

City of POQUOSON VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR JULY 1, 2013 - JUNE 30, 2014

***Comprehensive Annual
Financial Report***

City of Poquoson, Virginia

Fiscal Year Ended June 30, 2014

Prepared by:

The Department of Finance

Theresa S. Owens, CPA, Director of Finance

City of Poquoson
Government Officials

City Council

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

City Officials

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

School Board

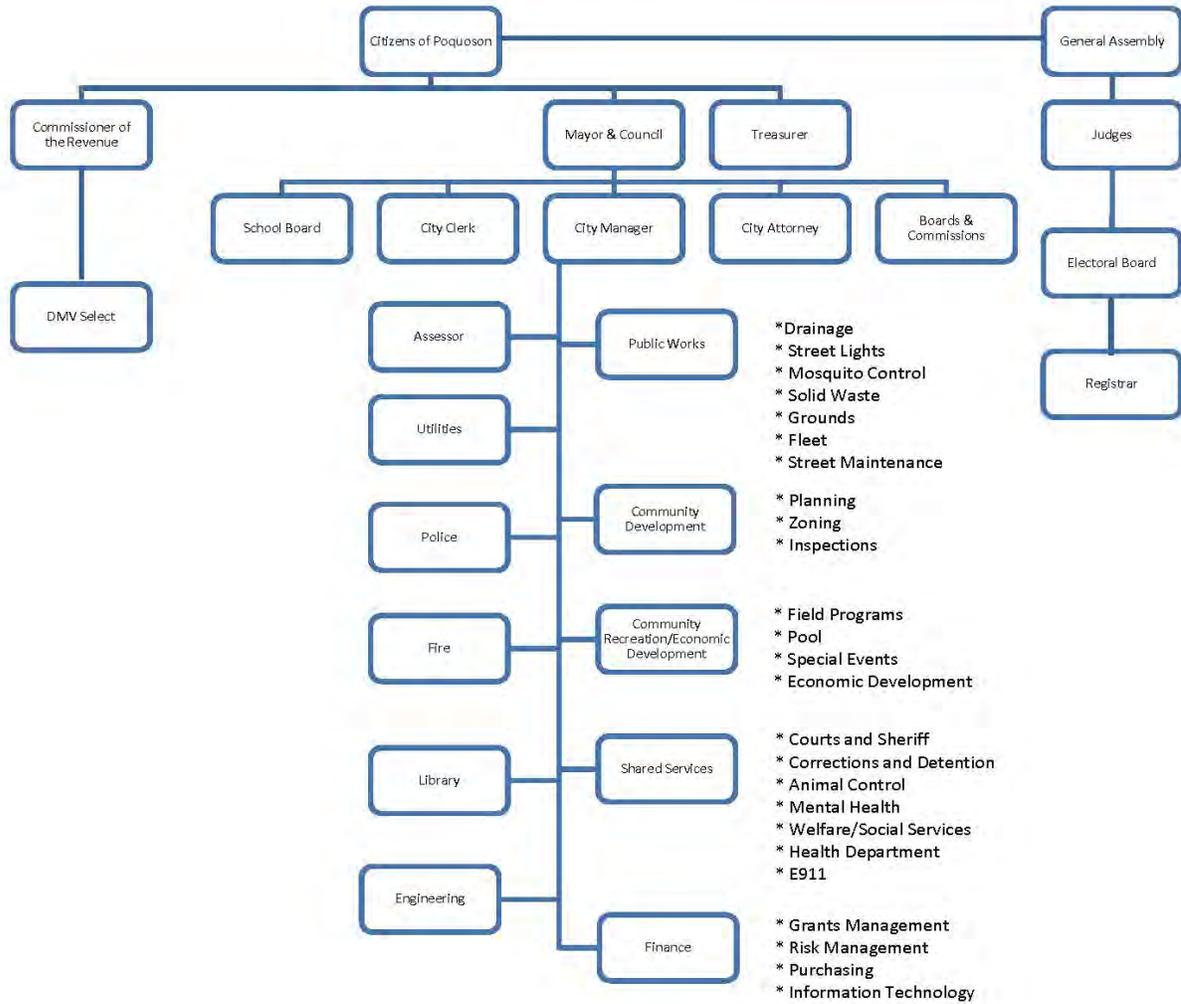
Garry W. Carter, Chair
Steven S. Kast, Vice Chair
David A. Hux
Allan Melton
Gail Whittaker
Anne L. Rollins
Robin C. Sydnor

School Officials

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

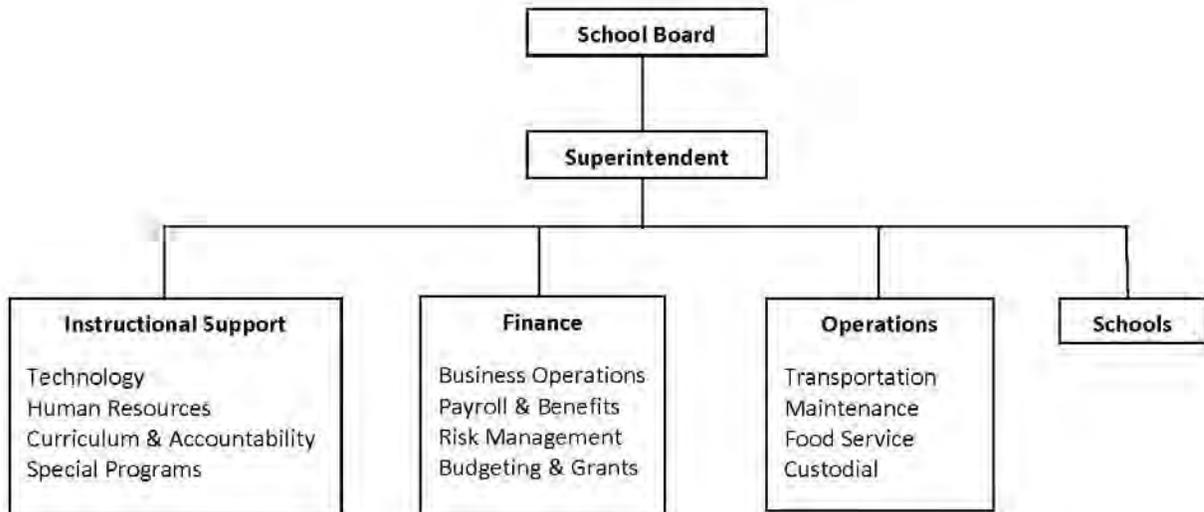
CITY OF POQUOSON, VIRGINIA

CITY GOVERNMENT ORGANIZATION CHART



Poquoson City Public Schools

A Component Unit of the City of Poquoson



Note: City Council appoints School Board Members



Government Finance Officers Association

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

Presented to

**City of Poquoson
Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

City of Poquoson
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2014

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CITY OF POQUOSON

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

City Manager's Office

November 25, 2014

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

We are pleased to submit to you the Comprehensive Annual Financial Report of the City of Poquoson (City) for the fiscal year ended June 30, 2014. An audited annual financial report is required in accordance with Article V, Section 11 of the Poquoson City Charter and is presented in conformity with Generally Accepted Accounting Principles (GAAP) and audited in accordance with Government Auditing Standards and the Auditor of Public Accounts of the Commonwealth of Virginia by a firm of licensed certified public accountants.

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

Cherry Bekaert LLP, Certified Public Accountants, have issued an unqualified opinion on the City's financial statements for the year ended June 30, 2014. The unqualified report of Cherry Bekaert LLP, the highest possible result of the audit process, is located at the front of the financial section of this report.

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

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

Profile of the City of Poquoson

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

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

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

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

The City of Poquoson provides a full range of services, including police and fire protection; the maintenance of highways, streets, and other infrastructure; and recreational activities, library services, community development activities, and cultural events. The City also owns and maintains sewage facilities; picks up trash, recycling, landscaping and bulky items; owns and operates a City pool; and manages various paid recreational activities. In addition to general governing activities, the governing body has significant financial influence over the Schools and the Economic Development Authority (EDA), both of which are reported separately within the City of Poquoson's financial statements. Additional information on these two legally separate entities can be found in Note 1 in the notes to basic financial statements starting on page 28.

The annual budget serves as the foundation for the City of Poquoson's financial planning and control. All agencies and departments of the City of Poquoson are required to submit requests for appropriation to the City Manager in January. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager presents a proposed budget to City Council for review in April. The Council is required to hold public hearings on the proposed budget and must adopt a final budget no later than May 31. The appropriated budget is prepared by fund and department. The City Manager may make transfers of appropriations within a fund. Transfers of appropriations

between funds and additional appropriations require approval of City Council. The City also maintains an encumbrance accounting system as one method of maintaining budgetary control. Encumbrances are included as budgetary expenditures and therefore do not lapse after year-end. The budget-to-actual comparison for the General Fund starts on page 67 of the report.

Local Economy

The City is located in the southeastern part of the state in the Hampton Roads area in the Norfolk-Virginia Beach-Newport News Metropolitan Statistical Area. The region is the 37th largest metropolitan statistical area in the country. The City of Poquoson is a suburban community in the Hampton Roads area and residents often work in neighboring cities and typically have the region's highest median income. The City of Poquoson occupies a land area of 14.7 square miles, and according to The Weldon Cooper Center for Public Service, serves an estimated population of 12,104.

The City has begun to recover from the recession although slower than in past recoveries. Sales tax and business taxes have essentially remained flat, real estate taxes have increased slightly but personal property taxes have decreased.

The City has direct access to leading employment sites including NASA's Langley Research Center, Langley Air Force Base and Newport News Shipbuilding. Local unemployment for the City remains below the state and national averages. According to the Bureau of Labor Statistics, the City's unemployment rate has decreased from a high of 6.2% in 2010 to a current rate of 4.9% compared to the current national average of 6.1% and the state average of 5.4%.

In May 2014, Standard & Poor's (S&P) raised its long-term rating on the City's outstanding general obligation bonds to AAA, the highest bond rating available. Some of the rationale cited by S&P included the City's strong budgetary flexibility, strong liquidity and strong financial practices that are well embedded and likely sustainable. Moody's Investors Service continued to rate the City's general obligation bonds Aa3.

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

Long-term Financial Planning

Budgets and Capital Improvement Plans (CIP) are adopted annually, taking into consideration input from all organizational levels of the City. The long-term revenue, expenditure and service implication of continuing or ending existing programs or adding new programs, services, and debt are considered while formulating budgets annually. The City assesses the condition of all major capital assets, including buildings, roads, sewer lines, vehicles, and equipment annually. The Planning Commission recommends adoption of the Capital Improvement Plan; the document then goes to City Council for final approval. Although the CIP is intended to be a commitment to a multi-year capital

improvement program, it is fundamentally a planning document and subject to annual modifications as priorities, available funding and other factors create a need for revision.

Relevant Financial Policies

In October 2009, the City formally adopted a series of financial policy guidelines and in June 2011 modified these policies to incorporate GASB 54. The policies include debt policies as well as fund balance policies. The City believes that sound financial management principles require that sufficient funds be retained by the City to provide a stable financial base at all times, therefore one of the fund balance policies adopted included maintaining a minimum unassigned fund balance of 12%-15% of the current year budgeted expenditures. The unassigned fund balance at the end of the year was 19.82% of budget expenditures, well above the adopted policies.

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

Major Initiatives

In 2014, the City continued its comprehensive outreach marketing campaign entitled "*Poquoson Is The Place*" to increase awareness of Poquoson as a wonderful place to live and in which to do business. The campaign folder cites Poquoson as the place to "*Live, Grow, Work, And Play*" and provides one-page informational overviews of the City's business-friendly focus, single and multi-family residential availability, community engagement opportunities, and its outstanding public school system. The City hosted its third annual residential realtor event and a commercial developer event to continue to promote the campaign. In September 2014, this campaign was awarded the Virginia Municipal League Achievement Award in Communications.

Throughout fiscal year 2014, the City of Poquoson continued to revise several measures to encourage new development throughout the City. The most prominent measure affects the area known as the Big Woods, which consists of approximately 260 forested acres surrounding Victory Boulevard on the north and south and abutting the City line with York County to the west.

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

Additionally in January of 2014, the City Council voted unanimously to increase the allowable density, remove lot area requirements and increase the allowable non-tidal wetland credit within the Planned Open Space and Conservation overlay district. The allowable density within this district that overlays the City's R-S, R-1 and R-2 Single Family Residential Districts increased from two (2) homes allowed per acre to 2.5 per acre. Additionally, this measure allows for these developments to utilize 100% of non-tidal wetlands (an increase from the 20% that was previously allowed) within their area calculation to maximize their allowable density. Lastly, to encourage a variety of housing types, City Council voted to remove the lot area requirement of 10,890 square feet. Now, there are no lot area requirements within the overlay.

The City continued to address the Order by Consent the State Water Control Board (the Board) entered into with the Hampton Roads Sanitation District (HRSD) and twelve area localities, including the City of Poquoson, effective September 2007. This Order required the City to address the unpermitted discharge of sewage due to wet weather occurrences. This Order by Consent, as amended, requires that HRSD and the localities jointly develop a Regional Wet Weather Management Plan (RWWMP) that identifies, quantifies, prioritizes and proposes a schedule for implement regional sewer system enhancement among other things.

To address regional wet weather sewer capacity requirements, in February 2010, HRSD, the Virginia Department of Environmental Quality (DEQ) and the United States Environmental Protection Agency (EPA) entered into a Federal Consent Decree. This requires that HRSD work in consultation with the localities to develop a RWWMP that will ensure adequate wet weather sewer capacity in HRSD's portion of the regional sewer system.

During the ongoing planning for the RWWMP, HRSD and the localities researched the most cost effective and practical means for development and implementation of the RWWMP. The studies resulted in unanimous support of an alternate regionalization approach whereby HRSD would take responsibility for regional wet weather capacity. Under this approach, HRSD assumes sole responsibility for drafting, funding and implementing the RWWMP without assuming ownership of the localities' sewer system assets. This approach was formally adopted by all the localities and HRSD through a regional Memorandum of Agreement (MOA) dated March 10, 2014. The MOA and HRSD'S Federal Consent Decree work in conjunction with this Order by Consent to form a coordinated regional approach to providing and maintaining regional wet weather capacity. On August 26, 2014, the EPA amended the Federal Consent Decree to reflect the alternate regionalization plan. Since the responsibility for the RWWMP has been transferred to HRSD solely, the RWWMP requirements and conditional contained in the Order by Consent, as amended, are no longer applicable to the localities.

Proper management, operation and maintenance of sanitary sewer infrastructure must continue to be conducted by the City to prevent dry weather unpermitted sanitary sewer overflows and to ensure compliance with the referenced statutory and regulatory provisions.

The City completed two additional projects that will enhance the services for the community. These include the replacement of a public boat ramp and new VoIP phone system.

Awards and Acknowledgements

In March 2014, the City of Poquoson was voted safest place in Virginia with a population greater than 10,000 by Movoto Real Estate (MRE). To come up with the list of safest places, MRE looked at violent crime, property crime and the chance a resident will be a victim of crime. The City was also voted second of 30 safest cities in Virginia with a population greater than 3,000 by Safewise.com. Similar factors were used in this survey as in MRE survey. In addition, in August 2014, the City was named fifth best city to live in Virginia in an article published by CreditDonkey. The rankings were based on five key considerations: odds of being a victim of a violent crime, commute time, income, residents who attended some college and restaurants per capita.

The City of Poquoson's School District was one of twenty-two fully accredited school districts in 2014 and recognized as one of two highly distinguished Title I school divisions by the State Board of Education.

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, 2013. This was the twenty-sixth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The City also received the GFOA's Award for Distinguished Budget Presentation for its Annual Appropriated Budget for FY 2014. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories including policy documentation, financial planning, and organization.

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

Respectfully submitted,



James R. Wheeler
City Manager



Theresa S. Owens, CPA
Director of Finance

Report of Independent Auditor

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Poquoson, Virginia, (the "City") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, 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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Budgetary Comparison Schedule - General Fund, and Schedules of Funding Progress and Employer Contributions on pages 3-15, 67-72, and 73-74 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

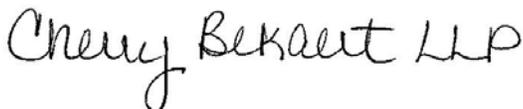
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Poquoson, Virginia's basic financial statements. The introductory section, other supplementary information on pages 76-84, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Virginia Beach, Virginia
November 25, 2014



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, 2013 - June 30, 2014

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, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which can be found on pages viii through xiii of this report.

Financial Highlights

- The assets and deferred outflows of resources of the City of Poquoson exceeded its liabilities as of June 30, 2014 by \$27.2 million (net position). Of this amount, \$6.5 million (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position decreased by \$0.7 million.
- As of June 30, 2014, the City's governmental funds reported combined ending fund balances of \$8.9 million, of which \$5.0 million is available to spend at the City's discretion.
- As of June 30, 2014, unassigned fund balance for the General Fund was \$5 million, or 23% of total General Fund expenditures.
- The City of Poquoson's total debt outstanding at June 30, 2014 was \$37.3 million for all funds.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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

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

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

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

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

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-66 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary and other supplementary information concerning the City of Poquoson including financial information on the Poquoson Public School component unit. Supplementary information can be found on pages 67-75 of this report.

Government-Wide Financial Analysis

Summary of Statement of Net Position
June 30, 2014

	Governmental Activities		Business-Type Activities		Total	
	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013
Current and other assets	\$10,009,235	\$9,934,664	\$1,813,604	\$1,250,776	\$11,822,839	\$11,185,440
Capital assets	44,405,828	46,099,549	12,954,260	13,508,752	57,360,088	59,608,301
Deferred outflows of resources	307,621	331,375	275,548	314,485	583,169	645,860
Total assets and deferred outflows of resources	\$54,722,684	\$56,365,588	\$15,043,412	\$15,074,013	\$69,766,096	\$71,439,601
Current and other liabilities	\$2,834,191	\$2,286,035	\$976,898	\$418,856	\$3,811,089	\$2,704,891
Long-term liabilities	30,900,113	32,062,911	7,871,610	8,790,753	38,771,723	40,853,664
Total liabilities	\$33,734,304	\$34,348,946	\$8,848,508	\$9,209,609	\$42,582,812	\$43,558,555
Net position:						
Net investment in capital assets	\$15,304,386	\$16,049,986	\$4,610,054	\$4,848,333	\$19,914,440	\$20,898,319
Restricted	758,646	878,402	-	-	758,646	878,402
Unrestricted	4,925,348	5,088,254	1,584,850	1,016,071	6,510,198	6,104,325
Total net position	\$20,988,380	\$22,016,642	\$6,194,904	\$5,864,404	\$27,183,284	\$27,881,046

Net position serves as a useful indicator of a government's financial position. The City's combined net position totals \$27.2 million, excluding discretely presented component units. By far, the largest portion of this represents investments in capital assets, such as land, buildings, machinery, and equipment. Capital assets net of related debt total \$19.9 million. The City of Poquoson uses these capital assets to provide services to citizens; and thus these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate liabilities. Total net position of \$6.5 million 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 both categories of net position, for the governmental and business-type activities.

Governmental Activities. The government's net position decreased by \$0.7 million during FY 2014. The governmental activities decreased by \$1 million and the business-type activities increased by \$0.3 million. The decrease in the governmental activities is due to an increase in expenditures in education, public works and general government and administration and pension costs. The increase of the net position of the business-type activities is due to less than expected expenditures in the Sewer Fund.

Summary of Changes in Net position
June 30, 2014

	Governmental Activities		Business-Type Activities		Total	
	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013
Revenues:						
Program revenues:						
Charges for services	\$1,099,904	\$1,036,178	\$2,751,391	\$2,697,943	\$3,851,295	\$3,734,121
Operating grants and contributions	1,622,774	1,670,603	-	-	1,622,774	1,670,603
Capital grants and contributions	599,361	458,320	-	-	599,361	458,320
General revenues:						
Real estate and personal property taxes	18,827,143	18,219,806	-	-	18,827,143	18,219,806
Other local taxes	2,804,760	2,881,297	-	-	2,804,760	2,881,297
Reimbursements from other agencies	159,612	84,883	-	-	159,612	84,883
Miscellaneous	184,222	236,197	587	2,677	184,809	238,874
Unrestricted investment earnings	188,699	189,710	35,470	26,440	224,169	216,150
Total revenues	\$25,486,475	\$24,776,994	\$2,787,448	\$2,727,060	\$28,273,923	\$27,504,054
Expenses:						
General government	3,471,130	3,081,068	-	-	3,471,130	3,081,068
Public safety and judicial	6,669,898	6,609,483	-	-	6,669,898	6,609,483
Public works	2,066,486	1,599,943	-	-	2,066,486	1,599,943
Health and welfare	957,396	909,035	-	-	957,396	909,035
Education	9,984,015	9,557,995	-	-	9,984,015	9,557,995
Parks, recreation, cultural	1,774,597	1,639,717	-	-	1,774,597	1,639,717
Community development	644,892	711,874	-	-	644,892	711,874
Interest and fees on long-term debt	1,074,323	1,114,258	-	-	1,074,323	1,114,258
Sewer	-	-	1,465,757	1,470,187	1,465,757	1,470,187
Solid waste	-	-	863,191	842,251	863,191	842,251
Total expenses	26,642,737	25,223,373	2,328,948	2,312,438	28,971,685	27,535,811
Change in net position before transfers	(1,156,262)	(446,379)	458,500	414,622	(697,762)	(31,757)
Transfers	128,000	130,000	(128,000)	(130,000)	-	-
Increase (decrease) in net position	(1,028,262)	(316,379)	330,500	284,622	(697,762)	(31,757)
Net position, beginning of year	22,016,642	22,333,021	5,864,404	5,579,782	27,881,046	27,912,803
Net position, end of year	\$20,988,380	\$22,016,642	\$6,194,904	\$5,864,404	\$27,183,284	\$27,881,046

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

	FY 2014	FY 2013
Real estate tax revenue	\$14,265,545	\$13,639,693
Public service corporation taxes	194,773	167,060
Personal property taxes	2,340,219	2,417,444
Penalties and interest	158,886	147,619
Total	<u>\$16,959,423</u>	<u>\$16,371,816</u>

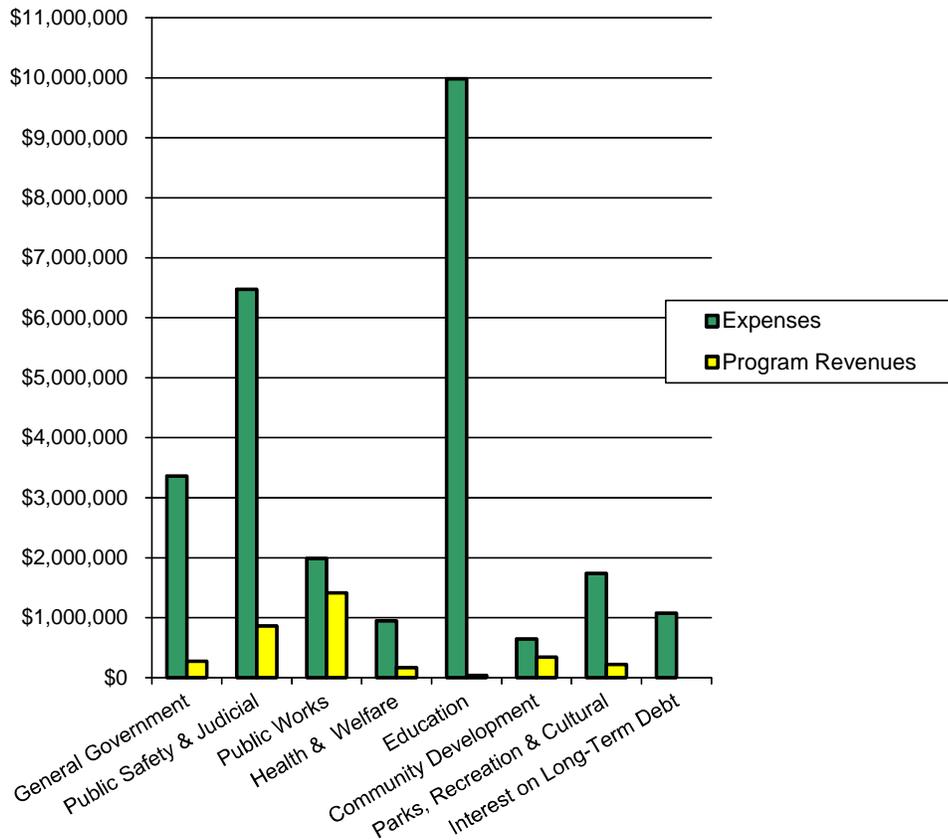
Real estate revenue was slightly higher in FY 2014 as compared to FY 2013, this was due to a modest increase in development and a 5 cent tax rate increase. The City's real estate property tax assessments were \$1,513,018,247 and \$1,526,769,279 for FY 2014 and FY 2013, respectively. The City's real estate tax rate was \$0.97 per \$100 of assessed value and \$0.92 per \$100 of assessed value in FY 2014 and FY 2013 respectively.

The City's personal property tax assessments were \$136,056,850 and \$136,724,090 for FY 2014 and FY 2013 respectively. In FY 2014 and FY 2013 the City's personal property tax rate was \$4.15 per \$100 of assessed value for vehicles. For boats and recreational vehicles the first half of FY 2013 the tax rate was \$0.75 per \$100 of assessed value for boats and \$1.50 per \$100 of assessed value for recreational vehicles and the second half was \$0.00001 per \$100 of assessed value for boats and \$1.50 per \$100 of assessed value for recreational vehicles. In FY 2014 and FY 2013 the City's tax rate for mobile homes was \$0.97 and \$0.92 per assessed value. Under the provisions of the Personal Property Tax Relief Act (PPTRA), the state's share of local personal property tax was \$1,923,431 for FY 2014 and FY 2013, and is classified as personal property taxes on the statement of activities.

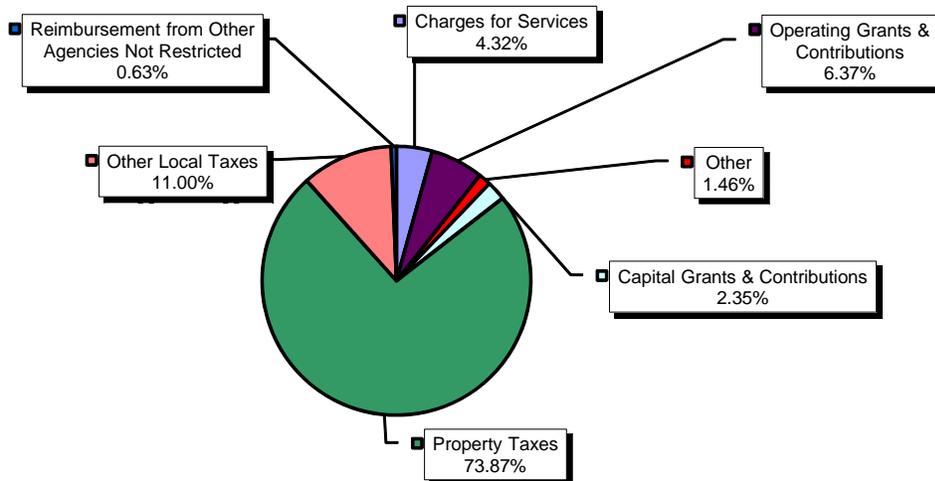
Other local taxes were \$2.8 million and \$2.9 million for FY 2014 and FY 2013, respectively and consisted of meals taxes, consumers' utilities taxes, franchise license taxes, motor vehicle license taxes and a variety of other taxes.

For FY 2014, expenses for governmental activities totaled \$26.6 million, including an expense of \$10 million to the component unit, Poquoson City School System. For FY 2013, expenses for governmental activities totaled \$25.2 million, including a net payment of \$9.6 million to the to the component unit, Poquoson City School System.

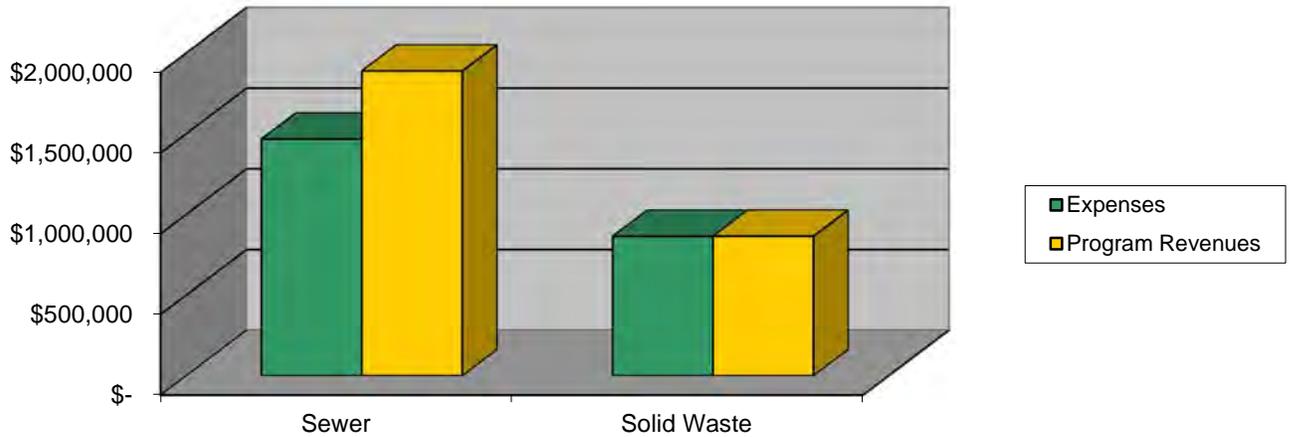
Expenses and Program Revenues - Governmental Activities



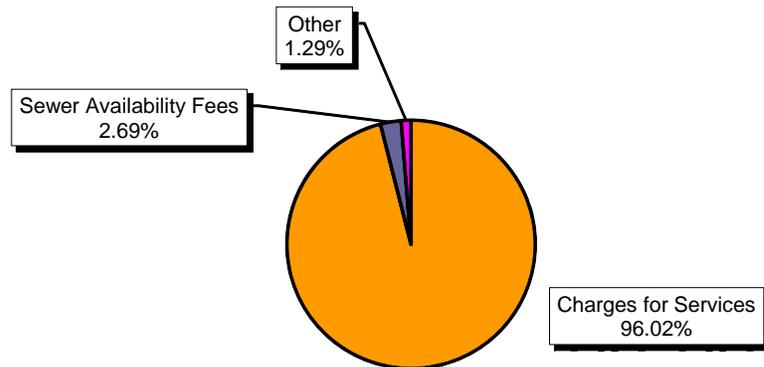
Revenues by Sources - Governmental Activities



Expense and Program Revenues - Business-Type Activities



Revenues by Source - Business-Type Activities

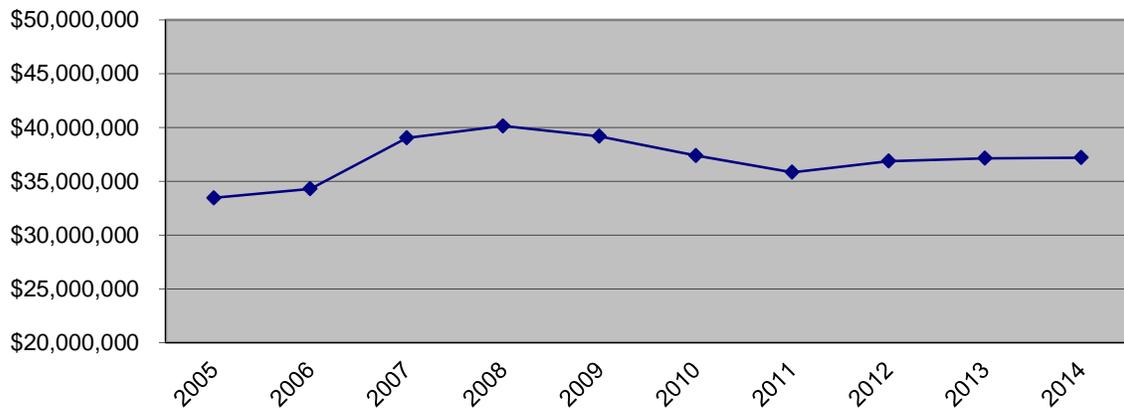


Business-Type Activities. Business-type activities increased the City’s net position before transfers by \$.46 million and increased the net position by \$.33 million after transfers. This increase in net position can be attributable to a decrease in interest charges due to refinancing the debt in the previous years to take advantage of lowering interest rates and more than expected sewer availability fees paid.

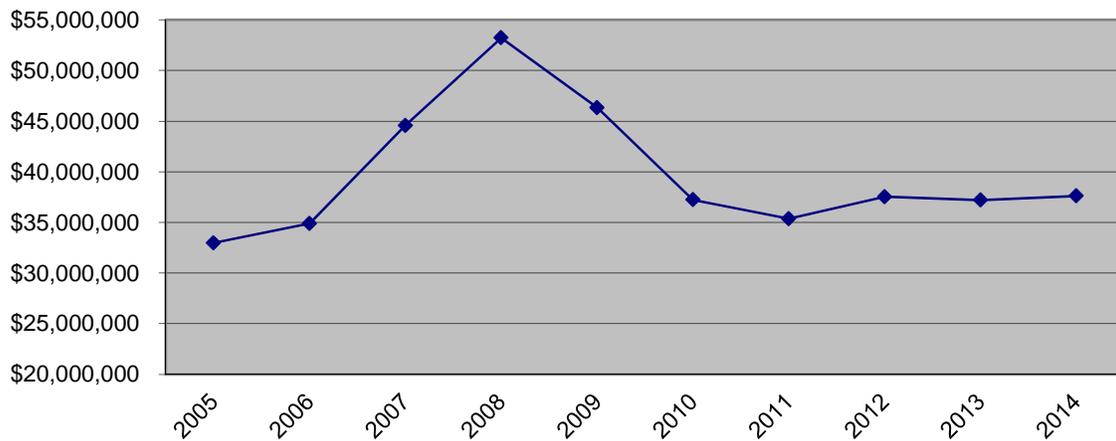
Financial Analysis of the Government's Funds

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

General Governmental Revenues



General Governmental Expenditures



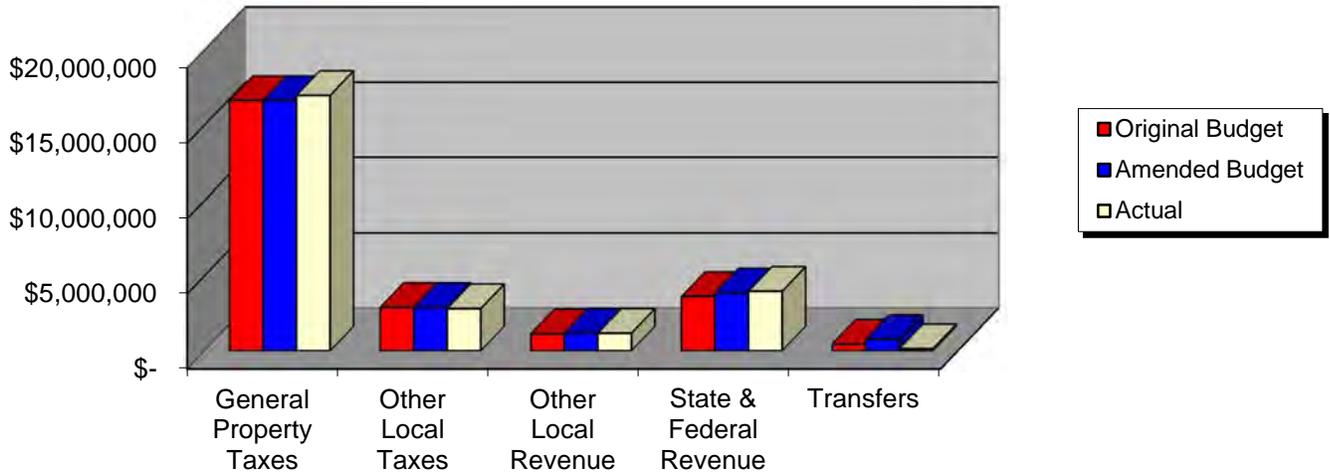
General Fund Budgetary Highlights

The City of Poquoson uses fund accounting and budgeting to ensure and demonstrate compliance with finance-related legal requirements. The General Fund budgetary comparison to actual can be found on Exhibit K. The City records actual revenues and expenditures using generally accepted accounting principles (GAAP) with the exception of encumbrances, which are included as budgetary expenditures. At the end of Exhibit K, the non-GAAP budgetary expenditures are reconciled to the GAAP statements. The budget differences of \$.59 million between the original budget and the final amended budget can be briefly summarized as follows:

- \$.04 million additional transfer to the schools for the prior year unspent transfer to enhance safety and security in the school buildings.
- \$.14 million re-appropriation of restricted revenue received for the Police Department, Fire Department and Library.
- \$.18 million appropriation for various grants for public safety.
- \$.02 million appropriation for various other grants.
- \$.02 million appropriation for donations received for various departments.
- \$.01 million appropriation for additional funds received for Events.
- \$.05 million appropriation for transfers to fund capital projects.
- \$.07 million appropriation for transfers to the Poquoson Economic Development Authority to fund economic development projects.
- \$.05 million appropriation for additional costs for Comprehensive Services Act.

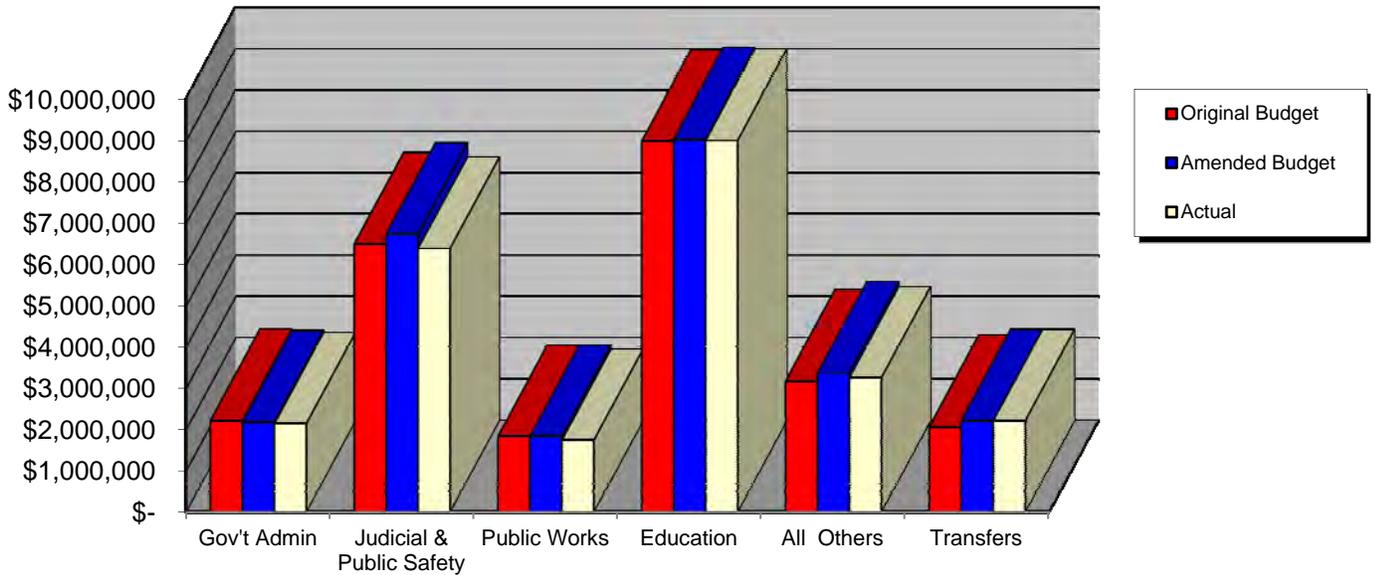
The charts on the following page show the original approved budget, the final amended budget, and actual amounts for both revenues and expenditures in the General Fund.

General Fund Revenue Comparison of Budget to Actual



The City's actual general fund revenues of \$25 million surpassed the original budget by \$.33 million and did not meet the amended budget by \$25.2 million. The City was awarded various grants that were appropriated but had not yet been finalized and therefore the revenues were not received.

General Fund Expenditures Comparison of Budget to Actual



As reflected above, actual General Fund expenditures were \$24.7 million. The increase in expenditures is a result of additional costs for schools, public safety and economic development.

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

Capital Projects Fund

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

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

During FY 2014, capital projects of \$1 million included the final construction costs for a public boat ramp, new medic unit, new phone system and highway and drainage improvements.

Capital Assets and Debt Administration

Capital Assets. The City’s investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounted to \$57.4 million (net of accumulated depreciation). The investment in capital assets includes land, construction in progress, buildings, infrastructure, machinery and equipment, sewer system, and allocated school buildings. The City owns roads, streetlights, and other infrastructure, but has only capitalized these assets placed in service since July 1, 2002. Infrastructure was capitalized beginning in FY 2007. The School Board component unit owns their school buildings; however, the City has issued the debt and/or provided the resources to build and renovate school buildings. Thus the State Code allows the schools to allocate a portion of their asset to the City, if the City has outstanding debt on the school building.

The following table summarizes capital assets, net of depreciation:

	Governmental Activities		Business-Type Activities		Total	
	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013
Land	\$3,183,226	\$3,183,226	\$214,666	\$214,666	\$3,397,892	\$3,397,892
Construction in progress	6,283	139,749	-	-	6,283	139,749
Buildings	6,287,594	6,627,877	8,722	-	6,296,316	6,627,877
Infrastructure	6,847,227	6,982,919	-	-	6,847,227	6,982,919
Land Improvements	1,679,033	1,733,175	-	-	1,679,033	1,733,175
Machinery and equipment	2,437,575	2,475,111	509,598	464,046	2,947,173	2,939,157
Sewer system	-	-	12,214,274	12,823,041	12,214,274	12,823,041
Sewer easement	-	-	7,000	7,000	7,000	7,000
Allocated school buildings	23,964,890	24,957,492	-	-	23,964,890	24,957,492
Total	\$44,405,828	\$46,099,549	\$12,954,260	\$13,508,753	\$57,360,088	\$59,608,302

Debt Administration. Total outstanding general obligation debt at June 30, 2014 was \$37.3 million of which \$29.3 million is considered to be net direct tax supported debt. Included in the total debt are \$28.1 million in bonds and leases, and \$1.2 million in State Literary Loans. The remaining \$8 million are bonds for the sewer system that are essentially paid for by revenues in the Sewer Operations Fund.

State statutes limit the amount of general obligation debt a government may issue up to 10% of its total assessed valuation of real estate and public service corporations. The June 30, 2014 debt limitation for the City of Poquoson is \$151 million, which is significantly in excess of the City of Poquoson’s \$37.3 million outstanding net direct bonded debt.

Net Direct Tax Supported Debt
General Governmental Activities

	FY 2014	FY 2013
Net direct bonded debt	\$29,346,588	\$30,232,987
Ratio of outstanding direct debt to assessed value	1.94%	1.98%
Net debt per capita	\$2,425	\$2,499

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

Economic Factors and Next Year’s Budgets and Rates

The FY 2015 budget was prepared with economic trends and factors within the City taken into account:

- The FY 2015 adopted budget included an increase in the real estate tax rate \$.10 for a total tax rate of \$1.07 per \$100 of assessed value.
- The FY 2015 adopted budget includes a decrease in boat revenue compared to FY 2014.
- In FY 2015 expenditure increases included health insurance and retirement.
- In FY 2015 the school contribution was increased by \$450,000 due to the reduction of state and federal revenue and increase in mandatory expenditures.
- In FY 2015, a \$604,000 increase in debt service payments associated with the construction of the new Elementary School and Fire Station was included in the adopted budget.

Taking the previous factors into account, the FY 2015 budget was an increase of approximately 6%.

Requests for Information

This financial report is designed to provide a general overview of the City of Poquoson’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Theresa S. Owens, CPA
Director of Finance
500 City Hall Avenue
Poquoson, Virginia 23662

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Basic Financial Statements

Statement of Net Position

June 30, 2014

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and investments	\$ 6,305,543	\$ 1,413,153	\$ 7,718,696	\$ 2,051,581
Property taxes receivable, net	385,804	-	385,804	-
Other receivables, net	218,429	394,642	613,071	1,162
Due from component units	25,245	-	25,245	-
Notes receivable, component unit	1,684,587	-	1,684,587	-
Due from other governments	1,150,838	-	1,150,838	482,750
Inventory	23,422	4,544	27,966	5,596
Notes receivable	215,367	1,265	216,632	-
Capital assets				
Land and construction-in-process	3,189,509	214,666	3,404,175	2,943,037
Other capital assets, net	41,216,319	12,739,594	53,955,913	5,318,861
Capital assets, net	44,405,828	12,954,260	57,360,088	8,261,898
Total assets	54,415,063	14,767,864	69,182,927	10,802,987
Deferred Outflows of Resources				
Deferred refunding costs	307,621	275,548	583,169	-
Total assets and deferred outflows of resources	\$ 54,722,684	\$ 15,043,412	\$ 69,766,096	\$ 10,802,987
Liabilities				
Accounts payable and accrued liabilities	\$ 857,353	\$ 83,290	\$ 940,643	\$ 2,268,965
Accrued interest	451,223	111,318	562,541	-
Line of credit	-	-	-	14,501
Due to primary government	-	-	-	1,709,832
Noncurrent liabilities				
Due within one year	1,525,615	782,290	2,307,905	80,433
Due in more than one year	30,618,767	7,860,362	38,479,129	297,905
Other postemployment benefit obligation	281,346	11,248	292,594	165,601
Total liabilities	33,734,304	8,848,508	42,582,812	4,537,237
Net Position				
Net investment in capital assets	15,304,386	4,610,052	19,914,438	6,577,311
Restricted for:				
Capital projects	488,442	-	488,442	-
Public safety	146,501	-	146,501	-
Parks, recreation and cultural	26,123	-	26,123	-
Community development	97,580	-	97,580	-
Unrestricted	4,925,348	1,584,852	6,510,200	(311,561)
Total net position	20,988,380	6,194,904	27,183,284	6,265,750
	\$ 54,722,684	\$ 15,043,412	\$ 69,766,096	\$ 10,802,987

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

Statement of Activities

Year Ended June 30, 2014

Functions/Programs	Program Revenues				Net Revenues (Expenses) and Changes in Net Position			
	Expenses	Charges For Services	Operating	Capital	Primary Government			Component Units
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary Government								
Government activities								
General government and administration	\$ 3,471,130	\$ 276,781	\$ -	\$ -	\$ (3,194,349)	\$ -	\$ (3,194,349)	\$ -
Public safety and judicial	6,669,898	398,996	464,604	-	(5,806,298)	-	(5,806,298)	-
Public works	2,066,486	-	840,000	572,780	(653,706)	-	(653,706)	-
Health and welfare	957,396	-	167,826	-	(789,570)	-	(789,570)	-
Education	9,984,015	35,343	-	-	(9,948,672)	-	(9,948,672)	-
Parks, recreation, cultural	1,774,597	76,741	143,978	-	(1,553,878)	-	(1,553,878)	-
Community development	644,892	312,043	6,366	26,581	(299,902)	-	(299,902)	-
Interest and fees on long-term debt	1,074,323	-	-	-	(1,074,323)	-	(1,074,323)	-
Total governmental activities	26,642,737	1,099,904	1,622,774	599,361	(23,320,698)	-	(23,320,698)	-
Business-type activities								
Sewer	1,465,757	1,887,501	-	-	-	421,744	421,744	-
Solid waste	863,191	863,890	-	-	-	699	699	-
Total business-type activities	2,328,948	2,751,391	-	-	-	422,443	422,443	-
Total primary government	\$ 28,971,685	\$ 3,851,295	\$ 1,622,774	\$ 599,361	(23,320,698)	422,443	(22,898,255)	-
Component Units								
Poquoson Public Schools	\$ 21,114,168	\$ 256,192	\$ 11,145,094	\$ -	-	-	-	(9,712,882)
Economic Development Authority	85,326	19,648	-	-	-	-	-	(65,678)
Total component units	\$ 21,199,494	\$ 275,840	\$ 11,145,094	\$ -	-	-	-	(9,778,560)
General Revenues								
Real estate and personal property taxes					18,827,143	-	18,827,143	-
Other local taxes					2,804,760	-	2,804,760	-
Payments from the City of Poquoson					-	-	-	9,574,511
Reimbursements from other agencies not restricted to specific programs					159,612	-	159,612	-
Miscellaneous					184,222	587	184,809	-
Unrestricted investment earnings					188,699	35,470	224,169	-
Transfers					128,000	(128,000)	-	-
Total general revenues, transfers and miscellaneous					22,292,436	(91,943)	22,200,493	9,574,511
Change in net position					(1,028,262)	330,500	(697,762)	(204,049)
Net position, beginning of year					22,016,642	5,864,404	27,881,046	6,469,799
Net position, end of year					\$ 20,988,380	\$ 6,194,904	\$ 27,183,284	\$ 6,265,750

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

Balance Sheet - Governmental Funds**June 30, 2014**

Assets	General	Debt Service	Capital Projects	Total Governmental Funds
Cash and cash investments	\$ 5,236,950	\$ 245,137	\$ 817,145	\$ 6,299,232
Property taxes receivable, net	385,804	-	-	385,804
Other receivables	218,149	-	-	218,149
Notes receivable	215,367	-	-	215,367
Due from component units	1,709,832	-	-	1,709,832
Due from other governmental units	1,150,838	-	-	1,150,838
Total assets	\$ 8,916,940	\$ 245,137	\$ 817,145	\$ 9,979,222
Liabilities				
Accounts payable and accrued liabilities	\$ 800,155	\$ 800	\$ -	\$ 800,955
Total liabilities	800,155	800	-	800,955
Deferred Inflows of Resources				
Unavailable revenue - property taxes	230,568	-	-	230,568
Fund Balances				
Fund balances:				
Nonspendable	1,899,954	-	-	1,899,954
Restricted	270,204	-	488,442	758,646
Assigned	706,877	244,337	328,703	1,279,917
Unassigned	5,009,182	-	-	5,009,182
Total fund balances	7,886,217	244,337	817,145	8,947,699
Total liabilities, deferred inflows, and fund balances	\$ 8,916,940	\$ 245,137	\$ 817,145	\$ 9,979,222

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

Balance Sheet - Governmental Funds

June 30, 2014

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

Total fund balances - governmental funds	\$ 8,947,699
Amount reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation.	44,393,861
Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures, and therefore, are deferred in the funds.	230,568
Internal service funds are used by management to charge the costs of fleet management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	(11,741)
Other liabilities not paid from current-period revenues are not reported in funds for:	
Accrued interest	(451,223)
Accrued compensated absences	(600,870)
Accrued termination benefits	(24,852)
Net pension obligation	(434,580)
Other postemployment benefit obligation	(274,453)
Long-term liabilities, including bonds payable, net of deferred refunding costs, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(30,786,029)
Total net position - governmental activities	\$ 20,988,380

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

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds**Year Ended June 30, 2014**

	General	Debt Service	Capital Projects	Total Governmental Funds
Revenues				
General property taxes	\$ 16,959,423	\$ -	\$ -	\$ 16,959,423
Other local taxes	2,804,760	-	-	2,804,760
Permits, privilege fees and regulatory licenses	89,910	-	-	89,910
Fines and forfeitures	73,024	-	-	73,024
Revenue from use of money and property	188,612	-	87	188,699
Charges for services	677,961	-	-	677,961
Intergovernmental	3,991,404	-	572,780	4,564,184
Miscellaneous	134,082	-	82,401	216,483
Total revenues	24,919,176	-	655,268	25,574,444
Expenditures				
General government administration	2,150,397	-	-	2,150,397
Public safety and judicial	6,323,724	-	-	6,323,724
Public works	1,717,667	-	-	1,717,667
Health and welfare	938,191	-	-	938,191
Parks, recreation, and cultural	1,558,028	-	-	1,558,028
Community development	643,567	-	-	643,567
Nondepartmental	125,312	-	-	125,312
Education	8,991,413	-	-	8,991,413
Capital outlay	-	-	991,003	991,003
Debt service:				
Principal retirement	-	886,835	-	886,835
Interest and fiscal charges	-	1,190,623	-	1,190,623
Total expenditures	22,448,299	2,077,458	991,003	25,516,760
Excess (deficiency) of revenues over expenditures	2,470,877	(2,077,458)	(335,735)	57,684
Other financing sources (uses)				
Transfers in	130,000	2,075,858	101,100	2,306,958
Transfers out	(2,181,958)	-	-	(2,181,958)
Total other financing sources (uses)	(2,051,958)	2,075,858	101,100	125,000
Net change in fund balances	418,919	(1,600)	(234,635)	182,684
Fund balances, July 1, 2013	7,467,298	245,937	1,051,780	8,765,015
Fund balances, June 30, 2014	\$ 7,886,217	\$ 244,337	\$ 817,145	\$ 8,947,699

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

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

Year Ended June 30, 2014

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

Net change in fund balances - total governmental funds \$ 182,684

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

Because some revenues will not be collected for several months after the City's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds.

Unavailable revenues decreased by this amount this year. (55,711)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	564,938
Depreciation expense	(1,977,237)
Loss on disposal of capital assets	(278,681)

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

Deferred refunding charge, net	(23,754)
Repayment of debt principal	1,021,288

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

Accrued interest	5,165
Compensated absences	(4,052)
Pension cost	(434,580)
Other postemployment benefits liability	(43,060)
Accrued termination benefits	43,996

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

(29,258)

Change in net position - governmental activities \$ (1,028,262)

Statement of Net Position - Proprietary Funds

June 30, 2014

Assets	Business-Type Activities Proprietary Funds			Governmental Activities - Internal Service Funds
	Sewer Operation	Solid Waste	Total	
Current assets				
Cash and investments	\$ 1,238,296	\$ 174,857	\$ 1,413,153	\$ 6,311
Accounts receivable	257,386	137,256	394,642	280
Note receivable	1,265	-	1,265	-
Inventory	-	4,544	4,544	23,422
Total current assets	1,496,947	316,657	1,813,604	30,013
Noncurrent assets				
Capital assets				
Land	214,666	-	214,666	-
Buildings	-	18,966	18,966	41,742
Sewer system	22,176,691	-	22,176,691	-
Equipment	906,957	438,320	1,345,277	45,910
Less - accumulated depreciation	(10,460,970)	(340,370)	(10,801,340)	(75,685)
Total capital assets (net of accumulated depreciation)	12,837,344	116,916	12,954,260	11,967
Total noncurrent assets	12,837,344	116,916	12,954,260	11,967
Deferred outflows of resources				
Deferred refunding costs	275,548	-	275,548	-
Total assets and deferred outflows of resources	\$ 14,609,839	\$ 433,573	\$ 15,043,412	\$ 41,980
Liabilities				
Current liabilities				
Vouchers and accounts payable	\$ 24,332	\$ 52,285	\$ 76,617	\$ 26,816
Accrued payroll	5,627	1,046	6,673	4,730
Accrued interest	111,318	-	111,318	-
Compensated absences	2,106	184	2,290	1,528
Bonds payable, current portion	780,000	-	780,000	-
Total current liabilities	923,383	53,515	976,898	33,074
Noncurrent liabilities				
Compensated absences	18,951	1,655	20,606	13,754
Bonds payable, less current portion	7,839,756	-	7,839,756	-
Other postemployment benefit obligation	8,890	2,358	11,248	6,893
Total noncurrent liabilities	7,867,597	4,013	7,871,610	20,647
Total liabilities	8,790,980	57,528	8,848,508	53,721
Net position				
Net investment in capital assets	4,493,136	116,916	4,610,052	11,967
Unrestricted (deficit)	1,325,723	259,129	1,584,852	(23,708)
Total net position (deficit)	5,818,859	376,045	6,194,904	(11,741)
Total liabilities and net position	\$ 14,609,839	\$ 433,573	\$ 15,043,412	\$ 41,980

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

Statement of Revenue, Expenses, and Changes in Fund Net Position - Proprietary Funds**Year Ended June 30, 2014**

	Proprietary Fund Types			Governmental
	Sewer Operation	Solid Waste	Total	Activities - Internal Service Funds
Operating revenues				
Charges for services	\$ 1,812,501	\$ 863,890	\$ 2,676,391	\$ 780,144
Miscellaneous	587	-	587	-
Total operating revenues	1,813,088	863,890	2,676,978	780,144
Operating expenses				
Personnel services	290,896	80,652	371,548	237,268
Contractual services	47,861	163,291	211,152	59,306
Materials and supplies	61,796	69,169	130,965	493,774
Utilities	79,820	100	79,920	3,862
Depreciation and amortization	656,235	22,016	678,251	2,741
Other charges	35,825	18,198	54,023	15,451
Waste disposal	-	509,765	509,765	-
Total operating expenses	1,172,433	863,191	2,035,624	812,402
Operating income (loss)	640,655	699	641,354	(32,258)
Nonoperating revenues (expenses)				
Interest income	35,470	-	35,470	-
Interest and fiscal charges	(293,324)	-	(293,324)	-
Sewer availability fees	75,000	-	75,000	-
Net nonoperating expenses	(182,854)	-	(182,854)	-
Income (loss) before transfers	457,801	699	458,500	(32,258)
Transfers				
Transfers in	2,000	-	2,000	3,000
Transfers out	(130,000)	-	(130,000)	-
Net transfers	(128,000)	-	(128,000)	3,000
Change in net position	329,801	699	330,500	(29,258)
Net position, July 1, 2013	5,489,058	375,346	5,864,404	17,517
Net position, June 30, 2014	\$ 5,818,859	\$ 376,045	\$ 6,194,904	\$ (11,741)

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

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2014

	Proprietary Fund Types			Internal Service Fund
	Sewer Operation	Solid Waste	Total	
Cash flows from operating activities				
Received from customers and users	\$ 1,818,613	\$ 866,620	\$ 2,685,233	\$ 779,923
Payments to suppliers for goods and services	(236,662)	(757,544)	(994,206)	(558,630)
Payments to employees	(290,040)	(80,512)	(370,552)	(236,429)
Net cash provided by (used in) operating activities	1,291,911	28,564	1,320,475	(15,136)
Cash flows from noncapital financing activities				
Transfers to other funds	(130,000)	-	(130,000)	-
Transfers from other funds	2,000	-	2,000	3,000
Net cash provided by (used in) noncapital financing activities	(128,000)	-	(128,000)	3,000
Cash flows from capital and related financing activities				
Principal paid on capital debt	(305,000)	-	(305,000)	-
Sewer availability fees	75,000	-	75,000	-
Interest paid on capital debt	(304,535)	-	(304,535)	-
Acquisition and construction of capital assets	(114,735)	(9,023)	(123,758)	-
Net cash provided by (used in) capital and related financing activities	(649,270)	(9,023)	(658,293)	-
Cash flows from investing activities				
Interest received	35,470	-	35,470	-
Net increase (decrease) in cash and investments	550,111	19,541	569,652	(12,136)
Cash and investments, beginning of year	688,185	155,316	843,501	18,447
Cash and investments, end of year	\$ 1,238,296	\$ 174,857	\$ 1,413,153	\$ 6,311
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ 640,655	\$ 699	\$ 641,354	\$ (32,258)
Adjustments				
Depreciation and amortization	656,235	22,016	678,251	2,741
Changes in assets and liabilities				
Receivables, net	5,524	2,731	8,255	(221)
Inventories	-	(1,432)	(1,432)	10,432
Vouchers and accounts payable	(21,341)	2,999	(18,342)	(886)
Accrued compensated absences	4,293	(433)	3,860	(3)
Other postemployment benefits liability	5,689	1,843	7,532	4,220
Accrued payroll	856	141	997	839
Net cash provided by (used in) operating activities	\$ 1,291,911	\$ 28,564	\$ 1,320,475	\$ (15,136)

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

Statement of Fiduciary Assets and Liabilities

June 30, 2014

		Library Agency Fund
	Assets	
Cash and cash equivalents		\$ 31,359
		<hr/>
	Liabilities	
Amounts held in trust for library building		\$ 31,359
		<hr/>

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

Combining Statement of Net Position - Component Units**June 30, 2014**

Assets	Poquoson Public Schools	Economic Development Authority	Total
Cash and cash equivalents	\$ 2,042,696	\$ 8,885	\$ 2,051,581
Accounts receivable	-	1,162	1,162
Due from other governments	482,750	-	482,750
Inventory	5,596	-	5,596
Land	450,876	2,492,161	2,943,037
Other capital assets, net	5,141,646	177,215	5,318,861
Total assets	\$ 8,123,564	\$ 2,679,423	\$ 10,802,987
Liabilities			
Vouchers and accounts payable	\$ 2,268,940	\$ 25	\$ 2,268,965
Accrued interest	-	14,501	14,501
Compensated absences, current	80,433	-	80,433
Due to primary government	25,245	1,684,587	1,709,832
Compensated absences, noncurrent	297,905	-	297,905
Other postemployment benefit obligation	165,601	-	165,601
Total liabilities	2,838,124	1,699,113	4,537,237
Net Position			
Net investment in capital assets	5,592,522	984,789	6,577,311
Unrestricted	(307,082)	(4,479)	(311,561)
Total net position	5,285,440	980,310	6,265,750
Total liabilities and net position	\$ 8,123,564	\$ 2,679,423	\$ 10,802,987

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

Combining Statement of Activities - Component Units

Year Ended June 30, 2014

	Program Revenues				Net Revenues (Expenses) and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Contributions	Poquoson	Economic	Total
					Public Schools	Development Authority	
Poquoson Public Schools							
Education	\$ 21,114,168	\$ 256,192	\$ 11,145,094	\$ -	\$ (9,712,882)	\$ -	\$ (9,712,882)
							-
Economic Development Authority							
Economic Development	85,326	19,648	-	-	-	(65,678)	(65,678)
Total component units	\$ 21,199,494	\$ 275,840	\$ 11,145,094	\$ -	(9,712,882)	(65,678)	(9,778,560)

General revenues

City of Poquoson	9,500,098	74,413	9,574,511
Total general revenues	9,500,098	74,413	9,574,511
Change in net position	(212,784)	8,735	(204,049)
Net position, beginning of year	5,498,224	971,575	6,469,799
Net position, end of year	\$ 5,285,440	\$ 980,310	\$ 6,265,750

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

June 30, 2014

1. Summary of Significant Accounting Policies

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

Financial Reporting Entity

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

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

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

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

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

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

1. Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Under GASB 54 guidance, the Grant Fund is consolidated in the General Fund.

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

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

The City reports the following major proprietary funds:

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

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

Additionally, the City reports the following proprietary Fund type:

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

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary Fund - Agency Fund Types

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

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

Component Unit – Economic Development Authority

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

Component Unit - School Board

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

School Board General Fund

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

School Board Special Revenue Fund

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

School Board Agency Funds

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

Budgeting and Budgetary Accounting

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

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

1. Summary of Significant Accounting Policies (Continued)

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

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

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

Supplemental budget appropriations were approved during the fiscal year ended June 30, 2014, for an increase in appropriations in the amount of \$590,053 for the Primary Government General Fund.

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

Cash and Cash Equivalents

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

Investments

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

Capital Assets

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

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

1. Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

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

The estimated useful lives of capital assets are as follows:

	<u>Years</u>
Buildings	40
Infrastructure	20 - 50
Machinery and equipment	3 - 50
Land improvements	10 - 50
Sewer System	40

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, 2014, the allowance approximated \$305,000 in the General Fund. All other receivables have experienced a high collection rate; therefore, an allowance for doubtful accounts has not been established by City management for other receivables.

Inventory

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

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

Inventory is recognized as expenditures when consumed.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The City’s deferred outflows of resources consist of the amount by which the principal and premium of a refunding bond exceed the net carrying amount of the refunded debt. The deferred outflow is being amortized over the remaining life of the refunded debt.

Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City’s deferred inflows of resources consist of the amount by which the net carrying amount of refunded debt exceeds the principal and premium of a refunding bond. The deferred inflow is being amortized over the remaining life of the refunded debt. Under the modified accrual basis of accounting, the City has revenues which are applicable to a future period, and will not be recognized until they period they become available. These amounts are recorded on the governmental funds balance sheet as a deferred inflow of resources.

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

Compensated Absences

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

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

Sewer Availability Fees

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

Fund Balances/Net Positions

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

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

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

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

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

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

1. Summary of Significant Accounting Policies (Concluded)

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

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

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

Estimates

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

Credit Risk

The assessed value of real estate for the City's ten largest taxpayers comprises 3.02% of the City's real estate tax base. Concentration of credit risk with respect to receivables is limited due to the large number of customers comprising the City's customer base.

2. Deposits and Investments

Deposits

At year-end, the carrying value of the City's deposits with banks and savings institutions was \$6,883,355. All cash of the City is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. Seq. of the Code of Virginia (Act) or covered by the Federal Depository Insurance Corporation.

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

However, all qualified bank's public deposits are considered 100% "insured" because the Act provides for additional assessments to be made. This means that if a qualified bank were to fail, all collateral in the pool would be used to recover the public deposits held at that bank. In addition, if the collateral were inadequate to cover all public deposits, additional amounts would be assessed on a pro rata basis to each member of the pool. Therefore, the Act ensures that there will be no loss of public funds and that makes the pool similar to depository insurance. At June 30, 2014, no balances of the Primary Government were uninsured or uncollateralized in banks or savings institutions because of failure of the institutions to qualify under the Act.

The carrying amount of deposits for the School Board was \$2,041,414 and the bank balance was \$2,437,138. The bank balance was covered by the Federal Depository Insurance Corporation or collateralized in accordance with the Act. At June 30, 2014, no balances of the component unit were uninsured or uncollateralized in banks or savings institutions because of failure of the institutions to qualify under the Act.

Investments

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

2. Deposits and Investments (Continued)

Investment Policy

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

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

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

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

Short-term Operating Funds

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

Core Portfolio

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

Bond Proceeds

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

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

Credit Risk

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

Although state statute does not impose credit standards on repurchase agreement counterparties, bankers’ acceptances or money market mutual funds, the City has established stringent credit standards for these investments to minimize portfolio risk. The City’s investments held by an outside brokerage and investment banking firm are rated AAA by Standard & Poor’s.

Concentration of Credit Risk

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

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

Interest Rate Risk

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

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

Custodial Risk

For an investment, custodial risk is the risk that in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Policy requires that all investment securities purchased by the City or held as collateral on deposits or investments shall be held by the City or by a third-party custodial agent who may not otherwise be counterparty to the investment transaction. As of June 30, 2014, with the exception of the Virginia LGIP, all of the City’s investments are held in a bank’s trust department in the City’s name.

2. Deposits and Investments (Concluded)

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	\$ 394,351	\$ 394,351	\$ -
Money market funds, Scott & Stringfellow	479,264	479,264	-
Total investments	873,615	\$ 873,615	\$ -
Reconciliation to total cash and investments			
Add:			
Cash on hand and in banks	8,928,021		
Total cash and investments	9,801,636		
Less:			
Cash held in fiduciary funds	31,359		
Total cash and investments, Exhibit A, Primary Government and Component Units	\$ 9,770,277		

3. Receivables

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

	Governmental Activities	Business-Type Activities	Total
Real estate taxes	\$ 365,226	\$ -	\$ 365,226
Personal property taxes	325,578	-	325,578
Accounts receivable	218,429	394,642	613,071
	909,233	394,642	1,303,875
Less - allowance for uncollectible accounts	(305,000)	-	(305,000)
Receivables, net	\$ 604,233	\$ 394,642	\$ 998,875

4. Notes Receivable

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

A \$192,279 note receivable in the General Fund represents a deed of trust note to Poquoson Historical and Cultural Museum Foundation. The \$192,279 note bears interest at 7.25%. Beginning June 1, 2009, interest only is due and payable each June 1 and December 1 thereafter. In all events the accrued interest and unpaid principal is due in full on December 1, 2018. As of June 30, 2014, the balance was \$115,367.

4. Notes Receivable (Continued)

The City also has a \$1,684,587 note receivable from the EDA. In the prior year, the EDA borrowed \$1,734,000 from the City to pay off their line of credit, which became due on June 30, 2013. The funds for this note receivable were obtained when the City issued a \$1,734,000 general obligation bond on June 12, 2013, along with a \$300,000 taxable line of credit for future economic development use (see Note 8). The EDA has agreed to pay interest and principal when due, and will pay a minimum of 50% of the proceeds of any sale of property towards principal until the debt is paid in full. The note receivable is included in “notes receivable” in the Statement of Net Position for the Primary Government.

5. Due From Other Governments

Due from other governments consists of the following:

Primary Government

<u>Commonwealth of Virginia</u>	<u>General Fund</u>
Comprehensive Services Act	\$ 49,448
Sales tax	51,996
Division of Motor Vehicles reimbursement	11,649
Compensation Board	17,860
Public Assistance	12,833
Communications Sales and Use tax	34,785
Fire Fund Program	5,769
Mobile Home Titling Tax	4,975
PPTRA	884,118
Virginia Department of Health	9,021
Total due from the Commonwealth of Virginia	<u>1,082,454</u>

Federal Government

Plum Tree Island	2,769
Enhancement Grant	3,600
DUI Grants - Selective Enforcement - Alcohol	1,880
Citizen Corp 2012	2,485
FEMA Public Assistance	57,650
Total due from the federal government	<u>68,384</u>
Total due from other governments	<u>\$ 1,150,838</u>

5. Due From Other Governments (Continued)

Component Unit - School Board

Commonwealth of Virginia

State sales tax	\$ 180,899
State technology reimbursement	144,606
Total due from the Commonwealth of Virginia	<u>325,505</u>

Federal Government

Department of Education Program	
Title I	16,274
Title II	5,226
Title VI-B	95,488
Various grants	40,257
Total due from the federal government	<u>157,245</u>
Total due from the other governments	<u>\$ 482,750</u>

6. Receivables and Payables - Component Units

Details of the receivables and payables between the Primary Government and component units at June 30, 2014 are as follows:

<u>Primary Government Receivable</u>	<u>Component Unit Payable</u>	<u>Amount</u>
Due from EDA	Due to Primary Government	\$ 1,684,587
Due from School Board	Due to Primary Government	25,245
Total		<u>\$ 1,709,832</u>

See "Note 4. Notes Receivable" for more information regarding the \$1,684,587 receivable from the EDA to the City.

7. Capital Assets

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

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets not being depreciated				
Land	\$ 3,183,226	\$ -	\$ -	\$ 3,183,226
Construction-in-process	139,749	177,748	311,214	6,283
Total capital assets not being depreciated	3,322,975	177,748	311,214	3,189,509
Other capital assets				
Buildings	10,493,740	5,548	-	10,499,288
Infrastructure	39,098,315	68,196	-	39,166,511
Land improvements	3,046,080	160,053	-	3,206,133
Machinery and equipment	6,981,718	464,607	-	7,446,325
Total other capital assets	59,619,853	698,404	-	60,318,257
Less - accumulated depreciation				
Buildings	3,865,863	345,829	-	4,211,692
Infrastructure	32,115,396	203,890	-	32,319,286
Land improvements	1,312,905	214,195	-	1,527,100
Machinery and equipment	4,506,607	502,143	-	5,008,750
Total accumulated depreciation	41,800,771	1,266,057	-	43,066,828
Other capital assets, net	17,819,082	(567,653)	-	17,251,429
	21,142,057	(389,905)	311,214	20,440,938
Allocation of School Board Assets				
Buildings	29,014,157	-	408,820	28,605,337
Less - accumulated depreciation				
Buildings	4,056,665	713,921	130,139	4,640,447
Total allocated to City	24,957,492	(713,921)	278,681	23,964,890
Total	\$ 46,099,549	\$ (1,103,826)	\$ 589,895	\$ 44,405,828

7. Capital Assets (Continued)

Depreciation was charged to governmental functions as follows:

General government administration	\$ 144,835
Public safety	487,597
Public works	380,306
Health and welfare	12,241
Parks, recreation and cultural	238,241
Community development	2,837
Education	713,921
	<u>\$ 1,979,978</u>

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

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets not being depreciated				
Land	\$ 214,666	\$ -	\$ -	\$ 214,666
Total capital assets not being depreciated	<u>214,666</u>	<u>-</u>	<u>-</u>	<u>214,666</u>
Other capital assets				
Buildings	9,943	9,023	-	18,966
Machinery and equipment	1,230,542	114,735	-	1,345,277
Sewer system	22,169,691	-	-	22,169,691
Sewer easement	7,000	-	-	7,000
Total other capital assets	<u>23,417,176</u>	<u>123,758</u>	<u>-</u>	<u>23,540,934</u>
Less - accumulated depreciation				
Buildings	9,943	301	-	10,244
Machinery and equipment	766,495	69,184	-	835,679
Sewer system	9,346,651	608,766	-	9,955,417
Total accumulated depreciation	<u>10,123,089</u>	<u>678,251</u>	<u>-</u>	<u>10,801,340</u>
Other capital assets, net	<u>13,294,087</u>	<u>(554,493)</u>	<u>-</u>	<u>12,739,594</u>
Total	<u>\$ 13,508,753</u>	<u>\$ (554,493)</u>	<u>\$ -</u>	<u>\$ 12,954,260</u>

7. Capital Assets (Concluded)

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

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets not being depreciated				
Land	\$ 450,876	\$ -	\$ -	\$ 450,876
Other capital assets				
Buildings	39,620,894	196,912	42,106	39,775,700
Machinery and equipment	2,426,685	199,837	40,000	2,586,522
Total other capital assets	42,047,579	396,749	82,106	42,362,222
Less - accumulated depreciation				
Buildings	10,702,248	913,179	16,000	11,599,427
Machinery and equipment	1,539,505	156,754	40,000	1,656,259
Total accumulated depreciation	12,241,753	1,069,933	56,000	13,255,686
Other capital assets, net	29,805,826	(673,184)	26,106	29,106,536
Capital assets, net	30,256,702	(673,184)	26,106	29,557,412
Allocation to City				
Buildings	(29,014,157)	-	408,820	(28,605,337)
Less - accumulated depreciation	4,056,665	713,921	130,139	4,640,447
Total allocated to City	(24,957,492)	713,921	278,681	(23,964,890)
Total	\$ 5,299,210	\$ 40,737	\$ 304,787	\$ 5,592,522

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

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets not being depreciated				
Land	\$ 2,492,161	\$ -	\$ -	\$ 2,492,161
Other capital assets				
Buildings	69,147	-	-	69,147
Infrastructure	315,273	-	-	315,273
Total other capital assets	384,420	-	-	384,420
Less - accumulated depreciation				
Buildings	46,117	3,458	-	49,575
Infrastructure	143,299	14,331	-	157,630
Total accumulated depreciation	189,416	17,789	-	207,205
Other capital assets, net	195,004	(17,789)	-	177,215
Total	\$ 2,687,165	\$ (17,789)	\$ -	\$ 2,669,377

8. Long-term Obligations

Governmental Activities

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

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014	Amounts Due Within One Year
General obligations					
Debts payable					
General obligation bonds	\$ 28,619,001	\$ -	\$ 522,413	\$ 28,096,588	\$ 1,214,000
General obligation leases	83,166	-	83,166	-	-
State Literary Fund loans	1,530,820	-	280,820	1,250,000	250,000
Unamortized Premium	1,881,951	-	134,889	1,747,062	-
	<u>32,114,938</u>	-	1,021,288	31,093,650	1,464,000
Accrued benefits					
Net pension obligation	-	939,576	504,996	434,580	-
Accrued compensated absences	612,103	677,188	673,139	616,152	61,615
Total	<u>\$ 32,727,041</u>	<u>\$ 1,616,764</u>	<u>\$ 2,199,423</u>	<u>\$ 32,144,382</u>	<u>\$ 1,525,615</u>
Component Unit - School Board					
Accrued benefits					
Accrued compensated absences	\$ 374,651	\$ 557,495	\$ 553,808	\$ 378,338	\$ 80,433

The net OPEB obligation and compensated absences are generally liquidated by the fund for which the employee works, such as for the governmental funds (the general fund and internal service fund), and for the enterprise funds (the sewer fund and the solid waste fund).

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

Governmental Activities (Continued)

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

<i>High School Serial Bonds of 1998</i> - \$650,000 bonds issued and due in annual installments varying from \$30,000 to \$35,000 through July 2018, with interest payable semi-annually at rates varying from 3.60% to 5.10%.	\$ 150,000
<i>General Obligation Refunding Bonds, Series 2010</i> - \$4,670,000 bonds issued and due in annual installments varying from \$100,000 to \$665,000 beginning February 2014 through February 2027, with interest paid semi-annually at 4.28%.	4,560,000
<i>General Obligation Refunding Bonds, Series 2010</i> - \$6,600,000 bonds issued and due in annual installments varying from \$140,000 to \$1,015,000 beginning February 2014 through February 2027, with interest paid semi-annually at 4.35%.	6,460,000
<i>General Obligation Refunding Bonds, Series 2010</i> - \$3,900,000 bonds issued and due in annual installments varying from \$45,000 to \$580,000 beginning February 2014 through February 2027, with interest paid semi-annually at 4.49%.	3,855,000
<i>General Obligation Bonds, Series 2010</i> - \$215,000 bonds issued and due in annual installments varying from \$20,000 to \$60,000 beginning February 2012 through February 2016, with interest paid semi-annually at 2.48%.	120,000
<i>General Obligation Refunding Taxable Bonds, Series 2011B</i> - \$3,495,000 bonds issued and due in annual installments varying from \$55,000 to \$313,000 beginning February 2012 through February 2029, with interest payable semi-annually at 2.98%.	3,357,000
<i>General Obligation Refunding Bonds, Series 2012</i> - \$8,165,000 bonds issued and due in annual installments varying from \$35,000 to \$1,030,000 beginning February 2013 through February 2028, with interest payable semi-annually at rates from 2% to 5%.	7,910,001
<i>General Obligation Bonds, Series 2013</i> - \$1,734,000 bonds issued and due in annual installments varying from \$157,000 to \$191,000 beginning August 2018 through August 2027, with interest payable semi-annually at 2.23%.	1,684,587
Total general obligation bonds	<u>\$ 28,096,588</u>

8. Long-term Obligations (Continued)

Governmental Activities (Continued)

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 1,214,000	\$ 1,165,343
2016	1,536,001	1,130,779
2017	1,602,001	1,073,781
2018	1,678,000	1,005,418
2019	1,914,000	932,445
2020 – 2024	11,919,001	3,276,778
2025 – 2028	8,233,585	738,292
	<u>\$ 28,096,588</u>	<u>\$ 9,322,804</u>

Literary Loan Funds

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

High School Literary Fund Loan - \$5,000,000 loan issued November 17, 1998, due in annual installments of \$250,000 through December 2019, with interest at 3%.

\$ 1,250,000

Total state literary fund loans outstanding

\$ 1,250,000

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>
2015	\$ 250,000	\$ 37,500
2016	250,000	30,000
2017	250,000	22,500
2018	250,000	15,000
2019	250,000	7,500
	<u>\$ 1,250,000</u>	<u>\$ 112,500</u>

Debt Limit

The Commonwealth of Virginia imposes a legal limit on the general obligation debt that may be issued by the City to an amount equal to 10% of total assessed value of real property. As of June 30, 2014, the City's aggregate general obligation indebtedness was \$113,955,237 less than the allowable limit.

Overlapping Debt

There are no overlapping or underlying tax jurisdictions.

8. Long-term Obligations (Continued)

Business-type Activities

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

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014	Amounts Due Within One Year
Enterprise Funds					
General obligation bonds	\$ 8,305,000	\$ -	\$ 305,000	\$ 8,000,000	\$ 780,000
Bond premium	669,904	-	50,148	619,756	-
	8,974,904	-	355,148	8,619,756	780,000
Accrued compensated absences	19,036	29,265	25,405	22,896	2,290
	<u>\$ 8,993,940</u>	<u>\$ 29,265</u>	<u>\$ 380,553</u>	<u>\$ 8,642,652</u>	<u>\$ 782,290</u>

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

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

\$ 560,000

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

500,000

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

6,940,000

Total general obligation bonds outstanding

\$ 8,000,000

8. Long-term Obligations (Concluded)

Business-Type Activities (Continued)

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 780,000	\$ 302,036
2016	365,000	276,816
2017	445,000	262,071
2018	470,000	240,068
2019	490,000	216,628
2020 – 2024	2,820,000	711,935
2025 – 2028	2,630,000	199,950
	<u>\$ 8,000,000</u>	<u>\$ 2,209,504</u>

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

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

Line of Credit

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

10. Conduit Debt Obligation

On July 1, 2001 and September 12, 2005, the EDA issued \$10,000,000 and \$5,000,000 YMCA Revenue Bonds, respectively, to finance the acquisition and construction of the Peninsula Metropolitan YMCA (YMCA). On July 13, 2004, the EDA issued \$7,500,000 Hampton-Newport News Community Services Board (HNNCSB) revenue bonds to acquire the former Hampton Medical Center and to finance improvements. On November 1, 2013 the EDA issued \$7,474,590 Christopher Newport University Student Housing Project Revenue Bonds to Christopher Newport University Education Foundation (Foundation), for the purpose of financing the construction and equipping of a student housing complex consisting of 5 buildings in Newport News, VA. The costs of financing the projects, all expenses of issuing the bonds and the payments of bond principals and interest are the responsibility the YMCA, Christopher Newport University Education Foundation, and the HNNCSB, respectively. The bonds provide that neither the EDA nor the City shall be obligated to pay the bonds or interest thereon or other costs incident thereto. At June 30, 2014, \$21,196,737 remained outstanding.

11. Fund Balances

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

	General	Debt Service	Capital Projects	Total Governmental Funds
Nonspendable				
EDA Note Receivable	\$ 1,684,587	\$ -	\$ -	\$ 1,684,587
Notes Receivable	215,367	-	-	215,367
Total nonspendable	1,899,954	-	-	1,899,954
Restricted				
Asset Forfeiture	5,614	-	-	5,614
4 For Life	23,572	-	-	23,572
Fire	117,315	-	-	117,315
Heritage Park Contributions	16,611	-	-	16,611
Library Contributions	9,512	-	-	9,512
CDBG Program Revenue	78,638	-	-	78,638
Wetland Creation	18,942	-	-	18,942
Streets and Drainage	-	-	481,633	481,633
Contributions – Kids Island	-	-	2,635	2,635
Poquoson Elementary School	-	-	4,174	4,174
Total restricted	270,204	-	488,442	758,646
Assigned				
General Government and Administration	195	-	-	195
Public safety and judicial	109,352	-	-	109,352
Public works	42,599	-	-	42,599
Health and welfare	7,000	-	-	7,000
Parks, recreational and cultural	19,867	-	-	19,867
Community development	9,364	-	-	9,364
Non-departmental	2,000	-	-	2,000
Subsequent year's budget	516,500	-	-	516,500
Debt service	-	244,337	-	244,337
Capital projects	-	-	328,703	328,703
Total assigned	706,877	244,337	328,703	1,279,917
Unassigned	5,009,182	-	-	5,009,182
Total fund balances	\$ 7,886,217	\$ 244,337	\$ 817,145	\$ 8,947,699

12. Contingency

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

13. Interfund Transfers

Interfund transfers for the year ended June 30, 2014 are as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 130,000	\$ 2,181,958
Debt Service Fund	2,075,858	-
Capital Projects Fund	101,100	-
Sewer Operations Fund	2,000	130,000
Fleet Management Fund	3,000	-
	<u>\$ 2,311,958</u>	<u>\$ 2,311,958</u>

Purpose:

Transfers from General Fund:

- \$ 2,075,858 Debt Service Fund: current year debt payments
- \$ 101,100 Capital Projects Fund: fund a capital project
- \$ 2,000 Sewer Operations Fund: allocated salary adjustment
- \$ 3,000 Fleet Management Fund: allocated salary adjustment

Transfers from Sewer Operations Fund:

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

14. Surety Bonds

The City maintained the following surety bond coverage’s on certain employees of the Primary Government and component unit during the fiscal year ended June 30, 2014:

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

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

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

15. Related Party Transactions

The City’s financial statements do not include certain public commissions and authorities created as separate governmental entities under the laws of the Commonwealth of Virginia. These agencies are separate legal entities having governmental character and sufficient autonomy in the management of their own affairs to distinguish them as separate from the administrative organization of the City, although certain members of their governing bodies are appointed by Council. These entities are the Hampton Roads Planning District Commission (HRPDC), the Virginia Peninsula’s Public Service Authority (VPPSA), the Peninsula Council Workforce Development (PCWD), the Colonial Behavioral Health (CBH) and the Hampton Roads Partnership (HRPC). Expenditures of these agencies are financed by federal and state grants and fees, including contributions from the City. During the year ended June 30, 2014, the City provided support or paid for services to HRPDC of \$23,910, VPPSA of \$270,827, PCWD of \$5,847, and CBH of \$151,732.

In June 2003, the Virginia Peninsula Regional Jail Authority (Jail Authority), of which the City is a member jurisdiction, issued \$21,655,000 of Regional Jail Facility Refunding Revenue Bonds, Series 2003. The original bonds were issued for the purpose of acquiring, constructing and equipping a Regional Jail Facility to serve its member jurisdictions. The bonds bear interest at 2% to 5%, paid semi-annually. The bonds mature in amounts ranging from \$570,000 on October 1, 2003 to \$2,765,000 on October 1, 2018. The outstanding balance at June 30, 2014 was \$9,025,000. The bonds are limited obligations of the Jail Authority, and do not constitute a general obligation debt or pledge of the faith and credit of any of the four member jurisdictions, nor do they obligate any member jurisdiction to levy or pledge any form of taxation therefore. However, the City has entered into a non-binding moral obligation pledge of the member jurisdictions in which the member jurisdictions have agreed to pay their proportionate share of the debt service on the bonds and any debt service funding requirements if the Jail Authority lacks sufficient funds to do so. The City’s proportionate share is 10%.

15. Related-Party Transactions (Continued)

In addition, a conglomerate of municipalities shares certain expenses for maintaining and operating a regional jail and juvenile detention center. During FY 2014, the City incurred expenses for the regional jail and juvenile detention center of \$257,609 and \$66,756, respectively.

The City of Poquoson shares certain services and their associated costs with York County, including the Circuit Court, the Commonwealth’s Attorney, Sheriff of York County and E911 operations. The City also shares social services with York County. During the year ended June 30, 2014, the City paid \$960,204 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, 2014, the School Board provided support of \$451,160 to the New Horizons Education Center.

16. Retirement Plan

A. Plan Description

- Name of Plan: Virginia Retirement System (VRS)
- Identification of Plan: Agent and Cost-Sharing Multiple-Employer Pension Plan
- Administering Entity: Virginia Retirement System (System)

The City is a separate cost-sharing pool within VRS, and makes contributions based on rates set by VRS’s actuarial calculations of the annual required contributions. All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

Within the VRS Plan, the System administers three different benefit plans for local government employees – Plan 1, Plan 2, and, Hybrid. Each plan has different eligibility and benefit structures as set out in the table below:

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>About VRS Plan 1 VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>About VRS Plan 2 VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See “Eligible Members”)</p>

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
		<ul style="list-style-type: none"> • The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
<p>Eligible Members Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan’s effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.</p>	<p>Eligible Members Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan’s effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • State employees* • School division employees • Political subdivision employees* • Judges appointed or elected to an original term on or after January 1, 2014 • Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan’s effective date for opt-in members was July 1, 2014

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.</p>	<p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.</p>	<p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Members of the State Police Officers' Retirement System (SPORS) • Members of the Virginia Law Officers' Retirement System (VaLORS) • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions Same as VRS Plan 1.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as VRS Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u> Defined contribution vesting refers to minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of plan.</p> <p>Members are always 100% vested in contributions they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit See definition under VRS Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under VRS Plan 1</p> <p><u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.</p>	<p>Service Retirement Multiplier Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p>	<p>Service Retirement Multiplier The retirement multiplier is 1.0%.</p> <p>For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p>

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Earliest Reduced Retirement Eligibility Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as VRS Plan 1</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as VRS Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as VRS Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as VRS Plan 1 and VRS Plan 2.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as VRS Plan 1 and VRS Plan 2.</p>

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 		
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before</p>	<p>Disability Coverage Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.</p> <p>State employees (including VRS Plan 1 and VRS Plan2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and</p>

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
becoming eligible for non-work related disability benefits.	becoming eligible for non-work related disability benefits.	are not eligible for disability retirement. Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.
<p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Purchase of Prior Service Same as VRS Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as VRS Plan 1.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p>

The System issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2013-annual-report.pdf>, or by writing to the System's Chief Financial Officer 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 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

16. Retirement Plan (Continued)

B. Funding Policy (Continued)

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 rate for the fiscal year ended 2014 was 13.16% of annual covered payroll. The School Board's (non-professional employees) contribution rate for the fiscal year ended 2014 was 14.63% 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 2014, 2013, and 2012 were \$1,450,880, \$1,330,567, and \$1,067,772, respectively. The School Board contributed 100% of required contributions to the pool for fiscal year ended 2014 and each of the two preceding years.

C. Annual Pension Cost

For the fiscal year ended 2014, the City's annual pension cost of \$939,576 did not equal the City's required and actual contributions. For the Fiscal Year ended 2014, the School Board's annual pension cost of \$75,065 was equal to the School Board's required and actual contributions.

Three-Year Trend Information for the City of Poquoson

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2014	\$939,576	54%	\$434,580
June 30, 2013	\$506,765	100%	\$ -
June 30, 2012	\$437,713	100%	\$ -

Component Unit – School Board (non-professional)

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2014	\$75,065	100%	\$ -
June 30, 2013	\$77,415	100%	\$ -
June 30, 2012	\$67,371	100%	\$ -

16. Retirement Plan (Concluded)

C. Annual Pension Cost (Continued)

The FY 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the City's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

D. Funded Status and Funding Progress

As of June 30, 2013 for the City, the most recent actuarial valuation date, the plan was 78.17% funded. The actuarial accrued liability for benefits was \$26,625,600, and the actuarial value of assets was \$20,814,212, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,811,888. The covered payroll (annual payroll of active employees covered by the plan) was \$5,070,916, and ratio of the UAAL to the covered payroll was 106.09%.

As of June 30, 2013 for the School Board, the most recent actuarial valuation date, the plan was 71.09% funded. The actuarial accrued liability for benefits was \$2,333,948, and the actuarial value of assets was \$1,659,101, resulting in an unfunded actuarial accrued liability (UAAL) of \$508,270. The covered payroll (annual payroll of active employees covered by the plan) was \$549,819, and ratio of the UAAL to the covered payroll was 122.72%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

17. Other Postemployment Benefit Obligation (OPEB)

Plan Description

The City and School Board administer a single-employer defined benefit postemployment health care plan that covers all current retirees and covered dependents and will provide coverage for all future retirees and their covered dependents. Employees who are eligible for the health plan under normal retirement must have a combination of age (minimum 50 years) and years of service (minimum of 5 years) equal to 70. During the year, 121 employees were participating in the City's plan at a cost of \$58,231 and 282 employees were participating in the School Board's plan at a cost of \$58,496. Separate stand-alone statements are not issued for this plan.

17. Other Postemployment Benefit Obligation (OPEB) (Continued)

Funding Policy

The City Council and the School Board have the authority to establish and amend the funding policy of their respective plans. The employer’s contribution ranges from 0% - 100% of the premiums based on the retiree’s years of continuous health care coverage and the health care option selected by the retirees. The employer contributions are financed based on a pay-as-you-go basis. During the fiscal year ending 2014, the City and School Board made contributions (credits) amounting to \$3,419 and \$13,889 respectively.

Annual OPEB Cost and Net OPEB Obligation

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

	City of Poquoson	Component Unit School Board
Annual required contribution	\$ 58,428	\$ 58,596
Interest on net OPEB obligation	9,511	4,840
Adjustment to ARC	(9,708)	(4,940)
Annual OPEB cost	58,231	58,496
Contributions made	(3,419)	(13,889)
Increase in net OPEB obligation	54,812	44,607
Net OPEB obligation - beginning of year	237,782	120,994
NET OPEB obligation - end of year	<u>\$ 292,594</u>	<u>\$ 165,601</u>

17. Other Postemployment Benefit Obligation (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The City's and the School's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012, 2013 and 2014 were as follows:

City of Poquoson

Fiscal Year Ended	Annual OPEB Cost	Employer Credit (Contribution)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	\$ 58,231	\$ (3,419)	-6%	\$ 292,594
June 30, 2013	\$ 55,952	\$ 7,371	13%	\$ 237,782
June 30, 2012	\$ 53,670	\$ (12,593)	-23%	\$ 174,458

Component Unit - School Board

Fiscal Year Ended	Annual OPEB Cost	Employer Credit (Contribution)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	\$ 58,496	\$ (13,889)	-24%	\$ 165,601
June 30, 2013	\$ 56,241	\$ (78,497)	-140%	\$ 120,994
June 30, 2012	\$ 53,959	\$ (99,200)	-184%	\$ 143,250

Funded Status and Funding Progress

Based on the most recent actuarial valuation for the fiscal year ended June 30, 2014, the funded status of the plan was as follows:

	City of Poquoson	Component Unit School Board
Actuarial accrued liability (AAL)	\$ 879,625	\$ 455,056
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	\$ 879,625	\$ 455,056
Funded ratio (actuarial value of plan assets/AAL)	0%	0%
Covered payroll (active plan members)	\$ 6,383,012	\$ 9,707,470
UAAL as a percentage of covered payroll	13.78%	4.69%

17. Other Postemployment Benefit Obligation (Concluded)

Actuarial Methods and Assumptions

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

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

The OPEB liability was determined on the Projected Unit Credit cost actuarial method. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4% rate of return on invested assets, which is the City’s and the School Board’s long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 2.5% per year, an inflation rate of 2.5% per year, and an annual healthcare cost trend rate of 9.5% initially for the year ended June 30, 2014, reduced annually by increments, to an ultimate rate of 5% for the fiscal year ending June 30, 2024/2025. In calculating the fiscal year annual required contribution the initial unfunded actuarial accrued liability, actuarial gains and actuarial losses were amortized over a closed 30-year period for the City and an open 30-year period for the School Board as a level percentage of projected payroll.

Schedule of Funding Progress

City of Poquoson

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2014	\$ -	\$ 879,625	\$ 879,625	0%	\$ 6,383,012	13.78%
6/30/2013	\$ -	\$ 858,838	\$ 858,838	0%	\$ 6,304,830	13.62%
6/30/2012	\$ -	\$ 848,323	\$ 848,323	0%	\$ 6,251,323	13.57%

Component Unit - School Board

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2014	\$ -	\$ 455,056	\$ 455,056	0%	\$ 9,707,470	4.69%
6/30/2013	\$ -	\$ 507,199	\$ 507,199	0%	\$ 11,347,601	4.47%
6/30/2012	\$ -	\$ 503,390	\$ 503,390	0%	\$ 11,631,825	4.33%

18. Risk Management

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

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

19. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to assign that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the General Fund of the City. At June 30, 2014, the General Fund had outstanding encumbrances in the amount of \$190,376.

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

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

* * * * *

Required Supplementary Information

Budgetary Comparison Schedule - General Fund (Budget Basis)**Year Ended June 30, 2014**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
Revenues and other financing sources				
Revenue from local sources				
General property taxes				
Real property taxes	\$ 14,010,000	\$ 14,010,000	\$ 14,265,545	\$ 255,545
Public service corporation property taxes	160,000	160,000	194,773	34,773
Personal property	2,305,000	2,305,000	2,340,219	35,219
Penalties and interest	145,000	145,000	158,886	13,886
Total general property taxes	16,620,000	16,620,000	16,959,423	339,423
Other local taxes				
Sales and use taxes	1,020,000	1,020,000	1,002,068	(17,932)
Meals taxes	740,000	740,000	728,757	(11,243)
Cigarette taxes	136,500	136,500	115,793	(20,707)
Consumers' utility taxes	280,000	280,000	290,806	10,806
Consumption tax	40,000	40,000	42,035	2,035
Business license taxes	415,000	415,000	414,043	(957)
Bank stock taxes	32,000	32,000	33,871	1,871
Recordation and wills taxes	195,000	195,000	152,121	(42,879)
Deeds of conveyance	25,000	25,000	25,266	266
Total other local taxes	2,883,500	2,883,500	2,804,760	(78,740)
Permits, privilege fees and regulatory licenses				
Animal license	4,700	4,700	5,706	1,006
Permits and other licenses	66,900	66,900	84,204	17,304
Total permits, privilege fees and regulatory licenses	71,600	71,600	89,910	18,310
Fines and forfeitures				
	54,000	54,000	73,024	19,024
Revenue from use of money and property				
Revenue from use of money	16,000	16,000	10,131	(5,869)
Revenue from use of property	183,000	183,000	178,463	(4,537)
Total revenue from use of money and property	199,000	199,000	188,594	(10,406)

Budgetary Comparison Schedule - General Fund (Budget Basis)**Year Ended June 30, 2014**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
Revenues and other financing sources (Continued)				
Charges for services				
Charges for sales of maps	-	-	33	33
Charges for copying	5,800	5,800	3,221	(2,579)
Charges for passport processing	40,000	40,000	49,292	9,292
Charges for library and fees	18,500	18,500	24,194	5,694
EMS revenue recovery	263,500	263,500	236,062	(27,438)
Charges for school grounds maintenance	45,000	45,000	35,343	(9,657)
Charges for Parks & Recreation Programs	139,260	139,260	131,976	(7,284)
Charges for Pool	86,000	86,000	68,834	(17,166)
Charges for Seafood Festival	141,381	153,450	129,006	(24,444)
Total charges for services	739,441	751,510	677,961	(73,549)
Miscellaneous revenue				
Miscellaneous	13,000	13,000	9,322	(3,678)
Miscellaneous grants	-	8,229	-	(8,229)
Donations-Library	-	19,147	19,147	-
Gain on sale of capital assets	-	-	10	10
Donations	52,500	60,644	105,470	44,826
Total miscellaneous revenue	65,500	101,020	133,949	32,929
Intergovernmental				
Revenue from the Commonwealth				
Noncategorical aid				
DMV reimbursement	90,000	90,000	123,533	33,533
Mobile home titling taxes	5,000	5,000	36,076	31,076
Rolling stock tax	-	-	3	3
Personal property tax relief	1,923,435	1,923,435	1,923,431	(4)
Total noncategorical aid	2,018,435	2,018,435	2,083,043	64,608
Categorical aid				
Shared expenses				
Commissioner of the Revenue	96,383	96,383	100,780	4,397
Treasurer	86,188	86,188	90,525	4,337
Registrar/electoral board	34,000	34,000	36,334	2,334
Total categorical aid	216,571	216,571	227,639	11,068

Budgetary Comparison Schedule - General Fund (Budget Basis)**Year Ended June 30, 2014**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
Revenues and other financing sources (Continued)				
Other categorical aid				
State 599 police funds	233,207	233,207	233,204	(3)
Fire and EMS	38,813	46,587	49,938	3,351
Department of Emergency Services	2,000	2,000	-	(2,000)
Street and highway maintenance	840,000	840,000	840,000	-
Litter control	-	6,366	6,366	-
Library	137,730	140,376	140,376	-
Comprehensive Services Act	121,814	161,414	167,827	6,413
State drug seizure	-	1,830	1,830	-
Other state grants	-	9,560	17,581	8,021
Total other categorical aid	1,373,564	1,441,340	1,457,122	15,782
Total categorical aid	1,590,135	1,657,911	1,684,761	26,850
Total revenue from the Commonwealth	3,608,570	3,676,346	3,767,804	91,458
Revenue from the federal government				
Federal Grants	-	77,577	98,062	20,485
Federal drug seizure	-	90,569	90,569	-
Miscellaneous	3,500	3,500	3,602	102
Total revenue from the federal government	3,500	171,646	192,233	20,587
Other financing sources				
Transfer from sewer fund	130,000	130,000	130,000	-
Transfer from unappropriated fund	314,230	620,772	-	(620,772)
Total other financing uses	444,230	750,772	130,000	(620,772)
Total revenue and other financing sources	\$ 24,689,341	\$ 25,279,394	\$ 25,017,658	\$ (261,736)

Budgetary Comparison Schedule - General Fund (Budget Basis)

Year Ended June 30, 2014

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
Expenditures and other financing uses				
General government administration				
Legislative - City Council	\$ 64,321	\$ 66,021	\$ 65,461	\$ 560
General and financial administration				
City Manager	422,324	417,724	414,968	2,756
Legal services	102,950	118,050	118,036	14
Independent auditor	41,800	33,800	32,110	1,690
Commissioner of the Revenue	295,290	297,449	293,935	3,514
Assessor/equalization board	181,762	180,262	175,024	5,238
Treasurer	321,909	319,709	312,227	7,482
Finance	360,374	359,374	356,940	2,434
Technology	59,100	69,100	68,860	240
Risk management	196,225	151,562	148,570	2,992
Total general and financial administration	1,981,734	1,947,030	1,920,670	26,360
Board of elections - electoral board and registrar	155,833	154,793	143,612	11,181
Total general government administration	2,201,888	2,167,844	2,129,743	38,101
Judicial Administration				
Courts	232,656	242,656	248,426	(5,770)
Sheriff	198,582	198,582	190,364	8,218
Total judicial administration	431,238	441,238	438,790	2,448
Public Safety				
Law enforcement and traffic control - police department	2,576,734	2,742,089	2,722,090	19,999
Fire and rescue services - fire department	2,752,490	2,813,049	2,496,025	317,024
Correction and detention - regional operated institutions	314,762	321,862	321,787	75
Inspections - various	292,127	292,065	278,786	13,279
Other protection - animal control	115,185	115,685	115,865	(180)
Total public safety	6,051,298	6,284,750	5,934,553	350,197

Budgetary Comparison Schedule - General Fund (Budget Basis)

Year Ended June 30, 2014

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
Other Financing Uses				
Transfers to Debt Service Fund	2,027,024	2,076,437	2,075,858	579
Transfers to Capital Projects Fund	25,000	101,100	101,100	-
Transfers to Fleet Fund	-	3,000	3,000	-
Transfers to Special Revenue Fund	-	15,000	15,000	-
Transfers to Sewer Fund	-	2,000	2,000	-
Total other financing uses	2,052,024	2,197,537	2,196,958	579
Total expenditures and other financing uses	24,689,341	25,279,317	24,657,220	622,097
Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses - budgetary basis	\$ -	\$ 77	360,438	\$ 360,361
Less - Encumbrances outstanding June 30, 2013, actually expended as of June 30, 2014			(131,772)	
Add - Encumbrances outstanding June 30, 2014			190,376	
The Grant Fund is consolidated into the General Fund for reporting purposes:				
Revenues:				
Investment Income			18	
Local matching funds			133	
Federal Grant			31,367	
Transfer from General Fund			15,000	
Total Revenue			46,518	
Expenditures:				
Community Development Expenditures			(15,141)	
Parks, recreation and cultural			(31,500)	
Total Expenditures			(46,641)	
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses, GAAP basis			418,919	
Fund balances, June 30, 2013			7,467,298	
Fund balances, June 30, 2014			\$ 7,886,217	

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

Year Ended June 30, 2014

Schedules of Funding Progress

	Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as a Percentage of Covered Payroll
City Employees	6/30/13	\$20,814,212	\$26,625,600	\$ 5,811,388	78.17%	\$ 5,477,889	106.09%
	6/30/12	\$20,056,811	\$26,069,736	\$ 6,012,925	76.94%	\$ 5,070,916	118.58%
	6/30/11	\$20,118,943	\$25,082,346	\$ 4,963,403	80.21%	\$ 4,935,789	100.56%
School Board							
Non-professional Employees	6/30/13	\$ 1,659,101	\$ 2,333,948	\$ 674,747	71.09%	\$ 549,819	122.72%
	6/30/12	\$ 1,637,087	\$ 2,299,015	\$ 661,928	71.21%	\$ 631,722	104.78%
	6/30/11	\$ 1,590,308	\$ 2,120,722	\$ 530,414	74.99%	\$ 694,281	76.40%

Schedules of Employer Contributions

	Valuation Date	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Pension Obligation
City Employees	6/30/14	\$ 939,576	54.00%	\$ 434,580
	6/30/13	\$ 506,765	100.00%	\$ -
	6/30/12	\$ 437,713	100.00%	\$ -
School Board				
Non-professional Employees	6/30/14	\$ 75,065	100.00%	\$ -
	6/30/13	\$ 77,415	100.00%	\$ -
	6/30/12	\$ 67,371	100.00%	\$ -

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

Year Ended June 30, 2014

Schedules of Funding Progress

	Actuarial Valuation Date	Actuarial Value of Assets	Accrued Liability Projected Unit Credit	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as a Percentage of Covered Payroll
City of Poquoson	7/1/13	\$ -	\$ 879,625	\$ 879,625	0.00%	\$ 6,383,012	13.78%
	7/1/12	\$ -	\$ 858,838	\$ 858,838	0.00%	\$ 6,304,830	13.62%
	7/1/11	\$ -	\$ 848,323	\$ 848,323	0.00%	\$ 6,251,323	13.57%
Component Unit - School Board	7/1/13	\$ -	\$ 455,056	\$ 455,056	0.00%	\$ 9,707,470	4.69%
	7/1/12	\$ -	\$ 507,199	\$ 507,199	0.00%	\$ 11,347,601	4.47%
	7/1/11	\$ -	\$ 503,390	\$ 503,390	0.00%	\$ 11,631,825	4.33%

Schedules of Employer Contributions

	Actuarial Valuation Date	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net OPEB Obligation
City of Poquoson	7/1/13	\$ 58,428	5.85%	\$ 292,594
	7/1/12	\$ 56,096	-13.14%	\$ 237,782
	7/1/11	\$ 53,780	23.42%	\$ 174,459
Component Unit - School Board	7/1/13	\$ 58,596	23.70%	165,601
	7/1/12	\$ 56,359	139.28%	\$ 120,994
	7/1/11	\$ 54,114	183.32%	\$ 143,250

June 30, 2014

Budgets and Budgetary Accounting

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

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

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

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

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

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

* * * * *

Other Supplementary Information

Combining Balance Sheet - Component Unit - School Board

June 30, 2014

Assets	Governmental Activities		Total School Board
	General	Special Revenue	
Cash and cash equivalents	\$ 1,994,686	\$ 48,010	\$ 2,042,696
Due from other governmental units	482,750	-	482,750
Due from special revenue fund	-	-	-
Inventory	-	5,596	5,596
Total assets	\$ 2,477,436	\$ 53,606	\$ 2,531,042
Liabilities			
Vouchers and accounts payable	\$ 2,235,752	\$ 33,188	\$ 2,268,940
Due to primary government	25,245	-	25,245
Total liabilities	2,260,997	33,188	2,294,185
Fund Balances			
Unspendable	-	5,596	5,596
Restricted	-	14,822	14,822
Assigned, education	216,439	-	216,439
Total fund balances	216,439	20,418	236,857
Total liabilities and fund balances	\$ 2,477,436	\$ 53,606	\$ 2,531,042

Combining Balance Sheet - Component Unit - School Board

June 30, 2014

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

Total fund balances - Component Unit - School Board	\$ 236,857
Amount reported for component unit activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation.	5,592,522
Noncurrent liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(543,939)</u>
Total net position - Component Unit - School Board	<u>\$ 5,285,440</u>

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

Year Ended June 30, 2014

	General Fund	Special Revenue	Total School Board
Revenues			
Charges for services	\$ -	\$ 256,192	\$ 256,192
Intergovernmental:			
Commonwealth of Virginia	10,097,419	10,397	10,107,816
Federal government	893,057	144,221	1,037,278
Local government	8,991,413	-	8,991,413
Other	230,004	-	230,004
Total revenues	20,211,893	410,810	20,622,703
Expenditures			
Current:			
Education	20,475,388	605,117	21,080,505
Total expenditures	20,475,388	605,117	21,080,505
Excess (deficiency) of revenues over expenditures	(263,495)	(194,307)	(457,802)
Other financing sources (uses)			
Transfers in	-	161,471	161,471
Transfers out	(161,471)	-	(161,471)
Total other financing sources, net	(161,471)	161,471	-
Net change in fund balance	(424,966)	(32,836)	(457,802)
Fund balance, July 1, 2013	641,405	53,254	694,659
Fund balance, June 30, 2014	\$ 216,439	\$ 20,418	\$ 236,857

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

Year Ended June 30, 2014

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

Net change in fund balances - total School Board funds \$ (457,802)

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

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

Capital outlay	396,749
Depreciation expense	(1,069,933)
Loss on disposal of capital assets	(26,106)

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

Other postemployment benefit obligation	(44,607)
Compensated absences	(3,687)

The City has a "tenancy in common" with the School Board whenever the City incurs "on-behalf" of debt for any school property owned by the School Board which is payable over more than one year. This amount is the applicable net book value change for the fiscal year.

992,602

Change in net position of governmental activities \$ (212,784)

Budgetary Comparison Schedule - General Fund - School Board

Year Ended June 30, 2014

	General Fund			Variance With Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Intergovernmental:				
Commonwealth of Virginia	\$ 10,033,105	\$ 10,162,449	\$ 10,097,419	\$ (65,030)
Federal government	815,536	1,308,644	893,057	(415,587)
Local government	8,995,403	9,016,657	8,991,413	(25,244)
Miscellaneous	136,091	281,132	230,004	(51,128)
Total revenues	19,980,135	20,768,882	20,211,893	(556,989)
Expenditures				
Current:				
Instruction	14,567,061	14,732,902	14,656,278	76,624
Division-wide	975,012	1,033,822	1,032,870	952
Transportation	821,244	845,607	786,750	58,857
Operation and maintenance	1,760,677	1,867,053	1,858,562	8,491
Food service	72,217	72,217	64,652	7,565
Technology	968,389	831,820	843,906	(12,086)
Grants	815,536	1,223,990	807,404	416,586
Total expenditures	19,980,136	20,607,411	20,050,422	556,989
Other financing sources (uses)				
Transfer out - special revenue fund	-	(161,471)	(161,471)	-
Total other financing sources (uses)	-	(161,471)	(161,471)	-
Excess of revenue and other financing sources over (under) expenditures and other financing uses - budgetary basis				
	\$ (1)	\$ -	-	\$ -
Less - encumbrances outstanding June 30, 2013, actually expended as of June 30, 2014				
			(641,405)	
Add - encumbrances outstanding June 30, 2014				
			216,439	
Excess of revenue and other financing sources over (under) expenditures and other financing uses - GAAP basis				
			(424,966)	
Fund balance, June 30, 2013				
			641,405	
Fund balance, June 30, 2014				
			\$ 216,439	

Schedule of Changes in Capital Assets by Function and Activity - School Board

Year Ended June 30, 2014

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Education	\$ 42,498,455	\$ 396,749	\$ 82,106	\$ 42,813,098
Less - accumulated depreciation	(12,241,753)	(1,069,933)	56,000	(13,255,686)
	<u>30,256,702</u>	<u>(673,184)</u>	<u>26,106</u>	<u>29,557,412</u>
Allocation of assets to City, net	(24,957,492)	713,921	278,681	(23,964,890)
	<u>\$ 5,299,210</u>	<u>\$ 40,737</u>	<u>\$ 304,787</u>	<u>\$ 5,592,522</u>

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

Year Ended June 30, 2014

(School Activity Funds and Instructional Support Fund)

	Balance				Balance
	July 1, 2013	Additions	Deductions		June 30, 2014
Assets					
Cash and cash equivalents	\$ 354,300	\$ 676,930	\$ 742,224	\$	289,006
Liabilities					
Due to students	\$ 354,300	\$ 676,930	\$ 742,224	\$	289,006

Statement of Changes in Assets and Liabilities - Library Agency Fund

Year Ended June 30, 2014

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Assets				
Cash and cash equivalents	\$ 38,320	\$ -	\$ (6,961)	\$ 31,359
Liabilities				
Amounts held for others	\$ 38,320	\$ -	\$ (6,961)	\$ 31,359

Statement of Cash Flows - Component Unit - Economic Development Authority**Year Ended June 30, 2014**

Cash flows from operating activities	
Received from customers and users	\$ 28,780
Payments to suppliers for goods and services	(27,461)
Net cash provided by operating activities	<u>1,319</u>
Cash flows from noncapital financing agreements	
Contributions from primary government	<u>74,413</u>
Cash flows from capital and related financing activities	
Interest paid on capital debt	(25,550)
Repayment to primary government	(49,413)
Net cash used in capital and related financing activities	<u>(74,963)</u>
Net increase in cash and cash equivalents	769
Cash and cash equivalents, beginning of year	<u>8,116</u>
Cash and cash equivalents, end of year	<u>\$ 8,885</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating loss	\$ (25,626)
Adjustments	
Depreciation	17,788
Changes in assets and liabilities	
Accounts receivable	9,132
Accounts payable	<u>25</u>
Net cash provided by operating activities	<u>\$ 1,319</u>

Statistical Section Overview

June 30, 2014

This part of the City of Poquoson’s Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the City’s overall financial health.

Contents

Financial Trends

Tables 1 - 4

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

Revenue Capacity

Tables 5 - 7

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

Debt Capacity

Tables 8 - 10

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

Demographic and Economic Information

Tables 11 - 12

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

Operation Information

Tables 13 - 15

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

Sources: Unless otherwise noted, the information in these tables is derived from the Comprehensive Annual Financial Reports for the relevant year.

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Net Position by Component (unaudited)

Last Ten Fiscal Years	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Governmental activities:										
Net investment in capital assets	\$ 15,304,386	\$ 16,049,986	\$ 16,838,143	\$ 17,593,261	\$ 17,493,727	\$ 18,654,461	\$ 12,045,582	\$ 17,183,471	\$ 10,104,292	\$ 7,579,069
Restricted	758,646	878,402	1,037,956	-	-	-	-	-	-	-
Unrestricted	4,925,348	5,088,254	5,070,860	5,902,110	5,235,762	4,668,824	9,164,683	3,057,158	5,044,143	5,765,548
Total governmental activities	\$ 20,988,380	\$ 22,016,642	\$ 22,946,959	\$ 23,495,371	\$ 22,729,489	\$ 23,323,285	\$ 21,210,265	\$ 20,240,629	\$ 15,148,435	\$ 13,344,617
Business-type activities:										
Net investment in capital assets	\$ 4,610,052	\$ 4,848,333	\$ 5,094,194	\$ 5,073,709	\$ 4,923,135	\$ 5,595,258	\$ 5,518,765	\$ 5,516,767	\$ 5,502,835	\$ 5,164,685
Restricted - debt service	-	-	-	-	-	-	-	-	-	-
Restricted - sewer improvements	-	-	-	-	-	-	-	-	-	-
Unrestricted	1,584,852	1,016,071	588,681	499,193	1,358,338	1,038,282	1,454,510	1,808,221	1,690,392	1,854,439
Total business-type activities	\$ 6,194,904	\$ 5,864,404	\$ 5,682,875	\$ 5,572,902	\$ 6,281,473	\$ 6,633,540	\$ 6,973,275	\$ 7,324,988	\$ 7,193,227	\$ 7,019,124
Primary government:										
Net investment in capital assets	\$ 19,914,440	\$ 20,898,319	\$ 21,932,337	\$ 22,199,083	\$ 22,416,862	\$ 24,249,719	\$ 17,564,347	\$ 22,700,238	\$ 15,607,127	\$ 12,743,754
Restricted - capital projects	488,442	645,971	862,106	-	-	-	-	-	-	-
Restricted - sewer improvements	-	-	-	-	-	-	-	-	-	-
Restricted - other	270,204	232,431	175,850	-	-	-	-	-	-	-
Unrestricted	6,510,198	6,104,325	5,659,541	6,401,303	6,594,100	5,707,106	10,619,193	4,865,379	6,734,535	7,619,987
Total primary government	\$ 27,183,284	\$ 27,881,046	\$ 28,629,834	\$ 28,600,386	\$ 29,010,962	\$ 29,956,825	\$ 28,183,540	\$ 27,565,617	\$ 22,341,662	\$ 20,363,741

Change in Net Position (unaudited)

Last Ten Fiscal Years	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Expenses										
Governmental activities:										
General government	\$ 3,471,130	\$ 3,081,068	\$ 3,058,270	\$ 2,328,395	\$ 2,960,944	\$ 2,735,018	\$ 1,415,530	\$ 4,532,796	\$ 2,379,161	\$ 1,846,634
Public safety and judicial	6,669,898	6,609,483	6,296,795	6,147,949	6,016,699	5,844,764	6,668,792	5,514,359	4,896,621	4,931,153
Public works	2,066,486	1,599,943	1,875,113	1,883,380	950,043	1,780,286	1,587,249	1,511,607	1,327,111	1,694,612
Health and welfare	957,396	909,035	913,826	817,008	1,022,735	1,162,301	1,081,767	862,689	821,356	840,310
Education	9,984,015	9,557,995	9,510,584	9,080,484	10,906,525	8,364,349	8,405,003	8,126,211	7,426,666	7,087,769
Parks and recreation	1,774,597	1,639,717	1,248,643	1,224,910	859,051	1,389,000	1,249,535	18,006	1,030,174	1,343,537
Community development	644,892	711,874	567,672	488,893	547,051	1,272,635	2,327,008	1,081,786	817,214	563,788
Interest on long-term debt	1,074,323	1,114,258	1,219,966	1,213,782	1,100,826	1,263,686	1,399,427	1,246,037	462,508	500,461
Total governmental activities	26,642,737	25,223,373	24,690,869	23,184,801	24,363,874	23,812,039	24,134,311	22,893,491	19,160,811	18,808,264
Business-type activities:										
Sewer	1,465,757	1,470,187	1,447,681	2,057,173	1,685,334	1,534,743	1,604,560	1,596,599	1,554,446	1,537,870
Parks and recreation	-	-	455,199	450,025	401,006	463,662	463,668	473,754	587,701	545,799
Solid waste	863,191	842,251	743,280	791,114	766,921	768,565	904,411	595,209	528,325	475,269
Total business-type activities	2,328,948	2,312,438	2,646,160	3,298,312	2,853,261	2,766,970	2,972,639	2,665,562	2,670,472	2,558,938
Total expenses	\$ 28,971,685	\$ 27,535,811	\$ 27,337,029	\$ 26,483,113	\$ 27,217,135	\$ 26,579,009	\$ 27,106,950	\$ 25,559,053	\$ 21,831,283	\$ 21,367,202
Program revenues										
Governmental activities:										
Charges for services:										
General government	\$ 276,781	\$ 218,338	\$ 223,152	\$ 223,887	\$ 254,482	\$ 274,901	\$ 157,130	\$ 100,055	\$ 104,747	\$ 100,546
Public safety and judicial	398,996	370,268	112,011	300,870	103,169	108,456	102,452	185,842	163,397	118,496
Education	35,343	36,347	49,188	36,347	-	-	-	-	-	-
Parks and recreation	76,741	80,352	74,609	61,820	217,372	55,288	69,952	72,253	24,367	24,543
Community development	312,043	330,873	300,206	33,721	22,614	22,741	36,230	51,543	53,397	-
Operating grants and contributions	1,622,774	1,670,603	1,575,285	1,881,297	1,986,470	1,658,180	2,290,305	2,094,100	2,122,034	2,705,293
Capital grants and contributions	599,361	458,320	732,846	419,225	330,892	2,873,294	1,745,973	1,260,858	342,400	1,187,904
Total governmental activities	3,322,039	3,165,101	3,067,297	2,957,167	2,914,999	4,992,860	4,402,042	3,764,651	2,810,342	4,136,782
Business-type activities:										
Charges for services:										
Sewer	1,887,501	1,835,646	1,520,017	1,531,319	1,487,157	1,528,438	1,514,893	1,803,913	1,413,403	1,271,539
Solid waste	863,890	862,297	212,730	189,782	743,965	586,277	511,173	329,172	315,082	340,230
Parks and recreation	-	-	743,936	755,834	179,070	171,459	177,858	209,147	334,911	325,319
Total business-type activities	2,751,391	2,697,943	2,476,683	2,476,935	2,410,192	2,286,174	2,203,924	2,342,232	2,063,396	1,937,088
Total program revenues	\$ 6,073,430	\$ 5,863,044	\$ 5,543,980	\$ 5,434,102	\$ 5,325,191	\$ 7,279,034	\$ 6,605,966	\$ 6,106,883	\$ 4,873,738	\$ 6,073,870
Governmental activities, net expense	\$ (23,320,698)	\$ (22,058,272)	\$ (21,623,572)	\$ (20,227,634)	\$ (21,448,875)	\$ (18,819,179)	\$ (19,732,269)	\$ (19,128,840)	\$ (16,350,469)	\$ (14,671,482)
Business-type activities, net expense	422,443	385,505	(169,477)	(821,377)	(443,069)	(480,796)	(768,715)	(323,330)	(607,076)	(621,850)
Total primary government, net expenses	\$ (22,898,255)	\$ (21,672,767)	\$ (21,793,049)	\$ (21,049,011)	\$ (21,891,944)	\$ (19,299,975)	\$ (20,500,984)	\$ (19,452,170)	\$ (16,957,545)	\$ (15,293,332)

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

Change in Net Position (unaudited)

Last Ten Fiscal Years	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General revenues and other changes in net position										
Governmental activities:										
Taxes:										
Property taxes	\$ 18,827,143	\$ 18,219,806	\$ 18,228,029	\$ 18,235,363	\$ 18,054,307	\$ 17,989,555	\$ 15,956,711	\$ 15,636,708	\$ 13,053,028	\$ 12,489,445
Other taxes	2,804,760	2,881,297	2,529,995	2,464,223	2,451,932	2,537,554	2,613,195	2,541,189	2,792,592	2,635,723
Reimbursements from other agencies	159,612	84,883	58,458	75,318	102,239	95,694	1,367,713	1,970,935	2,035,707	1,830,047
Payments in lieu of taxes:										
Investment earnings	188,699	189,710	181,274	183,284	156,139	179,671	728,606	1,085,397	415,638	119,801
Miscellaneous	184,222	236,197	196,203	(25,102)	51,462	99,725	294,109	146,900	75,005	116,511
Transfers	128,000	130,000	(118,799)	80,400	39,000	30,000	(258,430)	(270,005)	(217,683)	(127,800)
Total governmental activities	22,292,436	21,741,893	21,075,160	21,013,486	20,855,079	20,932,199	20,701,904	21,111,124	18,154,287	17,063,727
Business-type activities:										
Investment earnings	35,470	26,440	32,131	29,476	30,522	29,264	37,001	37,913	23,393	23,888
Miscellaneous	587	2,677	128,520	132,530	99,480	141,797	167,035	147,176	540,100	725,553
Loss on disposal of capital assets	-	-	-	-	-	-	(45,464)	-	-	-
Transfers	(128,000)	(130,000)	118,799	(49,200)	(39,000)	(30,000)	258,430	270,005	217,683	127,800
Total business-type activities	(91,943)	(100,883)	279,450	112,806	91,002	141,061	417,002	455,094	781,176	877,241
Total general revenues and other changes in net assets	\$ 22,200,493	\$ 21,641,010	\$ 21,354,610	\$ 21,126,292	\$ 20,946,081	\$ 21,073,260	\$ 21,118,906	\$ 21,566,218	\$ 18,935,463	\$ 17,940,968
Change in net position										
Governmental activities	\$ (1,028,262)	\$ (316,379)	\$ (548,412)	\$ 785,852	\$ (593,796)	\$ 2,113,020	\$ 969,635	\$ 1,982,284	\$ 1,803,818	\$ 2,392,245
Business-type activities	330,500	284,622	109,973	(708,571)	(352,067)	(339,735)	(351,713)	131,764	174,100	255,391
Total primary government	\$ (697,762)	\$ (31,757)	\$ (438,439)	\$ 77,281	\$ (945,863)	\$ 1,773,285	\$ 617,922	\$ 2,114,048	\$ 1,977,918	\$ 2,647,636

Fund Balances - Governmental Funds (unaudited)

Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General fund:										
Non-Spendable	\$ 1,899,954	\$ 1,968,595	\$ 254,474	\$ 273,051	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	270,204	234,126	175,850	193,477	-	-	-	-	-	-
Assigned	706,877	426,772	679,065	447,892	-	-	-	-	-	-
Unassigned	5,009,182	4,837,805	4,498,417	4,776,356	-	-	-	-	-	-
Reserved for:										
Encumbrances & loans	-	-	-	-	347,863	392,810	276,571	180,562	125,336	71,459
Asset forfeiture	-	-	-	-	83,704	89,261	89,594	-	-	-
Fire department	-	-	-	-	100,858	69,671	-	-	-	-
Library	-	-	-	-	13,015	13,861	-	-	-	-
Heritage Park	-	-	-	-	6,060	-	-	-	-	-
Unreserved	-	-	-	-	4,338,582	3,389,561	3,571,770	4,858,261	4,550,535	4,764,304
Total general fund	\$ 7,886,217	\$ 7,467,298	\$ 5,607,806	\$ 5,690,776	\$ 4,890,082	\$ 3,955,164	\$ 3,937,935	\$ 5,038,823	\$ 4,675,871	\$ 4,835,763
All other governmental funds:										
Non-Spendable		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	488,442	645,971	862,106	478,967	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	573,040	651,746	376,082	391,118	-	-	-	-	-	-
Reserved for:										
Purchase of fire truck	-	-	-	-	-	-	-	-	-	339,000
Grants	-	-	-	-	-	32,077	27,168	9,738	(73,569)	52,055
Construction - bond principal	-	-	-	-	651,191	826,219	4,244,577	16,196,290	13,433,589	-
Construction - bond earnings	-	-	-	-	-	-	-	82,801	318,938	-
Encumbrances	-	-	-	-	-	-	-	-	-	-
Unreserved for:										
Designated	-	-	-	-	-	-	1,203,324	327,503	1,273,130	747,677
Unreserved and undesignated	-	-	-	-	258,713	470,991	258,724	385,137	80,000	-
Total all other governmental funds	\$ 1,061,482	\$ 1,297,717	\$ 1,238,188	\$ 870,085	\$ 909,904	\$ 1,329,287	\$ 5,733,793	\$ 17,001,469	\$ 15,032,088	\$ 1,138,732

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

Changes in Fund Balances - Governmental Funds (unaudited)

Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues										
General property taxes	\$ 16,959,423	\$ 16,371,816	\$ 16,361,071	\$ 16,296,911	\$ 16,023,837	\$ 16,034,422	\$ 16,127,168	\$ 15,562,860	\$ 13,012,958	\$ 12,488,453
Other local taxes	2,804,760	2,881,297	2,529,995	2,464,223	2,451,932	2,537,554	2,613,195	2,541,189	2,792,592	2,635,722
Permits, privilege fees and regulatory licenses	89,910	76,040	97,314	78,464	70,947	83,775	98,233	162,218	173,401	172,455
Fines and forfeitures	73,024	58,103	43,603	54,907	54,836	46,859	38,201	73,942	37,283	30,583
Revenue from use of money and property	188,699	189,710	183,310	183,282	157,426	224,492	825,346	1,171,832	503,615	202,548
Charges for services	677,961	683,698	395,096	299,386	217,372	55,909	71,505	72,749	29,694	30,318
Intergovernmental	4,564,184	4,355,574	4,513,171	4,416,734	4,597,512	4,871,491	6,017,329	5,389,676	4,898,316	5,324,277
Miscellaneous	216,483	260,245	215,548	128,881	60,625	86,991	320,188	94,093	37,381	93,385
Total revenues	25,574,444	24,876,483	24,339,108	23,922,788	23,634,487	23,941,493	26,111,165	25,068,559	21,485,240	20,977,741
Expenditures										
Current:										
General government and administration	2,150,397	2,116,875	2,175,864	2,106,211	1,924,481	2,324,651	2,018,674	1,938,236	1,754,223	1,543,930
Public safety and judicial	6,323,724	6,247,962	5,909,331	5,765,369	5,601,358	5,328,217	5,952,162	5,235,778	4,857,162	4,440,330
Public works	1,717,667	1,587,114	1,596,143	1,516,878	1,530,904	1,535,411	1,503,219	1,428,384	1,232,132	1,284,108
Health and welfare	938,191	892,421	897,082	802,490	1,016,083	1,131,499	1,067,418	843,523	802,295	819,499
Parks, recreation, and cultural	1,558,028	1,545,578	1,057,553	1,016,944	1,003,795	1,169,328	1,175,226	1,034,306	935,543	830,797
Community development	643,567	705,927	577,990	490,912	529,529	1,236,529	2,222,658	1,544,499	640,718	507,520
Nondepartmental	125,312	144,213	359,518	112,981	329,279	134,282	218,133	173,643	140,315	127,144
Education	8,991,413	8,844,076	8,796,662	8,578,675	8,008,392	8,078,598	8,147,463	7,880,000	7,555,104	7,311,063
Industrial Development Authority	-	-	-	-	40,000	51,250	110,000	123,861	147,530	59,900
Capital outlays	991,003	794,678	1,119,347	814,871	838,069	7,085,050	14,035,793	8,460,299	2,447,596	2,338,525
Debt service										
Principal retirement	886,835	684,426	867,647	896,963	1,358,073	1,414,131	1,495,455	1,092,106	1,058,843	1,066,793
Bond issuance costs	-	-	310,631	43,263	234,339	139,699	-	-	-	500
Interest and fiscal charges	1,190,623	1,124,605	1,266,380	1,136,670	1,201,041	1,244,582	1,258,222	1,038,815	462,632	497,733
Total expenditures	25,516,760	24,687,875	24,934,148	23,282,227	23,615,343	30,873,227	39,204,423	30,793,450	22,034,093	20,827,842
Excess (deficiency) of revenue over expenditures	57,684	188,608	(595,040)	640,561	19,144	(6,931,734)	(13,093,258)	(5,724,891)	(548,853)	149,899
Other financing sources (uses)										
Transfers in	2,306,958	2,333,090	2,253,807	2,248,182	2,587,735	2,708,519	448,610	457,417	150,000	590,000
Issuance of debt	-	1,734,000	998,972	39,914	457,391	2,514,557	664,414	8,000,000	14,500,000	349,640
Transfers out	(2,181,958)	(2,203,090)	(2,372,606)	(2,167,782)	(2,548,735)	(2,678,519)	(388,430)	(400,193)	(367,683)	(280,800)
Total other financing sources (uses)	125,000	1,864,000	880,173	120,314	496,391	2,544,557	724,594	8,057,224	14,282,317	658,840
Net change in fund balances	\$ 182,684	\$ 2,052,608	\$ 285,133	\$ 760,875	\$ 515,535	\$ (4,387,177)	\$ (12,368,664)	\$ 2,332,333	\$ 13,733,464	\$ 808,739
Debt service as a percentage of noncapital expenditures	8.35%	7.52%	8.88%	9.17%	12.75%	11.18%	11.23%	9.73%	9.78%	8.50%

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

Last Ten Fiscal Years

Fiscal Year	Residential Property	Commercial / Industrial Property	Agricultural Property	Total Taxable Assessed Value	Tax Exempt Property	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
2014	\$ 1,411,254,800	\$ 98,310,947	\$ 3,452,500	\$ 1,513,018,247	\$ 103,821,950	\$ 0.97	\$ 1,513,018,247	100%
2013	\$ 1,426,373,300	\$ 96,689,879	\$ 3,706,100	\$ 1,526,769,279	\$ 105,532,630	\$ 0.92	\$ 1,511,501,600	101%
2012	\$ 1,417,474,500	\$ 98,208,727	\$ 3,706,100	\$ 1,519,389,327	\$ 109,434,010	\$ 0.92	\$ 1,519,380,327	100%
2011	\$ 1,622,194,900	\$ 102,253,036	\$ 3,798,800	\$ 1,728,246,736	\$ 109,430,730	\$ 0.81	\$ 1,641,834,400	105%
2010	\$ 1,612,987,500	\$ 103,065,821	\$ 3,798,800	\$ 1,719,852,121	\$ 81,348,380	\$ 0.81	\$ 1,631,859,515	105%
2009	\$ 1,604,471,900	\$ 91,095,808	\$ 3,227,800	\$ 1,698,795,508	\$ 81,410,750	\$ 0.81	\$ 1,705,314,450	99%
2008	\$ 1,577,324,400	\$ 97,776,982	\$ 3,227,800	\$ 1,678,329,182	\$ 80,948,613	\$ 0.81	\$ 1,730,326,270	97%
2007	\$ 1,543,797,900	\$ 90,461,496	\$ 3,227,800	\$ 1,637,487,196	\$ 71,268,800	\$ 1.06	\$ 1,637,487,196	100%
2006	\$ 955,801,900	\$ 79,069,841	\$ 2,431,400	\$ 1,037,303,141	\$ 71,118,562	\$ 1.06	\$ 1,548,213,643	67%
2005	\$ 933,021,200	\$ 79,555,306	\$ 2,425,800	\$ 1,015,002,306	\$ 63,679,146	\$ 1.12	\$ 1,318,184,813	77%

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

Property Tax Levies and Collections (unaudited)

Last Ten Fiscal Years

Fiscal Year	Net Taxes Levied for Fiscal Year (Original Levy)	Subsequent Year Adjustments	Total Adjusted Net Levy	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collected to Date	
				Amount	Percent of Original Levy		Amount	Percent of Original Levy
2014	\$ 14,492,059	\$ -	\$ 14,492,059	\$ 14,338,022	98.94%	\$ -	\$ 14,338,022	98.94%
2013	\$ 13,891,076	\$ 988	\$ 13,892,064	\$ 13,709,910	98.70%	\$ 112,835	\$ 13,822,745	99.50%
2012	\$ 13,808,493	\$ (1,311)	\$ 13,807,182	\$ 13,617,311	98.62%	\$ 148,894	\$ 13,766,205	99.70%
2011	\$ 13,666,068	\$ 13,994	\$ 13,680,062	\$ 13,421,564	98.21%	\$ 236,494	\$ 13,658,058	99.84%
2010	\$ 13,614,366	\$ 3,219	\$ 13,617,585	\$ 13,371,918	98.22%	\$ 231,664	\$ 13,603,582	99.90%
2009	\$ 13,481,887	\$ 1,040	\$ 13,482,927	\$ 13,306,699	98.70%	\$ 164,291	\$ 13,470,990	99.91%
2008	\$ 13,330,523	\$ (1,413)	\$ 13,329,110	\$ 13,186,765	98.92%	\$ 133,280	\$ 13,320,045	99.93%
2007	\$ 13,075,301	\$ 130	\$ 13,075,431	\$ 12,941,290	98.98%	\$ 124,621	\$ 13,065,911	99.93%
2006	\$ 10,831,249	\$ 2,552	\$ 10,833,801	\$ 10,643,194	98.26%	\$ 185,639	\$ 10,828,833	99.95%
2005	\$ 10,566,343	\$ 5,748	\$ 10,572,091	\$ 10,399,214	98.42%	\$ 170,594	\$ 10,569,808	99.98%

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Source: City of Poquoson Treasurer's Department.

Principal Taxpayers - 2014 and Nine Years Ago (unaudited)

Years Ended		2014		2005	
Taxpayer	Type of Business	Assessed	Percentage	Assessed	Percentage
		Valuation	of Total	Valuation	of Total
		Real Estate	Real Estate	Real Estate	Real Estate
		Real Estate	Assessment	Real Estate	Assessment
Poquoson Place Apartments	Apartment Rentals	\$ 9,155,600	0.61%	\$ 8,096,800	0.80%
Poquoson Commons Retail Investors, Inc.	Shopping Center	6,415,500	0.42%	-	0.00%
Whitehouse Cove, LLC	Marina / Mobile Home Park	6,065,300	0.40%	-	0.00%
Poquoson Shopping Center, L.L.C.	Shopping Center	4,532,700	0.30%	-	0.00%
SGC Wythe Creek, L.L.C.	Shopping Center	4,089,300	0.27%	-	0.00%
GPH Poquoson L.L.C.	Nursing Home	3,641,600	0.24%	-	0.00%
Islander Associates	Apartment Rentals	3,444,200	0.23%	2,928,400	0.29%
Universal of Poquoson	Mobile Home Park	3,372,000	0.22%	2,947,400	0.29%
Hunt Properties of Poquoson, Inc.	Storage Facilities	2,698,500	0.18%	2,495,100	0.25%
SNH CHS Properties Trust	Nursing Home	2,321,600	0.15%	-	0.00%
Poquoson Marina Associates	Marina / Mobile Home Park	-	-	3,214,300	0.32%
Bristol-Cardiff	Shopping Center	-	-	6,618,600	0.65%
Oxford Run L.L.C.	Landholding	-	-	4,630,100	0.46%
Suburban Land Company	Shopping Center	-	-	4,225,600	0.42%
WCP, L.L.C.	Shopping Center	-	-	3,796,900	0.37%
Vantage Healthcare Corporation	Nursing Home	-	-	2,612,200	0.26%
		\$45,736,300	3.02%	\$41,565,400	4.10%

Source: Commissioner of the Revenue and City Assessor.

Computation of Legal Debt Margin (unaudited)

Last Ten Fiscal Years	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Total assessed value of taxed real property										
General	\$ 1,493,024,330	\$ 1,508,646,060	\$ 1,498,862,620	\$ 1,711,308,830	\$ 1,702,517,110	\$ 1,685,314,440	\$ 1,662,716,070	\$ 1,627,336,017	\$ 1,025,497,078	\$ 1,002,511,357
Public service corporations	19,993,917	18,123,219	20,526,707	16,937,906	17,335,011	13,481,068	15,613,112	10,151,179	11,806,063	12,490,949
Total	\$ 1,513,018,247	\$ 1,526,769,279	\$ 1,519,389,327	\$ 1,728,246,736	\$ 1,719,852,121	\$ 1,698,795,508	\$ 1,678,329,182	\$ 1,637,487,196	\$ 1,037,303,141	\$ 1,015,002,306
Debt limit (10% of total assessed value)	\$ 151,301,825	\$ 152,676,928	\$ 151,938,933	\$ 172,824,674	\$ 171,985,212	\$ 169,879,551	\$ 167,832,918	\$ 163,748,720	\$ 103,730,314	\$ 101,500,231
Debt applicable to debt limit										
General obligation bonds, other than those authorized for a specific revenue producing project	\$ 28,096,588	\$ 28,619,001	\$ 27,212,000	\$ 28,164,822	\$ 28,689,878	\$ 29,552,678	\$ 27,460,783	\$ 28,341,971	\$ 20,966,951	\$ 7,060,912
Capital leases	-	83,166	163,593	241,240	316,204	388,577	978,046	525,899	591,024	653,906
Sewer general obligation bonds	8,000,000	8,305,000	8,605,000	9,425,933	9,890,072	9,796,907	10,508,638	11,280,327	12,049,089	12,791,016
State literary fund loans	1,250,000	1,530,820	1,807,820	2,084,820	2,361,820	2,763,820	3,165,820	3,567,820	3,969,820	4,371,820
	37,346,588	38,537,987	37,788,413	39,916,815	41,257,974	42,501,982	42,113,287	43,716,017	37,576,884	24,877,654
Margin for additional borrowing	\$ 113,955,237	\$ 114,138,941	\$ 114,150,520	\$ 132,907,859	\$ 130,727,238	\$ 127,377,569	\$ 125,719,631	\$ 120,032,703	\$ 66,153,430	\$ 76,622,577
Total net debt applicable to the limit as a percentage of debt limit	24.68%	25.24%	24.87%	23.10%	23.99%	25.02%	25.09%	26.70%	36.23%	24.51%

Ratios of Outstanding Debt by Type (unaudited)

Last Ten Fiscal Years

Fiscal Year	Governmental Activities			Business-Type Activities		Total Primary Government	Median Household Income (1)	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Term Loans Payable	Capital Leases	Sewer Bonds					
2014	\$ 28,096,588	\$ 1,250,000	\$ -	\$ 8,000,000		\$ 37,346,588	N/A	N/A	\$ 3,085
2013	\$ 28,619,001	\$ 1,530,820	\$ 83,166	\$ 8,305,000		\$ 38,537,987	N/A	N/A	\$ 3,186
2012	\$ 27,212,000	\$ 1,807,820	\$ 163,593	\$ 8,605,000		\$ 37,788,413	\$ 85,033	1.0%	\$ 3,087
2011	\$ 28,164,822	\$ 2,084,820	\$ 241,240	\$ 9,425,933		\$ 39,916,815	\$ 86,611	1.1%	\$ 3,285
2010	\$ 28,689,878	\$ 2,361,820	\$ 316,204	\$ 9,890,072		\$ 41,257,974	\$ 84,315	1.2%	\$ 3,473
2009	\$ 29,552,678	\$ 2,763,820	\$ 388,577	\$ 9,796,907		\$ 42,501,982	\$ 84,688	1.2%	\$ 3,605
2008	\$ 27,460,783	\$ 3,165,820	\$ 978,046	\$ 10,508,638		\$ 42,113,287	\$ 79,123	1.4%	\$ 3,563
2007	\$ 28,341,971	\$ 3,567,820	\$ 525,899	\$ 11,280,327		\$ 43,716,017	\$ 78,191	1.4%	\$ 3,659
2006	\$ 20,966,951	\$ 3,969,820	\$ 591,024	\$ 12,049,089		\$ 37,576,884	\$ 76,741	1.2%	\$ 3,167
2005	\$ 7,060,912	\$ 4,371,820	\$ 653,906	\$ 12,791,016		\$ 24,877,654	\$ 71,435	0.9%	\$ 2,115

Source: (1) United States Census Bureau

N/A - This information is not available.

City of Poquoson, Virginia

Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita (unaudited)**Last Ten Fiscal Years**

Fiscal Year	Population (1)	Assessed Value	Net Bonded Debt (2)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2014	12,104	\$ 1,513,018,247	\$ 29,346,588	1.94%	\$ 2,425
2013	12,097	\$ 1,526,769,279	\$ 30,232,987	1.98%	\$ 2,499
2012	12,240	\$ 1,519,389,327	\$ 29,183,413	1.92%	\$ 2,384
2011	12,150	\$ 1,728,246,736	\$ 30,490,882	1.76%	\$ 2,510
2010	11,881	\$ 1,719,852,121	\$ 31,367,902	1.82%	\$ 2,640
2009	11,791	\$ 1,698,795,508	\$ 32,705,075	1.93%	\$ 2,774
2008	11,818	\$ 1,678,329,182	\$ 31,604,649	1.88%	\$ 2,674
2007	11,948	\$ 1,637,487,196	\$ 32,435,690	1.98%	\$ 2,715
2006	11,865	\$ 1,037,303,141	\$ 11,027,795	1.06%	\$ 929
2005	11,764	\$ 1,015,002,306	\$ 12,086,638	1.19%	\$ 1,027

Source: (1) Weldon Cooper Center for Public Service

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

Demographic Statistics (unaudited)

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Population (1)</u>	<u>Personal Income (2) (in millions)</u>	<u>Per Capita Personal Income (2)</u>	<u>School Enrollment (3)</u>	<u>Unemployment Rate (4)</u>
2014	12,104	N/A	N/A	2,095	4.9%
2013	12,097	N/A	N/A	2,184	5.3%
2012	12,240	\$ 3,931	\$ 50,236	2,222	5.8%
2011	12,150	\$ 3,716	\$ 47,564	2,231	5.9%
2010	11,881	\$ 3,517	\$ 45,334	2,390	6.2%
2009	11,791	\$ 3,456	\$ 47,380	2,531	5.6%
2008	11,818	\$ 3,429	\$ 46,844	2,478	3.4%
2007	11,948	\$ 3,222	\$ 44,148	2,583	2.4%
2006	11,865	\$ 3,061	\$ 42,146	2,572	2.5%
2005	11,764	\$ 2,868	\$ 39,603	2,563	3.2%

N/A - This information is not available

- Source:
- (1) Weldon Cooper Center for Public Service
 - (2) Bureau of Economic Analysis combined amount for York County/Poquoson
 - (3) Poquoson School Board. Data is September enrollment for each fiscal year
 - (4) Bureau of Labor Statistics

Principal Employers in Poquoson - 2014 and Nine Years Ago (unaudited)

Employment	2014		2005	
	Number of Employees	Percentage of Total City Employment	Number of Employees	Percentage of Total City Employment
Poquoson City Public Schools	282	4.26%	313	4.95%
City of Poquoson	149	2.25%	145	2.29%
Farm Fresh	74	1.12%	78	1.23%
Golden Living Center/Bayside	55	0.83%	N/A	N/A
Surf Rider	60	0.91%	N/A	N/A
Food Lion	57	0.86%	60	0.95%
Dominion Village at Poquoson	45	0.68%	41	0.65%
McDonald's Restaurant	34	0.51%	55	0.87%
Wendy's Restaurant	20	0.30%	N/A	N/A
Poquoson Vet	20	0.30%	N/A	N/A
Taylor Do-It Center	-	N/A	15	0.24%
Stephen's Office Supply	-	N/A	26	0.41%
	796	12.02%	733	11.59%

N/A - This information is not available.

Source: City of Poquoson Economic Development Department.

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

Last Ten Fiscal Years

Function / Program	Full-time Equivalent Employees as of June 30,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General government:										
Management services	12.20	12.20	12.20	12.20	12.20	14.20	14.20	14.20	12.60	12.00
Finance	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	7.50
Planning	4.00	4.00	4.00	4.35	4.45	5.45	5.45	5.45	5.45	3.60
Building	3.75	3.75	3.75	3.75	3.00	4.00	4.00	4.00	4.00	3.10
Other	3.10	3.10	2.85	2.10	2.10	2.10	2.10	2.10	2.10	2.10
Police:										
Officers	23.50	23.50	22.50	22.50	22.50	22.50	22.50	22.50	22.50	20.50
Civilians	1.00	1.00	1.00	1.00	1.00	2.00	6.50	6.50	6.50	6.50
Fire:										
Firefighters and officers	29.00	29.00	29.00	29.00	29.00	29.00	29.00	28.00	26.00	26.00
Civilians	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Refuse collection	1.00	1.00	1.00	1.00	1.00	2.00	2.50	3.00	3.00	3.00
Other public works:	17.10	17.10	16.50	16.50	16.50	15.50	15.00	14.50	14.50	14.50
Engineering	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	2.85
Other	2.00	2.00	2.00	2.00	2.00	3.00	3.00	2.40	2.00	2.00
Fleet	3.50	3.50	3.50	3.50	3.50	4.50	4.50	4.50	4.60	4.60
Parks and recreation	9.80	9.80	9.80	9.80	9.80	13.55	13.50	13.50	15.70	13.50
Library	11.95	11.95	11.95	11.95	11.95	11.95	11.95	11.45	11.45	10.45
Wastewater	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Total	135.90	135.90	134.05	133.65	133.00	143.75	148.20	146.10	144.40	137.20

Source: Finance Department.

Operating Indicators by Function / Program (unaudited)

Last Ten Fiscal Years

Function / Program	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Police (1)										
Physical arrests	255	291	307	259	335	362	109	294	326	344
Parking violations	18	41	18	39	34	29	9	71	32	87
Traffic violations	982	1,062	714	957	915	979	911	1,014	784	631
Fire (2)										
Emergency responses	1,883	2,122	2,028	1,827	1,870	1,574	1,362	1,687	1,466	1,194
Fires extinguished	14	22	20	51	79	44	38	35	52	85
Inspections	209	240	239	290	233	56	31	41	23	12
Refuse collection (3)										
Refuse collected (tons)	3,597	2,761	2,184	2,241	2,560	2,524	2,160	1,663	1,603	1,610
Recyclables collected (tons)	1,161	1,282	1,324	1,390	1,418	2,482	1,490	1,445	1,484	1,312
Other public works (3)										
Street resurfacing (tons)	4,350	2,524	2,991	2,645	2,481	3,315	3,910	4,943	3,620	3,019
Library (4)										
Volumes in collection	62,048	60,811	59,816	58,203	59,217	60,180	58,266	58,401	57,196	53,856
Total volumes borrowed	207,338	199,739	189,719	197,967	209,768	216,065	208,534	193,354	190,000	181,360
Wastewater (5)										
Sewer connections	4,816	4,782	4,816	4,805	4,803	4,876	4,871	4,790	4,649	4,544

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

Capital Asset Statistics by Function/Program (unaudited)

Last Ten Fiscal Years

Function/Program	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Police (1)										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	24.5	24.5	24.5	24.0	23.0	23.0	23.0	23.0	23.0	21.0
Fire stations (2)	2	2	2	2	2	2	2	2	2	2
Refuse collection (3)										
Collection trucks		0	0	0	0	0	3	3	3	3
Other public works (3)										
Street (miles)	55.4	55.4	55.4	55.4	55.4	54.6	53.2	53.2	53.2	52.9
Streetlights	569	569	574	574	574	574	561	546	542	507
Traffic signals	4	4	4	4	4	4	4	4	3	3
Park and recreation (4)										
Acreage	63	63	63	48	48	48	48	46	39	38
Playgrounds	4	3	3	3	3	3	3	4	3	3
Baseball / softball diamond	6	4	4	6	6	6	6	5	3	3
Soccer / football fields	6	6	6	6	6	6	6	5	5	5
Community centers	2	2	2	1	1	1	1	1	1	1
Wastewater (5)										
Sanitary sewers (miles)	65	65	65	64	64	64	64	64	64	64
Storm sewers (miles)	34.24(*)	34.24(*)	34.24(*)	34(*)	34(*)	32(*)	16	16	16	15

(*) Includes driveway pipes not available in previous years.

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Poquoson, Virginia (the "City"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 25, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Cheryl Bekart LLP

Virginia Beach, Virginia
November 25, 2014

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

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

Report on Compliance for Each Major Federal Program

We have audited City of Poquoson, Virginia's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

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

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

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

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



Virginia Beach, Virginia
November 25, 2014

City of Poquoson, Virginia

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

Federal granting agency / recipient state agency Grant program/grant number	Federal CFDA Number		Federal Expenditures
U.S. Department of Agriculture			
Pass through payments:			
Department of Agriculture and Consumer Services:			
Child Nutrition Cluster:			
National School Breakfast Program	10.553	\$ 20,735	
National School Lunch Program	10.555	129,870	\$ 150,605
U.S. Department of Defense			
Promoting K-12 Student Achievement at Military-Connected Schools (Reading)	12.556		34,214
Office of Attorney General:			
Equitable Sharing Agreement-Drug Seizure	16.000		90,569
U.S. Department of the Interior			
Direct payments:			
Plum Tree Island Refuge	15.611		2,769
U.S. Department of Justice			
Pass through payments:			
Virginia Department of Criminal Justice:			
Byrne Justice Assistance Grant	16.738		1,779
U.S. Department of Transportation			
Pass through payments:			
Department of Motor Vehicles:			
Alcohol Traffic Safety and Drunk Driving Prevention Incentive (10/1/12-9/30/13)	20.607		4,241
Alcohol Traffic Safety and Drunk Driving Prevention Incentive (10/1/12-9/30/13)-Speed	20.600		1,032
Alcohol Traffic Safety and Drunk Driving Prevention Incentive (10/1/13-9/30/14)-Alcohol	20.607		7,330
Virginia Department of Transportation: Highway Planning and Construction (TEA 21 grant)	20.205		31,367
U.S. Department of Education			
Direct payments:			
Impact Aid	84.041		139,216
Pass through payments:			
Virginia Department of Education:			
Title I: Grants to local educational agencies	84.010		71,241
Title II: Improving teacher quality state grants	84.367		42,928
Special Education (IDEA) Cluster:			
Title VI-B: Assistance to states for education of handicapped children:			
Special Education Grants	84.027	424,119	
Preschool Handicapped	84.173	11,134	
		<u>435,253</u>	
Vocational education-basic grants to states	84.048		18,302
U.S. Department of Homeland Security			
Pass through payments:			
Virginia Department of Emergency Management			
2011 Port Security Grant	97.056		17,302
2011 State Homeland Security Program	97.073		28,979
2012 State Homeland Security Program	97.073		29,898
2013 Local Emergency Management Performance Grant	97.042		7,500
		<u>\$ 1,114,525</u>	

See notes to schedule of expenditures of federal awards

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

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, 2014, the food service organization had food commodities totaling \$5,596 in inventory.

City of Poquoson, Virginia
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2014

1) Summary of Auditors' Results

Financial Statements:

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

Federal Awards:

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
Material weaknesses identified:	No
Significant deficiencies identified:	None reported
Any audit findings disclosed that are required to be reported in Accordance with Section 510(a) of OMB Circular A-133?	No

Identification of major federal programs:

<u>Name of Program</u>	<u>CFDA #</u>
Department of Education: Special Education Cluster	84.027/84.173

Dollar threshold to distinguish between Types A and B Programs:	\$300,000
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The City of Poquoson was qualified as a low risk auditee?	Yes
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2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None

3) Findings and Questioned Costs Relating to Federal Awards

None

4) Findings and Questioned Costs – *Specifications of Audits of Counties, Cities and Towns*

None

5) Resolution of Prior Year's Findings

2013-1 Corrected

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