



City of Poquoson Virginia

It was the water that brought the first settlers to Poquoson. The water may still hold the spell over many residents today. Poquoson continues to attract new residents today for a variety of reasons.

The City is in close proximity to major employment sites including military bases, NASA, and Northrop Grumman.

Poquoson has a very low crime rate. The lack of serious crime is a testament to the sound values of Poquoson residents and the vigilance of the Poquoson Police Department. The Poquoson

School System has consistently ranked among the best in the State. The City boasts a small town atmosphere with compatible neighbors who have a common interest in the well being of the City and their families.



Comprehensive Annual Financial Report

Fiscal Year

July 1, 2004 - June 30, 2005

*Comprehensive Annual
Financial Report*

City of Poquoson, Virginia



Fiscal Year Ended June 30, 2005

Prepared by:

The Department of Finance

Lisa K. Dessoffy, CPA, Director

City of Poquoson, Virginia

City Council

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

City Officials

Charles W. Burgess, Jr., City Manager
Lisa K. Dessoffy, 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

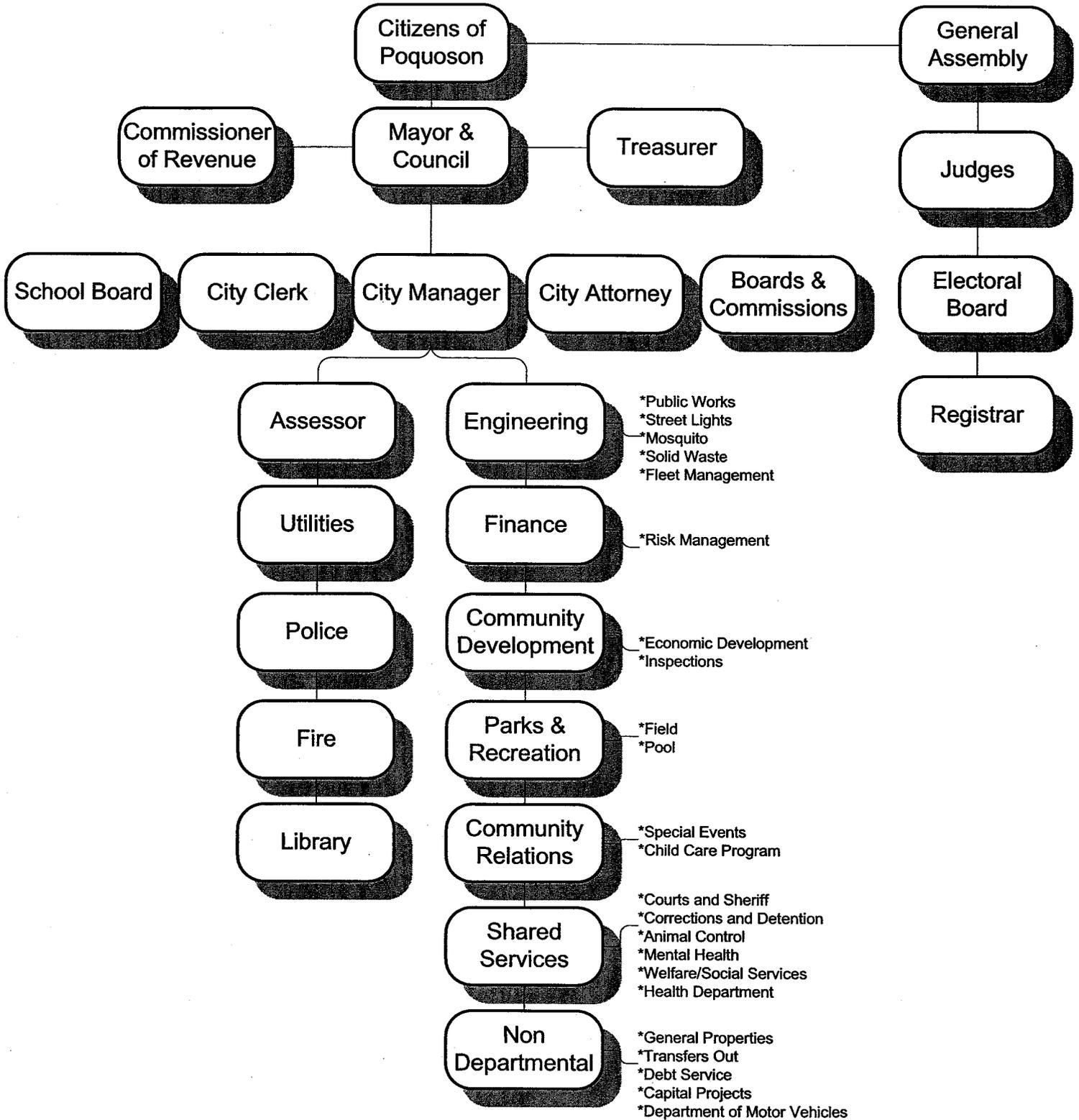
School Board

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 ORGANIZATIONAL 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, 2004

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.



Nancy L. Zjelke

President

Jeffrey R. Emer

Executive Director

City of Poquoson, Virginia
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2005

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City of Poquoson, Virginia

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CITY OF POQUOSON

FINANCE DEPARTMENT

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November 4, 2005

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, 2005. An audited annual financial 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, 2005, 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, 2005, 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 82.

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 12,234.

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's 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 making 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 55 of the report.

Factors Affecting Economic Condition

Local Economy. General factors affecting the local economy in calendar year 2004 help give a broader perspective of the specific environment within which the City of Poquoson operates.

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 \$66,985 in 2002 (latest available data). Hampton Roads economy is strong and has a low unemployment rate. In 2004 (latest available data), Poquoson had a 2.9% unemployment rate as compared to a state-wide rate of 3.7% and a national average of 5.5%.

The 2000 census population of 11,566 reflects growth of 5% since the 1990 census. The Planning Department estimated Poquoson's population to be 12,234 in 2004.

The 2004 taxable sales of \$38,754,664 were up 2.1% from the 2003 level.

Tax Base. 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. While the City's tax rate of \$1.06 per \$100 of assessed value was lowered from \$1.12 per \$100 of assessed value, 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 32.6%. 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 response to Hurricane Isabel which occurred in September 2003, the City received a Federal Emergency Management Agency (FEMA) mitigation grant to help citizens raise their homes to prevent future flooding. The City 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. A combination of FEMA, State Community Development Block Grant (CDBG) funds, and City funds will address the rebuilding of damaged properties.

The City continues to make improvements to the Messick Point Area. In recent years the channel was dredged and much of the debris that was in the water was cleaned out. In FY 2005, the City completed construction of a public pier and built parking spaces in the area, and is working towards

building restroom facilities. The IDA has purchased several lots in the Messick area and has had an architectural firm lay out a conceptual plan for development. The IDA plans to pursue multi-use zoning in the area and solicitation of a development company.

The City has decided to build a new Fire Station #1 to replace the existing station, which was damaged due to flooding from Hurricane Isabel. The new station is still in the design phase. Financing has been obtained to construct the new fire station.

In November 2005, the School Board hired VMDO Architects, P.C. to design a new Poquoson Elementary School. The present school built in 1952, contains many serious building deficiencies, and fails to meet current education program needs. Construction of the new building, equipment, furnishings, and demolition of the existing elementary school is expected to cost \$15,500,000. The City has obtained financing to pay for the new school building.

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 official, 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 City plans on holding investments until maturity and expects positive earnings in the long-run. The City also has restricted cash and investments that are monitored by the Finance Department and used for the payment of sewer bond projects. At June 30, 2005, the various cash balances included cash on hand, investments, cash on deposit in banks, and restricted cash in the amount of \$4,789,509 for the City and \$1,923,321 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.

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 Exhibit L on page 59.

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, 2004. This was the eighteenth consecutive year that the government has received the prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both GAAP and applicable legal requirements.

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

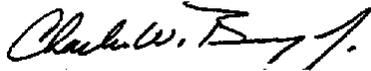
The City also received the GFOA's Award for Distinguished Budget Presentation for its Annual Appropriated Budget for FY 2006. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories including policy documentation, 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,



Lisa K. Dessoify, CPA
Director of Finance



Charles W. Burgess, Jr.
City Manager



Report of Independent Auditors

Certified Public Accountants
Specialized Services
Business Solutions

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***City of Poquoson, Virginia***, as of and for the year ended June 30, 2005, which collectively comprise the ***City of Poquoson, Virginia's*** basic financial statements as listed in the table of contents. These financial statements are the responsibility of the ***City of Poquoson, Virginia's*** management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***City of Poquoson, Virginia***, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2005, on our consideration of the ***City of Poquoson, Virginia's*** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 17 and the other required supplementary information included at pages 55 through 60 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.

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

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

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

Goodman & Company, LLP.

Newport News, Virginia
November 4, 2005



City of Poquoson, Virginia
500 City Hall Avenue
Poquoson, Virginia 23662

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Highlights

Overview of the Financial Statements

Government-Wide Financial Analysis

Financial Analysis of the Government's Funds

General Fund Budgetary Highlights

Capital Asset and Debt Administration

Economic Factors and Next Year's Budgets and Rates

Requests for Information

Management's Discussion and Analysis

Fiscal Year July 1, 2004 — June 30, 2005

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, 2005. 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, 2005 by \$20,363,741 (net assets). Of this amount, \$7,619,987 (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 \$2,647,636. Most of the increase is attributable to new construction in 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, 2005, the City's governmental funds reported combined ending fund balances of \$5,974,495, of which \$4,816,359 is available to spend at the City's discretion.
- As of June 30, 2005, unreserved fund balance for the General Fund was \$4,764,304, or 25.2% of total General Fund expenditures, and 15.4% of total General Fund and School expenditures (net of transfers).
- The City of Poquoson's total debt outstanding at June 30, 2005 was \$24,389,966, a decrease of \$1,034,681 from the prior year. During the year, the City paid off two State Literary Loans and paid down other 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.

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

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

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

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

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

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

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

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

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

Because the focus of governmental funds does not address the long-term focus of the government-wide financial statements, information is presented on pages 21 and 23 which reconciles the differences between governmental funds and governmental activities.

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

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

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

Proprietary Funds. The City of Poquoson maintains 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 statements 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 30-54 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, a component unit. Supplementary information can be found on pages 55-66 of this report.

Government-Wide Financial Analysis

Summary of Statement of Net Assets
June 30, 2005

	Governmental Activities		Business-Type Activities		Total	
	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
Current and other assets	\$6,861,870	\$6,557,653	\$2,094,264	\$1,890,421	\$8,956,134	\$8,448,074
Capital assets	19,493,911	18,296,017	17,639,809	18,316,856	37,133,720	36,612,873
Other noncurrent assets	13,973	15,304	45,155	119,635	59,128	134,939
Total assets	26,369,754	24,868,974	19,779,228	20,326,912	46,148,982	45,195,886
Current and other liabilities	2,194,211	2,672,021	1,026,902	1,123,269	3,221,113	3,795,290
Long-term liabilities	10,830,926	11,244,581	11,733,202	12,439,910	22,564,128	23,684,491
Total liabilities	13,025,137	13,916,602	12,760,104	13,563,179	25,785,241	27,479,781
Net assets:						
Invested in capital assets, net of related debt	7,579,069	6,042,187	5,164,685	5,161,343	12,743,754	11,203,530
Restricted	-	-	-	71,623	-	71,623
Unrestricted	5,765,548	4,910,185	1,854,439	1,530,767	7,619,987	6,440,952
Total net assets	\$13,344,617	\$10,952,372	\$7,019,124	\$6,763,733	\$20,363,741	\$17,716,105

Net assets serve as a useful indicator of a government's financial position. The City's combined net assets total \$20,363,741, excluding the 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 \$12,743,754. The City of Poquoson uses these capital assets to provide services to citizens; and thus these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate liabilities. Total net assets of \$7,619,987 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 \$2,647,636 during FY 2005. The governmental activities and the business-type activities increased by \$2,392,245 and \$255,391, respectively. The majority of increases in the governmental activities represents City investments in capital assets.

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

**Summary of Changes in Net Assets
June 30, 2005**

	Governmental Activities		Business-Type Activities		Total	
	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
Revenues:						
Program revenues:						
Charges for services	\$243,585	\$345,221	\$1,937,088	\$1,866,659	\$2,180,673	\$2,211,880
Operating grants and contributions	2,705,293	1,718,011	-	-	2,705,293	1,718,011
Capital grants and contributions	1,187,904	193,425	-	-	1,187,904	193,425
General revenues:						
Real estate and personal property taxes	12,489,445	11,135,298	-	-	12,489,445	11,135,298
Other local taxes	2,635,723	2,524,964	-	-	2,635,723	2,524,964
Reimbursements from other agencies	1,830,047	2,012,657	-	-	1,830,047	2,012,657
Miscellaneous	116,511	83,401	138,553	339,909	255,064	423,310
Sewer availability fees	-	-	587,000	-	587,000	-
Unrestricted investment earnings	119,801	-	23,888	39,559	143,689	39,559
Total revenues	21,328,309	18,012,977	2,686,529	2,246,127	24,014,838	20,259,104
Expenses:						
General government	1,716,083	1,449,410	-	-	1,716,083	1,449,410
Judicial	180,184	277,307	-	-	180,184	277,307
Public safety	4,750,969	3,823,700	-	-	4,750,969	3,823,700
Public works	1,694,612	1,659,214	-	-	1,694,612	1,659,214
Health and welfare	840,310	650,092	-	-	840,310	650,092
Education	7,087,769	6,965,522	-	-	7,087,769	6,965,522
Parks, recreation, cultural	1,343,537	839,537	-	-	1,343,537	839,537
Community development	563,788	636,477	-	-	563,788	636,477
Interest and fees on long-term debt	500,461	525,850	-	-	500,461	525,850
Nondepartmental	130,551	120,404	-	-	130,551	120,404
Sewer	-	-	1,537,870	1,609,179	1,537,870	1,609,179
Parks and Recreation	-	-	545,799	524,504	545,799	524,504
Solid Waste	-	-	475,269	446,172	475,269	446,172
Total expenses	18,808,264	16,947,513	2,558,938	2,579,855	21,367,202	19,527,368
Change in net assets before transfers	2,520,045	1,065,464	127,591	(333,728)	2,647,636	731,736
Transfers	(127,800)	(102,200)	127,800	102,200	-	-
Increase in net assets before extraordinary item	2,392,245	963,264	255,391	(231,528)	2,647,636	731,736
Extraordinary item:						
Extraordinary revenues	-	2,797,515	-	-	-	2,797,515
Extraordinary expenses	-	2,901,772	-	-	-	2,901,772
Total extraordinary item	-	(104,257)	-	-	-	(104,257)
Increase in net assets after extraordinary item	2,392,245	859,007	255,391	(231,528)	2,647,636	627,479
Net assets, Beginning of Year	10,952,372	10,093,365	6,763,733	6,995,261	17,716,105	17,088,626
Net assets, End of Year	\$13,344,617	\$10,952,372	\$7,019,124	\$6,763,733	\$20,363,741	\$17,716,105

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

	FY 2005	FY 2004
Real estate tax revenue	\$10,574,091	\$ 9,277,114
Public service corporation property taxes	105,318	178,613
Personal property taxes	1,682,523	1,538,520
Penalties and interest	127,513	141,051
Total	\$12,489,445	\$11,135,298

Real estate revenue increases in FY 2005 were due to reassessments, growth and new buildings. The reassessments are completed biennially and FY 2005 was a reassessment year. The City's real estate property tax assessments were \$832,002,644 and \$1,002,511,357 for FY 2004 and FY 2005, respectively. The City's real estate tax rate was \$1.12 per \$100 of assessed value in FY 2004, but in FY 2005 it was reduced to \$1.06 per \$100 of assessed value.

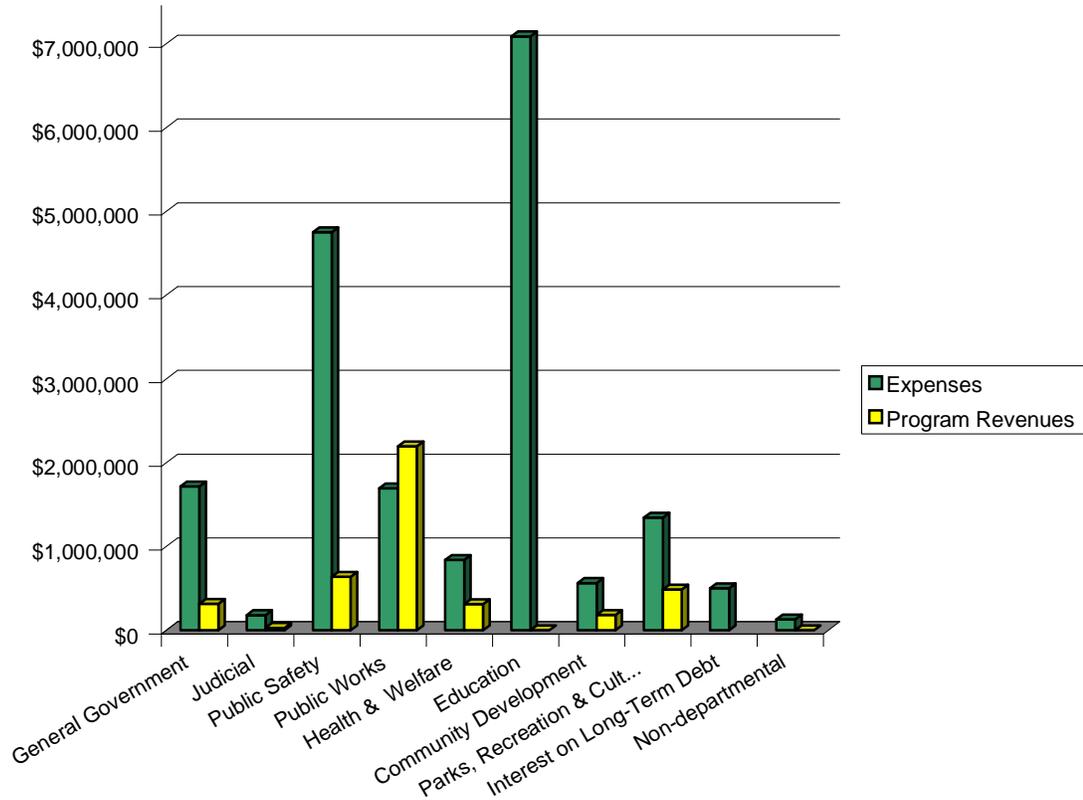
The City's personal property tax assessments were \$124,217,525 and \$131,687,115 for FY 2004 and FY 2005 respectively. The City's personal property tax rate was \$3.85 per \$100 of assessed value for vehicles, \$1.50 per \$100 of assessed value for recreational vehicles and boats, and for FY 2004 was \$1.12 per \$100 of assessed value for mobile homes, which was reduced in FY 2005 to \$1.06 per \$100 of assessed value. Under the provisions of the Personal Property Tax Relief Act (PPTRA), the State's share of local personal property tax was \$1,677,746 and \$1,809,159 for FY 2004 and FY 2005, respectively, and is included with reimbursements from other agencies on the Statement of Activities.

Other local taxes were \$2,524,964 and \$2,635,723 for FY 2004 and FY 2005, respectively, and consisted of meals taxes, consumers' utilities taxes, franchise license taxes, motor vehicle license taxes and a variety of other taxes.

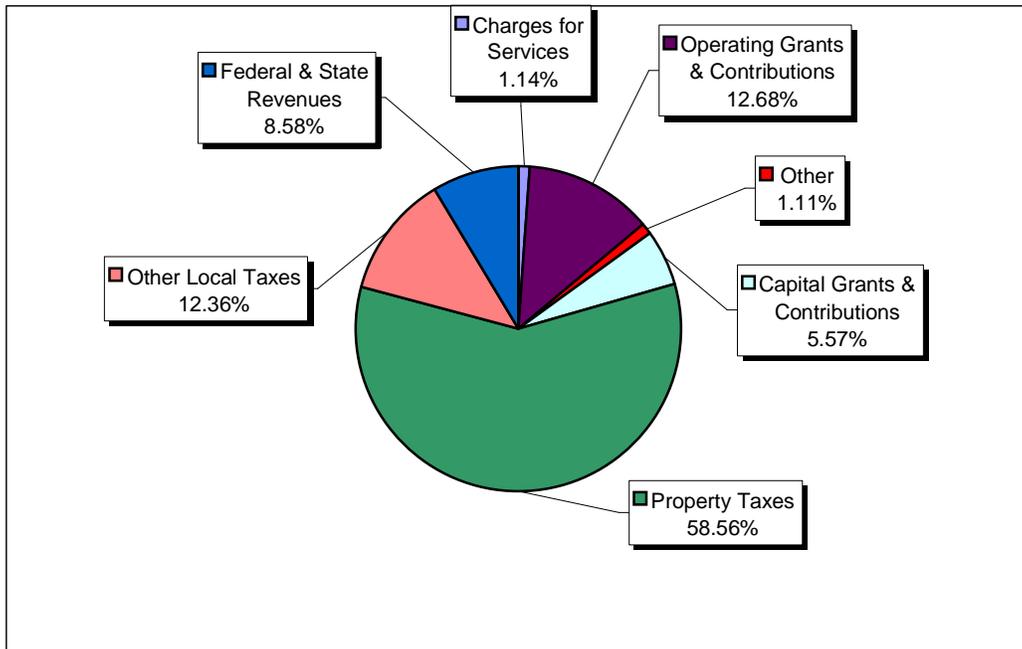
Operating grants and contributions and capital grants and contributions were \$1,911,436 and \$3,893,197 for FY 2004 and FY 2005, respectively. The 103.6% increase was due to several public works, and parks and recreation grants received in FY 2005.

For FY 2004, expenses for governmental activities totaled \$16,947,513, including a net payment of \$6,965,522 to the School Board component unit and a \$95,000 payment to the IDA component unit. For FY 2005, expenses for governmental activities totaled \$18,808,264, including a net payment of \$7,087,769 to the School Board component unit and a \$59,900 payment to the IDA component unit. The School Board had several new initiatives during FY 2005, which were funded by the City. The City's increases related mainly to personnel and capital projects. The City experienced increased employee benefit costs, hired two additional employees, and made salary market adjustments for several positions. The main increase in City capital expenditures came from additional road paving projects and construction at Messick Point in FY 2005.

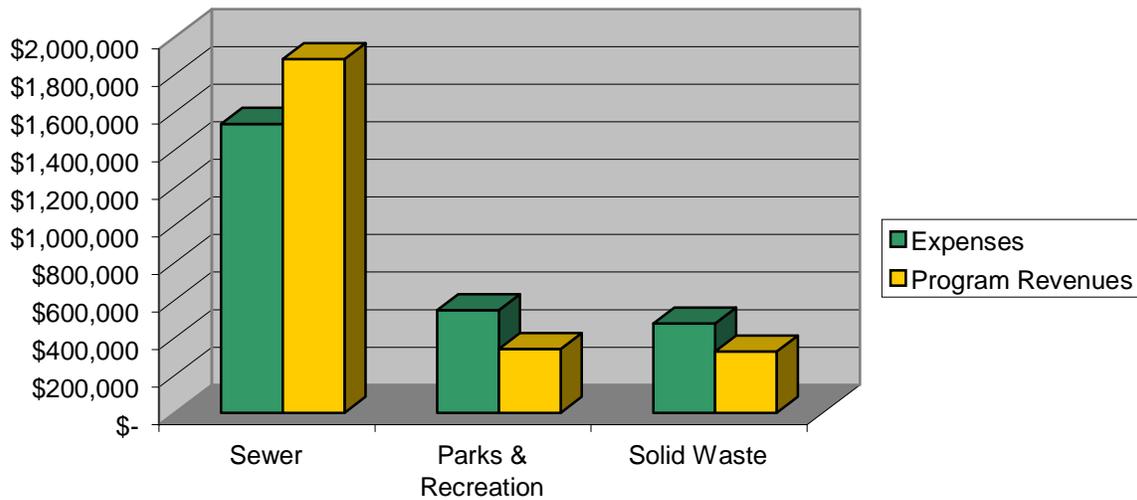
Expenses and Program Revenues – Governmental Activities



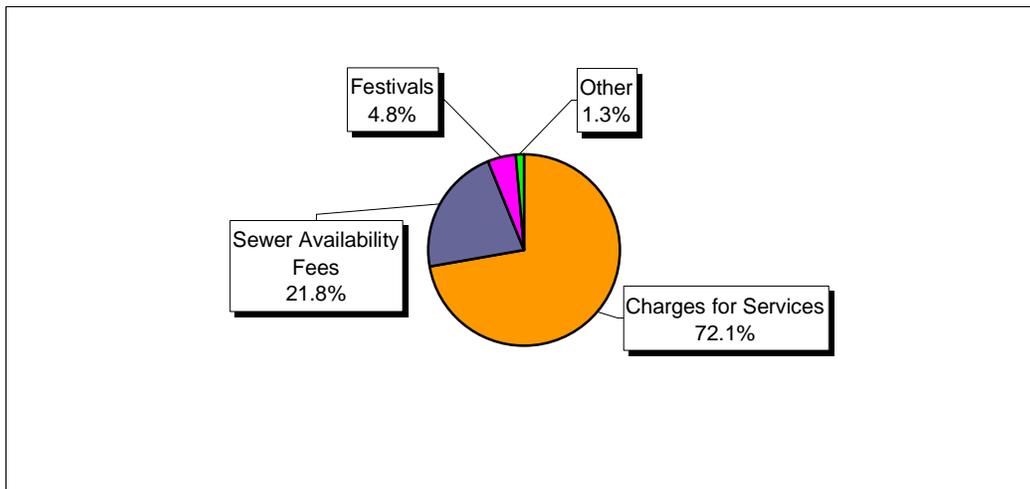
Revenues by Sources – Governmental Activities



Expense and Program Revenues – Business-Type Activities



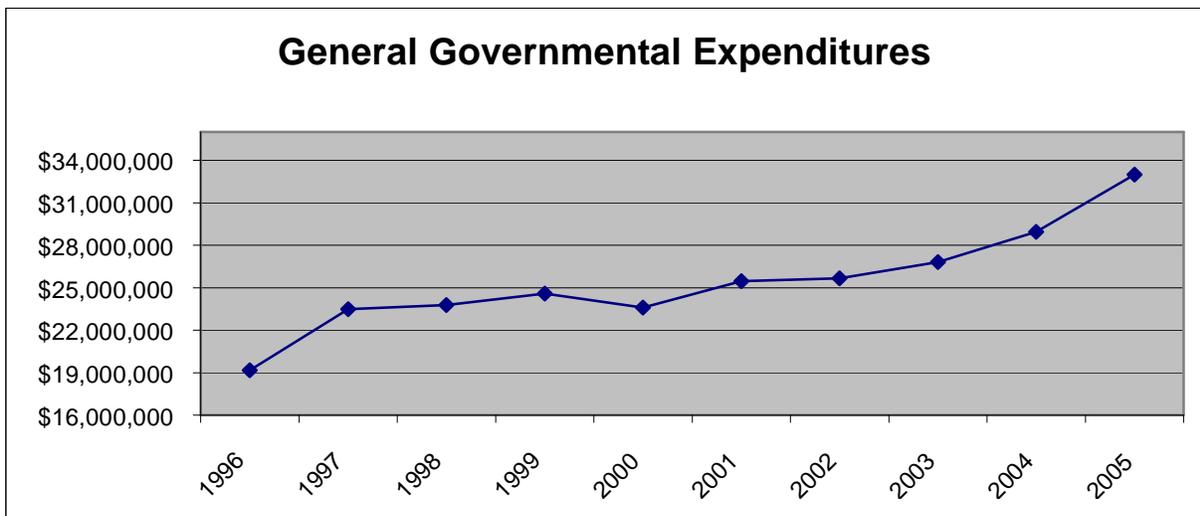
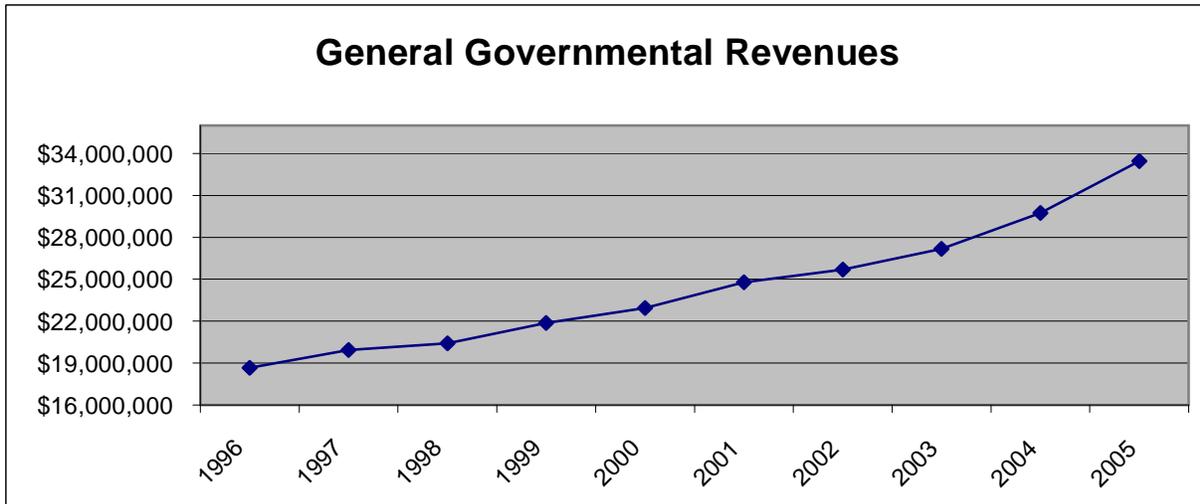
Revenues by Source – Business-Type Activities



Business-Type Activities. Business-type activities increased the City’s net assets before transfers by \$127,591 and \$255,391 after transfers. The business-type activities had a net operating gain in the Sewer Operations Fund, while the Parks and Recreation Fund and the Solid Waste Fund had net operating losses. In the past several years, the Sewer Fund issued debt for significant sewer expansion projects. Sewer rates were increased to pay for the additional debt. In order to keep the sewer usage rates from increasing significantly, City Council budgeted to use a portion of net assets. Parks and Recreation user charges continue to be held as low as possible to accommodate all citizens, but operating costs continue to increase. The Parks and Recreation Fund had net losses over the last few years, indicating the need to either raise user fees or to receive supplemental government funds. The Solid Waste Fund utilizes a pay-as-you throw green bag system, which funds trash pickup and disposal, recycling, and hazardous materials collection. The City supplements the bulk item and landscape trash pickup in the Solid Waste Fund.

Financial Analysis of the Government's Funds

Below is a summary of general governmental revenues and expenditures over a 10 year period. Amounts include the City's General, Debt Service, Grant, and Capital Projects Funds, and the School's General and Special Revenue Funds. As shown below, revenues have exceeded expenditures for the past four fiscal years.



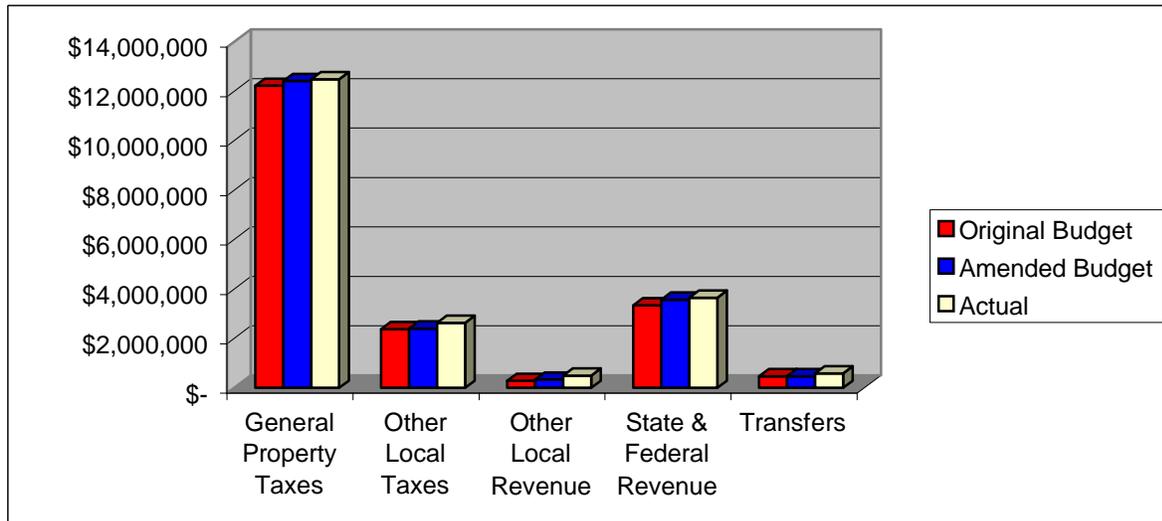
General Fund Budgetary Highlights

The City of Poquoson uses fund accounting and budgeting to ensure and demonstrate compliance with finance-related legal requirements. The General Fund budgetary comparison to actual can be found on Exhibit K. The City records actual revenues and expenditures using generally accepted accounting principles (GAAP) with the exception of encumbrances, which are included as budgetary expenditures. At the end of Exhibit K, the non-GAAP budgetary expenditures are reconciled to the GAAP statements. The budget differences of \$753,190 between the original budget and the final amended budget can be briefly summarized as follows:

- \$174,500 additional transfers to the Capital Projects Fund were budgeted to pay for additional roadwork, vehicle purchases, and building and facilities expenditures.
- \$93,875 of expenditures were budgeted for various public safety grants and matching requirements.
- \$139,863 of expenditures were budgeted to contribute to the School Board for various capital purchases using fund balance.
- \$216,678 of expenditures were budgeted for State mandated welfare services, which used State funds and fund balance.
- \$128,274 of expenditures were budgeted using a variety of additional revenues.

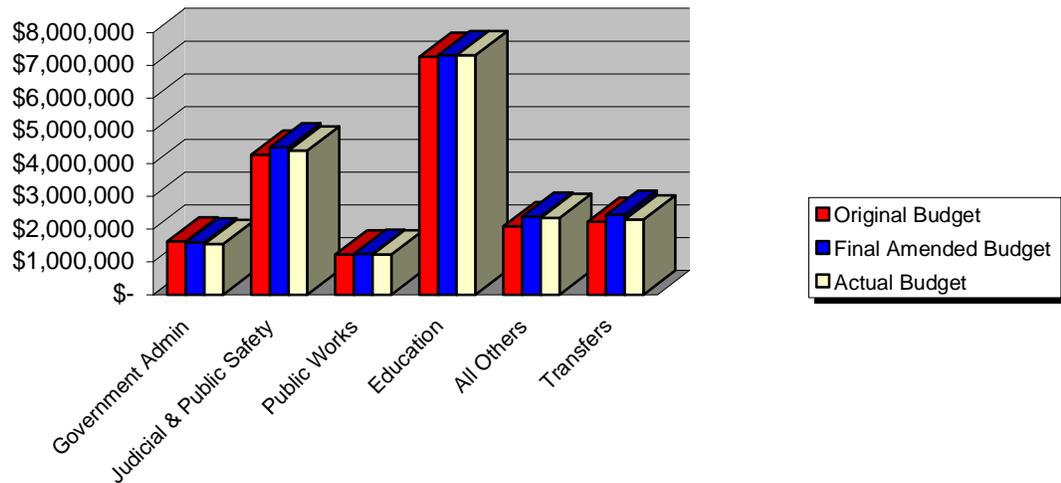
The following chart shows the original approved budget, the final amended budget, and actual amounts for both revenues and expenditures in the General Fund.

General Fund Revenue Comparison of Budget to Actual



The City's actual revenue exceeded the amended budget by \$664,946. The City had higher than expected revenues for general property taxes, other local taxes, and State Personal Property Tax Relief Act (PPTRA). The City is conservative in budgeting tax revenues and typically has some overage. The contribution from the Schools was over budget, primarily by unspent year-end funds that are required to be returned to the City. These funds are not budgeted.

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



As reflected above, actual General Fund expenditures were \$345,458 or 1.7% below the amended budget. The City budgeted to use \$261,577 of fund balance, but due to revenues exceeding budget and expenditures under budget, the fund balance increased by \$694,633.

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 2005, capital projects expenditures of \$2,338,525 included Messick Point pier, parking lot and boat ramp improvements, highway and drainage improvements, large equipment purchases, park improvements, school capital expenditures, and public safety equipment.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities amounted to \$36,612,873 and \$37,133,720 (net of accumulated depreciation) for FY 2004 and FY 2005, respectively. The investment in capital assets includes land, construction in progress, buildings, infrastructure, machinery and equipment, sewer system, and allocated school buildings. The City owns roads, streetlights, and other infrastructure, but has only capitalized these assets placed in service since July 1, 2002. Infrastructure 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	
	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
Land	\$2,588,978	\$2,583,903	\$243,216	\$243,216	\$2,832,194	\$2,827,119
Construction in progress	718,843	55,757	-	-	718,843	55,757
Buildings	4,425,336	4,566,690	20,543	26,744	4,445,879	4,593,434
Infrastructure	1,213,387	374,092	-	-	1,213,387	374,092
Machinery and equipment	1,980,121	1,934,623	333,724	387,777	2,313,845	2,322,400
Sewer system	-	-	17,042,326	17,659,119	17,042,326	17,659,119
Allocated school buildings	8,567,246	8,780,952	-	-	8,567,246	8,780,952
Total	\$19,493,911	\$18,296,017	\$17,639,809	\$18,316,856	\$37,133,720	\$36,612,873

Debt Administration. Total outstanding general obligation debt at June 30, 2005 was \$24,389,966, of which \$11,914,842 is considered to be net direct tax supported debt. Included in the total is \$7,543,022 in net bonds and leases, and \$4,371,820 in State Literary Loans. The remaining \$12,475,124 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 \$171,796 in governmental activities and \$315,892 business-type activities.

The City entered into a capital lease to purchase two fire trucks in FY 2005. Even with this lease, the City's total debt decreased by \$1,034,681, primarily due to debt payments during the fiscal year.

State statutes limit the amount of general obligation debt a government may issue to 10% of its total assessed valuation of real estate and public service corporations. The June 30, 2005 debt limitation for the City of Poquoson is \$101,500,231, which is significantly in excess of the City of Poquoson's \$24,877,654 outstanding net direct bonded debt. 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

	FY 2005	FY 2004
Net direct bonded debt	\$12,086,638	\$12,457,291
Ratio of outstanding direct debt to assessed value	1.05%	1.28%
Net debt per capita	\$1,045	\$1,077

Net Direct Tax Supported Debt
Including Business-Type Funds

	FY 2005	FY 2004
Net direct bonded debt	\$24,877,654	\$25,963,915
Ratio of outstanding direct debt to assessed value	2.16%	2.75%
Net debt per capita	\$2,151	\$2,245

More detailed information on the City of Poquoson's long-term debt activity and capital asset activity can be found in notes 7, 8 and 9 on pages 41-49 of this report.

Economic Factors and Next Year's Budgets and Rates

The FY 2006 budget was prepared with economic trends within the City taken into account:

- The unemployment rate for the City of Poquoson was 2.9% compared to a state-wide rate of 3.7% and a national average of 5.5%.
- FY 2006 is not a reassessment year, which should result in a smaller increase in local revenue.
- The real estate tax rate of \$1.06 per \$100 of assessed value is the same rate as in FY 2005.
- Other local taxes have been trending upwards for the last several years.

Expenditures for the FY 2006 budget had more funding than prior years.

- The Schools received an increase of 9.7% and 2.8% in State and City funds, respectively for FY 2006.
- Both the City and Schools funded a 4% raise for employees. The Schools hired a few additional employees and budgeted for increased costs for students with special needs. The City budgeted increases for salary market adjustments and upgraded two part-time positions to full-time. Both City and Schools funded rising retirement and health insurance costs.
- The City received several grants to help citizens raise their home to prevent future flooding.

The City still has several outstanding projects to complete from Hurricane Isabel in September 2003. The City has decided to build a new Fire Station #1 rather than repair the existing flood damaged building. This is still in the design phase. The School Board has hired an architect to design a new Poquoson Elementary School. Due diligence is given to the location and type of building to be constructed given the current elementary school's extensive flood damage received from the hurricane. The City has obtained financing to pay for both the new Fire Station #1 and the new elementary school.

The City has received a Federal Emergency Management Agency (FEMA) mitigation grant, and two Community Development Block Grants (CDBG) to elevate the homes damaged by Hurricane Isabel, and to reimburse citizens for their repair costs. The City is hopeful that these grant funds will help citizens that had more than 50% damage to their homes from the storm surge raise their homes to an elevation of one foot above the required flood elevation.

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
Lisa K. Dessoffy, CPA
Director of Finance
500 City Hall Avenue
Poquoson, VA 23662

City of Poquoson, Virginia

Statement of Net Assets

June 30, 2005

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments	\$ 5,657,652	\$ 1,709,280	\$ 7,366,932	\$ 1,923,321
Property taxes receivable - net	452,649	-	452,649	-
Receivables-net	126,460	364,022	490,482	6,168
Due from component units	154,708	-	154,708	-
Due from other governments	455,205	-	455,205	626,243
Inventory	15,196	6,858	22,054	4,113
Prepaid items	-	9,891	9,891	-
Notes and interest receivable	-	4,213	4,213	-
Capital assets not depreciated	3,307,821	243,216	3,551,037	2,418,123
Other capital assets - net	16,186,090	17,396,593	33,582,683	4,328,061
Other assets	13,973	45,155	59,128	-
	\$ 26,369,754	\$ 19,779,228	\$ 46,148,982	\$ 9,306,029
Liabilities				
Accounts payable and accrued liabilities	\$ 414,905	\$ 74,240	\$ 489,145	\$ 2,140,289
Accrued interest	197,790	162,164	359,954	-
Line of credit	-	-	-	1,771,175
Deposits	-	26,150	26,150	-
Due to primary government	-	-	-	154,708
Deferred revenue	52,272	-	52,272	-
Noncurrent liabilities:				
Due within one year	1,106,179	743,043	1,849,222	49,581
Due in more than one year	11,253,991	11,754,507	23,008,498	162,046
Total liabilities	13,025,137	12,760,104	25,785,241	4,277,799
Net Assets				
Invested in capital assets - net of related debt	7,579,069	5,164,685	12,743,754	4,888,342
Unrestricted	5,765,548	1,854,439	7,619,987	139,888
Total net assets	13,344,617	7,019,124	20,363,741	5,028,230
	\$ 26,369,754	\$ 19,779,228	\$ 46,148,982	\$ 9,306,029

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

Statement of Activities

Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Units
Primary Government								
Government activities:								
General government and administration	\$ 1,716,083	\$ 100,546	\$ 214,662	\$ -	\$ (1,400,875)	\$ -	\$ (1,400,875)	\$ -
Judicial	180,184	29,008	-	-	(151,176)	-	(151,176)	-
Public safety	4,750,969	89,488	335,093	193,692	(4,132,696)	-	(4,132,696)	-
Public works	1,694,612	-	1,745,577	449,779	500,744	-	500,744	-
Health and welfare	840,310	-	310,697	-	(529,613)	-	(529,613)	-
Education	7,087,769	-	-	-	(7,087,769)	-	(7,087,769)	-
Parks, recreation, cultural	1,343,537	24,543	8,207	452,866	(857,921)	-	(857,921)	-
Community development	563,788	-	91,057	91,567	(381,164)	-	(381,164)	-
Interest and fees on long-term debt	500,461	-	-	-	(500,461)	-	(500,461)	-
Nondepartmental	130,551	-	-	-	(130,551)	-	(130,551)	-
Total governmental activities	18,808,264	243,585	2,705,293	1,187,904	(14,671,482)	-	(14,671,482)	-
Business-type activities:								
Sewer operations	1,537,870	1,271,539	-	-	-	(266,331)	(266,331)	-
Parks and recreation	545,799	340,230	-	-	-	(205,569)	(205,569)	-
Solid waste	475,269	325,319	-	-	-	(149,950)	(149,950)	-
Total business-type activities	2,558,938	1,937,088	-	-	-	(621,850)	(621,850)	-
Total primary government	\$ 21,367,202	\$ 2,180,673	\$ 2,705,293	\$ 1,187,904	(14,671,482)	(621,850)	(15,293,332)	-
Component Units								
Poquoson Public Schools	\$ 19,775,597	\$ 455,009	\$ 11,773,400	\$ -	-	-	-	(7,547,188)
Industrial Development Authority	111,528	-	7,969	-	-	-	-	(103,559)
Total component units	\$ 19,887,125	\$ 455,009	\$ 11,781,369	\$ -	-	-	-	(7,650,747)
General Revenues:								
Real estate and personal property taxes					12,489,445	-	12,489,445	-
Sales and use tax					446,435	-	-	-
Utility tax					447,622	-	-	-
Business licenses					339,675	-	-	-
Motor vehicle licenses					296,574	-	-	-
Meals tax					443,314	-	-	-
Other taxes					662,103	-	662,103	-
Payments from City of Poquoson					-	-	-	7,018,962
Reimbursements from other agencies					1,830,047	-	1,830,047	-
Miscellaneous					116,511	138,553	255,064	200,356
Sewer availability fees					-	587,000	587,000	-
Unrestricted investment earnings					119,801	23,888	143,689	-
Transfers					(127,800)	127,800	-	-
Total general revenues, transfers and miscellaneous					17,063,727	877,241	17,940,968	7,219,318
Change in net assets					2,392,245	255,391	2,647,636	(431,429)
Net assets - beginning of year					10,952,372	6,763,733	17,716,105	5,459,659
Net assets - end of year					\$ 13,344,617	\$ 7,019,124	\$ 20,363,741	\$ 5,028,230

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

City of Poquoson, Virginia

Balance Sheet - Governmental Funds

June 30, 2005

Assets	General Fund	Capital Projects Fund	Grant Fund	Total Governmental Funds
Cash and cash equivalents	\$ 4,503,197	\$ 999,252	\$ 55,107	\$ 5,557,556
Property taxes receivable - net	452,649	-	-	452,649
Other receivables	125,945	-	-	125,945
Due from component units	154,708	-	-	154,708
Due from other governmental units	364,265	90,940	-	455,205
Inventory	1,768	-	-	1,768
	<u>\$ 5,602,532</u>	<u>\$ 1,090,192</u>	<u>\$ 55,107</u>	<u>\$ 6,747,831</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 393,526	\$ 3,515	\$ 3,052	\$ 400,093
Deferred revenue	373,243	-	-	373,243
Total liabilities	<u>766,769</u>	<u>3,515</u>	<u>3,052</u>	<u>773,336</u>
Fund Balances				
Fund balances:				
Reserved for encumbrances	71,459	-	-	71,459
Restricted for purchase of fire truck	-	339,000	-	339,000
Unreserved:				
Designated for fiscal year 2006 budget	-	747,677	-	747,677
Unreserved and undesignated	4,764,304	-	52,055	4,816,359
Total fund balances	<u>4,835,763</u>	<u>1,086,677</u>	<u>52,055</u>	<u>5,974,495</u>
	<u>\$ 5,602,532</u>	<u>\$ 1,090,192</u>	<u>\$ 55,107</u>	<u>\$ 6,747,831</u>

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

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

 June 30, 2005

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

Total fund balances - governmental funds	\$	5,974,495
<p>Amount reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation.</p>		19,493,911
<p>Other long-term assets are not financial resources and, therefore, are deferred in the funds.</p>		323,256
<p>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.</p>		91,968
<p>Other liabilities not paid from current-period revenues are not reported in funds for:</p>		
Accrued interest		(197,790)
Accrued compensated absences		(426,381)
<p>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.</p>		(11,914,842)
Total net assets - governmental activities	\$	13,344,617

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

City of Poquoson, Virginia

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

Year Ended June 30, 2005

	General Fund	Debt Service Fund	Capital Projects Fund	Grant Fund	Total Governmental Funds
Revenues					
General property taxes	\$ 12,488,453	\$ -	\$ -	\$ -	\$ 12,488,453
Other local taxes	2,635,722	-	-	-	2,635,722
Permits, privilege fees and regulatory licenses	172,455	-	-	-	172,455
Fines and forfeitures	30,583	-	-	-	30,583
Revenue from use of money and property	202,548	-	-	-	202,548
Charges for services	30,318	-	-	-	30,318
Intergovernmental	3,650,010	-	1,572,981	101,286	5,324,277
Miscellaneous	60,180	-	33,205	-	93,385
Total revenues	19,270,269	-	1,606,186	101,286	20,977,741
Expenditures					
Current:					
General government and administration	1,543,930	-	-	-	1,543,930
Public safety and judicial	4,396,287	-	-	44,043	4,440,330
Public works	1,284,108	-	-	-	1,284,108
Health and welfare	819,499	-	-	-	819,499
Parks, recreation, and cultural	830,797	-	-	-	830,797
Community development	502,332	-	-	5,188	507,520
Nondepartmental	127,144	-	-	-	127,144
Education	7,311,063	-	-	-	7,311,063
Industrial Development Authority	59,900	-	-	-	59,900
Capital outlays	-	-	2,338,525	-	2,338,525
Debt service:					
Principal retirement	-	1,066,793	-	-	1,066,793
Bond issuance costs	-	500	-	-	500
Interest and fiscal charges	-	497,733	-	-	497,733
Total expenditures	16,875,060	1,565,026	2,338,525	49,231	20,827,842
Excess (deficiency) of revenue over expenditures	2,395,209	(1,565,026)	(732,339)	52,055	149,899
Other financing sources (uses)					
Transfers from:					
School board	437,000	-	-	-	437,000
Sewer	153,000	-	-	-	153,000
General	-	1,565,026	444,750	-	2,009,776
Bond proceeds received from series 2004	-	-	349,640	-	349,640
Transfers to:					
Debt service	(1,565,026)	-	-	-	(1,565,026)
Capital projects	(444,750)	-	-	-	(444,750)
Parks and recreation	(83,600)	-	-	-	(83,600)
Solid waste	(197,200)	-	-	-	(197,200)
Total other financing sources (uses)	(1,700,576)	1,565,026	794,390	-	658,840
Net change in fund balances	694,633	-	62,051	52,055	808,739
Fund balances - July 1, 2004	4,141,130	-	1,024,626	-	5,165,756
Fund balances - June 30, 2005	\$ 4,835,763	\$ -	\$ 1,086,677	\$ 52,055	\$ 5,974,495

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

City of Poquoson, Virginia

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

Year Ended June 30, 2005

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

Net change in fund balances - total governmental funds	\$ 808,739
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.	(993)
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	1,143,508
Depreciation expense	(678,757)
Proceeds from bond issuance provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Costs of debt issuance (net)	17,692
Repayment of debt principal	1,067,293
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	15,464
Compensated absences	(2,960)
Internal service fund is used by management to charge the cost of fleet management to individual departments. The net gain of the fleet management fund is reported with governmental activities.	<u>22,259</u>
Change in net assets of governmental activities	\$ <u>2,392,245</u>

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

City of Poquoson, Virginia

Statement of Net Assets - Proprietary Funds

June 30, 2005

Assets	Business-type Activities Proprietary Funds			Totals	Governmental Activities- Internal Service Funds
	Sewer Operations	Parks and Recreation	Solid Waste		
Current assets					
Cash and investments	\$ 1,132,867	\$ 71,523	\$ 504,890	\$ 1,709,280	\$ 100,096
Accounts receivable - net	331,895	-	32,127	364,022	516
Notes and interest receivable	4,213	-	-	4,213	-
Inventory	-	-	6,858	6,858	13,428
Prepaid expenses	-	9,891	-	9,891	-
Total current assets	1,468,975	81,414	543,875	2,094,264	114,040
Noncurrent assets					
Capital assets:					
Land	214,666	28,550	-	243,216	-
Buildings	-	254,179	9,943	264,122	41,742
Sewer system	21,645,904	-	-	21,645,904	-
Equipment	476,424	23,400	448,152	947,976	18,499
Less - accumulated depreciation	(4,878,028)	(243,447)	(339,934)	(5,461,409)	(48,554)
Total capital assets - net of accumulated depreciation	17,458,966	62,682	118,161	17,639,809	11,687
Intangible assets	33,170	-	-	33,170	-
Notes receivable - less current portion	11,985	-	-	11,985	-
Total noncurrent assets	17,504,121	62,682	118,161	17,684,964	11,687
	\$ 18,973,096	\$ 144,096	\$ 662,036	\$ 19,779,228	\$ 125,727
Liabilities					
Current liabilities					
Vouchers and accounts payable	\$ 5,189	\$ 22,492	\$ 23,764	\$ 51,445	\$ 9,152
Deposits	-	26,150	-	26,150	-
Accrued payroll	5,198	15,192	2,405	22,795	5,660
Accrued interest	162,164	-	-	162,164	-
Compensated absences	15,046	4,350	3,030	22,426	18,947
Bonds, notes payable and capital lease obligations - current portion	741,922	-	-	741,922	-
Total current liabilities	929,519	68,184	29,199	1,026,902	33,759
Noncurrent liabilities					
Bonds, notes payable and capital lease obligations - less current portion	11,733,202	-	-	11,733,202	-
Total noncurrent liabilities	11,733,202	-	-	11,733,202	-
Total liabilities	12,662,721	68,184	29,199	12,760,104	33,759
Net Assets					
Invested in capital assets - net of related debt	4,983,842	62,682	118,161	5,164,685	11,687
Unrestricted	1,326,533	13,230	514,676	1,854,439	80,281
Total net assets	6,310,375	75,912	632,837	7,019,124	91,968
	\$ 18,973,096	\$ 144,096	\$ 662,036	\$ 19,779,228	\$ 125,727

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

City of Poquoson, Virginia

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

Year Ended June 30, 2005

	Proprietary Fund Types				Internal Service Fund
	Sewer Operations	Parks and Recreation	Solid Waste	Total	
Operating revenues					
Charges for services	\$ 1,271,539	\$ 340,230	\$ 325,319	\$ 1,937,088	\$ 584,827
Festivals	-	128,778	-	128,778	-
Miscellaneous	-	9,775	-	9,775	-
Total operating revenues	1,271,539	478,783	325,319	2,075,641	584,827
Operating expenses					
Personnel services	174,862	250,524	85,176	510,562	223,075
Contractual services	47,806	211,473	15,433	274,712	30,649
Materials and supplies	27,542	45,470	66,937	139,949	284,861
Utilities	44,596	5,708	64	50,368	3,658
Depreciation and amortization	659,195	5,538	32,571	697,304	3,830
Other charges	56,726	27,086	45,629	129,441	16,495
Waste disposal	-	-	229,459	229,459	-
Total operating expenses	1,010,727	545,799	475,269	2,031,795	562,568
Operating income (loss)	260,812	(67,016)	(149,950)	43,846	22,259
Nonoperating revenues (expenses)					
Interest income	23,855	-	33	23,888	-
Interest and fiscal charges	(527,143)	-	-	(527,143)	-
Sewer availability fees	587,000	-	-	587,000	-
Net nonoperating revenues	83,712	-	33	83,745	-
Income (loss) before transfers	344,524	(67,016)	(149,917)	127,591	22,259
Transfers					
Transfer in	-	83,600	197,200	280,800	-
Transfers out	(153,000)	-	-	(153,000)	-
Net transfers	(153,000)	83,600	197,200	127,800	-
Change in net assets	191,524	16,584	47,283	255,391	22,259
Net assets - July 1, 2004	6,118,851	59,328	585,554	6,763,733	69,709
Net assets - June 30, 2005	\$ 6,310,375	\$ 75,912	\$ 632,837	\$ 7,019,124	\$ 91,968

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

City of Poquoson, Virginia

Statement of Cash Flows - Proprietary Funds

	Proprietary Fund Types					Component Unit Industrial Development Authority
	Sewer Operations	Parks and Recreation	Solid Waste	Total	Internal Service Fund	
Year Ended June 30, 2005						
Cash flows from operating activities						
Received from customers and users	\$ 1,341,592	\$ 478,783	\$ 319,767	\$ 2,140,142	\$ 585,921	\$ 30,375
Payments to suppliers for goods and services	(292,110)	(282,912)	(361,362)	(936,384)	(343,903)	9,966
Payments to employees	(172,488)	(251,934)	(86,135)	(510,557)	(223,176)	-
Net cash provided by (used in) operating activities	876,994	(56,063)	(127,730)	693,201	18,842	40,341
Cash flows from noncapital financing activities						
Transfers to other funds	(153,000)	-	-	(153,000)	-	-
Transfers from other funds	-	83,600	197,200	280,800	-	59,900
Net cash provided by (used in) noncapital financing activities	(153,000)	83,600	197,200	127,800	-	59,900
Cash flows from capital and related financing activities						
Principal paid on capital debt	(680,389)	-	-	(680,389)	-	(43,333)
Sewer availability fees	587,000	-	-	587,000	-	-
Interest paid on capital debt	(538,574)	-	-	(538,574)	-	(73,336)
Acquisition and construction of capital assets	-	(17,400)	-	(17,400)	(6,999)	-
Net cash used in capital and related financing activities	(631,963)	(17,400)	-	(649,363)	(6,999)	(116,669)
Cash flows from investing activities						
Interest received	23,855	-	33	23,888	-	-
Net increase (decrease) in cash and investments	115,886	10,137	69,503	195,526	11,843	(16,428)
Cash and investments - beginning of year	1,016,981	61,386	435,387	1,513,754	88,253	16,428
Cash and investments - end of year	\$ 1,132,867	\$ 71,523	\$ 504,890	\$ 1,709,280	\$ 100,096	\$ -
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities						
Operating income (loss)	\$ 260,812	\$ (67,016)	\$ (149,950)	\$ 43,846	\$ 22,259	\$ (1,648)
Adjustments:						
Depreciation and amortization	659,195	5,538	32,571	697,304	3,830	21,102
Changes in assets and liabilities:						
Receivables - net	70,053	-	(5,552)	64,501	1,094	(6,168)
Inventories	-	-	(4,879)	(4,879)	3,662	-
Prepaid items	-	3,684	-	3,684	-	-
Vouchers and accounts payable	(115,440)	3,141	1,039	(111,260)	(11,902)	(28,749)
Accrued compensated absences	2,134	768	(1,007)	1,895	(166)	-
Accrued payroll	240	(2,178)	48	(1,890)	65	-
Due to other governments	-	-	-	-	-	55,804
Net cash provided by (used in) operating activities	\$ 876,994	\$ (56,063)	\$ (127,730)	\$ 693,201	\$ 18,842	\$ 40,341

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

City of Poquoson, Virginia

Statement of Fiduciary Net Assets

June 30, 2005

	Assets	<u>Library Agency Fund</u>
Cash and cash equivalents		\$ 54,793
	Net Assets	
Held in trust for library building		<u>\$ 54,793</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, 2005

Assets	Poquoson School Board	Industrial Development Authority	Total
Cash and cash equivalents	\$ 1,923,321	\$ -	\$ 1,923,321
Receivables	-	6,168	6,168
Due from other governments	626,243	-	626,243
Inventory	4,113	-	4,113
Capital assets - net	4,190,885	2,555,299	6,746,184
	<u>\$ 6,744,562</u>	<u>\$ 2,561,467</u>	<u>\$ 9,306,029</u>
Liabilities			
Vouchers and accounts payable	\$ 2,140,221	\$ 68	\$ 2,140,289
Line of credit	-	1,771,175	1,771,175
Compensated absences - current	6,248	-	6,248
Due to primary government	98,904	55,804	154,708
Note payable - noncurrent	-	86,667	86,667
Compensated absences - noncurrent	118,712	-	118,712
Total liabilities	<u>2,364,085</u>	<u>1,913,714</u>	<u>4,277,799</u>
Net Assets			
Invested in capital assets	4,190,885	697,457	4,888,342
Unrestricted	189,592	(49,704)	139,888
Total net assets	<u>4,380,477</u>	<u>647,753</u>	<u>5,028,230</u>
	<u>\$ 6,744,562</u>	<u>\$ 2,561,467</u>	<u>\$ 9,306,029</u>

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, 2005

	Expense	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		Totals
		Charges for Services	Operating Grants and Contributions	Capital Contributions	Poquoson School Board	Industrial Development Authority	
Poquoson School Board							
Education	\$ 19,775,597	\$ 455,009	\$ 11,773,400	\$ -	\$ (7,547,188)	\$ -	\$ (7,547,188)
Industrial Development Authority							
Economic Development	111,528	-	7,969	-	-	(103,559)	(103,559)
Total component units	\$ 19,887,125	\$ 455,009	\$ 11,781,369	\$ -	(7,547,188)	(103,559)	(7,650,747)
General revenues							
					6,959,062	59,900	7,018,962
					171,782	28,574	200,356
					7,130,844	88,474	7,219,318
					(416,344)	(15,085)	(431,429)
					4,796,821	662,838	5,459,659
					\$ 4,380,477	\$ 647,753	\$ 5,028,230

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

City of Poquoson, Virginia

Notes to Basic Financial Statements

June 30, 2005

1. Summary of Significant Accounting Policies

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

Reporting Entity

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

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

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

Therefore, the School Board is included in the component unit column of the City's financial statements because of the significance of its financial relationship with the City. Furthermore, the School Board meets the criteria for discrete presentation and is, therefore, presented in a separate component units 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 units column of the City's financial statements because the City is able to impose its will on the IDA by appointment of the governing body. In addition, the City Council funds a portion of the IDA's operating budget and guarantees their line of credit. Therefore, the IDA is financially dependent on the City. There are no separate financial statements issued for the IDA.

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

Financial Reporting Model

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

Management's Discussion and Analysis

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

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*, as are the proprietary fund 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 City considers revenues to be available if they are collected within 45 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The City reports the following major governmental funds:

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

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

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

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

The City reports the following major proprietary funds:

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

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

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

Additionally, the City reports the following proprietary fund type:

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. 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 City 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 City's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary Fund - Agency Fund Types

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

Component Unit - School Board

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

School Board General Fund

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

School Board Special Revenue Fund

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

School Board Agency Funds

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

Component Unit - Industrial Development Authority

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

Budgeting and Budgetary Accounting

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

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

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

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

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America except that encumbrances are included as budgetary expenditures. Budgeted amounts reflected in the primary government are as originally adopted and amended by City Council. Supplemental budget appropriations were approved during the fiscal year ended June 30, 2005, for an increase in appropriations in the amount of \$ 758,877 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. For assets constructed, interest expense is capitalized on proprietary fund type assets financed with tax-exempt debt. The amount of interest expense capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project against interest income earned on invested proceeds over the same period.

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

The estimated useful lives of capital assets are as follows:

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

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

Allowance for Uncollectible Accounts

The City (primary government) calculates its allowance for uncollectible property taxes receivable using historical collection data. At June 30, 2005, the allowance approximated \$ 305,000 in the General Fund. All other receivables have experienced a high collection rate; therefore, an allowance for doubtful accounts has not been established by City management for other receivables.

Inventory

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

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

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

Inventory is recognized as expenditures when consumed.

Encumbrances

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

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

Compensated Absences

City employees are granted vacation and sick pay in varying amounts based on years of service. Employees may accumulate, subject to certain limitations, unused vacation and sick pay earned and, upon retirement, termination or death, may be compensated for certain amounts at specified rates. The cost of accumulated vacation and sick pay expected to be paid from future expendable resources 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. Grants, where the earnings process is not complete, are also reported as deferred revenue.

Estimates

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

Credit Risk

The assessed value of real estate for the City's ten largest taxpayers comprises 4.10% of the City's real estate tax base. Concentration of credit risk with respect to receivables is limited due to the large number of customers comprising the City's customer base.

2. Deposits and Investments

Deposits

At year-end, the carrying value of the primary government's deposits with banks and savings institutions was \$ 4,734,716 and the bank balance was \$ 5,046,907 including cash with fiscal agents. Of the bank balance, 100% was covered by the Federal Deposit Insurance Corporation (FDIC) or collateralized in accordance with the Virginia Security for Public Deposits Act (Act).

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

However, all qualified bank's public deposits are considered 100% "insured" (per GASB Statement No. 3, paragraph 11) because the Act provides for additional assessments to be made. This means that if a qualified bank were to fail, all collateral in the pool would be used to recover the public deposits held at that bank. In addition, if the collateral were inadequate to cover all public deposits, additional amounts would be assessed on a pro rata basis to each member of the pool. Therefore, the Act ensures that there will be no loss of public funds and that makes the pool similar to depository insurance. At June 30, 2005, 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 \$1,923,321 and the bank balance was \$2,280,449. The bank balance was covered by Federal Depository Insurance Corporation or collateralized in accordance with the Act. At June 30, 2005, no balances of the component unit were uninsured or uncollateralized in banks or savings institutions because of failure of the institutions to qualify under the Act.

Investments

Statutes authorize the City to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). LGIP is managed in accordance with the "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. The fair value of the LGIP is the same as the value of the pool shares. Investments with a maturity date of one year or less are stated at amortized cost. All other investments are stated at fair value.

Investment Policy

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

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

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

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

Short-Term Operating Funds

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

Core Portfolio

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

Bond Proceeds

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

Credit Risk

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

Although state statute does not impose credit standards on repurchase agreement counterparties, bankers' acceptances or money market mutual funds, the City has established stringent credit standards for these investments to minimize portfolio risk.

Concentration of Credit Risk

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

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

Interest Rate Risk

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

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

Custodial Risk

For an investment, custodial risk is the risk that in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Policy requires that all investment securities purchased by the City of held as collateral on deposits or investments shall be held by the City or by a third-party custodial agent who may not otherwise be counterparty to the investment transaction. As of June 30, 2005, with the exception of the Virginia LGIP, all of the City's investments are held in a bank's trust department in the City's name.

As of June 30, 2005, the carrying values and weighted average maturity of the City's investments were as follows:

	Investment Maturities (in years)		
	Fair value	Less than 1 year	1-3 years
Money market funds - Virginia LGIP	\$ 784,293	\$ 784,293	\$ -
Money market funds - Scott & Stringfellow	49,288	49,288	-
U.S. government agencies	1,235,195	-	1,235,195
Corporate notes	563,440	-	563,440
Total investments	<u>2,632,216</u>	<u>833,581</u>	<u>1,798,635</u>
Reconciliation to total cash and investments			
Add:			
Cash on hand and in banks	<u>4,734,716</u>		
Total cash and investments	<u>\$ 7,366,932</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 Operations 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, 2005, consists of the following:

Primary Government

<u>Commonwealth of Virginia</u>	General	Capital Projects	Total
Comprehensive Services Act	\$ 115,694	\$ -	\$ 115,694
Sales tax	34,784	-	34,784
Street and highway maintenance	154,500	90,940	245,440
Division of Motor Vehicles reimbursement	7,326	-	7,326
Compensation Board	15,354	-	15,354
Total due from the Commonwealth of Virginia	327,658	90,940	418,598
 <u>Federal Government</u>			
COPS Fast Grant	3,168	-	3,168
U.S. Department of Interior	4,513	-	4,513
Federal Aid Streets and Highways	28,926	-	28,926
Total due from the Federal government	36,607	-	36,607
Total due from other governmental units	\$ 364,265	\$ 90,940	\$ 455,205

Component Unit – School Board

<u>Commonwealth of Virginia</u>		
State sales taxes		\$ 265,432
State technology reimbursement		146,651
Teacher fringe benefits		23,268
Various grants		41,322
Total due from the Commonwealth of Virginia		476,673
 <u>Federal Government</u>		
Department of Education Program		
Title I & II		51,617
Title V		10,103
Title VI		1,120
Title VI-B		86,285
Various grants		445
Total due from the federal government		149,570
Total due from other governments		\$ 626,243

6. Interfund Receivables and Payables

Details of the receivables and payables between the primary government and the component units at June 30, 2005, are as follows:

<u>Primary Government Receivable Fund</u>	<u>Component Unit Payable Fund</u>	<u>Amount</u>
City General Fund	School General Fund	\$ 98,904
City General Fund	Industrial Development Authority	55,804
		<u>\$ 154,708</u>

7. Capital Assets

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

	<u>Balance July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2005</u>
Capital assets not being depreciated				
Land	\$ 2,583,903	\$ 5,075	\$ -	\$ 2,588,978
Construction in progress	55,757	1,494,370	831,284	718,843
Total capital assets not being depreciated	<u>2,639,660</u>	<u>1,499,445</u>	<u>831,284</u>	<u>3,307,821</u>
Other capital assets				
Buildings	6,302,648	-	-	6,302,648
Infrastructure	386,040	873,472	-	1,259,512
Machinery and equipment	4,002,605	338,848	97,371	4,244,082
Total other capital assets	<u>10,691,293</u>	<u>1,212,320</u>	<u>97,371</u>	<u>11,806,242</u>
Less - accumulated depreciation				
Buildings	1,735,958	141,354	-	1,877,312
Infrastructure	11,948	34,177	-	46,125
Machinery and equipment	2,067,982	292,725	96,746	2,263,961
Total accumulated depreciation	<u>3,815,888</u>	<u>468,256</u>	<u>96,746</u>	<u>4,187,398</u>
Other capital assets - net	<u>6,875,405</u>	<u>744,064</u>	<u>625</u>	<u>7,618,844</u>
	<u>9,515,065</u>	<u>2,243,509</u>	<u>831,909</u>	<u>10,926,665</u>
Allocation of School Board Assets				
Buildings	10,685,346	-	-	10,685,346
Less - accumulated depreciation				
Buildings	1,904,394	213,706	-	2,118,100
Total allocated to City	<u>8,780,952</u>			<u>12,803,446</u>
Total	<u>\$ 18,296,017</u>			<u>\$ 23,730,111</u>

Depreciation was charged to governmental functions as follows:

General Government Administration	\$ 106,973
Public Safety	226,664
Public Works	55,634
Health and Welfare	20,168
Parks, Recreation, and Cultural	54,629
Nondepartmental	4,188
Education	213,706
	<u>\$ 681,962</u>

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

	<u>Balance July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2005</u>
Capital assets not being depreciated:				
Land	\$ 243,223	\$ -	\$ -	\$ 243,223
Other capital assets				
Buildings	17,629,727	286,655	-	17,916,382
Machinery and equipment	3,455,297	244,987	302,381	3,397,903
Total other capital assets	<u>21,085,024</u>	<u>531,642</u>	<u>302,381</u>	<u>21,314,285</u>
Less - accumulated depreciation				
Buildings	5,900,774	372,882	-	6,273,656
Machinery and equipment	2,602,596	204,828	281,703	2,525,721
Total accumulated depreciation	<u>8,503,370</u>	<u>577,710</u>	<u>281,703</u>	<u>8,799,377</u>
Other capital assets - net	<u>12,581,654</u>	<u>(46,068)</u>	<u>20,678</u>	<u>12,514,908</u>
	<u>12,824,877</u>	<u>(46,068)</u>	<u>20,678</u>	<u>12,758,131</u>
Allocation to City	<u>(10,685,346)</u>	<u>-</u>	<u>-</u>	<u>(10,685,346)</u>
Buildings				
Less - accumulated depreciation	<u>1,904,394</u>	<u>213,706</u>	<u>-</u>	<u>2,118,100</u>
Total allocated to City	<u>(8,780,952)</u>			<u>(8,567,246)</u>
Total	<u>\$ 4,043,925</u>			<u>\$ 4,190,885</u>

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

<u>Business-type activities</u>	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital assets not being depreciated:				
Land	\$ 243,216	\$ -	\$ -	\$ 243,216
Total capital assets not being depreciated	243,216	-	-	243,216
Other capital assets				
Buildings	264,122	-	-	264,122
Machinery and equipment	930,576	17,400	-	947,976
Sewer system	21,638,904	-	-	21,638,904
Sewer easement	7,000	-	-	7,000
Total other capital assets	22,840,602	17,400	-	22,858,002
Less - accumulated depreciation				
Buildings	237,378	6,201	-	243,579
Machinery and equipment	542,799	71,453	-	614,252
Sewer system	3,986,785	616,793	-	4,603,578
Total accumulated depreciation	4,766,962	694,447	-	5,461,409
Other capital assets - net	18,073,640	(677,047)	-	17,396,593
Total	\$ 18,316,856	\$ (677,047)	\$ -	\$ 17,639,809

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

<u>Industrial Development Authority</u>	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital assets not being depreciated:				
Land	\$ 1,605,065	\$ 569,835	\$ -	\$ 2,174,900
Other capital assets				
Buildings and improvements	118,858	-	-	118,858
Infrastructure	315,273	-	-	315,273
Total other capital assets	434,131	-	-	434,131
Less - accumulated depreciation				
Buildings and improvements	18,298	6,772	-	25,070
Infrastructure	14,331	14,331	-	28,662
Total accumulated depreciation	32,629	21,103	-	53,732
Other capital assets - net	401,502	(21,103)	-	380,399
Total	\$ 2,006,567	\$ 548,732	\$ -	\$ 2,555,299

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, 2005:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Amounts due within one year
General Obligation					
Debts payable:					
General obligation bonds	\$ 7,645,953	\$ -	\$ 585,041	\$ 7,060,912	\$ 595,617
General obligation leases	-	696,140	42,234	653,906	86,299
State Literary Fund loans	4,811,338	-	439,518	4,371,820	402,000
Deferred charge - refunding	(188,157)	-	(16,361)	(171,796)	-
	<u>12,269,134</u>	<u>696,140</u>	<u>1,050,432</u>	<u>11,914,842</u>	<u>1,083,916</u>
Accrued benefits:					
Accrued compensated absences	442,368	538,220	535,260	445,328	22,263
	<u>\$ 12,711,502</u>	<u>\$ 1,234,360</u>	<u>\$ 1,585,692</u>	<u>\$ 12,360,170</u>	<u>\$ 1,106,179</u>
Component Unit - School Board					
Accrued benefits:					
Accrued compensated absences	\$ 110,386	\$ 14,574	\$ -	\$ 124,960	\$ 6,248

Outstanding General Obligation bonds at June 30, 2005 of the City's 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%.	\$ 345,000
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%.	235,000
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%.	440,000
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%.	<u>1,094,834</u>
Subtotal (carried forward)	2,114,834

Subtotal (brought forward)	2,114,834
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 bonds bear interest at 5.43%.	721,025
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.	515,347
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.	374,706
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%.	<u>3,335,000</u>
Total general obligation bonds outstanding	<u>\$ 7,060,912</u>

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 595,617	\$ 306,623
2007	626,745	276,957
2008	638,454	251,002
2009	660,772	224,437
2010	673,730	197,217
2011-2015	3,129,220	572,818
2016-2019	736,374	33,815
	<u>\$ 7,060,912</u>	<u>\$ 1,862,869</u>

In October 2004, the City of Poquoson entered into a capital lease to purchase two fire trucks. This lease required one payment of \$50,562 in June 2005 and ten annual payments of \$86,299, including principal and interest at 3.58%, through June 2014. The balance as of June 30, 2005 was \$653,906.

Future minimum lease payments under capital lease with the present value (outstanding principal) of the net minimum lease payments as of June 30, 2005, are as follows:

2006	\$	86,299
2007		86,299
2008		86,299
2009		86,299
2010		86,299
2021-2024		344,981
		<u>776,476</u>
Less - amount representing interest at 3.58%		<u>(122,570)</u>
Present value of net minimum lease payments	\$	<u>653,906</u>

Line of Credit

In December 2003, the City of Poquoson obtained a \$2,000,000 line of credit evidenced by a general obligation revenue anticipation note. During the fiscal year 2005, there were no draws on the line of credit which is set to expire on November 15, 2005.

Advance Refunding

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

Outstanding literary loan funds at June 30, 2005 of the Primary Governmental activities are comprised of the following issues:

Primary School Literary Fund Loan - \$2,500,000 loan issued September 15, 1989, due in annual installments of \$125,000 through August 2009, with interest at 3%.	\$	625,000
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%.		246,820
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%.		3,500,000
Total state literary fund loans outstanding	\$	<u>4,371,820</u>

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 402,000	\$ 131,155
2007	402,000	119,095
2008	402,000	107,035
2009	402,000	94,975
2010	402,000	82,915
2011-2015	1,361,820	271,058
2016	1,000,000	75,000
	<u>\$ 4,371,820</u>	<u>\$ 881,233</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, 2005, the City's aggregate general obligation indebtedness, excluding proprietary fund debt, was \$76,622,577 less than the allowable limit.

Overlapping Debt

There are no overlapping or underlying tax jurisdictions.

9. Long-Term Liabilities - Business-Type Activities

Following is a summary of debt transactions of the enterprise funds for the fiscal year ended June 30, 2005:

	Balance			Balance	Amounts
	July 1, 2004	Additions	Reductions	June 30, 2005	due within
					one year
Enterprise Funds					
General obligation funds	\$ 13,506,624	\$ -	\$ 715,608	\$ 12,791,016	\$ 741,922
Accounting loss on refunding	(357,018)	35,549	-	(321,469)	-
Bond premium	5,907	-	330	5,577	-
	<u>13,155,513</u>	<u>35,549</u>	<u>715,938</u>	<u>12,475,124</u>	<u>741,922</u>
Accrued compensated absences	20,531	35,295	33,400	22,426	1,121
	<u>\$ 13,176,044</u>	<u>\$ 70,844</u>	<u>\$ 749,338</u>	<u>\$ 12,497,550</u>	<u>\$ 743,043</u>

General long-term obligations and notes payable at June 30, 2005, are comprised of the following:

<i>General Obligation Sewer System Bonds, Series 1994A (September 1994)</i> - \$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%.	\$ 240,000
<i>General Obligation Sewer System Refunding Bonds, Series 1998B (December 1998)</i> - \$2,294,591 bonds issued and due in annual installments varying from \$21,809 to \$235,256, through September 2017, with interest payable semi-annually at 4.5%.	2,167,378
<i>General Obligation Sewer Bonds, Series 2000B (May 2000)</i> - \$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%.	2,254,484
<i>General Obligation Sewer Bonds, Series 2000A (May 2000)</i> - \$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%.	6,206,164
<i>General Obligation Sewer Bonds, Series 2002</i> - \$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%.	985,000
<i>General Obligation Public Improvement Equipment Note Series 2002A</i> - \$141,000 bonds issued and due in annual installments of \$30,590, including principal and interest at 3.57% through August 2006.	57,990
<i>General Obligation Sewer System Refunding Bonds Series 2003 (December 2003)</i> - \$990,000 bonds issued and due in annual installments varying from \$110,000 to \$140,000, through January 2012, with interest payable semi-annually at 2.92%.	880,000
	<hr/> 12,791,016
Accounting loss on refundings	(321,469)
Bond premium	5,577
	<hr/>
Total general obligation bonds outstanding	\$ 12,475,124

Estimated 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
2006	\$ 741,922	\$ 439,075
2007	768,771	410,714
2008	771,690	382,081
2009	795,971	353,847
2010	825,565	324,062
2011-2015	4,177,395	1,203,000
2016-2020	4,199,890	490,296
2021-2024	509,812	18,989
	<u>\$ 12,791,016</u>	<u>\$ 3,622,064</u>

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

Advanced and Current Refundings

In prior years, the City advanced refunded certain Sewer General Obligation Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At June 30, 2005, \$2,015,000 of the bonds outstanding is considered to be an in-substance defeasance. The debt was legally defeased on September 1, 2004.

In December 2003, the City of Poquoson issued \$990,000 of general obligation refunding bonds to currently refund \$935,000 of general obligation refunding bonds. The refunded bonds are considered to be legally defeased and the liability has been removed from the City's financial statements. The reacquisition price exceeded the net carrying amount of the old debt by \$55,000. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is the same life as the old debt. This advance refunding was undertaken to reduce total debt service payments over a 8 year period by \$ 60,089 and resulted in a net present value savings of \$54,656.

The unamortized amount deferred on the sewer refundings of \$321,469 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. The line of credit expires on March 31, 2006 and bears interest at 5.36%. Short-term activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Draws	Repayments	Ending Balance
Line of credit	<u>\$ 1,201,340</u>	<u>\$ 569,835</u>	<u>\$ -</u>	<u>\$ 1,771,175</u>

Note Payable

The IDA also has \$130,000 interest bearing note payable to Michael E. Thompson and Connie Freeman Thompson, due in annual installments of \$43,333 through June 2007, with interest at 5.00%.

Estimated principal payments on long-term liabilities for future years ending June 30, follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 43,333	\$ 4,333
2007	43,334	2,167
	<u>\$ 86,667</u>	<u>\$ 6,500</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). On November 1, 2003, the IDA issued \$5,000,000 Nansemond-Suffolk Academy (NSA) Revenue bonds to finance an addition. On July 13, 2004, the IDA issued \$7,500,000 Hampton-Newport News Community Services Board (HNNCSB) revenue bonds to acquire the former Hampton Medical Center and to finance improvements. The costs of financing the projects, all expenses of issuing the bonds and the payments of bond principals and interest are the responsibility of the YMCA, the NSA, and the HNNCSB, respectively. The bonds provide that neither the IDA nor the City shall be obligated to pay the bonds or interest thereon or other costs incident thereto. At June 30, 2005, \$21,665,10 remained outstanding.

12. Deferred Revenue

Deferred revenue for the primary government at June 30, 2005, consists of real and personal property taxes not collected within 45 days after June 30, 2005, and grant money received but not yet 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 Transfers

Interfund transfers for the year ended June 30, 2005 were made up of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 153,000	\$ 2,290,576
Debt Service Fund	1,565,026	-
Capital Projects Fund	444,750	-
Parks, Recreation and Cultural	83,600	-
Sewer Operations Fund	-	153,000
Solid Waste fund	197,200	-
	<u>\$ 2,443,576</u>	<u>\$ 2,443,576</u>

Purpose:

Transfers from General Fund:

\$1,565,026	Debt Service Fund: current year debt payments.
\$ 444,750	Capital Projects: funding for pay-as-you-go capital projects.
\$ 83,600	Parks, Recreation and Cultural: fund deficit in special events.
\$ 197,200	Solid Waste Fund: fund bulk item pickup.

Transfers from Sewer Operations Fund:

\$ 153,000	General Fund: allocate administration costs paid out of General Fund for sewer services.
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15. Surety Bonds

The City maintained the following surety bond coverage's on certain employees of the primary government and component unit during the fiscal year ended June 30, 2005:

<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
Dr. Marilyn F. Barr, Deputy Clerk of the School Board	\$ 10,000
All School Board employees - blanket bond	\$ 1,000,000

The Commonwealth of Virginia maintained the following surety bond and blanket bond coverage on certain employees pursuant to Section 2.1-526.9 of the Code of Virginia. The coverage with respect to the Treasurer does not extend to the loss of any City funds.

<u>Description</u>	<u>Amount</u>
Virginia Municipal Liability Pool - Surety, Faithful Performance of Duty Schedule, Position Bond: 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, 2005, the City provided support to HRPDC of \$32,411, VPPSA of \$185,601, PAED of \$14,125, CSB of \$100,412 and GPWDC of \$5,325.

In addition, a conglomerate of municipalities shares certain expenses for maintaining and operating a regional jail and juvenile detention center. During fiscal year 2005, the City incurred expenses for the jail and center of \$125,558 and \$25,526, 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, 2005, the City paid \$440,700 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, 2005, the School Board provided support of \$454,000 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, 2005, was 1.00% and 12.75%, 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 2005, 2004 and 2003 and were \$1,189,333, \$854,446 and \$833,075, respectively. The School Board contributed 100% of required contributions to the pool for fiscal year ended 2005 and each of the two preceding years.

C. Annual Pension Cost

For fiscal year 2004, the City and School Board's annual pension costs of \$494,856 and \$90,935, 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, 2003, 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, 2004. Actuarial assumptions used include an investment rate of return of 8%.

18. Notes to Schedule of Employer Contributions and Funding Progress

The information presented in the schedules of employer contributions and funding progress was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2004, actuarial valuation follows:

Valuation date	June 30, 2004
Actuarial cost method	Entry Age Normal
Valuation date	June 30, 2004
Actuarial cost method	Entry age Normal
Amortization method	Level percent, open
Payroll growth rate	3%
Remaining amortization period	5 years
Asset valuation method	Modified market
Actuarial assumptions:	
Investment rate of return*	8.00%
Projected salary increases*	
1.) Non-LEO	4.25% to 6.10%
2.) LEO employees	4.50% to 5.75%
Cost-of-living adjustments	3.00%

¹ Includes inflation at 3%

19. Risk Management

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

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

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City of Poquoson, Virginia

General Fund
Budgetary Comparison Schedule

Year Ended June 30, 2005

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
Revenues and other financing sources				
Revenues from local sources:				
General property taxes:				
Real property taxes	\$ 10,413,400	\$ 10,565,000	\$ 10,573,099	\$ 8,099
Public service corporation property taxes	178,000	117,000	105,318	(11,682)
Personal property	1,518,000	1,620,000	1,682,523	62,523
Penalties and interest	115,000	115,000	127,513	12,513
Total general property taxes	12,224,400	12,417,000	12,488,453	71,453
Other local taxes:				
Sales and use taxes	420,000	420,000	446,435	26,435
Meals taxes	390,000	410,000	443,314	33,314
Cigarette taxes	102,000	102,000	94,467	(7,533)
Consumers' utility taxes	427,000	427,000	447,622	20,622
Consumption tax	36,000	36,000	38,009	2,009
E-911 telephone taxes	165,000	165,000	146,216	(18,784)
Business license taxes	306,000	306,000	339,675	33,675
Franchise license taxes	106,000	106,000	115,874	9,874
Motor vehicle license taxes	284,000	284,000	296,574	12,574
Bank stock taxes	18,000	18,000	33,556	15,556
Recordation and wills taxes	105,000	105,000	199,221	94,221
Deeds of conveyance	20,000	20,000	34,759	14,759
Total other local taxes	2,379,000	2,399,000	2,635,722	236,722
Permits, privilege fees and regulatory licenses:				
Animal license	1,700	1,700	1,598	(102)
Permits and other licenses	120,100	120,100	170,857	50,757
Total permits, privilege fees and regulatory licenses	121,800	121,800	172,455	50,655
Fines and forfeitures	24,500	24,500	30,583	6,083
Revenues from use of money and property:				
Revenue from use of money	40,000	74,000	119,801	45,801
Revenue from use of property	72,800	72,800	82,747	9,947
Total revenue from use of money and property	112,800	146,800	202,548	55,748
Charges for services:				
Charges for sales of maps	300	300	151	(149)
Charges for business promotional maps	-	5,524	5,624	100
Charges for copying	4,200	4,200	4,106	(94)
Charges for library and fees	15,500	15,500	20,437	4,937
Total charges for services	20,000	25,524	30,318	4,794
Miscellaneous revenues:				
Miscellaneous	3,500	3,875	23,927	20,052
Insurance recoveries	-	-	1,330	1,330
Reimbursement of VPPSA fees	-	-	24,673	24,673
Donations-volunteer fire and rescue	-	1,619	1,618	(1)
Donations-hurricane relief	-	50	50	-
Donations	2,300	10,507	8,582	(1,925)
Total miscellaneous revenues	5,800	16,051	60,180	44,129

City of Poquoson, Virginia

General Fund
Budgetary Comparison Schedule

Year Ended June 30, 2005

	Original Budget	Budget as Amended	Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
Intergovernmental:				
Revenues from the Commonwealth:				
Noncategorical aid:				
ABC profits	6,780	6,780	6,780	-
DMV reimbursement	80,000	80,000	77,646	(2,354)
Wine taxes	7,100	7,100	7,107	7
Mobile home titling taxes	700	700	6,921	6,221
Rolling stock tax	-	-	80	80
Personal property tax relief	1,837,000	1,735,000	1,809,159	74,159
Total noncategorical aid	1,931,580	1,829,580	1,907,693	78,113
Categorical aid:				
Shared expenses:				
Commissioner of the Revenue	76,334	76,918	76,573	(345)
Treasurer	86,236	86,236	86,042	(194)
Registrar/electoral board	37,880	41,038	47,534	6,496
Total categorical aid	200,450	204,192	210,149	5,957
Other categorical aid:				
State 599 police funds	270,840	270,840	270,848	8
Juvenile crime	14,380	14,380	14,388	8
Fire program fund	15,500	22,778	22,778	-
Department of Emergency Services	2,000	24,500	24,500	-
Street and highway maintenance	618,000	618,000	618,000	-
Litter control	-	4,375	4,375	-
Library	103,340	103,340	103,226	(114)
Emergency medical services	5,500	5,711	5,711	-
State drug seizure	-	2,318	2,318	-
State matching FEMA grant	-	16,738	16,738	-
Wireless E911 PSAP	35,130	35,130	37,373	2,243
Comprehensive services	137,000	293,301	285,034	(8,267)
Total other categorical aid	1,201,690	1,411,411	1,405,289	(6,122)
Total categorical aid	1,402,140	1,615,603	1,615,438	(165)
Total revenues from the Commonwealth	3,333,720	3,445,183	3,523,131	77,948
Revenues from the federal government:				
FEMA public assistance grant	-	74,839	74,829	(10)
Miscellaneous	9,300	52,236	52,050	(186)
Total revenues from the federal government	9,300	127,075	126,879	(196)
Other financing sources				
Transfer from component unit-School Board	319,390	319,390	437,000	117,610
Transfer from sewer operations fund	153,000	153,000	153,000	-
Total other financing uses	472,390	472,390	590,000	117,610
Total revenues and other financing sources	\$ 18,703,710	\$ 19,195,323	\$ 19,860,269	\$ 664,946

City of Poquoson, Virginia

General Fund
Budgetary Comparison Schedule

Year Ended June 30, 2005

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
Expenditures and other financing uses				
General government administration:				
Legislative - City Council	\$ 63,150	\$ 68,058	\$ 68,058	\$ -
General and financial administration:				
City Manager	291,630	316,730	316,483	247
Legal services	79,050	87,450	87,384	66
Independent auditor	25,000	25,000	23,300	1,700
Commissioner of the Revenue	232,600	236,296	235,902	394
Assessor/equalization board	141,690	160,864	153,241	7,623
Treasurer	226,170	252,104	252,090	14
Finance	253,110	256,418	245,916	10,502
Risk management	208,782	83,030	52,586	30,444
Total general and financial administration	1,458,032	1,417,892	1,366,902	50,990
Board of elections - electoral board and registrar	104,020	108,750	108,073	677
Total general government administration	1,625,202	1,594,700	1,543,033	51,667
Public safety:				
General District Court	115,202	102,993	103,382	(389)
Clerk of the Circuit Court	(80,888)	(68,368)	(68,368)	-
Sheriff	88,686	103,891	103,891	-
Building maintenance	39,800	41,279	41,279	-
Total judicial administration	162,800	179,795	180,184	(389)
Law enforcement and traffic control - police department	1,712,400	1,806,275	1,802,838	3,437
Fire and rescue services - fire department	1,978,580	1,995,030	1,933,345	61,685
Correction and detention - regional operated institutions	150,700	200,700	177,767	22,933
Inspections - various	203,020	215,490	215,343	147
Other protection - animal control	61,800	96,401	90,600	5,801
Total public safety	4,106,500	4,313,896	4,219,893	94,003
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
General engineering/administration	192,060	194,200	195,409	(1,209)
Highways, streets, bridges and sidewalks	859,320	874,176	874,090	86
Street lights	58,000	58,000	53,866	4,134
Total maintenance of highways, streets, bridges and sidewalks	1,109,380	1,126,376	1,123,365	3,011
Maintenance of general buildings and grounds	116,080	116,080	104,833	11,247
Total public works	1,225,460	1,242,456	1,228,198	14,258

City of Poquoson, Virginia

General Fund
Budgetary Comparison Schedule

Year Ended June 30, 2005

	Original Budget	Budget as Amended	Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
Health and welfare:				
Health:				
Local health department	40,700	43,089	42,966	123
Mosquito control	173,220	175,405	173,231	2,174
Total health	213,920	218,494	216,197	2,297
Mental health and mental retardation - mental health	124,415	124,415	123,504	911
Welfare:				
Social services	99,800	99,800	97,072	2,728
Comprehensive services	190,000	406,678	390,143	16,535
Total welfare	289,800	506,478	487,215	19,263
Total health and welfare	628,135	849,387	826,916	22,471
Education - School Board	7,256,200	7,311,063	7,311,063	-
Parks, recreation and cultural - supervision of parks and recreation	268,460	261,860	261,954	(94)
Library - administration	538,370	568,743	568,714	29
Total parks, recreation and cultural	806,830	830,603	830,668	(65)
Community development:				
Planning	232,380	233,380	228,911	4,469
Economic development	5,325	5,325	5,325	-
Community development	131,820	144,195	139,741	4,454
Community development - IDA component unit	50,000	59,900	59,900	-
Community relations office	123,630	131,276	131,450	(174)
Total community development	543,155	574,076	565,327	8,749
Nondepartmental - miscellaneous	47,000	47,000	40,088	6,912
Department of motor vehicles	73,550	76,946	75,379	1,567
Hurricane recovery	-	-	117	(117)
Total nondepartmental	120,550	123,946	115,584	8,362
Other Financing Uses				
Transfers to Debt Service Fund	1,711,428	1,711,428	1,565,026	146,402
Transfers to Capital Projects Fund	270,250	444,750	444,750	-
Transfers to Parks Recreation Fund	50,000	83,600	83,600	-
Transfers to Solid Waste Fund	197,200	197,200	197,200	-
Total other financing uses	2,228,878	2,436,978	2,290,576	146,402
Total expenditures and other financing uses	\$ 18,703,710	\$ 19,456,900	\$ 19,111,442	\$ 345,458
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses - budgetary basis	\$ -	\$ (261,577)	\$ 748,827	
Net appropriation from fund balance	-	261,577		
Budget - excess of revenue, other financing sources and appropriation from fund balances over expenditures and other financing uses	\$ -	\$ -		
Less - Encumbrances outstanding June 30, 2004, actually expended as of June 30, 2005			(125,653)	
Add - Encumbrances outstanding June 30, 2005			71,459	
Excess of revenue and other financing sources over expenditures and other financing uses, GAAP basis			694,633	
Fund balances - July 1, 2004			4,141,130	
Fund balances - June 30, 2005			\$ 4,835,763	

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

Year Ended June 30, 2005

	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							
	6/30/04	\$ 12,302,897	\$ 12,826,677	\$ (523,780)	95.92%	\$ 4,351,660	(12.04)%
	6/30/03	\$ 11,865,662	\$ 11,671,875	\$ 193,787	101.66%	\$ 4,053,858	4.78%
	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%
School Board							
Non-professional Employees							
	6/30/04	\$ 913,845	\$ 1,186,159	\$ (272,314)	77.04%	\$ 625,284	(43.55)%
	6/30/03	\$ 827,244	\$ 949,503	\$ (122,259)	87.12%	\$ 467,736	(26.14)%
	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)%
Schedules of Employer Contributions							
City Employees							
	6/30/05		\$ 44,987		100.00%		\$ -
	6/30/04		\$ 42,679		100.00%		\$ -
	6/30/03		\$ 40,011		100.00%		\$ -
	6/30/02		\$ 17,689		100.00%		\$ -
School Board							
Non-professional Employees							
	6/30/05		\$ 50,132		100.00%		\$ -
	6/30/04		\$ 46,677		100.00%		\$ -
	6/30/03		\$ 38,481		100.00%		\$ -
	6/30/02		\$ 32,678		100.00%		\$ -

City of Poquoson, Virginia

Notes to Required Supplementary Information

June 30, 2005

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 generally accepted accounting principles by the amount of the reported encumbrances.

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

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

* * * * *

City of Poquoson, Virginia

Component Unit - School Board
Combining Balance Sheet

June 30, 2005

Assets	Governmental Activities		Total School Board
	General	Special Revenue	
Cash and cash equivalents	\$ 1,815,913	\$ 107,408	\$ 1,923,321
Due from other governments	626,243	-	626,243
Inventory	-	4,113	4,113
	<u>\$ 2,442,156</u>	<u>\$ 111,521</u>	<u>\$ 2,553,677</u>
Liabilities			
Vouchers and accounts payable	\$ 2,060,935	\$ 79,286	\$ 2,140,221
Due to primary government	98,904	-	98,904
Total liabilities	<u>2,159,839</u>	<u>79,286</u>	<u>2,239,125</u>
Fund Balances			
Reserved:			
Encumbrances	282,317	-	282,317
Inventory	-	4,113	4,113
Unreserved	-	28,122	28,122
Total fund balances	<u>282,317</u>	<u>32,235</u>	<u>314,552</u>
	<u>\$ 2,442,156</u>	<u>\$ 111,521</u>	<u>\$ 2,553,677</u>

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

Total fund balances - component unit	\$ 314,552
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	4,190,885
Noncurrent liabilities are not due and payable in the current period and therefore are not reported in the funds.	(124,960)
Total net assets - component unit - School Board	<u>\$ 4,380,477</u>

City of Poquoson, Virginia

Component Unit - School Board

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

Year Ended June 30, 2005

	General Fund	Special Revenue	Total School Board
Revenues			
Revenues from use of money or property	\$ -	\$ -	\$ -
Charges for services	-	455,009	455,009
Intergovernmental:			
Commonwealth of Virginia	10,879,504	6,521	10,886,025
Federal government	864,161	23,214	887,375
Miscellaneous	256,782	-	256,782
Total revenues	12,000,447	484,744	12,485,191
Expenditures			
Current:			
Education	19,231,726	556,865	19,788,591
Capital outlays	119,393	-	119,393
Total expenditures	19,351,119	556,865	19,907,984
Deficiency of revenues over expenditures	(7,350,672)	(72,121)	(7,422,793)
Other financing sources (uses)			
Operating transfer from primary government	7,311,063	-	7,311,063
Operating transfer to primary government	(437,000)	-	(437,000)
Operating transfers in - school general fund	-	90,029	90,029
Operating transfers out - school special revenue fund	(90,029)	-	(90,029)
Total other financing sources - net	6,784,034	90,029	6,874,063
Net change in fund balance	(566,638)	17,908	(548,730)
Fund balances - July 1, 2004	848,955	14,327	863,282
Fund balances - June 30, 2005	\$ 282,317	\$ 32,235	\$ 314,552

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	\$ (548,730)
Amount reported for governmental activities in the statement of net assets are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation. Also, in the Statement of Activities, the loss of disposal of assets is reported.	
Capital outlays	531,643
Depreciation expense	(364,004)
Loss on disposal of capital assets	(20,678)
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.	(14,575)
Change in net assets of governmental activities	\$ (416,344)

City of Poquoson, Virginia

School Board
Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2005

	General Fund			Variance Positive (Negative)
	Original Budget	Budget As Amended	Actual	
Revenues				
Charges for services	\$ 4,000	\$ 4,000	\$ -	\$ (4,000)
Intergovernmental:				
Commonwealth of Virginia	10,319,425	10,322,545	10,879,504	556,959
Federal government	699,755	1,071,569	864,161	(207,408)
Miscellaneous	396,005	500,222	256,782	(243,440)
Total revenues	11,419,185	11,898,336	12,000,447	102,111
Expenditures				
Current:				
General and financial administration	891,873	916,733	881,517	35,216
Instruction	12,114,914	12,506,993	12,409,534	97,459
Attendance and health services	219,058	219,058	216,090	2,968
Pupil transportation	596,685	634,984	682,369	(47,385)
Operation and maintenance of school plants	1,505,600	1,669,067	1,513,433	155,634
Fixed charges	3,284,405	3,284,714	3,080,383	204,331
Capital outlay	3,800	3,800	1,155	2,645
Total expenditures	18,616,335	19,235,349	18,784,481	450,868
Other financing sources (uses)				
Operating transfer from primary government	7,256,200	7,396,063	7,311,063	85,000
Operating transfer to primary government	-	-	(437,000)	437,000
Operating transfer out - special revenue fund	(59,050)	(59,050)	(90,029)	30,979
Total other financing sources-net	7,197,150	7,337,013	6,784,034	552,979
Excess of revenue and other financing sources over (under) expenditures and other financing uses - budgetary basis	\$ -	\$ -	-	\$ -
Less - encumbrances outstanding June 30, 2004, actually expended as of June 30, 2005			(848,955)	
Add - encumbrances outstanding June 30, 2005			282,317	
Excess of revenue and other financing sources over (under) expenditures and other financing uses - GAAP basis			(566,638)	
Fund balance - July 1, 2004			848,955	
Fund balance - June 30, 2005			\$ 282,317	

*City of Poquoson, Virginia**School Board**Schedule of Changes in Capital Assets by Function and Activity***Year Ended June 30, 2005**

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Education	\$ 21,328,247	\$ 531,642	\$ 302,381	\$ 21,557,508
Less - accumulated depreciation	(8,503,370)	(577,710)	281,703	(8,799,377)
	<u>12,824,877</u>	<u>(46,068)</u>	<u>20,678</u>	<u>12,758,131</u>
Allocation of assets to City - net	(8,780,952)	213,706	-	(8,567,246)
	<u>\$ 4,043,925</u>	<u>\$ 167,638</u>	<u>\$ 20,678</u>	<u>\$ 4,190,885</u>

*City of Poquoson, Virginia**Discretley Presented Component Unit - School Board
Combining Schedule of Changes in Assets and Liabilities - Agency Funds***June 30, 2005**

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2005</u>
Assets				
Cash and cash equivalents	\$ 334,061	\$ 1,030,616	\$ 1,005,392	\$ 359,285
Liabilities				
Amounts held for others	\$ 334,061	\$ 1,030,616	\$ 1,005,392	\$ 359,285

*City of Poquoson, Virginia**Statement of Changes in Fiduciary Net Assets*

Year Ended June 30, 2005

	<u>Library Agency Fund</u>
Additions	
Interest income	\$ 1,154
Change in net assets	1,154
Net assets - beginning of year	<u>53,639</u>
Net assets - end of year	<u>\$ 54,793</u>

Table 1

City of Poquoson, Virginia

Government-Wide Revenues

Year Ended June 30,									
Fiscal Year	Program Revenues			General Revenues					
	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	Total
2005	\$ 2,180,673	\$ 2,705,293	\$ 1,187,904	\$ 15,125,168	\$ 1,830,047	\$ -	\$ 119,801	\$ 116,511	\$ 23,265,397
2004	\$ 2,211,880	\$ 1,718,011	\$ 193,425	\$ 13,660,262	\$ 2,012,657	\$ -	\$ 39,559	\$ 423,310	\$ 20,259,104
2003	\$ 2,033,912	\$ 1,326,011	\$ 694,324	\$ 13,239,298	\$ 1,669,092	\$ -	\$ 137,316	\$ 386,569	\$ 19,486,522

Note: FY2004 also had \$2,693,058 extraordinary revenues related to Hurricane Isabel.

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	Interest on Long-term Debt	Non-Departmental	Sewer	Parks and Recreation	Solid Waste	Total Expenditures
2005	\$ 1,716,083	\$ 180,184	\$ 4,750,969	\$ 1,694,612	\$ 840,310	\$ 7,087,769	\$ 1,343,537	\$ 563,788	\$ 500,461	\$ 130,551	\$ 1,537,870	\$ 545,799	\$ 475,269	\$ 21,367,202
2004	\$ 1,449,410	\$ 277,307	\$ 3,823,700	\$ 1,659,214	\$ 650,092	\$ 6,965,522	\$ 839,537	\$ 636,477	\$ 525,850	\$ 120,404	\$ 1,609,179	\$ 524,504	\$ 446,172	\$ 19,527,368
2003	\$ 1,401,639	\$ 247,161	\$ 3,721,021	\$ 1,472,320	\$ 605,334	\$ 6,459,434	\$ 775,359	\$ 514,618	\$ 561,580	\$ 78,826	\$ 1,657,238	\$ 543,327	\$ 430,223	\$ 18,468,080

Note: FY2004 also had \$2,797,515 extraordinary expenditures related to Hurricane Isabel.

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
2005	\$ 12,488,453	\$ 2,635,722	\$ 172,455	\$ 30,583	\$ 202,548	\$ 485,327	\$ 265,167	\$ -	\$ 17,097,677	\$ 33,377,932
2004	\$ 11,226,560	\$ 2,524,964	\$ 173,525	\$ 24,605	\$ 58,948	\$ 317,338	\$ 1,192,908	\$ -	\$ 14,214,922	\$ 29,733,770
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

Note: Amounts include all general, special revenue, debt service and capital projects funds of the primary government and component unit (School Board). (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
2005	\$ 1,543,930	\$ 4,440,330	\$ 1,284,108	\$ 819,499	\$ 19,907,983	\$ 830,797	\$ 507,520	\$ 127,144	\$ 2,457,918	\$ 1,565,026	\$ 33,484,255
2004	\$ 1,333,308	\$ 4,007,945	\$ 1,128,861	\$ 657,485	\$ 17,924,386	\$ 763,681	\$ 540,457	\$ 92,394	\$ 987,539	\$ 1,508,041	\$ 28,944,097
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

Note: Amounts include all general, special revenue, debt service and capital projects funds of the primary government and component unit (School Board). (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 the debt service does not include refunded principal payments.

Table 5

City of Poquoson, Virginia

Property Tax Levies and Collections

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Total Tax Levy (1)</u>	<u>Current Tax Collections (1)</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections (1) (2)</u>	<u>Total Tax Collections</u>	<u>Percent of Total Tax Collections to Tax Levy</u>	<u>Outstanding Delinquent Taxes (1)</u>	<u>Percent of Delinquent Taxes to Tax Levy</u>
2005	\$ 10,695,154	\$ 10,528,025	98.44%	\$ 169,791	\$ 10,697,816	100.02%	\$ 339,875	3.18%
2004	\$ 9,363,522	\$ 9,193,103	98.18%	\$ 219,044	\$ 9,412,147	100.52%	\$ 237,868	2.54%
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%

(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*

<u>Fiscal Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Public Utility Real Property</u>	<u>Total</u>
2005	\$1,002,511,357	\$ 131,687,115	\$ 12,490,949	\$ 1,146,689,421
2004	\$ 832,002,644	\$ 124,217,525	\$ 15,281,091	\$ 971,501,260
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

*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>
2005	\$1.06	\$3.85	\$1.06	\$1.50	\$1.50
2004	\$1.12	\$3.85	\$1.12	\$1.50	\$1.50
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

(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					
<u>Fiscal Year</u>	<u>Population</u>	<u>Assessed Value</u>	<u>Net Bonded Debt (3)</u>	<u>Ratio of Net Bonded Debt to Assessed Value</u>	<u>Net Bonded Debt per Capita</u>
2005	11,566 (1)	\$1,146,689,421	\$ 12,086,638	1.05%	\$ 1,045
2004	11,566 (1)	\$ 971,501,260	\$ 12,457,291	1.28%	\$ 1,077
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

(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, 2005

Total assessed value of taxed real property		
General		\$ 1,002,511,357
Public service corporations		12,490,949
	Total	<u>\$ 1,015,002,306</u>
 Debt limit (10% of total assessed value)		 <u>\$ 101,500,231</u>
 Debt applicable to debt limit		
General obligation bonds, other than those authorized for a specific revenue producing project		7,060,912
Capital leases		653,906
Sewer general obligation bonds		12,791,016
State literary fund loans		4,371,820
		<u>24,877,654</u>
 Margin for additional borrowing		 <u>\$ 76,622,577</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>
2005	\$33,484,255	\$ 1,565,026	4.67%
2004	\$28,944,097	\$ 1,508,041	5.21%
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%

(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>
2005	11,566(1)	Not Available	2,563	Not Available
2004	11,566(1)	Not Available	2,503	2.9%
2003	11,566(1)	\$33,139	2,503	2.8%
2002	11,566(1)	\$31,673	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%

(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 and Construction***Last Ten Fiscal Years**

Fiscal Year	Real Property Value (1)	New Construction (2)
2005	\$ 1,073,629,919	\$ 22,166,700
2004	\$ 895,681,790	\$ 11,466,000
2003	\$ 874,326,647	\$ 20,870,700
2002	\$ 786,475,643	\$ 12,046,500
2001	\$ 773,872,808	\$ 15,661,400
2000	\$ 696,175,556	\$ 13,224,500
1999	\$ 682,115,739	\$ 9,449,000
1998	\$ 621,978,401	\$ 11,287,400
1997	\$ 606,262,395	\$ 8,909,900
1996	\$ 557,804,500	\$ 6,900,200

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

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

*City of Poquoson, Virginia**Principal Taxpayers - 2005 Assessed Values***Year Ended June 30, 2005**

Taxpayer	Assessed Value	Percentage of Total Real Estate Assessment
Poquoson Place Apartments	\$ 8,096,800	0.80%
Bristol-Cardiff	6,618,600	0.65%
Oxford Run LLC	4,630,100	0.46%
Suburban Land Company	4,225,600	0.42%
WCP, L.L.P.	3,796,900	0.37%
Poquoson Marina Associates	3,214,300	0.32%
Universal of Poquoson	2,947,400	0.29%
Islander Associates	2,928,400	0.29%
Vantage Healthcare Corporation	2,612,200	0.26%
Hunt Properties of Poquoson Inc.	2,495,100	0.24%
	<u>\$ 41,565,400</u>	<u>4.10%</u>

*City of Poquoson, Virginia**Miscellaneous Statistical Data*

Year Ended June 30, 2005

Date of Incorporation	1975
Form of Government	Council-Manager
Population	11,566
Area	14.7 square miles
Lane miles of streets	
City maintenance	106.99
Number of street lights	531
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	23
Number of auxiliary	4
Rescue	
Number of squads	1
Number of volunteers	15
Education	
Elementary schools	2
Middle schools	1
High schools	1
Sewers	
Sanitary sewers	69 miles
Storm drains	120 miles
Recreation and culture	
Number of major parks and recreational facilities	6
Acreage of major parks and recreational facilities	60.59 acres
Number of libraries	1
Number of volumes	54,000
Employees	
City	156
Schools	347
Constitutional Officers	2
Registered Voters	8,202

City of Poquoson, Virginia

Miscellaneous Statistical Data

Year Ended June 30, 2004

Taxable Retail Sales [1]

Calendar Year

2005	Not available
2004	\$ 38,754,664
2003	\$ 37,968,681
2002	\$ 37,836,130
2001	\$ 34,631,956
2000	\$ 32,194,843
1999	\$ 31,360,650
1998	\$ 27,049,341
1997	\$ 28,266,402

Building Permits

Number of new residential buildings constructed	127
Number of new commercial buildings constructed	4
Number of residential buildings demolished	22

[1] Source - Virginia Department of Taxation.



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

Certified Public Accountants
Specialized Services
Business Solutions

Honorable Mayor and City Council
City of Poquoson, Virginia

We have audited the financial statements of the *City of Poquoson, Virginia*, as of and for the year ended June 30, 2005, and have issued our report thereon dated November 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *City of Poquoson, Virginia's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 reportable 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 caused by error or fraud 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 material weaknesses.

Compliance and Other Matters

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

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
November 4, 2005

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

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City of Poquoson, Virginia

Compliance

We have audited the compliance of the *City of Poquoson, Virginia* 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, 2005. The *City of Poquoson, Virginia'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 its major federal programs is the responsibility of the *City of Poquoson, Virginia's* management. Our responsibility is to express an opinion on the *City of Poquoson, Virginia's* compliance based on our audit.

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

In our opinion, the *City of Poquoson, Virginia* complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the *City of Poquoson, Virginia* 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 of Poquoson, Virginia's* internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Honorable Mayor and City Council
City of Poquoson, Virginia

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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 material weaknesses.

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.

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

Newport News, Virginia
November 4, 2005



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

Certified Public Accountants
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Honorable Mayor and City Council
City of Poquoson, Virginia

We have audited the financial statements of the ***City of Poquoson, Virginia***, as of and for the year ended June 30, 2005, and have issued our report thereon dated November 4, 2005.

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

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

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

Code of Virginia

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

State Agency Requirements

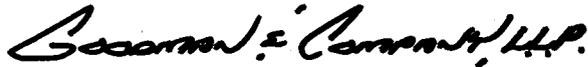
- Education
- Comprehensive Services Act
- Highway Maintenance Funds

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Honorable Mayor and City Council
City of Poquoson, Virginia

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



Newport News, Virginia
November 4, 2005

City of Poquoson, Virginia

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2005

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	\$ 85,536
State Department of Agriculture and Consumer Services - National School Lunch Program - USDA donated commodities	10.555	23,214
U. S. Department of Defense - Direct payments - E-rate	12.000	2,019
U. S. Department of the Interior - Direct payments: Wildlife Restoration	15.611	4,513
U. S. Department of Justice: Direct payments - Drug Seizure-Treasury	16.000	32,438
Public Safety Partnership and Community Policing Grants	16.710	7,233
U.S. Department of Transportation - Pass through payments - Department of Motor Vehicles - Alcohol Traffic Safety and Drunk Driving Prevention Incentive	20.601	5,848

City of Poquoson, Virginia

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2005

Federal granting agency/recipient state agency/grant Program/grant number <i>(Continued)</i>	Federal Catalogue Number	Federal Expenditures
Department of Education:		
Direct payments:		
Impact Aid	84.041	137,648
Foreign Language Assistance	84.293	65,258
Pass through payments:		
Virginia Department of Education -		
Education Consolidation and Improvements Act of 1981:		
Title I - Grants to local educational agencies	* 84.010	101,676
Title II-Part A	84.367	70,498
Title VI:		
Innovative Education Program Strategies	84.298	7,903
Elementary and Secondary Education Act (ESEA):		
Title VI-B:		
Assistance to states for education		
of handicapped children:		
Special Education Grants	* 84.027	360,153
Vocational education	84.048	22,727
State and Drug-free Schools and Communities	84.186	3,028
State Assessments and related activities-No Child Left Behind	84.369	9,734
Department of Homeland Security -		
Direct payments -		
Public Assistance Grant	97.036	279,521
		\$ 1,218,947

* Represents a major program of the City of Poquoson.

City of Poquoson, Virginia

Notes to Schedule of Expenditures of Federal Awards

June 30, 2005

1. Basis of Presentation

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

2. Food Distribution

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2005, the food service organization had food commodities totaling \$2,406 in inventory.

* * * * *

City of Poquoson, Virginia

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

1. Summary of Auditors' Results

- a) The auditor's report expresses an unqualified opinion on the 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 noted during the audit.
- d) No reportable conditions were noted during the audit of internal control over major federal programs.
- e) The auditor's report on compliance for the major federal programs of the City expressed an unqualified opinion on the major federal programs.
- f) The audit did not disclose any audit findings required to be reported.
- g) The major programs are:
 - i) Special Education Cluster (CFDA No. 84.027)
 - ii) Title I (CFDA No. 84.010)
- 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. Status of Prior Year Audit Findings

There were no audit findings for the year ended June 30, 2004.