interest and fiscal charges	(600,193)	-	-	(600,193)	-
Sewer availability fees	155,400	-	-	155,400	-
Net nonoperating expenses	(359,969)	-	-	(359,969)	-
Loss before operating transfers	(265,353)	(48,050)	(129,508)	(442,911)	(10,055)
Operating transfers					
Transfer in - primary government	-	25,000	198,000	223,000	-
Transfers out - primary government	(149,000)	-	-	(149,000)	-
Net operating transfers	(149,000)	25,000	198,000	74,000	-
Change in net assets	(414,353)	(23,050)	68,492	(368,911)	(10,055)
Net assets - July 1, 2002	6,852,856	80,465	430,851	7,364,172	71,537
Net assets - June 30, 2003	\$ 6,438,503	\$ 57,415	\$ 499,343	\$ 6,995,261	\$ 61,482

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, 2003

	Proprietary Fund Types			Total	Internal Service Fund	Component Unit IDA
	Sewer Operation	Parks and Recreation	Solid Waste			
Cash flows from operating activities						
Received from customers and users	\$ 1,109,559	\$ 495,277	\$ 300,474	\$ 1,905,310	\$ 538,875	\$ 12,500
Payments to suppliers for goods and services	(192,909)	(299,189)	(296,392)	(788,490)	(479,980)	(28,097)
Payments to employees	(162,273)	(231,059)	(90,944)	(484,276)	(31,077)	50,000
Net cash provided by (used in) operating activities	754,377	(34,971)	(86,862)	632,544	27,818	34,403
Cash flows from noncapital financing activities						
Transfers to other funds	(149,000)	-	-	(149,000)	-	-
Transfers from other funds	-	25,000	198,000	223,000	-	-
Net cash provided by (used in) noncapital financing activities	(149,000)	25,000	198,000	74,000	-	-
Cash flows from capital and related financing activities						
Principal paid on capital debt	(615,405)	-	-	(615,405)	-	(81,420)
Proceeds from capital debt	-	-	-	-	-	255,033
Payments received on notes receivable	230,078	-	-	230,078	-	-
Sewer availability fees	155,400	-	-	155,400	-	-
Interest paid on capital debt	(593,275)	-	-	(593,275)	-	(31,874)
Acquisition and construction of capital assets	(652,042)	-	(85,892)	(737,934)	-	(167,984)
Net cash provided by (used in) capital and related financing activities	(1,475,244)	-	(85,892)	(1,561,136)	-	(26,245)
Cash flows from investing activities						
Interest received	84,824	-	-	84,824	-	-
Net increase (decrease) in cash and investments	(785,043)	(9,971)	25,246	(769,768)	27,818	8,158
Cash and investments - beginning of year	2,425,245	54,571	266,448	2,746,264	54,985	-
Cash and investments - end of year	\$ 1,640,202	\$ 44,600	\$ 291,694	\$ 1,976,496	\$ 82,803	\$ 8,158
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities						
Operating income (loss)	\$ 94,616	\$ (48,050)	\$ (129,508)	\$ (82,942)	\$ (10,055)	\$ 30,917
Adjustments:						
Depreciation and amortization	609,798	5,818	42,858	658,474	2,016	3,458
Changes in assets and liabilities:						
Change in capitalization policy	84,607	12,155	-	96,762	22,842	-
Receivables - net	(42,102)	-	(241)	(42,343)	(67)	-
Inventories	-	-	4,985	4,985	(1,313)	-
Prepaid items	-	1,553	-	1,553	-	-
Vouchers and accounts payable	(2,422)	(17,732)	(7,343)	(27,497)	4,605	28
Accrued compensated absences	7,499	301	187	7,987	9,790	-
Accrued payroll	2,381	10,984	2,200	15,565	-	-
Net cash provided by (used in) operating activities	\$ 754,377	\$ (34,971)	\$ (86,862)	\$ 632,544	\$ 27,818	\$ 34,403

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

CITY OF POQUOSON, VIRGINIA

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2003

ASSETS	<u>Library Agency Fund</u>
Cash and cash equivalents	\$ 54,990

NET ASSETS	
Held in trust for library building	<u>\$ 54,990</u>

ASSETS	<u>Instructional Support</u>	<u>School Activity Funds</u>	<u>Total School Board Agency Fund</u>
Cash and cash equivalents	\$ 77,812	\$ 270,364	\$ 348,176

NET ASSETS			
Held in trust for school activities	<u>\$ 77,812</u>	<u>\$ 270,364</u>	<u>\$ 348,176</u>

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

CITY OF POQUOSON, VIRGINIA

STATEMENT OF NET ASSETS - COMPONENT UNITS

June 30, 2003

ASSETS	Poquoson Public Schools	Industrial Development Authority	Total
Cash and investments	\$ 1,932,146	\$ 8,158	\$ 1,940,304
Receivables - net	5,985	-	5,985
Due from other governments	367,888	-	367,888
Inventories	1,136	-	1,136
Capital assets - net	3,976,976	1,661,156	5,638,132
Total assets	\$ 6,284,131	\$ 1,669,314	\$ 7,953,445
LIABILITIES			
Vouchers and accounts payable	\$ 1,747,316	\$ 28	\$ 1,747,344
Line of credit	-	945,525	945,525
Compensated absences - current	9,748	-	9,748
Due to primary government	120,608	-	120,608
Note payable	-	45,000	45,000
Deferred revenue	8,220	-	8,220
Compensated absences - noncurrent	87,727	-	87,727
Total liabilities	1,973,619	990,553	2,964,172
NET ASSETS			
Invested in capital assets	3,976,976	670,631	4,647,607
Unrestricted	333,536	8,130	341,666
Total net assets	4,310,512	678,761	4,989,273
Total liabilities and net assets	\$ 6,284,131	\$ 1,669,314	\$ 7,953,445

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

CITY OF POQUOSON, VIRGINIA

STATEMENT OF ACTIVITIES - COMPONENT UNITS

Year Ended June 30, 2003

	Expense	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		Totals
		Charges for Services	Operating Grants and Contributions	Capital Contributions	Poquoson Public Schools	Industrial Development Authority	
Poquoson Public Schools							
Education	\$ 16,680,744	\$ 440,488	\$ 9,370,268	\$ -	\$ (6,869,988)	\$ -	\$ (6,869,988)
Industrial Development Authority							
Economic Development	63,457	12,500	-	-	-	(50,957)	(50,957)
Total component units	\$ 16,744,201	\$ 452,988	\$ 9,370,268	\$ -	\$ (6,869,988)	\$ (50,957)	\$ (6,920,945)
General revenues							
City of Poquoson					\$ 6,459,434	\$ 50,000	\$ 6,509,434
Unrestricted investment earnings					47	-	47
Total general revenues					6,459,481	50,000	6,509,481
Change in net assets					(410,507)	(957)	(411,464)
Net assets - beginning of year, as restated for GASB 34					7,471,849	679,718	8,151,567
Net assets - end of year					\$ 7,061,342	\$ 678,761	\$ 7,740,103

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

June 30, 2003

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the *City of Poquoson* 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. In addition, the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management's estimates. As required by those principles, these financial statements present the *City of Poquoson, Virginia* (the 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 fund the operations of the City's schools.

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 column in the basic financial statements to emphasize that it is legally separate from the City. There are no separate financial statements issued for the School Board.

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 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. Therefore, the IDA is financially dependent on the City. There are no separate financial statements issued for the IDA.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity (Continued)

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.

Implementation of New Accounting Principles

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (Statement). The Statement, known as the "Reporting Model" statement, affects the way the City prepares and presents financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private-sector financial reports.

GASB Statement No. 34 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.). This requirement permits an optional delay of implementation to fiscal year 2007. The City has implemented the basic model for fiscal year 2003 and anticipates completing the implementation of the infrastructure-related portion of the Statement by fiscal year 2007. Effective July 1, 2002, the City implemented the other applicable portions of GASB Statement No. 34.

The City adopted the provisions of GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*. This statement amends GASB 34 to either clarify certain provisions or modify other provisions that may have unintended consequences in some circumstances.

The City also adopted the provisions of GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. This statement modifies, establishes, or rescinds certain financial statement disclosure requirements.

The City also adopted the provisions of GASB Statement No. 41, *Budgetary Comparison Schedules – Perspective Differences – an amendment of GASB Statement No. 34*. This statement clarifies the budgetary comparison requirements for governments.

Management's Discussion and Analysis

GASB Statement No. 34 and GASB Statement No. 37 requires 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 support. Likewise, the *primary* government is reported separately from certain legally separate *component* units for which the primary government is financially accountable.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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 and fiduciary fund financial statements. 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 government considers revenues to be available if they are collected within 60 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 government reports the following major governmental funds:

The *general fund* is the government'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.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

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

The government reports the following major proprietary funds:

The *Sewer Operation 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 government reports the following proprietary fund type:

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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 government's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary Fund - Agency Fund Types

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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Component Unit - School Board

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

School Board General Fund

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

School Board Special Revenue Fund

The Special Revenue Fund is used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative action. Accordingly, the Special Revenue Fund is used to account for operations of the various school cafeterias. The cafeteria revenue is composed 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.

Component Unit - IDA

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 Poquoson City Council, and 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.

Budgeting and Budgetary Accounting

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

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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Budgeting and Budgetary Accounting *(Continued)*

The School Board approves the annual operating budget for the School Operating Fund. An annual operating budget is not adopted for the School Food Service Fund; therefore, it is not included in the budget and actual comparison of the component unit.

For the School Operating 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, 2003, for an increase in appropriations in the amount of \$815,566 and \$737,000 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 fixed assets and depreciated over their estimated useful lives on a straight-line basis on both the fund's basis and the government-wide basis. Interest expense is capitalized on proprietary fund type assets acquired 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.

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.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Capital Assets (Continued)

The estimated useful lives of capital assets are as follows:

	<u>Years</u>
Buildings	40
Improvements other than buildings	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 results of operations.

Allowance for Uncollectible Accounts

The City (the primary government) calculates its allowance for uncollectible property taxes receivable using historical collection data. At June 30, 2003, 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 (the 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.

Restricted Assets

Certain cash and cash equivalents of the Sewer Operation Fund (an enterprise fund) are classified as restricted since their use is limited by a bond trust indenture to the construction of improvements in the sewer system.

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 of the City and Capital Projects Fund.

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

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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Compensated Absences

City employees are granted vacation and sick pay in varying amounts based on years of service. Employees may accumulate, subject to certain limitations, unused vacation and sick pay earned and, upon retirement, termination or death, may be compensated for certain amounts at specified rates. The cost of accumulated vacation and sick pay expected to be paid from future expendable resources is accounted for as a liability in the government-wide statements and proprietary fund statements.

Sewer Availability Fees

Amounts charged customers to connect to the City's sewer system are recognized as non-operating 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 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 4.25% 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 \$931,597 and the bank balance was \$1,228,272 including cash with fiscal agents. The primary government also held \$8,158 of deposits of the IDA. 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 the Act, banks holding public deposits in excess of the amounts insured by the FDIC must pledge collateral in the amount of 50% of the excess 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.

2. DEPOSITS AND INVESTMENTS *(Continued)*

Deposits (Continued)

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, 2003, 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 \$706,074 and the bank balance was \$1,602,450. The bank balance was covered by Federal Depository Insurance Corporation or collateralized in accordance with the Virginia Security for Public Deposits Act. At June 30, 2003, 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 and the School Board 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 "2a7 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. Investments with a maturity date of one year or less are stated at amortized cost. All other investments are stated at fair value.

Investments are categorized on the next page to give an indication of the level of risk assumed by the City and School Board at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the government or its safekeeping agent in the government's name. Category 2 includes uninsured or unregistered investments for which the securities are held by the counterparty's trust department or a safekeeping agent in the government's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or safekeeping agent but not in the government's name.

2. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

At year-end, the primary government's investment balances were as follows:

	Category			Carrying Amount	Fair Value
	1	2	3		
Federal government obligations	\$ 1,048,695	\$ -	\$ -	\$ 1,048,695	\$ 1,048,695
Investments not subject to categorization:					
Investment in State Treasurer's Local Government Investment Pool (LGIP)				4,222,455	4,222,455
State Non-Arbitrage Program				598,114	598,114
				<u>5,869,264</u>	<u>5,869,264</u>
Less - LGIP, State Non-Arbitrage Program and Money Market Funds classified as cash and cash equivalents				<u>(4,820,569)</u>	<u>(4,820,569)</u>
Total investments				<u>\$ 1,048,695</u>	<u>\$ 1,048,695</u>

At year-end, the School Board's investment balances were as follows:

	Carrying Amount	Fair Value
Investments not subject to categorization:		
Investment in State Treasurer's Local Government Investment Pool (LGIP)	\$ 1,226,072	\$ 1,226,072
	<u>1,226,072</u>	<u>1,226,072</u>
Less - LGIP classified as cash and cash equivalents	<u>(1,226,072)</u>	<u>(1,226,072)</u>
Total investments	<u>\$ -</u>	<u>\$ -</u>

A summary of cash and cash equivalents at June 30, 2003, of both the primary government and its component units - School Board and IDA, was as follows:

	Primary Government	School Component Unit	IDA Component Unit
Petty cash and change funds	\$ 1,355	\$ -	\$ -
Deposits	931,597	706,074	8,158
Investments - classified as cash and cash equivalents	<u>4,820,569</u>	<u>1,226,072</u>	<u>-</u>
	<u>\$ 5,753,521</u>	<u>\$ 1,932,146</u>	<u>\$ 8,158</u>

3. PROPERTY TAXES RECEIVABLE

Property 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. 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 Operation Fund represent 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%.

5. DUE FROM OTHER GOVERNMENTAL UNITS

Due from other governmental units at June 30, 2003, consists of the following:

Primary Government

<u>Commonwealth of Virginia</u>	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>
Comprehensive Services Act	\$ 49,798	\$ -	\$ 49,798
Sales tax	31,436	-	31,436
Street and highway maintenance	150,000	73,613	223,613
DMV Reimbursement	8,345	-	8,345
Compensation Board	13,995	-	13,995
Total due from the Commonwealth of Virginia	253,574	73,613	327,187
 <u>Federal Government</u>			
COPS Fast Grant	19,581	-	19,581
U.S. Department of Interior	5,309	-	5,309
Total due from the Federal government	24,890	-	24,890
Total due from other governments	\$ 278,464	\$ 73,613	\$ 352,077

Component Units

<u>Commonwealth of Virginia</u>	<u>School Board</u>
State sales taxes	\$ 227,609
State technology reimbursement	527
Teacher fringe benefits	14,043
Various grants	24,193
Total due from the Commonwealth of Virginia	266,372
 <u>Federal Government</u>	
ECIA Program	
Title I & II	27,160
Title V	3,809
Title VI-B	55,305
Title VI	3,779
Various grants	11,463
Total due from the federal government	101,516
Total due from other governments	\$ 367,888

6. INTERFUND RECEIVABLES AND PAYABLES

Details of the receivables and payables between the primary government and the component units at June 30, 2003, are as follows:

<u>Primary Government Receivable Fund</u>	<u>Component Unit Payable Fund</u>	<u>Amount</u>
City General Fund	School General Fund	<u>\$ 120,608</u>

7. CAPITAL ASSETS

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

	<u>Restated Balance June 30, 2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2003</u>
Capital assets not being depreciated				
Land	\$ 2,290,050	\$ 293,853	\$ -	\$ 2,583,903
Construction in progress	14,220	176,775	-	190,995
Total capital assets not being depreciated	<u>2,304,270</u>	<u>470,628</u>	<u>-</u>	<u>2,774,898</u>
Other capital assets				
Buildings	6,278,653	-	-	6,278,653
Improvements other than buildings	10,569	-	-	10,569
Machinery and equipment	3,780,061	368,198	205,624	3,942,635
Total other capital assets	<u>10,069,283</u>	<u>368,198</u>	<u>205,624</u>	<u>10,231,857</u>
Less - accumulated depreciation				
Buildings	1,449,056	146,350	-	1,595,406
Improvements other than buildings	3,593	423	-	4,016
Machinery and equipment	1,930,893	269,654	149,364	2,051,183
Total accumulated depreciation	<u>3,383,542</u>	<u>416,427</u>	<u>149,364</u>	<u>3,650,605</u>
Other capital assets - net	<u>6,685,741</u>	<u>(48,229)</u>	<u>56,260</u>	<u>6,581,252</u>
	<u>8,990,011</u>	<u>422,399</u>	<u>56,260</u>	<u>9,356,150</u>
Allocation of School Board Assets - net	<u>-</u>	<u>8,994,658</u>	<u>-</u>	<u>8,994,658</u>
Total	<u>\$ 8,990,011</u>	<u>\$ 9,417,057</u>	<u>\$ 56,260</u>	<u>\$ 18,350,808</u>

7. **CAPITAL ASSETS** (Continued)

The gross cost and accumulated depreciation balances at June 30, 2002, were restated to capitalize assets and record accumulated depreciation in accordance with the adoption of GASB Statement No. 34. The gross cost balances at June 30, 2002, were also restated to reflect an increase in the City's capitalization threshold. Balances at June 30, 2002, were restated, net of accumulated depreciation, as follows:

	Balance June 30, 2002	Restatement	Restated Balance June 30, 2002
Land	\$ 2,300,619	\$ (10,569)	\$ 2,290,050
Construction in progress	14,220	-	14,220
Buildings	6,232,548	(1,402,951)	4,829,597
Improvements other than buildings	10,569	(3,593)	6,976
Machinery and equipment	4,385,788	(2,536,620)	1,849,168
Total	\$ 12,943,744	\$ (3,953,733)	\$ 8,990,011

Depreciation was charged to governmental functions as follows:

General Government Administration	\$ 105,198
Judicial Administration	47,720
Public Safety	173,338
Public Works	50,539
Health and Welfare	17,019
Parks, Recreation, and Cultural	22,613
Total	\$ 416,427

7. **CAPITAL ASSETS** (Continued)

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

	Restated Balance June 30, 2002	Increases	Decreases	Balance June 30, 2003
Capital assets not being depreciated:				
Land	\$ 243,223	\$ -	\$ -	\$ 243,223
Other capital assets				
Buildings	17,490,634	123,331	-	17,613,965
Machinery and equipment	3,929,184	142,219	428,760	3,642,643
Total other capital assets	<u>21,419,818</u>	<u>265,550</u>	<u>428,760</u>	<u>21,256,608</u>
Less - accumulated depreciation				
Buildings	5,193,243	366,275	-	5,559,518
Machinery and equipment	2,760,491	208,188	-	2,968,679
Total accumulated depreciation	<u>7,953,734</u>	<u>574,463</u>	<u>-</u>	<u>8,528,197</u>
Other capital assets - net	<u>13,466,084</u>	<u>(308,913)</u>	<u>428,760</u>	<u>12,728,411</u>
	<u>13,709,307</u>	<u>(308,913)</u>	<u>428,760</u>	<u>12,971,634</u>
Allocation to City, assets - net				<u>(8,994,658)</u>
Total				<u>\$ 3,976,976</u>

The gross cost and accumulated depreciation balances at June 30, 2002 were restated to record accumulated depreciation in accordance with the adoption of GASB Statement No. 34 and inventory of assets held by the School Board. The gross cost balances at June 30, 2002, were also restated to reflect an increase in the School Board's capitalization threshold. Balances as of June 30, 2002 were restated, net of accumulated depreciation, as follows:

	Balance June 30, 2002	Restatement	Restated Balance June 30, 2002
Land	\$ 243,223	\$ -	\$ 243,223
Buildings and improvements	17,435,644	(5,138,253)	12,297,391
Machinery and equipment	3,910,277	(2,741,584)	1,168,693
Total	<u>\$ 21,589,144</u>	<u>\$ (7,879,837)</u>	<u>\$ 13,709,307</u>

7. **CAPITAL ASSETS** (Continued)

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

<u>Business-type activities</u>	Restated Balance June 30, 2002	Increases	Decreases	Balance June 30, 2003
Capital assets not being depreciated:				
Land	\$ 236,766	\$ 1,000	\$ -	\$ 237,766
Construction in progress	601,752	612,135	901,443	312,444
Total capital assets not being depreciated	<u>838,518</u>	<u>613,135</u>	<u>901,443</u>	<u>550,210</u>
Other capital assets				
Buildings	264,122	-	-	264,122
Machinery and equipment	882,175	115,966	-	998,141
Sewer system	20,003,019	918,942	24,569	20,897,392
Sewer easement	7,000	-	-	7,000
Total other capital assets	<u>21,156,316</u>	<u>1,034,908</u>	<u>24,569</u>	<u>22,166,655</u>
Less - accumulated depreciation				
Buildings	224,416	6,481	-	230,897
Machinery and equipment	444,388	83,274	-	527,662
Sewer system	2,983,217	564,530	15,905	3,531,842
Total accumulated depreciation	<u>3,652,021</u>	<u>654,285</u>	<u>15,905</u>	<u>4,290,401</u>
Other capital assets - net	<u>17,504,295</u>	<u>380,623</u>	<u>8,664</u>	<u>17,876,254</u>
Total	<u>\$ 18,342,813</u>	<u>\$ 993,758</u>	<u>\$ 910,107</u>	<u>\$ 18,426,464</u>

The gross cost and accumulated depreciation balances at June 30, 2002, were restated to capitalize assets and record accumulated depreciation in accordance with the adoption of a new capitalization policy. The gross cost and accumulated depreciation balances at June 30, 2002, were also restated to reflect an increase in the City's capitalization threshold. Balances at June 30, 2002, were restated as follows:

	Balance June 30, 2002	Restatement	Balance June 30, 2002
Land	\$ 241,338	\$ (4,572)	\$ 236,766
Construction in progress	601,752	-	601,752
Buildings and improvements	272,153	(8,031)	264,122
Machinery and equipment	919,659	(37,484)	882,175
Sewer system	20,013,453	(10,434)	20,003,019
Sewer easement	73,880	(66,880)	7,000
	<u>22,122,235</u>	<u>(127,401)</u>	<u>21,994,834</u>
Accumulated depreciation	<u>(3,682,658)</u>	<u>30,637</u>	<u>(3,652,021)</u>
	<u>\$ 18,439,577</u>	<u>\$ (96,764)</u>	<u>\$ 18,342,813</u>

7. **CAPITAL ASSETS** (Continued)

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

<u>Industrial Development Authority</u>	<u>Balance July 1, 2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2003</u>
Capital assets not being depreciated:				
Land	\$ 1,120,269	\$ 118,283	\$ -	\$ 1,238,552
Other capital assets:				
Buildings and improvements	69,158	49,700	-	118,858
Infrastructure	315,273	-	-	315,273
Total other capital assets	<u>384,431</u>	<u>49,700</u>	<u>-</u>	<u>434,131</u>
Less - accumulated depreciation:				
Buildings and improvements	8,069	3,458	-	11,527
Infrastructure	-	-	-	-
Total accumulated depreciation	<u>8,069</u>	<u>3,458</u>	<u>-</u>	<u>11,527</u>
Other capital assets - net	<u>376,362</u>	<u>46,242</u>	<u>-</u>	<u>422,604</u>
Total	<u>\$ 1,496,631</u>	<u>\$ 164,525</u>	<u>\$ -</u>	<u>\$ 1,661,156</u>

8. **LONG-TERM OBLIGATIONS**

Governmental Activities

Following is a summary of the changes in long-term liabilities for governmental activities and its component unit - School Board, respectively, for the year ended June 30, 2003:

	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2003</u>	<u>Amounts due within one year</u>
General Obligation					
Debts payable:					
General obligation bonds	\$ 8,455,597	\$ 3,405,000	\$ 3,670,744	\$ 8,189,853	\$ 544,977
State Literary Fund loans	5,690,374	-	439,518	5,250,856	439,518
Deferred charge - refunding	-	(215,083)	(8,181)	(206,902)	-
	<u>14,145,971</u>	<u>3,189,917</u>	<u>4,102,081</u>	<u>13,233,807</u>	<u>984,495</u>
Accrued benefits:					
Accrued compensated absences	234,502	182,061	-	416,563	41,656
	<u>\$ 14,380,473</u>	<u>\$ 3,371,978</u>	<u>\$ 4,102,081</u>	<u>\$ 13,650,370</u>	<u>\$ 1,026,151</u>
Component Unit - School Board					
Accrued benefits:					
Accrued compensated absences	\$ 102,138	\$ -	\$ 4,663	\$ 97,475	\$ 9,748

8. **LONG-TERM OBLIGATIONS** (Continued)

Government Activities (Continued)

Outstanding General Obligation bonds at June 30, 2003 of the Primary Governmental activities are comprised of the following:

School Serial Bonds of 1989 - \$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%.	\$ 475,000
City Serial Bonds of 1994A - \$4,900,000 bonds issued and due in annual installments varying from \$120,000 to \$400,000 through January 2006, with interest payable semi-annually at rates varying from 3.90% to 4.70%.	685,000
High School Serial Bonds of 1998 - \$650,000 bonds issued and due in annual installments varying from \$30,000 to \$35,000 through July 2018, with interest payable semi-annually at rates varying from 3.60% to 5.10%.	510,000
General Obligation Court Facility Bond Series 1998A - \$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%.	1,242,962
General Obligation Fire Station Bond Series 2000 - \$925,000 bonds issued and due in semi-annual principal and interest installments of \$45,471 through September 2015. The bond bears interest at 5.43%.	816,909
General Obligation Refunding Note Series 2001 - \$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.	575,088
General Obligation Public Improvement Equipment Note Series 2002B - \$597,000 bonds issued and due in annual installments of \$72,304, including principal and interest at 4.34% through June 2011.	479,894
General Obligation Refunding Note Series 2002 - \$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%.	3,405,000
Total general obligation bonds outstanding	\$ 8,189,853

Defeased Debt

In November 2002, the City defeased certain 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 defeased bonds are not included in the City's financial statements. On June 30, 2003, \$3,175,000 of bonds outstanding is considered defeased. Amounts are legally defeased on January 1, 2004.

8. **LONG-TERM OBLIGATIONS** (Continued)

Outstanding literary loan funds at June 30, 2003 of the Primary Governmental activities are comprised of the following issues:

Middle School Literary Fund Loan (HVAC) - \$410,776 loan issued May 1, 1985, due in annual installments of \$20,538 through May 2005, with interest at 3%.	\$ 33,960
Elementary School Literary Fund Loan (HVAC) - \$339,561 loan issued May 1, 1985, due in annual installments of \$16,980 through May 2005, with interest at 3%.	41,076
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%.	875,000
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%.	300,820
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%.	4,000,000
Total state literary fund loans outstanding	<u>\$ 5,250,856</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 544,977	\$ 362,443
2005	585,036	335,417
2006	595,616	306,622
2007	626,745	276,957
2008	638,454	251,002
2009-2013	3,157,647	843,685
2014-2018	2,011,378	185,435
2019	30,000	765
	<u>\$ 8,189,853</u>	<u>\$ 2,562,326</u>

State literary fund loans debt service requirements to maturity are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 439,518	\$ 157,526
2005	439,518	144,340
2006	402,000	131,155
2007	402,000	119,095
2008	402,000	107,035
2009-2013	1,635,000	365,521
2014-2018	1,280,820	150,925
2019	250,000	7,500
	<u>\$ 5,250,856</u>	<u>\$ 1,183,097</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, 2003, the City's aggregate general obligation indebtedness was \$69,319,705 less than the allowable limit.

8. **LONG-TERM LIABILITIES** (Continued)

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 for the fiscal year ended June 30, 2003:

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Amounts due within one year
Enterprise Funds					
General obligation funds	\$ 14,779,335	\$ -	\$ 647,845	\$ 14,131,490	\$ 678,904
Accounting loss on refunding	(388,860)	-	(32,770)	(356,090)	-
Bond premium	6,566	-	330	6,236	-
	<u>14,397,041</u>	<u>-</u>	<u>615,405</u>	<u>13,781,636</u>	<u>678,904</u>
Accrued compensated absences	13,184	7,987	-	21,171	21,171
	<u>\$ 14,410,225</u>	<u>\$ 7,987</u>	<u>\$ 615,405</u>	<u>\$ 13,802,807</u>	<u>\$ 700,075</u>

General long-term obligations and notes payable at June 30, 2003, are composed of the following:

General Obligation Sewer System Serial Bonds, Series of 1994B (February 1994) - \$1,655,000 bonds issued and due in annual installments varying from \$75,000 to \$140,000 through January 2012, with interest payable semi-annually at rates varying from 3.90% to 5.375%.	\$ 1,030,000
General Obligation Sewer System Bonds, Series 1994A (September 1994) - \$2,800,000 bonds issued and due in annual installments varying from \$15,000 to \$245,000 through September 2017, with interest payable semi-annually at rates varying from 6.11 % to 6.50%.	455,000
General Obligation Sewer System Refunding Bonds, Series 1998B (December 1998) - \$2,294,591 bonds issued and due in annual installments varying from \$21,809 for \$235,256, through September 2017, with interest payable semi-annually at 4.5%.	2,212,341
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%.	<u>2,466,691</u>
Sub-total (carried forward)	<u>\$ 6,164,032</u>

9. LONG-TERM LIABILITIES - PROPRIETARY FUNDS (Continued)

Sub-total (brought forward)	\$ 6,164,032
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%.	6,790,328
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%.	1,065,000
General Obligation Public Improvement Equipment Note Series 2002A - \$141,000 bonds issued and due in annual installments of \$30,590, including principal and interest at 3.57% through August 2006.	112,130
	14,131,490
Accounting loss on refundings	(356,090)
Bond premium	6,236
Total general obligation bonds outstanding	\$ 13,781,636

Debt service on the foregoing general obligation bonds recorded in the Enterprise Funds is payable during future fiscal years ending June 30, as follows:

Year	Principal	Interest
2004	\$ 678,904	\$ 548,384
2005	706,549	521,232
2006	726,922	496,027
2007	758,829	463,102
2008	761,689	432,182
2009-2013	4,134,320	1,670,975
2014-2018	4,369,368	840,628
2019-2022	1,994,909	129,529
	\$ 14,131,490	\$ 5,102,059

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.

Defeased Debt

In prior years, The City defeased 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. On June 30, 2003, \$2,015,000 of bonds outstanding is considered defeased.

The unamortized amount deferred on the sewer refundings of \$356,090 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. LONG-TERM 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. Short-term activity for the year ended June 30, 2003 was as follows:

	<u>Beginning Balance</u>	<u>Draws</u>	<u>Repayments</u>	<u>Ending Balance</u>
Line of credit	\$ 690,492	\$ 255,033	\$ -	\$ 945,525

Note Payable

The IDA also has \$90,000 non-interest bearing note payable, due in annual installments of \$45,000 beginning January 2003.

Principal payments on long-term liabilities in the succeeding five years are as follows:

<u>Year</u>	
2004	<u>\$ 45,000</u>

11. CONDUIT DEBT OBLIGATION

On July 1, 2001, the IDA issued \$10,000,000 YMCA Revenue Bonds to finance the acquisition and construction of the Peninsula Metropolitan YMCA (YMCA). The cost of financing the project, all expenses of issuing the bonds and the payment of bond principal and interest is the responsibility of the YMCA. 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, 2003, \$10,000,000 was outstanding.

12. DEFERRED REVENUE

Deferred revenue for the primary government at June 30, 2003, consists of real and personal property taxes not collected within 45 days after June 30, 2003. Deferred revenue for the School Board at June 30, 2003, consists of grant money received but not expended.

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 Receivables and Payables

Receivable and payable balances between the primary government and component unit at June 30, 2003, are as follows:

	<u>Due To</u>	<u>Due From</u>
Primary government	\$ 120,608	\$ -
Component unit - School Board	-	120,608
Totals	<u>\$ 120,608</u>	<u>\$ 120,608</u>

Interfund Transfers

Interfund transfers for the year ended June 30, 2003 were made up of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 149,000	\$ 2,315,388
Debt Service Fund	1,528,788	-
Capital Projects Fund	563,600	-
Parks and recreation	25,000	-
Sewer operation fund	-	149,000
Solid waste fund	198,000	-
Totals	<u>\$ 2,464,388</u>	<u>\$ 2,464,388</u>

Purpose:

Transfers from General Fund:

- \$1,528,788 Debt Service Fund: current year debt payments.
- \$ 563,600 Capital Projects: funding for pay-as-you-go capital projects.
- \$ 25,000 Parks and Recreation: fund deficit in special events.
- \$ 198,000 Solid Waste Fund: fund bulky item pickup.

Transfers from Sewer Operation Fund:

- \$ 149,000 General Fund: allocate administration costs paid out of General Fund for sewer services.

15. SURETY BONDS

The City maintained the following surety bond coverages on certain employees of the primary government and component unit during the fiscal year ended June 30, 2003:

<u>Description</u>	<u>Amount</u>
Virginia Municipal Liability Pool - All City employees - employee dishonesty blanket bond	\$ 500,000
Forest T. Jones & Company, Inc.:	
Janet A. Brown, Executive Director of Business and Finance, School Board, Clerk of the School Board	\$ 10,000
Marilyn Barr, Deputy Clerk of the School Board	\$ 10,000
All School Board employees - blanket bond	\$ 1,000,000

15. SURETY BONDS (Continued)

The Commonwealth of Virginia maintained the following surety bond and blanket bond coverages 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: Donald T. Joyner, Treasurer and employees	\$ 500,000
Commonwealth of Virginia Faithful Performance of Duty Bond: Treasurer, Donald T. Joyner	\$ 500,000
Commissioner of the Revenue, Graham P. Wilson	\$ 500,000

16. RELATED-PARTY TRANSACTIONS

The City's financial statements do not include certain public commissions and authorities created as separate governmental entities under the laws of the Commonwealth of Virginia. These agencies are separate legal entities having governmental character and sufficient autonomy in the management of their own affairs to distinguish them as separate from the administrative organization of the City, although certain members of their governing bodies are appointed by Council. These entities are the Hampton Roads Planning District Commission (HRPDC), the Virginia Peninsula's Public Service Authority (VPPSA), the Peninsula Alliance for Economic Development (PAED), the Colonial Services Board (CSB) and the Greater Peninsula Workforce Development Consortium (GPWDC). Expenditures of these agencies are financed by Federal and State grants and fees, including contributions from the City. During the year ended June 30, 2003, the City provided support to HRPDC of \$21,279, VPPSA of \$174,854, PAED of \$13,300, CSB of \$89,397 and GPWDC of \$5,000.

In addition, a conglomerate of municipalities shares certain expenses for maintaining and operating a regional jail and juvenile detention center. During fiscal year 2003, the City incurred expenses for the jail and center of \$67,466 and \$21,237, 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 and the sheriff of York County. The City also shares social services with York County. During the year ended June 30, 2003, the City paid \$321,271 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, 2003, the School Board provided support of \$292,525 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 salary (AFS), 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. AFS 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 salary to the VRS. This 5% member contribution has been assumed by both the City and the School Board. In addition the City and School Board are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's and School Board's (non-professional employees) contribution rate for the year ended June 30, 2003, was 1.00% and 7.25%, 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 2003, 2002 and 2001 were \$833,075, \$808,682 and \$1,050,602, respectively. The School Board contributed 100% of required contributions to the pool for fiscal year ended 2003 and each of the two preceding years.

17. **DEFINED BENEFIT RETIREMENT PLAN** (Continued)

C. Annual Pension Cost

For fiscal year 2003, the City and School Board's annual pension costs of \$243,658 and \$67,675, 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, 2002, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (1) 8% investment rate of return, (b) projected salary increases ranging from 4.25% to 6.10% per year, and (c) 3% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. 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, 2002. Actuarial assumptions used include an investment rate of return of 8%.

18. **RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The risk of loss from certain acts of employees and certain elected officials is insured through commercial insurance as discussed in Note 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 coverages from the prior year, and settled claims have not exceeded the amount of insurance coverage in any of the past three years.

19. **RESTATEMENT OF NET ASSETS**

During fiscal year 2003 the City adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*.

<u>Primary Government - Business-Type Activities</u>	
Retained earnings at June 30, 2002	\$ 1,874,913
Reclassification of contributed capital	<u>5,489,259</u>
Restated net assets at July 1, 2002	<u>\$ 7,364,172</u>

20. RESTATEMENT OF NET ASSETS (Continued)

The following table shows beginning net assets restated for the effects of the implementation of GASB Statement No. 34 and change in accounting policy.

<u>Primary Government - Governmental Activities</u>	
Fund balance at June 30, 2002	
General Fund	\$ 3,972,475
Capital Projects Fund	850,172
	<u>4,822,647</u>
Accrued compensated absences	(227,958)
Accrued interest expense	(273,277)
General obligation debts payable - June 30, 2002	(14,145,971)
General fixed assets - restated-June 30, 2002	8,990,016
Internal service net assets - June 30, 2002	71,539
Deferred revenue - June 30, 2002 - General Fund	474,363
Capital asset restatements for depreciation and transfer of assets from School Board to City due to new legislation	8,994,658
	<u>\$ 8,706,017</u>

21. SUBSEQUENT EVENT

On September 18, 2003, Hurricane Isabel passed through the City causing extensive property damage from falling trees and storm surge. The City is currently working with its insurance carrier and the Federal Emergency Management Agency (FEMA) to assess the financial impact of the damages. On November 10, 2003, the City entered into a \$2,000,000 line of credit agreement with a bank to be available to bridge timing differences between hurricane cleanup costs and reimbursements from FEMA, the State, and insurance proceeds. In December 2003, the City refunded a portion of its General Obligation Sewer System Bonds, Series of 1994B.

* * * * *

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2003

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
Revenues and other financing sources				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 8,850,000	\$ 8,850,000	\$ 9,200,578	\$ 350,578
Public service corporation property taxes	190,000	190,000	145,365	(44,635)
Personal property	1,327,800	1,327,800	1,367,354	39,554
Penalties and interest	115,000	115,000	146,654	31,654
Total general property taxes	10,482,800	10,482,800	10,859,951	377,151
Other local taxes:				
Sales and use taxes	372,000	372,000	407,006	35,006
Meals taxes	372,000	372,000	379,249	7,249
Cigarette taxes	102,000	102,000	71,808	(30,192)
Consumers' utility taxes	420,000	420,000	440,543	20,543
Consumption tax	36,000	36,000	39,005	3,005
E-911 telephone taxes	172,000	172,000	179,656	7,656
Business license taxes	262,000	262,000	339,473	77,473
Franchise license taxes	86,000	86,000	100,041	14,041
Motor vehicle license taxes	273,000	273,000	291,862	18,862
Bank stock taxes	35,000	35,000	18,318	(16,682)
Recordation and wills taxes	104,000	104,000	148,878	44,878
Deeds of conveyance	17,000	17,000	26,646	9,646
Total other local taxes	2,251,000	2,251,000	2,442,485	191,485
Permits, privilege fees and regulatory licenses:				
Animal license	2,000	2,000	1,846	(154)
Permits and other licenses	102,000	102,000	114,997	12,997
Total permits, privilege fees and regulatory licenses	104,000	104,000	116,843	12,843
Fines and forfeitures	24,000	24,000	27,970	3,970
Revenue from use of money and property:				
Revenue from use of money	100,000	100,000	52,492	(47,508)
Revenue from use of property	49,200	49,200	80,214	31,014
Total revenue from use of money and property	149,200	149,200	132,706	(16,494)
Charges for services:				
Charges for sales of maps	300	300	297	(3)
Charges for copying	4,200	4,200	4,187	(13)
Charges for library and fees	15,000	15,000	18,648	3,648
Total charges for services	19,500	19,500	23,132	3,632
Miscellaneous revenue:				
Miscellaneous	5,200	7,905	11,729	3,824
Donations-Volunteer fire & rescue	-	50,563	50,563	-
Donations	-	5,848	5,873	25
Total miscellaneous revenue	5,200	64,316	68,165	3,849

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2003

	Original Budget	Budget as Amended	Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
Revenues and other financing sources (Continued)				
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
ABC Profits	\$ 14,010	\$ 14,010	\$ 13,995	\$ (15)
DMV reimbursement	20,000	44,000	60,266	16,266
Wine taxes	15,840	15,840	12,958	(2,882)
Mobile home titling taxes	4,490	4,490	5,892	1,402
Rolling stock tax	-	-	121	121
Personal property tax relief	1,586,200	1,586,200	1,630,817	44,617
Total noncategorical aid	1,640,540	1,664,540	1,724,049	59,509
Categorical aid:				
Shared expenses:				
Commissioner of the Revenue	75,867	75,867	73,154	(2,713)
Treasurer	86,283	86,283	82,829	(3,454)
Registrar/electoral board	36,925	36,925	38,136	1,211
Total categorical aid	199,075	199,075	194,119	(4,956)
Other categorical aid:				
State 599 police funds	258,025	258,025	249,881	(8,144)
Juvenile crime	14,340	14,340	14,388	48
Fire program fund	15,600	15,600	15,501	(99)
Department of Emergency Services	2,000	2,000	2,000	-
Street and highway maintenance	600,000	600,000	600,000	-
Litter control	5,100	5,100	4,784	(316)
Library	95,090	99,274	99,274	-
Emergency medical services	5,200	5,200	5,182	(18)
Rescue squad assistance grant	-	30,523	30,523	-
Criminal justice grants	-	2,502	1,002	(1,500)
VOPEX grant	-	27,303	27,303	-
Wireless E911 PSAP	-	72,973	72,973	-
Comprehensive services	82,000	135,000	145,116	10,116
Total other categorical aid	1,077,355	1,267,840	1,267,927	87
Total categorical aid	1,276,430	1,466,915	1,462,046	(4,869)
Total revenue from the Commonwealth	2,916,970	3,131,455	3,186,095	54,640
Revenue from the federal government:				
Miscellaneous	57,920	135,544	157,285	21,741
Other financing sources				
Transfer from component unit-Schools	303,040	303,040	441,651	138,611
Transfer from sewer fund	149,000	149,000	149,000	-
Total other financing uses	452,040	452,040	590,651	138,611
Total revenue and other financing sources	\$ 16,462,630	\$ 16,813,855	\$ 17,605,283	\$ 791,428

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2003

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
Expenditures and other financing uses				
General government administration:				
Legislative - City Council	\$ 62,270	\$ 62,270	\$ 60,301	\$ 1,969
General and financial administration:				
City Manager	263,880	234,367	233,992	375
Legal services	87,700	87,700	77,866	9,834
Independent auditor	26,000	26,000	25,974	26
Commissioner of the Revenue	205,310	205,310	204,830	480
Assessor/equalization board	122,160	122,160	114,227	7,933
Treasurer	209,250	209,250	208,599	651
Finance	219,520	219,520	214,149	5,371
Risk management	52,400	31,400	26,719	4,681
Total general and financial administration	1,186,220	1,135,707	1,106,356	29,351
Board of elections - electoral board and registrar	90,530	101,330	100,771	559
Total general government administration	1,339,020	1,299,307	1,267,428	31,879
Public safety:				
General district court	79,108	83,608	83,599	9
Clerk of the circuit court	357	357	357	-
Sheriff	82,710	82,710	82,710	-
Building maintenance	32,775	32,775	32,775	-
Total judicial administration	194,950	199,450	199,441	9
Law enforcement and traffic control - police department	1,485,140	1,607,325	1,547,244	60,081
Fire and rescue services - fire department	1,658,540	1,803,089	1,763,987	39,102
Correction and detention - regional operated institutions	156,050	156,050	114,940	41,110
Inspections - various	102,640	102,640	91,160	11,480
Other protection - animal control	51,090	51,090	51,090	-
Total public safety	3,453,460	3,720,194	3,568,421	151,773
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
General engineering/administration	173,330	173,330	166,167	7,163
Highways, streets, bridges and sidewalks	751,030	751,030	749,177	1,853
Street lights	57,000	57,000	53,090	3,910
Total maintenance of highways, streets, bridges and sidewalks	981,360	981,360.0	968,434	12,926
Maintenance of general buildings and grounds	106,960	106,960	99,475	7,485
Total public works	1,088,320	1,088,320	1,067,909	20,411

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2003

	Original Budget	Budget as Amended	Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
Expenditures and other financing uses (Continued)				
Health and welfare:				
Health:				
Local health department	\$ 43,280	\$ 43,280	\$ 40,183	\$ 3,097
Mosquito control	128,700	164,415	155,979	8,436
Total health	171,980	207,695	196,162	11,533
Mental health and mental retardation - mental health	112,520	112,520	103,167	9,353
Welfare:				
Social services	99,760	99,760	97,198	2,562
Comprehensive services	120,000	197,000	189,209	7,791
Total welfare	219,760	296,760	286,407	10,353
Total health and welfare	504,260	616,975	585,736	31,239
Education - School Board	6,670,000	6,901,085	6,901,085	-
Parks, recreation and cultural - supervision of parks and recreation	245,250	245,250	245,067	183
Library - administration	495,100	506,132	504,204	1,928
Total parks, recreation and cultural	740,350	751,382	749,271	2,111
Community development:				
Planning	201,300	201,300	197,410	3,890
Economic development	5,000	5,000	5,000	-
Community development	148,230	148,230	130,204	18,026
Community development - IDA component unit	50,000	50,000	50,000	-
Community relations office	108,480	114,180	114,060	120
Total community development	513,010	518,710	496,674	22,036
Nondepartmental - miscellaneous	45,000	45,000	27,836	17,164
Department of motor vehicles	-	53,513	50,418	3,095
Total nondepartmental	45,000	98,513	78,254	20,259
Other Financing Uses				
Transfers to Debt Service Fund	1,577,460	1,577,460	1,528,788	48,672
Transfers to Capital Projects Fund	418,600	563,600	563,600	-
Transfers to Parks Recreation Fund	-	25,000	25,000	-
Transfers to Solid Waste Fund	198,000	198,000	198,000	-
Total other financing uses	2,194,060	2,364,060	2,315,388	48,672
Total expenditures and other financing uses	\$ 16,742,430	\$ 17,557,996	\$ 17,229,607	\$ 328,389
Excess of revenue and other financing sources over expenditures and other financing uses - budgetary basis	\$ (279,800)	\$ (744,141)	\$ 375,676	
Net appropriation from fund balance	279,800	744,141		
Budget - excess of revenue, other financing sources and appropriation from fund balances over expenditures and other financing uses	\$ -	\$ -		
Less: Encumbrances outstanding June 30, 2002, actually expended as of June 30, 2003			\$ (108,726)	
Add: Encumbrances outstanding June 30, 2003			114,656	
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses, GAAP basis			381,606	
Fund balances - July 1, 2002			3,972,475	
Fund balances - June 30, 2003			\$ 4,354,081	

CITY OF POQUOSON, VIRGINIA

RETIREMENT PLAN
SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Year Ended June 30, 2003

	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							
	6/30/02	\$ 11,533,688	\$ 10,399,405	\$ 1,134,283	110.91%	\$ 3,736,191	30.36%
	6/30/01	\$ 11,032,189	\$ 9,356,833	\$ 1,675,356	117.90%	\$ 3,258,356	51.40%
	6/30/00	\$ 9,910,536	\$ 7,798,479	\$ 2,112,057	127.10%	\$ 3,179,681	66.40%
	6/30/99	\$ 8,331,910	\$ 7,661,020	\$ 670,890	108.80%	\$ 3,059,380	21.90%
	6/30/98	\$ 7,013,821	\$ 5,518,576	\$ 1,495,245	127.10%	\$ 2,807,789	53.30%
	School Board						
	Non-professional Employees						
	6/30/02	\$ 769,537	\$ 908,263	\$ 138,726	84.73%	\$ 515,674	(26.90%)
	6/30/01	\$ 699,099	\$ 799,581	\$ 100,482	87.43%	\$ 474,453	(21.18%)
	6/30/00	\$ 602,210	\$ 615,144	\$ (12,934)	97.90%	\$ 403,417	(3.20%)
	6/30/99	\$ 502,635	\$ 574,382	\$ (71,747)	87.50%	\$ 371,974	(19.30%)
	6/30/98	\$ 410,489	\$ 470,988	\$ (60,499)	87.20%	\$ 377,434	(16.00%)
				Annual Required Contribution (ARC)	Percentage of ARC Contributed		Net Pension Obligation
Schedules of Employer Contributions							
City Employees							
	6/30/03		\$ 40,011		100.00%		\$ -
	6/30/02		\$ 17,689		100.00%		\$ -
	6/30/01		\$ 80,866		100.00%		\$ -
	6/30/00		\$ 187,616		100.00%		\$ -
	School Board						
	Non-professional Employees						
	6/30/03		\$ 38,481		100.00%		\$ -
	6/30/02		\$ 32,678		100.00%		\$ -
	6/30/01		\$ 28,850		100.00%		\$ -
	6/30/00		\$ 20,202		100.00%		\$ -

June 30, 2003

1. BUDGETS AND BUDGETARY ACCOUNTING

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

- At least 60 days prior to June 30, the City Manager submits to City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- The budget is formulated from estimates of revenues and expected expenditures from each department. The School Board is treated as a single expenditure line item.
- When the City Manager submits the proposed budget to City Council, he also recommends an appropriation ordinance and an ordinance levying the tax rates for the ensuing year.
- City Council then holds public hearings on the proposed budget. Notice of such public hearing must appear in a local newspaper not less than seven days prior to the hearing.
- The budget must be approved by a majority vote of City Council and legally adopted before July 1. If City Council does not adopt the proposed budget before July 1, the budget as submitted is automatically adopted.
- The City Manager is authorized to transfer budgeted amounts within departments. Expenditures over the original budget of any department must be approved by City Council.

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

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

* * * * *

CITY OF POQUOSON, VIRGINIA

SCHEDULE OF CAPITAL ASSETS BY FUNCTION AND ACTIVITY

June 30, 2003

Function and Activity	Land	Buildings	Improvements Other than Buildings	Machinery and Equipment	Total
General government administration					
City Manager	\$ -	\$ -	\$ -	\$ 16,668	\$ 16,668
Assessor/equalization board	-	-	-	11,735	11,735
Finance	-	-	-	153,016	153,016
Registrar	-	-	-	21,816	21,816
Other-unclassified	1,415,767	2,581,573	-	78,979	4,076,319
Total general government administration	1,415,767	2,581,573	-	282,214	4,279,554
Public safety					
Police	45,000	319,545	-	513,703	878,248
Fire	52,604	1,191,918	-	1,443,305	2,687,827
Courts	-	1,908,801	-	-	1,908,801
Inspections	-	-	-	22,900	22,900
Other-unclassified	-	-	-	65,058	65,058
Total public safety	97,604	3,420,264	-	2,044,966	5,562,834
Public works					
General engineering	-	-	-	35,988	35,988
Fleet	-	41,741	-	20,800	62,541
Public works	21,010	-	-	987,629	1,008,639
Total public works	21,010	41,741	-	1,044,417	1,107,168
Culture and recreation					
Library	-	-	-	117,688	117,688
Parks, recreation and cultural	759,922	235,075	10,569	177,121	1,182,687
Total culture and recreation	759,922	235,075	10,569	294,809	1,300,375
Health and welfare					
Mosquito control	-	-	-	276,229	276,229
Total health and welfare	-	-	-	276,229	276,229
Education	289,600	8,994,658	-	-	9,284,258
Total allocation to function	\$ 2,583,903	\$ 15,273,311	\$ 10,569	\$ 3,942,635	21,810,418
Construction in progress					190,995
Total fixed assets					22,001,413
Less accumulated depreciation					(3,650,605)
Total fixed assets (net of accumulated depreciation)					\$ 18,350,808

CITY OF POQUOSON, VIRGINIA

SCHEDULE OF CHANGES IN CAPITAL ASSETS BY FUNCTION AND ACTIVITY

Year Ended June 30, 2003

Function and Activity	(Restated)			Balance June 30, 2003
	Balance June 30, 2002	Additions	Deletions	
General government administration				
City Manager	\$ 16,668	\$ -	\$ -	\$ 16,668
Assessor	11,735	-	-	11,735
Finance	153,016	-	-	153,016
Registrar	21,816	-	-	21,816
Other-unclassified	4,273,271	144,472	51,825	4,365,918
Total general government administration	4,476,506	144,472	51,825	4,569,153
Public safety				
Police	902,148	41,820	65,720	878,248
Fire	2,668,087	107,819	88,079	2,687,827
Courts	1,908,801	-	-	1,908,801
Inspections	22,900	-	-	22,900
Other-unclassified	65,058	-	-	65,058
Total public safety	5,566,994	149,639	153,799	5,562,834
Public works				
Engineering	35,988	-	-	35,988
Fleet	62,542	-	-	62,542
Public works	838,182	170,457	-	1,008,639
Total public works	936,712	170,457	-	1,107,169
Culture and recreation				
Library	97,288	20,400	-	117,688
Parks, recreation and cultural	1,027,625	155,062	-	1,182,687
Total culture and recreation	1,124,913	175,462	-	1,300,375
Health and welfare				
Mosquito control	254,208	22,021	-	276,229
Total health and welfare	254,208	22,021	-	276,229
Education				
	-	8,994,658	-	8,994,658
Construction in progress				
	14,220	176,775	-	190,995
Less - accumulated depreciation				
	(3,383,542)	(416,427)	149,364	(3,650,605)
Net capital assets				
	\$ 8,990,011	\$ 9,417,057	\$ 56,260	\$ 18,350,808

CITY OF POQUOSON, VIRGINIA

COMPONENT UNIT - SCHOOL BOARD
COMBINING BALANCE SHEET

June 30, 2003

ASSETS	Governmental Activities		Total School Board
	General	Special Revenue	
Cash and cash equivalents	\$ 1,912,334	\$ 19,812	\$ 1,932,146
Other receivables	5,985	-	5,985
Due from other governmental units	367,888	-	367,888
Inventory	-	1,136	1,136
Total assets	\$ 2,286,207	\$ 20,948	\$ 2,307,155
LIABILITIES			
Accounts payable and accrued liabilities	\$ 1,747,316	\$ -	\$ 1,747,316
Due to primary government	120,608	-	120,608
Deferred revenues	8,220	-	8,220
Total liabilities	1,876,144	-	1,876,144
FUND BALANCES			
Reserved:			
Encumbrances	410,063	-	410,063
Inventory	-	1,136	1,136
Unreserved	-	19,812	19,812
Total fund balances	410,063	20,948	431,011
Total liabilities and fund balances	\$ 2,286,207	\$ 20,948	\$ 2,307,155

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

\$ 431,011

Total fund balances - component units

Amount reported for component unit activities in the Statement of Net Assets
are different because:Capital assets used in governmental activities are not financial
resources and, therefore are not reported in the funds, net of
accumulated depreciation

3,976,976

Noncurrent liabilities are not due and payable in the current period
and therefore are not reported in the funds.

(97,475)

Total net assets - component unit - School Board

\$ 4,310,512

CITY OF POQUOSON, VIRGINIA

**COMPONENT UNIT - SCHOOL BOARD
 COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES**

Year Ended June 30, 2003

	General Fund	Special Revenue	Total School Board
Revenue			
Revenue from use of money or property	\$ -	\$ 47	\$ 47
Charges for services	19,485	288,883	308,368
Intergovernmental:			
Commonwealth of Virginia	8,692,540	7,208	8,699,748
Federal government	636,674	33,846	670,520
Miscellaneous	117,113	15,007	132,120
Total revenue	9,465,812	344,991	9,810,803
Expenditures			
Current:			
Education	15,916,482	389,311	16,305,793
Capital outlays	28,317	-	28,317
Total expenditures	15,944,799	389,311	16,334,110
Deficiency of revenue over expenditures	(6,478,987)	(44,320)	(6,523,307)
Other financing sources (uses)			
Operating transfer from primary government	6,901,085	-	6,901,085
Operating transfer to primary government	(441,651)	-	(441,651)
Operating transfers in - school general fund	-	53,707	53,707
Operating transfers out - school special revenue fund	(53,707)	-	(53,707)
Total other financing sources - net	6,405,727	53,707	6,459,434
Net change in fund balance	(73,260)	9,387	(63,873)
Fund balances - July 1, 2002	483,323	11,561	494,884
Fund balances - June 30, 2003	\$ 410,063	\$ 20,948	\$ 431,011

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

Net change in fund balances - total school board funds	\$ (63,873)
Amount reported for governmental activities in the statement of net assets are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation.	(351,297)
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.	4,663
Change in net assets of governmental activities	\$ (410,507)

CITY OF POQUOSON, VIRGINIA

SCHOOL BOARD
BUDGETARY COMPARISON SCHEDULE - OPERATING FUND

Year Ended June 30, 2003

	General Fund			Variance Positive (Negative)
	Original Budget	Budget As Amended	Actual	
Revenue				
Charges for services	\$ 38,175	\$ 38,175	\$ 19,485	\$ (18,690)
Intergovernmental:				
Commonwealth of Virginia	8,581,599	8,770,950	8,692,540	(78,410)
Federal government	538,860	763,784	636,674	(127,110)
Miscellaneous	264,823	356,461	117,113	(239,348)
Total revenue	9,423,457	9,929,370	9,465,812	(463,558)
Expenditures				
Current:				
General and financial administration	685,363	692,854	715,362	(22,508)
Instruction	10,726,260	11,352,528	10,538,917	813,611
Attendance and health services	210,770	209,715	208,430	1,285
Pupil transportation	529,325	737,901	745,995	(8,094)
Operation and maintenance of school plants	1,309,024	1,315,103	1,371,431	(56,328)
Fixed charges	2,569,865	2,420,189	2,257,072	163,117
Capital outlay	3,800	43,116	34,332	8,784
Total expenditures	16,034,407	16,771,406	15,871,539	899,867
Other financing sources (uses)				
Operating transfer from primary government	6,670,000	6,901,085	6,901,085	-
Operating transfer to primary government	-	-	(441,651)	441,651
Operating transfer out - special revenue fund	(59,050)	(59,050)	(53,707)	(5,343)
Total other financing sources-net	6,610,950	6,842,035	6,405,727	436,308
Excess of revenue and other financing sources over (under) expenditures and other financing uses - budgetary basis	\$ -	\$ -	-	\$ -
Less - encumbrances outstanding June 30, 2002, actually expended as of June 30, 2003			(483,323)	
Add - encumbrances outstanding June 30, 2003			410,063	
Excess of revenue and other financing sources over (under) expenditures and other financing uses - GAAP basis			(73,260)	
Fund balance - July 1, 2002			483,323	
Fund balance - June 30, 2003			\$ 410,063	

CITY OF POQUOSON, VIRGINIA

SCHOOL BOARD

SCHEDULE OF CHANGES IN CAPITAL ASSETS BY FUNCTION AND ACTIVITY

 Year Ended June 30, 2003

	(Restated) Balance July 1, 2002	Additions	Dispositions	Balance June 30, 2003
Education	\$ 21,663,041	\$ 265,550	\$ 428,760	\$ 21,499,831
Less - accumulated depreciation	(7,953,734)	(574,463)	-	(7,379,271)
	<u>13,709,307</u>	<u>(308,913)</u>	<u>428,760</u>	<u>14,120,560</u>
Allocation of assets to City - net	-	-	8,994,658	(8,994,658)
	<u>\$ 13,709,307</u>	<u>\$ (308,913)</u>	<u>\$ 9,423,418</u>	<u>\$ 5,125,902</u>

CITY OF POQUOSON, VIRGINIA

COMBINING BALANCE SHEETS - AGENCY FUNDS
 COMPONENT UNIT - SCHOOL BOARD

June 30, 2003

Assets	<u>Instructional Support</u>	<u>School Activities</u>	<u>Total</u>
Cash and cash equivalents	\$ 77,812	\$ 270,364	\$ 348,176
Liabilities			
Amounts held for others	\$ 77,812	\$ 270,364	\$ 348,176

CITY OF POQUOSON, VIRGINIA

GOVERNMENT-WIDE REVENUES

Year Ended June 30,

Fiscal Year	Program Revenues			General Revenues					Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Reimbursements from Other Agencies	Grants and Contributions Not Restricted to Specific Programs	Unrestricted Investment Earnings	Miscellaneous	
2003	\$ 2,033,912	\$ 1,326,011	\$ 694,324	\$13,239,298	\$ 1,669,092	\$ -	\$ 137,316	\$ 386,569	\$19,486,522

Note: Includes only fiscal year 2003 due to implementation of GASB 34.

CITY OF POQUOSON, VIRGINIA

GOVERNMENT-WIDE EXPENDITURES BY FUNCTION

Year Ended June 30,														
Fiscal Year	General Government	Judicial	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation and Cultural	Community Development	Non-Departmental	Interest on Long-term Debt	Sewer	Parks and Recreation	Solid Waste	Total Expenditures
2003	\$ 1,401,639	\$247,161	\$ 3,721,021	\$ 1,472,320	\$ 605,334	\$ 6,459,434	\$ 775,359	\$ 514,618	\$ 78,826	\$ 561,580	\$ 1,657,238	\$ 543,327	\$ 430,223	\$ 18,468,080

Note: Includes only fiscal year 2003 due to implementation of GASB 34.

Table 3

CITY OF POQUOSON, VIRGINIA

GENERAL GOVERNMENTAL REVENUES BY SOURCE

Last Ten Fiscal Years										
Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, and Regulatory Licenses	Fines and Forfeitures	Revenues From Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental	Total
2003	\$10,859,951	\$2,442,485	\$116,843	\$27,970	\$132,753	\$331,500	\$220,601	\$ -	\$13,040,483	\$27,172,586
2002	\$9,716,038	\$2,402,784	\$144,907	\$22,596	\$121,081	\$337,227	\$188,861	\$ -	\$12,753,829	\$25,687,323
2001	\$9,921,498	\$1,984,354	\$108,412	\$25,448	\$226,684	\$355,996	\$162,936	\$ -	\$11,998,083	\$24,783,411
2000	\$9,247,685	\$1,890,427	\$100,194	\$35,957	\$208,774	\$359,386	\$151,675	\$ -	\$10,950,626	\$22,944,724
1999	\$9,364,276	\$1,825,575	\$107,561	\$36,062	\$307,428	\$239,137	\$168,112	\$ -	\$9,831,553	\$21,879,704
1998	\$8,995,589	\$1,671,810	\$94,133	\$23,081	\$408,521	\$285,782	\$137,800	\$ -	\$8,794,214	\$20,410,930
1997	\$8,850,776	\$1,632,564	\$86,424	\$37,324	\$311,902	\$285,666	\$176,700	\$ -	\$8,549,493	\$19,930,849
1996	\$8,216,988	\$1,568,265	\$86,190	\$28,645	\$344,660	\$284,952	\$108,003	\$ -	\$8,031,850	\$18,669,553
1995	\$8,089,248	\$1,476,909	\$99,207	\$36,579	\$352,718	\$292,440	\$115,006	\$6,445	\$8,050,648	\$18,519,200
1994	\$7,041,541	\$1,274,871	\$85,736	\$20,057	\$83,974	\$354,996	\$129,471	\$14,078	\$7,975,631	\$16,980,355

Note: Amounts include all general, special revenue, debt service and capital projects funds. (Beginning in 1994, the special revenue funds, while included here, are also reported in the Component Unit section of the City's general-purpose financial statements).

CITY OF POQUOSON, VIRGINIA

GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION

Last Ten Fiscal Years

Fiscal Year	General Governmental Administration	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation and Cultural	Community Development	Non-Departmental	Capital Outlay	Debt Service	Total
2003	\$1,273,661	\$3,774,685	\$1,013,082	\$601,282	\$ 16,305,793	\$763,866	\$452,374	\$78,254	\$1,021,949	\$1,531,171	\$26,816,117
2002	\$1,257,684	\$3,284,029	\$1,025,194	\$447,294	\$ 15,559,173	\$720,466	\$449,777	\$42,271	\$1,282,450	\$1,597,319	\$25,665,657
2001	\$1,172,028	\$3,092,622	\$889,179	\$464,380	\$ 15,100,371	\$730,150	\$258,403	\$35,366	\$1,567,339	\$2,160,329	\$25,470,167
2000	\$1,149,086	\$2,943,894	\$983,878	\$448,376	\$ 14,149,699	\$663,220	\$262,813	\$44,668	\$1,471,535	\$1,479,556	\$23,596,725
1999	\$1,059,566	\$2,708,722	\$868,873	\$440,107	\$ 13,244,386	\$637,317	\$244,481	\$45,541	\$3,898,984	\$1,428,956	\$24,576,933
1998	\$993,642	\$2,426,352	\$824,541	\$508,481	\$ 12,347,618	\$578,141	\$190,300	\$31,250	\$4,832,525	\$1,031,993	\$23,764,843
1997	\$906,797	\$2,269,253	\$850,212	\$416,236	\$ 11,985,078	\$527,120	\$158,661	\$35,630	\$5,299,946	\$1,039,044	\$23,487,977
1996	\$1,072,473	\$2,090,540	\$718,852	\$336,066	\$ 11,559,038	\$463,106	\$152,679	\$45,005	\$1,755,324	\$964,882	\$19,157,965
1995	\$973,735	\$1,914,373	\$723,404	\$394,437	\$ 10,838,127	\$438,282	\$182,145	\$45,245	\$1,737,494	\$1,100,303	\$18,347,545
1994	\$953,180	\$1,849,531	\$707,658	\$322,323	\$ 10,584,874	\$400,280	\$150,534	\$24,936	\$1,594,625	\$814,821	\$17,402,762

Note: Amounts include all general, special revenue, debt service and capital projects funds. (Beginning in 1994, the special revenue funds, while included here, are also reported in the Component Unit section of the City's general-purpose financial statements). Note that debt service does not include refunded principal payments.

Table 5

CITY OF POQUOSON, VIRGINIA

PROPERTY TAX LEVIES AND COLLECTIONS

Last Ten Fiscal Years

Fiscal Year	Total Tax Levy (1)	Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1) (2)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (1)	Percent of Delinquent Taxes to Tax Levy
2003	\$9,199,326	\$9,064,109	98.53%	\$493,614	\$9,557,723	103.90%	\$286,493	3.11%
2002	\$9,513,341	\$9,279,055	97.54%	\$240,308	\$9,519,363	100.06%	\$358,397	3.77%
2001	\$9,554,596	\$9,232,273	96.63%	\$223,297	\$9,455,570	98.96%	\$282,512	2.96%
2000	\$9,287,339	\$8,985,622	96.75%	\$140,085	\$9,125,707	98.26%	\$161,632	1.74%
1999	\$9,447,775	\$8,979,383	95.04%	\$285,420	\$9,264,803	98.06%	\$182,972	1.94%
1998	\$8,913,085	\$8,511,426	95.49%	\$329,808	\$8,841,234	99.19%	\$71,851	0.81%
1997	\$8,932,859	\$8,536,177	95.56%	\$333,993	\$8,870,170	99.30%	\$62,689	0.70%
1996	\$8,369,492	\$8,093,042	96.70%	\$138,023	\$8,231,065	98.35%	\$138,427	1.65%
1995	\$8,089,471	\$7,609,147	94.06%	\$349,772	\$7,958,919	98.39%	\$130,552	1.61%
1994	\$7,132,498	\$6,631,907	92.98%	\$311,021	\$6,942,928	97.34%	\$189,570	2.66%

(1) Exclusive of penalties and interest

(2) Does not include land redemption

CITY OF POQUOSON, VIRGINIA

**ASSESSED VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS**
Years Ended June 30,

<u>Fiscal Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Public Utility Real Property</u>	<u>Total</u>
2003	\$814,646,831	\$90,623,115	\$ 12,957,305	\$918,227,251
2002	\$732,405,108	\$81,396,248	\$ 16,616,189	\$830,417,545
2001	\$721,546,098	\$78,188,175	\$ 15,164,288	\$814,898,561
2000	\$647,091,321	\$71,338,462	\$ 14,038,764	\$732,468,547
1999	\$634,147,446	\$67,301,706	\$ 12,506,485	\$713,955,637
1998	\$586,329,508	\$60,695,776	\$ 11,986,052	\$659,011,336
1997	\$573,426,552	\$56,676,120	\$ 11,059,900	\$641,162,572
1996	\$526,576,600	\$54,717,549	\$ 10,941,642	\$592,235,791
1995	\$519,553,565	\$49,737,967	\$ 10,029,639	\$579,321,171
1994	\$479,545,983	\$44,305,479	\$ 9,913,738	\$533,765,200

CITY OF POQUOSON, VIRGINIA

PROPERTY TAX RATES (PER \$100 OF ASSESSED VALUE)

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Real Estate</u>	<u>Personal Property</u>	<u>Mobile Homes</u>	<u>Recreational Vehicles</u>	<u>Boats</u>
2003	\$1.12	\$3.85	\$1.12	\$1.50	\$1.50
2002	\$1.12	\$3.85	\$1.12	\$1.50	\$1.50
2001	\$1.12	\$3.85	\$1.12	\$1.50	\$1.50
2000	\$1.12	\$3.85	\$1.12	\$1.50	\$1.50
1999	\$1.12	\$3.85	\$1.12	\$1.50	\$1.50
1998	\$1.12	\$3.85	\$1.12	\$1.50	\$1.50
1997	\$1.12	\$ 4.50/3.85 (1)	\$1.12	\$1.50	\$1.50
1996	\$1.12	\$4.50	\$1.12	\$ 4.50/1.50 (2)	\$1.50
1995	\$1.12	\$4.50	\$1.12	\$4.50	\$1.50
1994	\$1.07	\$4.50	\$1.07	\$4.50	\$1.50

(1) The property tax rate for personal property decreased January 1, 1997.

(2) The property tax rate for recreational vehicles decreased January 1, 1996.

CITY OF POQUOSON, VIRGINIA

RATIO OF NET GENERAL OBLIGATION DEBT TO ASSESSED VALUE AND
NET BONDED DEBT PER CAPITA

Last Ten Fiscal Years

Fiscal Year	Population	Assessed Value	Net Bonded Debt (3)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2003	11,566 (1)	\$918,227,251	\$ 13,440,709	1.46%	\$ 1,162
2002	11,566 (1)	\$830,417,545	\$ 14,145,971	1.70%	\$ 1,223
2001	11,566 (1)	\$814,898,561	\$ 14,536,070	1.78%	\$ 1,257
2000	11,566 (1)	\$732,468,547	\$ 13,818,890	1.89%	\$ 1,195
1999	11,005 (2)	\$713,955,637	\$ 14,631,049	2.05%	\$ 1,329
1998	11,005 (2)	\$659,011,336	\$ 14,758,832	2.24%	\$ 1,341
1997	11,005 (2)	\$641,162,572	\$ 15,244,732	2.38%	\$ 1,385
1996	11,005 (2)	\$592,235,791	\$ 8,389,503	1.42%	\$ 762
1995	11,005 (2)	\$579,321,171	\$ 8,864,126	1.53%	\$ 805
1994	11,005 (2)	\$533,765,200	\$ 9,687,840	1.82%	\$ 880

(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

COMPUTATION OF LEGAL DEBT MARGIN

June 30, 2003

Total assessed value of taxed real property	
General	\$ 814,646,831
Public service corporations	<u>12,957,305</u>
Total	<u>\$ 827,604,136</u>
Debt limit (10% of total assessed value)	<u>\$ 82,760,414</u>
Debt applicable to debt limit	
General obligation bonds, other than those authorized for a specific revenue producing project	8,189,853
State literary fund loans	<u>5,250,856</u>
	<u>13,440,709</u>
Margin for additional borrowing	<u>\$ 69,319,705</u>

CITY OF POQUOSON, VIRGINIA

RATIO OF ANNUAL DEBT SERVICE EXPENDITURES TO TOTAL GENERAL
GOVERNMENTAL EXPENDITURES

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Expenditures - All Governmental Fund Types</u>	<u>Total Debt Service (1)</u>	<u>Percentage of Debt Service to Expenditures</u>
2003	\$26,816,177	\$ 1,531,171	5.71%
2002	\$25,694,559	\$ 1,597,319	6.22%
2001	\$25,470,167	\$ 2,160,329	8.48%
2000	\$23,596,725	\$ 1,479,556	6.27%
1999	\$24,576,933	\$ 1,428,956	5.81%
1998	\$23,764,843	\$ 1,031,993	4.34%
1997	\$23,487,977	\$ 1,039,044	4.42%
1996	\$19,157,965	\$ 964,882	5.04%
1995	\$18,347,545	\$ 1,100,303	6.00%
1994	\$17,402,762	\$ 814,821	4.68%

(1) Includes debt service for all governmental fund types.

CITY OF POQUOSON, VIRGINIA

DEMOGRAPHIC STATISTICS

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Population</u>	<u>Per Capita Income (3)</u>	<u>School Enrollment (4)</u>	<u>Unemployment Rate (5)</u>
2003	11,566(1)	Not Available	2,503	Not Available
2002	11,566(1)	Not Available	2,492	2.2%
2001	11,566(1)	\$30,261	2,483	2.3%
2000	11,566(1)	\$28,797	2,474	1.7%
1999	11,005(2)	\$26,817	2,485	2.2%
1998	11,005(2)	\$25,815	2,481	2.2%
1997	11,005(2)	\$24,597	2,524	3.1%
1996	11,005(2)	\$23,140	2,445	3.0%
1995	11,005(2)	\$22,588	2,460	3.0%
1994	11,005(2)	\$22,903	2,320	3.3%

(1) Source: 2000 United States Census

(2) Source: 1990 United States Census

(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: Weldon Cooper Center for Public Service

CITY OF POQUOSON, VIRGINIA

PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS

Last Ten Fiscal Years

Fiscal Year	Real Property Value (1)	New Construction (2)	Bank Deposits (3)
2003	\$874,326,647	\$ 20,870,700	Not Available
2002	\$786,475,643	\$ 12,046,500	\$53,000,000
2001	\$773,872,808	\$ 15,661,400	\$46,413,000
2000	\$696,175,556	\$ 13,224,500	\$64,371,000
1999	\$682,115,739	\$ 9,449,000	\$62,356,000
1998	\$621,978,401	\$ 11,287,400	\$71,061,000
1997	\$606,262,395	\$ 8,909,900	\$74,536,000
1996	\$557,804,500	\$ 6,900,200	\$71,754,000
1995	\$548,889,014	\$ 5,542,600	\$72,126,000
1994	\$507,703,857	\$ 5,417,900	\$66,964,000

(1) Real property valuation of total taxable and tax exempt property.

(2) Source: City Assessor, City of Poquoson,

(3) Source: Center for Public Service, University of Virginia, (1993-1994); Federal Reserve Bank, Richmond (1995-2002). Data only available in millions in 2002.

CITY OF POQUOSON, VIRGINIA

PRINCIPAL TAXPAYERS - 2003 ASSESSED VALUES

Year Ended June 30, 2003

Taxpayer	Assessed Value	Percentage of Total Real Estate Assessment
Bristol-Cardiff	\$ 7,741,000	0.95%
Poquoson Place Apartments	7,441,900	0.91%
Suburban Land Company	3,960,000	0.49%
WCP, L.L.P.	3,668,400	0.45%
Islander Associates	2,752,100	0.34%
Universal of Poquoson	2,552,400	0.31%
Vantage Healthcare Corporation	1,927,600	0.24%
Wachovia Bank	1,696,500	0.21%
Carematrix of Dominion Village	1,451,700	0.18%
Langley Federal Credit Union	1,402,220	0.17%
	<u>\$ 34,593,820</u>	<u>4.25%</u>

MISCELLANEOUS STATISTICAL DATA**Year Ended June 30, 2003**

Date of Incorporation	1975
Form of Government	Council-Manager
Population	11,566
Area	14.7 square miles
Lane miles of streets	
City maintenance	104.97
Number of street lights	519
Fire Protection	
Number of stations	2
Number of firefighters and officers	26
Number of volunteers	10
Police Protection	
Number of stations	1
Number of policemen and officers	22
Number of auxiliary	7
Rescue	
Number of squads	1
Number of volunteers	15
Education	
Elementary schools	2
Middle schools	1
High schools	1
Sewers	
Sanitary sewers	52 miles
Storm sewers	15 miles
Recreation and culture	
Number of major parks and recreational facilities	5
Acreage of major parks and recreational facilities	53.12 acres
Number of libraries	1
Number of volumes	51,684
Employees	
City	165
Schools	331
Constitutional Officers	2
Registered Voters	8,014

MISCELLANEOUS STATISTICAL DATA

Year Ended June 30, 2003

Taxable Retail Sales [1]

Calendar Year

2003	Not available
2002	\$ 37,836,130
2001	\$ 34,631,956
2000	\$ 32,194,843
1999	\$ 31,360,650
1998	\$ 27,049,341
1997	\$ 28,266,402
1996	\$ 27,565,557

[1] Source - Virginia Department of Taxation.



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Certified Public Accountants
Financial Planning
Specialized Services

Honorable Mayor and City Council
City of Poquoson, Virginia

We have audited the basic financial statements of the *City of Poquoson, Virginia*, as of and for the year ended June 30, 2003, and have issued our report thereon dated October 17, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the *City of Poquoson's* basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *City of Poquoson's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

This report is intended solely for the information and use of 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
October 17, 2003

Fountain Plaza One, 701 Town Center Drive, Suite 700
Newport News, VA 23606-4295
ph: 757.873.1033
fax: 757.873.1106
www.goodmanco.com



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Certified Public Accountants
Financial Planning
Specialized Services

Honorable Mayor and City Council
City of Poquoson, Virginia

Compliance

We have audited the compliance of the *City of Poquoson, Virginia* (City) 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, 2003. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants, applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we consider 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's compliance with those requirements.

In our opinion, the City 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, 2003.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

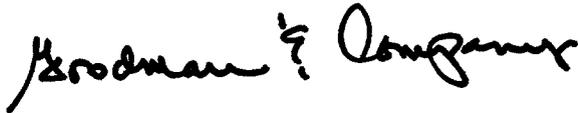
Fountain Plaza One, 701 Town Center Drive, Suite 700
Newport News, VA 23606-4295
ph: 757.873.1033
fax: 757.873.1106
www.goodmanco.com

Honorable Mayor and City Council
City of Poquoson, Virginia

Page 2

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be a material weakness.

This report is intended solely for the information and use of 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.

Handwritten signature in black ink, appearing to read "J. Brodman".

Newport News, Virginia
October 17, 2003



REPORT ON COMPLIANCE WITH COMMONWEALTH OF VIRGINIA LAWS, REGULATIONS, CONTRACTS, AND GRANTS

Certified Public Accountants
Financial Planning
Specialized Services

Honorable Mayor and City Council
City of Poquoson, Virginia

We have audited the basic financial statements of the *City of Poquoson, Virginia* (City), as of and for the year ended June 30, 2003, and have issued our report thereon dated October 17, 2003.

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's management. As part of obtaining reasonable assurance about whether the basic 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 basic 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 Investment
- Conflicts of Interest
- Retirement Systems
- Debt Provisions
- Procurement
- Unclaimed Property
- Enhanced 911 Services Taxes
- Personal Property Tax Relief

State Agency Requirements

- Education
- Comprehensive Services Act
- Highway Maintenance Funds

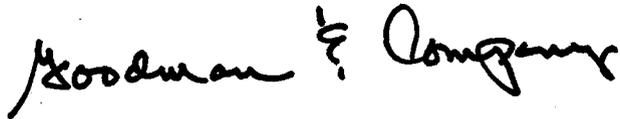
Fountain Plaza One, 701 Town Center Drive, Suite 700
Newport News, VA 23606-4295
ph: 757.873.1033
fax: 757.873.1106
www.goodmanco.com

Honorable Mayor and City Council
City of Poquoson, Virginia

Page 2

The results of our tests disclosed no instances of noncompliance with the provisions referred to in the preceding paragraph. 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 Council, management, the Auditor of Public Accounts and applicable state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Goodman & Company". The signature is written in a cursive, flowing style.

Newport News, Virginia
October 17, 2003

CITY OF POQUOSON, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2003

Federal granting agency/recipient state agency/grant Program/grant number	Federal Catalogue Number	Federal Expenditures
U. S. Department of Agriculture: Pass through payments: Department of Education: National School Lunch Program	10.555	\$ 51,865
State Department of Agriculture and Consumer Services: National School Lunch Program: USDA donated commodities	10.555	33,846
U. S. Department of Defense: Direct payments: E-rate	12.000	989
U. S. Department of the Interior: Direct payments: Wildlife Restoration	15.611	5,309
U. S. Department of Justice: Direct payments: Law Enforcement Grant	16.592	1,386
Drug Seizure-Treasury	16.000	3,730
Criminal Justice Grant	16.579	3,006
Public Safety Partnership and Community Policing Grants	16.710	65,780
Department of Labor: Pass through payments: New Horizons: WIA Youth Activities	17.259	4,307
U.S. Department of Transportation: Pass through payments: Department of Motor Vehicles: Alcohol Traffic Safety and Drunk Driving Prevention Incentive	20.601	6,000

CITY OF POQUOSON, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2002

Federal granting agency/recipient state agency/grant Program/grant number (Continued)	Federal Catalogue Number		Federal Expenditures
Department of Education:			
Direct payments:			
Impact Aid	84.041	*	130,368
Pass through payments:			
Virginia Department of Education:			
Adult education	84.002		10,990
Education Consolidation and Improvements Act of 1981:			
Title I - Grants to local educational agencies	84.010		58,226
Title II-Part A	84.367		29,097
Title VI:			
Innovative Education Program Strategies	84.298		4,454
Elementary and Secondary Education Act (ESEA):			
Title VI-B:			
Assistance to states for education of handicapped children:			
Special Education Grants	84.027	*	260,860
Special Education Preschool Grants	84.173		23,274
Vocational education	84.048		24,136
State and Drug-free Schools and Communities	84.186		5,643
Eisenhower Professional Development	84.281		33,455
Department of Homeland Security:			
Direct payments:			
Emergency Response Planning Grant	97.000		7,156
Emergency Planning Grant	97.005		3,852
Assistance to Firefighters	97.044		30,488
Weapons of Mass Destruction	97.055		29,588
			\$ 827,805

* Represents a major program of the City of Poquoson.

CITY OF POQUOSON

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2003

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 basic 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, 2003, the food service organization had food commodities totaling \$29,585 in inventory.

* * * * *

CITY OF POQUOSON, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2003

1. SUMMARY OF AUDITORS' RESULTS

- a) The auditor's report expresses an unqualified opinion on the basic financial statements of the City.
- b) There were no reportable conditions noted in internal control required to be disclosed.
- 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 disclosed during the audit.
- d) No reportable conditions were disclosed during the audit of internal control over major federal programs.
- e) The auditor's report on compliance for the major federal award programs for the City expresses an unqualified opinion on all major federal award programs.
- f) The audit did not disclose any audit findings required to be reported.
- g) The major programs are:
 - i) Impact Aid (CFDA No. 84.041)
 - ii) Special Education Grants (CFDA No. 84.027)
- 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 GENERAL-PURPOSE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENTAL AUDITING STANDARDS.

None

3. FINDINGS AND QUESTIONED COSTS - FEDERAL PROGRAMS

None

4. FINDINGS AND QUESTIONED COSTS - STATE PROGRAMS

None

5. RESOLUTION OF PRIOR YEAR AUDIT FINDINGS

There were no audit findings for the year ended June 30, 2002.