

MUNICIPAL CORPORATION OF CAPE CHARLES, VIRGINIA



ANNUAL FINANCIAL REPORT

FOR FISCAL YEAR ENDED JUNE 30, 2013

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MUNICIPAL CORPORATION OF CAPE CHARLES, VIRGINIA

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ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

**To the Honorable Members of the Town Council
Municipal Corporation of Cape Charles
Cape Charles, Virginia**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, of Municipal Corporation of Cape Charles, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Municipal Corporation'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.

Auditors' 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 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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, and each major fund, of Municipal Corporation of Cape Charles, Virginia, as of June 30, 2013, 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.

Emphasis of Matter

As described in Note 1 to the financial statements, in 2013, the Town adopted new accounting guidance, GASB Statement Nos. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-9, budgetary comparison information, and schedule of pension funding progress 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. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Municipal Corporation of Cape Charles, Virginia's basic financial statements. The supporting schedules and other statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Other Information (continued)

The supporting schedules 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, supporting schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The other statistical information has 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 May 2, 2014, on our consideration of Municipal Corporation of Cape Charles, Virginia'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 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 Municipal Corporation of Cape Charles, Virginia's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "D. F. Clark", followed by a long horizontal line.

Richmond, Virginia
May 2, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

**To the Honorable Members of the Town Council
To the Citizens of the Municipal Corporation of Cape Charles
Cape Charles, Virginia**

As management of Municipal Corporation of Cape Charles, Virginia (the "Town") we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2013. Please read it in conjunction with the Town's basic financial statements, which follow this section.

Financial Highlights

Government-wide Financial Statements

- < The assets of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$25,795,177 (net position).

Fund Financial Statements

The General Fund, on a current financial resources basis, reported revenues and other financing sources in deficit of expenditures and other uses by \$128,080 (Exhibit 5).

- < As of the close of the current fiscal year, the Town's general fund reported an ending fund balance of \$2,069,062, a decrease of \$128,080 in comparison with the prior year.
- < The combined long-term obligations increased \$333,852 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town'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 required and other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements - The Government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Overview of the Financial Statements (Continued)

Government-wide financial statements (Continued)

The statement of net position presents information on all of the Town's assets and deferred outflows and liabilities and deferred inflows of resources with the difference 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 Town is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental 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 Town include general government, police protection, cultural events, recreation, and community development.

Fund financial statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipal Corporation of Cape Charles, Virginia, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental funds - Governmental funds are used to account for essentially the same functions or services reported as governmental activities in the government-wide financial statements. Whereas the government-wide financial statements are prepared on the accrual basis of accounting, the governmental fund financial statements are prepared on the modified accrual basis of accounting. The focus of modified accrual reporting is on near-term inflows and outflows of financial resources and the balance of financial resources available at the end of the fiscal year. Since the governmental funds focus is narrower than that of the government-wide financial statements a reconciliation between the two methods is provided at the bottom of the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances. The Town has one major governmental fund - the General Fund.

Proprietary funds - Proprietary funds consist of enterprise funds. Enterprise funds are established to account for the delivery of goods and services to the general public and use the accrual basis of accounting, similar to private sector business.

The Water and Sewer Fund provides a centralized source for water/sewer services. The Harbor Fund provides docking facilities and fuel sales for harbor customers. The Sanitation Fund provides refuse collection services.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Overview of the Financial Statements (Continued)

Other information - In addition to the basic financial statement and accompanying notes, this report also presents certain required supplementary information for budgetary comparison schedules and the schedule of pension funding progress. Other supplementary information consists of detailed budgetary schedules and statistical information.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Town's financial position. In the case of the Town, assets exceeded liabilities and deferred inflows of resources by \$25,795,177 at the close of the most recent fiscal year. The following table summarizes the Town's Statement of Net Position:

Municipal Corporation of Cape Charles, Virginia's Net Position						
	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 2,496,611	\$ 2,474,746	\$ 103,221	\$ 252,971	\$ 2,599,832	\$ 2,727,717
Capital assets	4,070,147	3,894,826	29,400,508	28,873,778	33,470,655	32,768,604
Total assets	<u>\$ 6,566,758</u>	<u>\$ 6,369,572</u>	<u>\$ 29,503,729</u>	<u>\$ 29,126,749</u>	<u>\$ 36,070,487</u>	<u>\$ 35,496,321</u>
Current liabilities	\$ 132,834	\$ 91,254	\$ 588,375	\$ 564,070	\$ 721,209	655,324
Long-term liabilities outstanding	1,134,475	1,180,223	8,412,505	8,032,905	9,546,980	9,213,128
Total liabilities	<u>\$ 1,267,309</u>	<u>\$ 1,271,477</u>	<u>\$ 9,000,880</u>	<u>\$ 8,596,975</u>	<u>\$ 10,268,189</u>	<u>\$ 9,868,452</u>
Deferred Inflows of resources:						
Unavailable revenue	\$ 7,121	\$ -	\$ -	\$ -	\$ 7,121	\$ -
Total deferred inflows of resources	<u>\$ 7,121</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,121</u>	<u>\$ -</u>
Net position:						
Net investment in capital assets	\$ 3,319,472	\$ 3,260,690	\$ 21,022,017	\$ 20,874,812	\$ 24,341,489	24,135,502
Restricted for:						
Debt covenants	-	-	354,834	354,683	354,834	354,683
Unrestricted	1,972,856	1,837,405	(874,002)	(699,721)	1,098,854	1,137,684
Total net position	<u><u>\$ 5,292,328</u></u>	<u><u>\$ 5,098,095</u></u>	<u><u>\$ 20,502,849</u></u>	<u><u>\$ 20,529,774</u></u>	<u><u>\$ 25,795,177</u></u>	<u><u>25,627,869</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Analysis (Continued)

During the current fiscal year, the Town's net position increased by \$167,308. The following table summarizes the Town's Statement of Activities:

Municipal Corporation of Cape Charles, Virginia's Changes in Net Position

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 87,521	\$ 55,848	\$ 2,367,053	\$ 2,201,085	\$ 2,454,574	\$ 2,256,933
Operating grants and contributions	41,096	67,227	1,203	-	42,299	67,227
Capital grants and contributions	138,430	411,090	624,404	2,372,782	762,834	2,783,872
General revenues:						
General property taxes	1,325,691	1,301,439	-	-	1,325,691	1,301,439
Other local taxes	429,122	455,148	-	-	429,122	455,148
Grants and other contributions not restricted	83,668	83,544	-	-	83,668	83,544
Other general revenues	39,424	8,837	13,709	20,086	53,133	28,923
Total revenues	<u>\$ 2,144,952</u>	<u>\$ 2,383,133</u>	<u>\$ 3,006,369</u>	<u>\$ 4,593,953</u>	<u>\$ 5,151,321</u>	<u>\$ 6,977,086</u>
Expenses:						
General government administration	\$ 688,965	\$ 770,193	\$ -	\$ -	\$ 688,965	\$ 770,193
Public safety	418,308	422,784	-	-	418,308	422,784
Public works	411,438	447,869	-	-	411,438	447,869
Parks, recreation, and cultural	298,615	227,507	-	-	298,615	227,507
Community development	80,967	72,660	-	-	80,967	72,660
Interest and other fiscal charges	52,426	51,332	-	-	52,426	51,332
Enterprise funds	-	-	3,033,294	2,326,252	3,033,294	2,326,252
Total expenses	<u>\$ 1,950,719</u>	<u>\$ 1,992,345</u>	<u>\$ 3,033,294</u>	<u>\$ 2,326,252</u>	<u>\$ 4,984,013</u>	<u>\$ 4,318,597</u>
Change in net position	\$ 194,233	\$ 390,788	\$ (26,925)	\$ 2,267,701	\$ 167,308	\$ 2,658,489
Beginning of year	5,098,095	4,707,307	20,529,774	18,262,073	25,627,869	22,969,380
End of year	<u>\$ 5,292,328</u>	<u>\$ 5,098,095</u>	<u>\$ 20,502,849</u>	<u>\$ 20,529,774</u>	<u>\$ 25,795,177</u>	<u>\$ 25,627,869</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Analysis of the Town's Funds

As noted earlier, the Town used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a Town's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town's governmental fund reported a fund balance of \$2,069,062, a decrease of \$128,080 in comparison with the prior year, of which \$1,737,849 was unassigned.

Proprietary Funds - The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position at the end of the year amounted to (\$874,002). Total net position decreased \$26,925. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

During the year, budgetary estimates were less than actual revenues and other sources by \$116,259. Actual expenditures and other uses were more than budgetary estimates by \$36,706, resulting in a positive variance of \$79,553.

Capital Asset and Debt Administration

Capital assets - The Town's investment in capital assets for its governmental operations as of June 30, 2013 amounts to \$4,070,147 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and machinery and equipment.

Additional information on the Town's capital assets can be found in Note 6 of this report.

Long-term debt - At the end of the current fiscal year, the Town had total debt outstanding of \$9,459,970. Of this amount, \$9,417,364 comprises debt backed by the full faith and credit of the Town. The remainder of the Town's debt represents amounts secured solely by specific property or specified revenue sources (i.e., capital leases and notes payable).

During the current fiscal year, the Town's total debt outstanding increased by \$332,846.

Additional information on the Town's long-term debt can be found in Note 7 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Economic Factors and Next Year's Budgets and Rates

- < The unemployment rate for Northampton County, Virginia, of which the Municipal Corporation of Cape Charles, Virginia is an incorporated Town, was 8.5 % at June 30, 2013, in comparison to the state's average unemployment rate of 5.5 %.

This factor was considered in preparing the Town's budget for the 2014 fiscal year.

The fiscal year 2014 budget decreased by approximately 7.9%. All tax rates remained the same as in fiscal year 2013 except for the real estate rate which increased to \$0.2759 per \$100 of assessed value.

Requests for Information

This financial report is designed to provide a general overview of the Municipal Corporation of Cape Charles, Virginia's finances for all those with an interest in the Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Manager, 2 Plum Street, Cape Charles, Virginia 23310.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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Municipal Corporation of Cape Charles, Virginia
Statement of Net Position
June 30, 2013

	Primary Government		
	Governmental	Business-type	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 832,811	\$ 1,978	\$ 834,789
Receivables (net of allowance for uncollectibles):			
Taxes receivable	318,389	-	318,389
Accounts receivable	60,397	280,476	340,873
Other receivable	498	5,000	5,498
Internal balances	849,387	(849,387)	-
Due from other governmental units	103,916	298,278	402,194
Inventories	-	12,042	12,042
Prepaid items	409	-	409
Restricted assets:			
Cash and cash equivalents - bond requirements	-	354,834	354,834
Cash and cash equivalents - unspent bond proceeds	330,804	-	330,804
Capital assets (net of accumulated depreciation):			
Land and land improvements	2,012,729	-	2,012,729
Buildings and improvements	1,102,966	390,903	1,493,869
Improvements other than buildings	-	6,906,985	6,906,985
Water and sewer system	-	21,398,350	21,398,350
Machinery and equipment	134,276	164,336	298,612
Infrastructure	820,176	-	820,176
Construction in progress	-	539,934	539,934
Total assets	<u>\$ 6,566,758</u>	<u>\$ 29,503,729</u>	<u>\$ 36,070,487</u>
LIABILITIES			
Accounts payable	\$ 80,239	\$ 243,399	\$ 323,638
Accrued liabilities	32,220	252,692	284,912
Accrued interest payable	20,375	60,183	80,558
Amounts held for others	-	32,101	32,101
Long-term liabilities:			
Due within one year	81,682	441,028	522,710
Due in more than one year	1,052,793	7,971,477	9,024,270
Total liabilities	<u>\$ 1,267,309</u>	<u>\$ 9,000,880</u>	<u>\$ 10,268,189</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	\$ 7,121	\$ -	\$ 7,121
Total deferred inflows of resources	<u>\$ 7,121</u>	<u>\$ -</u>	<u>\$ 7,121</u>
NET POSITION			
Net investment in capital assets	\$ 3,319,472	\$ 21,022,017	\$ 24,341,489
Restricted for:			
Debt service and bond covenants	-	354,834	354,834
Unrestricted (deficit)	1,972,856	(874,002)	1,098,854
Total net position	<u>\$ 5,292,328</u>	<u>\$ 20,502,849</u>	<u>\$ 25,795,177</u>

The notes to the financial statements are an integral part of this statement.

Municipal Corporation of Cape Charles, Virginia
Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
General government administration	\$ 688,965	\$ 2,282	\$ -	\$ -	\$ (686,683)	\$ -	\$ (686,683)
Public safety	418,308	84,259	36,096	16,047	(281,906)	-	(281,906)
Public works	411,439	-	-	-	(411,439)	-	(411,439)
Parks, recreation, and cultural	298,615	980	5,000	122,383	(170,252)	-	(170,252)
Community development	80,967	-	-	-	(80,967)	-	(80,967)
Interest on long-term debt	52,425	-	-	-	(52,425)	-	(52,425)
Total governmental activities	\$ 1,950,719	\$ 87,521	\$ 41,096	\$ 138,430	\$ (1,683,672)	\$ -	\$ (1,683,672)
Business-type activities:							
Water and Sewer	\$ 1,730,377	\$ 1,298,545	\$ -	\$ 578,956	\$ -	\$ 147,124	\$ 147,124
Harbor	1,146,221	886,269	1,203	45,448	-	(213,301)	(213,301)
Sanitation	156,696	182,239	-	-	-	25,543	25,543
Total business-type activities	\$ 3,033,294	\$ 2,367,053	\$ 1,203	\$ 624,404	\$ -	\$ (40,634)	\$ (40,634)
Total primary government	\$ 4,984,013	\$ 2,454,574	\$ 42,299	\$ 762,834	\$ (1,683,672)	\$ (40,634)	\$ (1,724,306)
General revenues:							
General property taxes	\$ 1,325,691	\$ -	\$ -	\$ -	\$ 1,325,691	\$ -	\$ 1,325,691
Restaurant food taxes	210,092	-	-	-	210,092	-	210,092
Business license taxes	62,438	-	-	-	62,438	-	62,438
Other local taxes	156,592	-	-	-	156,592	-	156,592
Unrestricted revenues from use of money and property	11,483	-	-	-	11,483	180	11,663
Miscellaneous	27,941	-	-	-	27,941	13,529	41,470
Grants and contributions not restricted to specific programs	83,668	-	-	-	83,668	-	83,668
Total general revenues	\$ 1,877,905	\$ 13,709	\$ -	\$ 1,891,614	\$ 1,877,905	\$ 13,709	\$ 1,891,614
Change in net position	194,233	-	-	-	194,233	(26,925)	167,308
Net position - beginning	\$ 5,098,095	\$ 20,529,774	\$ -	\$ -	\$ 5,098,095	\$ 20,529,774	\$ 25,627,869
Net position - ending	\$ 5,292,328	\$ 20,502,849	\$ -	\$ -	\$ 5,292,328	\$ 20,502,849	\$ 25,795,177

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

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Municipal Corporation of Cape Charles, Virginia
Balance Sheet
Governmental Fund
June 30, 2013

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 832,811
Receivables:	
Taxes receivable	318,389
Accounts receivable	60,397
Due from other funds	1,111,894
Due from other governmental units	103,916
Other receivables	498
Prepaid items	409
Restricted assets:	
Cash and cash equivalents - unspent bond proceeds	330,804
Total assets	<u>\$ 2,759,118</u>
LIABILITIES	
Accounts payable	\$ 80,239
Accrued liabilities	32,220
Due to other funds	262,507
Total liabilities	<u>\$ 374,966</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	<u>\$ 315,090</u>
FUND BALANCE	
Nonspendable:	
Prepaid items	\$ 409
Restricted:	
Unspent bond proceeds	330,804
Unassigned	1,737,849
Total fund balance	<u>\$ 2,069,062</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 2,759,118</u>

The notes to the financial statements are an integral part of this statement.

Municipal Corporation of Cape Charles, Virginia
Reconciliation of the Balance Sheet of Governmental Fund
to the Statement of Net Position
June 30, 2013

Amounts reported for governmental activities in the Statement of Net Position are different because:

Total fund balance per Exhibit 3 - Balance Sheet - Governmental Fund	\$ 2,069,062
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Capital assets	\$ 6,956,875	
Accumulated depreciation	(2,886,728)	4,070,147

Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue.

307,969

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. The following is a summary of items supporting this adjustment:

General obligation bonds	\$(1,038,873)	
Capital lease obligations	(17,750)	
Notes payable	(24,856)	
Compensated absences	(52,996)	
Accrued interest payable	(20,375)	(1,154,850)

Net position of governmental activities

\$ 5,292,328

The notes to the financial statements are an integral part of this statement.

Municipal Corporation of Cape Charles, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
For the Year Ended June 30, 2013

	<u>General</u>
REVENUES	
General property taxes	\$ 1,225,360
Other local taxes	429,122
Permits, privilege fees, and regulatory licenses	70,886
Fines and forfeitures	12,603
Revenue from the use of money and property	11,483
Charges for services	4,032
Miscellaneous	27,941
Recovered costs	20,000
Intergovernmental revenues:	
Commonwealth	126,204
Federal	136,990
Total revenues	<u>\$ 2,064,621</u>
EXPENDITURES	
Current:	
General government administration	\$ 661,441
Public safety - police department	368,446
Public safety - code enforcement	73,368
Public works	535,873
Parks, recreation, and cultural	160,303
Community development	85,620
Capital projects	207,633
Debt service:	
Principal retirement	73,674
Interest and other fiscal charges	53,338
Total expenditures	<u>\$ 2,219,696</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (155,075)</u>
OTHER FINANCING SOURCES (USES)	
Issuance of notes payable	\$ 26,995
Total other financing sources (uses)	<u>\$ 26,995</u>
Net change in fund balance	\$ (128,080)
Fund balance - beginning	2,197,142
Fund balance - ending	<u><u>\$ 2,069,062</u></u>

The notes to the financial statements are an integral part of this statement.

Municipal Corporation of Cape Charles, Virginia
Reconciliation of Statement of Revenues,
Expenditures, and Changes in Fund Balance of Governmental Fund
to the Statement of Activities
For the Year Ended June 30, 2013

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

Net change in fund balance - total governmental fund \$ (128,080)

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

Capital outlays	\$ 399,140	
Depreciation expense	<u>(223,819)</u>	175,321

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Details of this item consist of changes in unavailable taxes. 100,331

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. A summary of items supporting this adjustment is as follows:

Principal retirement on general obligation bonds	\$ 54,723	
Principal retirement on capital lease obligations	16,812	
Principal retirement on notes payable	2,139	
Issuance of notes payable	<u>(26,995)</u>	46,679

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. The following is a summary of items supporting this adjustment:

(Increase) decrease in compensated absences	\$ (931)	
(Increase) decrease in interest payable	<u>913</u>	(18)

Change in net position of governmental activities		<u><u>\$ 194,233</u></u>
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The notes to the financial statements are an integral part of this statement.

Municipal Corporation of Cape Charles, Virginia
Statement of Net Position
Proprietary Funds
June 30, 2013

	<u>Water and Sewer</u>	<u>Harbor</u>	<u>Sanitation</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,478	\$ 500	\$ -	\$ 1,978
Accounts receivables, net of allowance for uncollectibles	198,002	58,174	24,300	280,476
Due from other funds	2	39,395	262,595	301,992
Due from other governmental units	288,395	9,883	-	298,278
Other receivables	5,000	-	-	5,000
Inventories	-	12,042	-	12,042
Total current assets	\$ 492,877	\$ 119,994	\$ 286,895	\$ 899,766
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents - bond requirements	\$ 354,834	\$ -	\$ -	\$ 354,834
Total restricted assets	\$ 354,834	\$ -	\$ -	\$ 354,834
Capital assets (net of accumulated depreciation):				
Water and sewer system	\$ 21,398,350	\$ -	\$ -	\$ 21,398,350
Buildings and improvements	-	390,903	-	390,903
Improvements other than buildings	3,079,844	3,827,141	-	6,906,985
Machinery and equipment	95,808	68,430	98	164,336
Construction in progress	539,934	-	-	539,934
Total capital assets	\$ 25,113,936	\$ 4,286,474	\$ 98	\$ 29,400,508
Total noncurrent assets	\$ 25,468,770	\$ 4,286,474	\$ 98	\$ 29,755,342
Total assets	\$ 25,961,647	\$ 4,406,468	\$ 286,993	\$ 30,655,108
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 135,277	\$ 81,825	\$ 26,297	\$ 243,399
Accrued liabilities	236,937	14,811	944	252,692
Due to other funds	876,069	275,121	189	1,151,379
Interest payable	31,710	28,473	-	60,183
Customer deposits payable	29,351	2,750	-	32,101
Bonds payable - current portion	307,305	130,322	-	437,627
Compensated absences - current portion	2,835	566	-	3,401
Total current liabilities	\$ 1,619,484	\$ 533,868	\$ 27,430	\$ 2,180,782
Noncurrent liabilities:				
Bonds payable - net of current portion	\$ 6,614,975	\$ 1,325,889	\$ -	\$ 7,940,864
Compensated absences - net of current portion	25,519	5,094	-	30,613
Total noncurrent liabilities	\$ 6,640,494	\$ 1,330,983	\$ -	\$ 7,971,477
Total liabilities	\$ 8,259,978	\$ 1,864,851	\$ 27,430	\$ 10,152,259
NET POSITION				
Net investment in capital assets	\$ 18,191,656	\$ 2,830,263	\$ 98	\$ 21,022,017
Restricted for debt service and bond covenants	354,834	-	-	354,834
Unrestricted	(844,821)	(288,646)	259,465	(874,002)
Total net position	\$ 17,701,669	\$ 2,541,617	\$ 259,563	\$ 20,502,849

The notes to the financial statements are an integral part of this statement.

Municipal Corporation of Cape Charles, Virginia
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2013

	<u>Water and Sewer</u>	<u>Harbor</u>	<u>Sanitation</u>	<u>Total</u>
OPERATING REVENUES				
Charges for services:				
Water	\$ 577,819	\$ -	\$ -	\$ 577,819
Sewer	588,399	-	-	588,399
Harbor fees	-	223,789	-	223,789
Penalties	26,611	-	-	26,611
Refuse collection	-	-	182,239	182,239
Fuel and oil sales	-	637,602	-	637,602
Events	-	24,878	-	24,878
Miscellaneous	2,433	11,096	-	13,529
Total operating revenues	<u>\$ 1,195,262</u>	<u>\$ 897,365</u>	<u>\$ 182,239</u>	<u>\$ 2,274,866</u>
OPERATING EXPENSES				
Personnel services	\$ 377,759	\$ 110,975	\$ -	\$ 488,734
Fringe benefits	126,337	25,517	-	151,854
Contractual services	132,741	4,976	146,401	284,118
Other supplies and expenses	388,382	754,784	9,705	1,152,871
Depreciation	605,461	196,085	590	802,136
Total operating expenses	<u>\$ 1,630,680</u>	<u>\$ 1,092,337</u>	<u>\$ 156,696</u>	<u>\$ 2,879,713</u>
Operating income (loss)	<u>\$ (435,418)</u>	<u>\$ (194,972)</u>	<u>\$ 25,543</u>	<u>\$ (604,847)</u>
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental revenue	\$ -	\$ 1,203	\$ -	\$ 1,203
Investment earnings	180	-	-	180
Connection fees	105,716	-	-	105,716
Interest and fiscal charges	(99,697)	(53,884)	-	(153,581)
Total nonoperating revenues (expenses)	<u>\$ 6,199</u>	<u>\$ (52,681)</u>	<u>\$ -</u>	<u>\$ (46,482)</u>
Income (loss) before contributions	<u>\$ (429,219)</u>	<u>\$ (247,653)</u>	<u>\$ 25,543</u>	<u>\$ (651,329)</u>
Capital contributions and construction grants	<u>\$ 578,956</u>	<u>\$ 45,448</u>	<u>\$ -</u>	<u>\$ 624,404</u>
Change in net position	<u>\$ 149,737</u>	<u>\$ (202,205)</u>	<u>\$ 25,543</u>	<u>\$ (26,925)</u>
Total net position - beginning	17,551,932	2,743,822	234,020	20,529,774
Total net position - ending	<u><u>\$ 17,701,669</u></u>	<u><u>\$ 2,541,617</u></u>	<u><u>\$ 259,563</u></u>	<u><u>\$ 20,502,849</u></u>

The notes to the financial statements are an integral part of this statement.

Municipal Corporation of Cape Charles, Virginia
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2013

	<u>Water and Sewer</u>	<u>Harbor</u>	<u>Sanitation</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 1,168,644	\$ 896,895	\$ 178,578	\$ 2,244,117
Payments for operating expenses	(601,446)	(681,665)	(142,521)	(1,425,632)
Payments to employees	(503,801)	(135,822)	-	(639,623)
Net cash provided by (used for) operating activities	\$ 63,397	\$ 79,408	\$ 36,057	\$ 178,862
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	\$ -	\$ -	\$ (36,057)	\$ (36,057)
Transfers from other funds	408,688	70,476	-	479,164
Intergovernmental revenue	-	1,203	-	1,203
Net cash provided by (used for) noncapital financing activities	\$ 408,688	\$ 71,679	\$ (36,057)	\$ 444,310
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Additions to capital assets	\$ (1,326,435)	\$ (2,431)	\$ -	\$ (1,328,866)
Principal payments on bonds	(304,819)	(129,193)	-	(434,012)
Connection fees	105,716	-	-	105,716
Capital grants	340,063	35,565	-	375,628
Proceeds from indebtedness	813,537	-	-	813,537
Interest payments	(100,175)	(55,028)	-	(155,203)
Net cash provided by (used for) capital and related financing activities	\$ (472,113)	\$ (151,087)	\$ -	\$ (623,200)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends received	\$ 180	\$ -	\$ -	\$ 180
Net cash provided by (used for) investing activities	\$ 180	\$ -	\$ -	\$ 180
Net increase (decrease) in cash and cash equivalents	\$ 152	\$ -	\$ -	\$ 152
Cash and cash equivalents - beginning - including restricted	356,160	500	-	356,660
Cash and cash equivalents - ending - including restricted	\$ 356,312	\$ 500	\$ -	\$ 356,812
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (435,418)	\$ (194,972)	\$ 25,543	\$ (604,847)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation expense	\$ 605,461	\$ 196,085	\$ 590	\$ 802,136
(Increase) decrease in accounts receivable	(40,298)	(5,787)	(3,661)	(49,746)
(Increase) decrease in inventories	-	5,317	-	5,317
Increase (decrease) in customer deposits	13,680	200	-	13,880
Increase (decrease) in accounts payable	(80,323)	73,427	13,585	6,689
Increase (decrease) in accrued liabilities	218	5,140	-	5,358
Increase (decrease) in compensated absences	77	(2)	-	75
Total adjustments	\$ 498,815	\$ 274,380	\$ 10,514	\$ 783,709
Net cash provided by (used for) operating activities	\$ 63,397	\$ 79,408	\$ 36,057	\$ 178,862

The notes to the financial statements are an integral part of this statement.

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NOTES TO THE FINANCIAL STATEMENTS

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MUNICIPAL CORPORATION OF CAPE CHARLES, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

Note 1—Summary of Significant Accounting Policies:

The Municipal Corporation of Cape Charles, Virginia (the "Town") is governed by an elected mayor and a six member Council. The Town provides a full range of services for its citizens. These services include police protection, sanitation services, and utilities.

The financial statements of Municipal Corporation of Cape Charles, Virginia have been prepared in conformity with the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, and the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board. The more significant of the Town's accounting policies are described below.

Financial Statement Presentation - The Town's financial report is prepared in accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

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

Government-wide and Fund Financial Statements

Government-wide Financial Statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and general obligation debt).

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. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Statement of Net Position - The Statement of Net Position is designed to display financial position of the primary government (government and business-type activities). Governments will report all capital assets in the government-wide Statement of Net Position and will report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net position of a government will be broken down into three categories - 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements As of June 30, 2013 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

Statement of Activities - The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Budgetary Comparison Schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. Many governments revise their original budgets over the course of the year for a variety of reasons. Under the GASB 34 reporting model, governments provide budgetary comparison information in their annual reports, including a requirement to report the government's original budget with the comparison of final budget and actual results.

A. Financial Reporting Entity

The basic criterion for determining whether a governmental department, agency, institution, commission, public authority, or other governmental organization should be included in a primary governmental unit's reporting entity for the basic financial statements is financial accountability. Financial accountability includes the appointment of a voting majority of the organization's governing body and the ability of the primary government to impose its will on the organization or if there is a financial benefit/burden relationship. In addition, an organization which is fiscally dependent on the primary government should be included in its reporting entity. These financial statements present the Municipal Corporation of Cape Charles (the primary government). Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements As of June 30, 2013 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

B. Individual Component Unit Disclosures

Blended Component Unit. The Town has no blended component units at June 30, 2013.

Discretely Presented Component Units. – The Town has no discretely presented component units at June 30, 2013.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of 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.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) which are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, etc.) or a business-type activity.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. 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.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements As of June 30, 2013 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation *(continued)*

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. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as deferred revenues. Sales and utility taxes, which are collected by the state or utility and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the state or utility, which is generally within two months preceding receipt by the Town.

Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when cash is received by the government.

In the fund financial statements, financial transactions and accounts of the Town are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

1. Governmental Funds

Governmental Funds are those through which most governmental functions typically are financed.

The General Fund is the primary operating fund of the Town. This fund is used to account for and report all financial resources except those required to be accounted for and reported in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for service, and interest income. The General Fund is considered a major fund for reporting purposes.

2. Proprietary Funds

Proprietary Funds account for operations that are financed in a manner similar to those found in private business enterprises. The measurement focus is upon determination of net income, financial position, and changes in financial position. Proprietary Funds consist of Enterprise Funds.

Enterprise Funds

Enterprise funds account for the financing of services to the general public where all or most of the operating expenses involved are recorded in the form of charges to users of such services. Enterprise Funds consist of the Water and Sewer, Harbor, and Sanitation Funds.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements As of June 30, 2013 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

D. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the Town.

E. Investments

Investments are reported at fair value which approximates market; no investments are valued at cost. Investments maturing in three months or less of the date acquired are reported in the accompanying financial statements as cash and cash equivalents.

State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements.

F. Prepaid Items

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

G. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “due to/from other funds” (i.e. the current portions of the interfund loans). All other outstanding balances between funds are reported as “advances to/from other funds” (i.e. the noncurrent portion of interfund loans).

All trade and property tax receivables are shown net of an allowance for uncollectibles. The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance for uncollectible utility billing and harbor billing amounted to approximately \$109,475, and \$25,524, respectively, at June 30, 2013.

Real and Personal Property Tax Data:

The tax calendars for real and personal property taxes are summarized below.

	<u>Real Property</u>	<u>Personal Property</u>
Levy	January 1	January 1
Due Date	December 5	December 5
Lien Date	January 1	January 1

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements As of June 30, 2013 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

G. Receivables and Payables (continued)

The Town bills and collects its own property taxes. Property taxes are based upon the rate levied by Town Council multiplied by the taxable assessed value. The assessed value of real and personal property is determined for the Town by the Commissioner of Revenue of the County of Northampton.

H. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the Town as land, buildings, and equipment with an initial individual cost of more than \$5,000 (with the exception of land values) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Interest attributable to capitalized assets as of June 30, 2010 was \$24,245.

Property, plant and equipment of the Town are depreciated using the straight-line method over the following estimated useful lives.

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-40
Furniture, vehicles and office equipment	3-10
Water/sewer system	15-50
Docks	50

I. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as an expense in the Statement of Activities and a long-term obligation in the Statement of Net Position. In accordance with the provisions of Governmental Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements As of June 30, 2013 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

J. Retirement Plan

Retirement plan contributions are actuarially determined and consist of current service costs and amortization of prior service costs over a 30-year period. The Town's policy is to fund pension cost as it accrues.

K. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

L. Net Position

Net position is the difference between a) assets and deferred outflows of resources and b) liabilities and deferred inflows of resources. Net investment in capital assets represent capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

M. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities or business-type activities statement of net position. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued and premiums on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

N. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of items for resale. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements As of June 30, 2013 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

O. Fund Equity

The Town reports fund balance in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance – amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance – amounts that are available for any purpose; positive amounts are only reported in the general fund. Governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When fund balance resources are available for a specific purpose in more than one classification, it is the Town's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

Town Council establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by Town Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

P. Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, Statement No. 63 of the Governmental Accounting Standards Board

The Town has implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. The Statement provides guidance for reporting deferred inflows and deferred outflows of resources. The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on an entity's net position. With the implementation of this Statement certain terminology has changed and financial statement descriptions have changed from "net assets" to "net position." The net equity reported in the financial statements has not changed as a result of implementing this Statement and no restatement of prior balances is required.

**Notes to Financial Statements
As of June 30, 2013 (Continued)**

Note 1—Summary of Significant Accounting Policies: (Continued)

Q. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has no reportable deferred outflows of resources.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has one type of item that qualifies for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30, and amounts prepaid and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis amounts prepaid are reported as deferred inflows of resources.

R. Items Previously Reported as Assets and Liabilities, Statement No. 65 of Governmental Accounting Standards Board

The Town early implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The net equity reported in the financial statements was not changed as a result of implementing this statement and no restatement of prior balances is required.

S. Net Position Flow Assumption

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements As of June 30, 2013 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

T. Upcoming Pronouncements

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27. This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statement No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. The Town has not determined the impact of this pronouncement on its financial statements.

Note 2—Stewardship, Compliance, and Accounting:

The following procedures are used by the Town in establishing the budgetary data reflected in the financial statements:

1. Prior to June 1st, the Mayor submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the department or category level. The appropriation for each department or category can be revised only by the Town Council or Town Manager.
5. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
6. Appropriations lapse on June 30, for all town units.

Expenditures and Appropriations

Expenditures exceeded appropriations in the general fund at June 30, 2013.

Note 3—Deposits and Investments:

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”) Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements As of June 30, 2013 (Continued)

Note 3—Deposits and Investments: (Continued)

Investments

Statutes authorize the Town 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).

Credit Risk of Debt Securities

The Town’s rated debt investments as of June 30, 2013 were rated by Standard and Poor’s and the ratings are presented below using the Standard and Poor’s rating scale. The Town’s investment policy has an emphasis on high credit quality and known marketability. The Town’s policy seeks to maximize the rate of return on investments while maintaining a low level of risk.

Rated Debt Investments	Fair Quality
	AAAm
Local Government Investment Pool	\$ 606,095
Money Market Mutal Fund	588,440
Total	<u>\$ 1,194,535</u>

External Investment Pools

The fair value of the positions in the Local Government Investment Pool (LGIP) is the same as the value of the pool shares. As this pool is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. LGIP maintains a policy to operate in a manner consistent with SEC Rule 2a-7.

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Municipal Corporation of Cape Charles, Virginia

**Notes to Financial Statements
As of June 30, 2013 (Continued)**

Note 4—Due to/from Other Governments:

At June 30, 2013, the Town has receivables from other governments as follows:

		<u>Governmental and Business- type Activities</u>
Other Local Governments:		
County of Northampton	\$	8,551
Commonwealth of Virginia:		
Communications tax		7,628
VA Drinking water state revolving fund		288,395
Boating Infrastructure Grant		9,883
Fire programs fund		800
Federal Government:		
FEMA		<u>86,937</u>
Total due from other governments	\$	<u><u>402,194</u></u>

Note 5—Interfund Obligations:

Details of the Town's interfund receivable and payables as of June 30, 2013, are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 1,111,894	\$ 262,507
Water and Sewer Fund	2	876,069
Harbor Fund	39,395	275,121
Sanitation Fund	<u>262,595</u>	<u>189</u>
Total	<u><u>\$ 1,413,886</u></u>	<u><u>\$ 1,413,886</u></u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Municipal Corporation of Cape Charles, Virginia

**Notes to Financial Statements
As of June 30, 2013 (Continued)**

Note 6—Capital Assets:

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2013:

Governmental Activities:	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Capital assets not subject to depreciation:				
Land and land improvements	\$ 1,866,961	\$ 145,768	\$ -	\$ 2,012,729
Total capital assets not subject to depreciation	\$ 1,866,961	\$ 145,768	\$ -	\$ 2,012,729
Capital assets subject to depreciation:				
Buildings and improvements	\$ 2,933,857	\$ 130,683	\$ -	\$ 3,064,540
Machinery and equipment	890,423	64,937	-	955,360
Infrastructure	866,494	57,752	-	924,246
Total capital assets subject to depreciation	\$ 4,690,774	\$ 253,372	\$ -	\$ 4,944,146
Less accumulated depreciation for:				
Buildings and improvements	\$ 1,817,111	\$ 144,463	\$ -	\$ 1,961,574
Machinery and equipment	778,698	42,386	-	821,084
Infrastructure	67,100	36,970	-	104,070
Total accumulated depreciation	\$ 2,662,909	\$ 223,819	\$ -	\$ 2,886,728
Total capital assets subject to depreciation, net	\$ 2,027,865	\$ 29,553	\$ -	\$ 2,057,418
Governmental activities capital assets, net	\$ 3,894,826	\$ 175,321	\$ -	\$ 4,070,147

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Municipal Corporation of Cape Charles, Virginia

**Notes to Financial Statements
As of June 30, 2013 (Continued)**

Note 6—Capital Assets: (Continued)

Business-type Activities:	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Capital assets not subject to depreciation:				
Construction in progress	\$ 22,530,634	\$ 1,282,057	\$ 23,272,757	\$ 539,934
Capital assets subject to depreciation:				
Water and sewer system	\$ 5,746,763	\$ 19,382,634	\$ -	\$ 25,129,397
Buildings and improvements	755,670	-	-	755,670
Improvements other than buildings	5,659,998	3,900,073	-	9,560,071
Machinery and equipment	632,250	36,859	-	669,109
Total capital assets subject to depreciation	\$ 12,794,681	\$ 23,319,566	\$ -	\$ 36,114,247
Less accumulated depreciation for:				
Water and sewer system	\$ 3,230,217	\$ 500,830	\$ -	\$ 3,731,047
Buildings and improvements	332,192	32,575	-	364,767
Improvements other than buildings	2,411,931	241,155	-	2,653,086
Machinery and equipment	477,197	27,576	-	504,773
Total accumulated depreciation	\$ 6,451,537	\$ 802,136	\$ -	\$ 7,253,673
Total capital assets subject to depreciation, net	\$ 6,343,144	\$ 22,517,430	\$ -	\$ 28,860,574
Business-type activities capital assets, net	\$ 28,873,778	23,799,487	23,272,757	29,400,508

Depreciation expense was charged to functions/programs as follows:

Governmental activities:

General government administration	\$ 22,045
Public safety	29,453
Public works	14,553
Parks, recreation and cultural	157,768
Total governmental activities	\$ 223,819

Business-type activities:

Water and Sewer	\$ 605,461
Harbor	196,085
Sanitation	590
Total business-type activities	\$ 802,136

Municipal Corporation of Cape Charles, Virginia

**Notes to Financial Statements
As of June 30, 2013 (Continued)**

Note 7—Long-term Obligations:

The following is a summary of long-term obligation transactions of the Town for the year ended June 30, 2013:

	Amounts Payable at July 1, 2012	Increases	Decreases	Amounts Payable at June 30, 2013	Amounts Due Within One Year
Governmental activities:					
Compensated absences	\$ 52,065	\$ 931	\$ -	\$ 52,996	\$ 5,300
General obligation bonds	1,093,596	-	54,723	1,038,873	57,942
Capital lease obligations	34,562	-	16,812	17,750	11,719
Notes payable	-	26,995	2,139	24,856	6,721
Total obligations from governmental activities	<u>\$ 1,180,223</u>	<u>\$ 27,926</u>	<u>\$ 73,674</u>	<u>\$ 1,134,475</u>	<u>\$ 81,682</u>
Business-type activities:					
Compensated absences	\$ 33,939	\$ 75	\$ -	\$ 34,014	\$ 3,401
General obligation bonds	7,998,966	813,537	434,012	8,378,491	437,627
Total obligations from business- type activities	<u>\$ 8,032,905</u>	<u>\$ 813,612</u>	<u>\$ 434,012</u>	<u>\$ 8,412,505</u>	<u>\$ 441,028</u>
Total long-term obligations	<u><u>\$ 9,213,128</u></u>	<u><u>\$ 841,538</u></u>	<u><u>\$ 507,686</u></u>	<u><u>\$ 9,546,980</u></u>	<u><u>\$ 522,710</u></u>

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Municipal Corporation of Cape Charles, Virginia

**Notes to Financial Statements
As of June 30, 2013 (Continued)**

Note 7—Long-term Obligations: (Continued)

Annual requirements to amortize long-term obligations and related interest are as follows:

Year Ending June 30	Governmental Activities Obligations				Business-type Activities Obligations	
	General		Notes Payable		General	
	Obligation Bonds				Obligation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 57,942	\$ 44,243	\$ 6,721	\$ 766	\$ 437,627	\$ 153,131
2015	67,499	41,831	6,941	546	434,995	146,574
2016	61,161	39,120	7,167	320	448,354	141,014
2017	69,781	36,436	3,238	86	451,858	133,955
2018	77,987	33,406	789	4	455,885	126,183
2019	61,891	30,455	-	-	449,326	119,005
2020	62,307	27,832	-	-	456,375	111,888
2021	65,942	24,987	-	-	465,331	104,396
2022	69,576	21,936	-	-	474,419	96,012
2023	73,210	18,833	-	-	483,645	87,315
2024	76,430	15,538	-	-	488,432	78,219
2025	80,064	11,961	-	-	497,956	68,813
2026	83,699	8,078	-	-	507,642	58,931
2027	87,748	3,979	-	-	522,080	48,164
2028	14,127	1,619	-	-	489,368	37,858
2029	14,542	1,095	-	-	497,805	28,220
2030	14,967	555	-	-	506,430	18,215
2031	-	-	-	-	192,061	7,835
2032	-	-	-	-	92,471	3,330
2033	-	-	-	-	2,015	829
2034	-	-	-	-	2,081	763
2035	-	-	-	-	2,150	694
2036	-	-	-	-	2,221	623
2037	-	-	-	-	2,294	550
2038	-	-	-	-	2,370	474
2039	-	-	-	-	2,448	396
2040	-	-	-	-	2,529	315
2041	-	-	-	-	2,612	232
2042	-	-	-	-	2,698	146
2043	-	-	-	-	3,013	57
Total	\$ <u>1,038,873</u>	\$ <u>361,904</u>	\$ <u>24,856</u>	\$ <u>1,722</u>	\$ <u>8,378,491</u>	\$ <u>1,574,137</u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements As of June 30, 2013 (Continued)

Note 7—Long-term Obligations: (Continued)

Long-term obligations at June 30, 2013 are as follows:

	<u>Amount Outstanding</u>
<u>Details of Long-term Indebtedness:</u>	
<u>Governmental Activities:</u>	
<u>Details of General Obligation bonds:</u>	
\$1,795,000 general obligation bond issued July 1, 2006, due in various annual installments through August 2026, interest at various rates from 3.65% to 5.00%, loan split between general government and enterprise funds	\$ 862,692
\$2,120,000 recovery act general obligation bond issued March 2, 2010, due in various annual installments through February 15, 2030, interest at various rates from 3.518% to 6.567%, loan split between general government and enterprise funds	176,181
Total general obligation debt	\$ 1,038,873
\$15,750 Rural Development note issued September 19, 2012, due in monthly installments of \$277 through September, 2017, interest at 3.375%	\$ 13,111
\$11,745 Rural Development note issued April 23, 2013, due in annual installments of \$4,163 through April, 2016, interest at 3.125%	\$ 11,745
Total notes payable	\$ 24,856
Capital lease obligations (see Note 8)	\$ 17,750
Compensated Absences (payable from the General Fund)	\$ 52,996
Total governmental activities obligations payable	\$ 1,134,475
<u>Business-type Activities:</u>	
<u>Details of General Obligation Bonds:</u>	
\$1,795,000 general obligation bond issued July 1, 2006, due in various annual installments through August 2026, interest at various rates from 3.65% to 5.00%, loan split between general government and enterprise funds	\$ 477,308
\$1,579,300 Rural Development general obligation bond issued September 3, 1992, due in monthly installments of \$7,755 through August 2032, interest at 5.0%	1,139,948
\$62,500 Rural Development general obligation bond issued December 30, 2003, due in monthly installments of \$237 through December 2044, interest at 3.25%	54,542
\$2,120,000 recovery act general obligation bond issued March 2, 2010, due in various annual installments through February 15, 2030, interest at various rates from 3.518% to 6.567%, loan split between general government and enterprise funds	1,943,819
\$500,000 recovery act general obligation bond issued March 2, 2010, due in various annual installments through February 15, 2017, interest at various rates from 2.00% to 4.00%	280,000
\$5,151,627 VRA Water Facilities Revolving Fund general obligation bond issued November 30, 2010, due in semi-annual installments of \$128,791 through May, 2032, interest at 0%	4,482,874
Total general obligation bonds payable	\$ 8,378,491
Compensated Absences (payable from Enterprise Funds)	\$ 34,014
Total business-type activities obligations payable	\$ 8,412,505

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements As of June 30, 2013 (Continued)

Note 8—Capital Leases:

The government has entered into lease agreements as lessee for financing the acquisition of three (3) police cruisers. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Equipment	\$ 69,102
Less: accumulated depreciation	(41,196)
Total	<u>\$ 27,906</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2013, were as follows:

Year Ended June 30	Governmental Activities
2014	\$ 12,870
2015	6,429
Total minimum lease payments	\$ 19,299
Less: amount representing interest	(1,549)
Present value of minimum lease payments	<u>\$ 17,750</u>

Note 9—Unavailable Revenue:

Unavailable revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Unavailable revenue totaling \$315,090 consists of the following:

Unavailable Tax Revenue - Unavailable revenue representing uncollected tax billings not available for funding of current expenditures totaled \$307,969 at June 30, 2013.

Prepaid Property Taxes - Property taxes due subsequent to June 30, 2013, but paid in advance by the tax payers totaled \$7,121 at June 30, 2013.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements As of June 30, 2013 (Continued)

Note 10—Litigation:

At June 30, 2013, there were no matters of litigation involving the Town or which would materially affect the Town's financial position should any court decisions on pending matters not be favorable to the Town.

Note 11—Risk Management:

The Town 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 Town participates with other localities in a public entity risk pool for their coverage of workers' compensation, public officials' liability and all other risks of loss. The Town pays an annual premium to the pools for its general insurance through member premiums. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 12—Defined Benefit Pension Plan:

A. Plan Description

Name of Plan:	Virginia Retirement System (VRS)
Identification of Plan:	Agent Multiple-Employer Defined Benefit Pension Plan
Administering Entity:	Virginia Retirement System (System)

All full-time, salaried permanent employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the 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.

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

- Members hired before July 1, 2010 and who were vested as of January 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least five years of service credit or age 50 with at least ten years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with a least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements As of June 30, 2013 (Continued)

Note 12 —Defined Benefit Pension Plan: (Continued)

A. Plan Description (Continued)

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

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1, of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950) as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at: <http://www.varetire.org/Pdf/Publications/2012-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. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2013 was 8.79% of annual covered payroll.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements As of June 30, 2013 (Continued)

Note 12 —Defined Benefit Pension Plan: (Continued)

C. Annual Pension Cost

For fiscal year 2013, the Town's annual pension cost of \$91,628 was equal to the Town's required and actual contributions.

Three Year Trend Information for Municipal Corporation of Cape Charles

Fiscal Year Ending	Annual Pension Cost (APC) (1)	Percentage of APC Contributed	Net Pension Obligation
Town:			
June 30, 2013	\$ 91,628	100%	\$ -
June 30, 2012	72,799	100%	-
June 30, 2011	72,668	100%	-

(1) Employer portion only

The fiscal year 2013 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 Town'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 Town's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll 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, 2012, the most recent actuarial valuation date, the plan was 88.14% funded. The actuarial accrued liability for benefits was \$2,016,686, and the actuarial value of assets was \$1,777,439, resulting in an unfunded actuarial accrued liability (UAAL) of \$239,247. The covered payroll (annual payroll of active employees covered by the plan) was \$1,010,785, and ratio of the UAAL to the covered payroll was 23.67%.

The schedule of funding progress, presented as required supplementary information (RSI) 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.

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REQUIRED SUPPLEMENTARY INFORMATION

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Municipal Corporation of Cape Charles, Virginia
General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
General property taxes	\$ 1,218,332	\$ 1,218,332	\$ 1,225,360	\$ 7,028
Other local taxes	418,400	418,400	429,122	10,722
Permits, privilege fees, and regulatory licenses	59,225	59,225	70,886	11,661
Fines and forfeitures	15,000	15,000	12,603	(2,397)
Revenue from the use of money and property	9,250	9,250	11,483	2,233
Charges for services	2,000	2,000	4,032	2,032
Miscellaneous	-	-	27,941	27,941
Recovered costs	20,000	20,000	20,000	-
Intergovernmental revenues:				
Commonwealth	126,525	126,525	126,204	(321)
Federal	106,625	106,625	136,990	30,365
Total revenues	<u>\$ 1,975,357</u>	<u>\$ 1,975,357</u>	<u>\$ 2,064,621</u>	<u>\$ 89,264</u>
EXPENDITURES				
Current:				
General government administration	\$ 603,804	\$ 603,804	\$ 661,441	\$ (57,637)
Public safety - police department	363,063	363,063	368,446	(5,383)
Public safety - code enforcement	99,734	99,734	73,368	26,366
Public works	538,776	538,776	535,873	2,903
Parks, recreation, and cultural	168,426	168,426	160,303	8,123
Community development	87,428	87,428	85,620	1,808
Capital projects	-	207,633	207,633	-
Debt service:				
Principal retirement	67,593	67,593	73,674	(6,081)
Interest and other fiscal charges	46,533	46,533	53,338	(6,805)
Total expenditures	<u>\$ 1,975,357</u>	<u>\$ 2,182,990</u>	<u>\$ 2,219,696</u>	<u>\$ (36,706)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ (207,633)</u>	<u>\$ (155,075)</u>	<u>\$ 52,558</u>
OTHER FINANCING SOURCES (USES)				
Issuance of notes payable	\$ -	\$ -	\$ 26,995	\$ 26,995
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,995</u>	<u>\$ 26,995</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (207,633)</u>	<u>\$ (128,080)</u>	<u>\$ 79,553</u>
Fund balance - beginning	-	207,633	2,197,142	1,989,509
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,069,062</u>	<u>\$ 2,069,062</u>

Municipal Corporation of Cape Charles, Virginia
Schedule of Pension Funding Progress

Exhibit 11

For the Year Ended June 30, 2013

Acturial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2012	\$ 1,777,439	\$ 2,016,686	\$ 239,247	88.14%	\$ 1,010,785	23.67%
6/30/2011	1,665,950	1,877,730	211,780	88.72%	1,020,456	20.75%
6/30/2010	1,528,767	1,660,255	131,488	92.08%	994,672	13.22%

OTHER SUPPLEMENTARY INFORMATION

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SUPPORTING SCHEDULES

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Municipal Corporation of Cape Charles, Virginia
Schedule of Revenues - Budget and Actual
General Fund
For the Year Ended June 30, 2013

Schedule 1
Page 1 of 2

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
Revenues from local sources:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 1,082,710	\$ 1,082,710	\$ 1,073,989	\$ (8,721)
Personal property taxes	92,622	92,622	87,407	(5,215)
Machinery and tools taxes	25,000	25,000	30,780	5,780
Penalties and interest	18,000	18,000	33,184	15,184
Total general property taxes	\$ 1,218,332	\$ 1,218,332	\$ 1,225,360	\$ 7,028
Other local taxes:				
Local sales and use taxes	\$ 39,000	\$ 39,000	\$ 37,623	\$ (1,377)
Consumers' utility taxes	47,000	47,000	45,365	(1,635)
Franchise license tax	5,000	5,000	1,732	(3,268)
Business license taxes	81,500	81,500	62,438	(19,062)
Motor vehicle licenses	20,400	20,400	17,060	(3,340)
Admissions taxes	23,000	23,000	20,397	(2,603)
Short term rental tax	4,500	4,500	4,168	(332)
Hotel and motel room taxes	25,000	25,000	30,247	5,247
Restaurant food taxes	173,000	173,000	210,092	37,092
Total other local taxes	\$ 418,400	\$ 418,400	\$ 429,122	\$ 10,722
Permits, privilege fees, and regulatory licenses:				
Permits and other licenses	\$ 59,225	\$ 59,225	\$ 70,886	\$ 11,661
Total permits, privilege fees, and regulatory licenses	\$ 59,225	\$ 59,225	\$ 70,886	\$ 11,661
Fines and forfeitures:				
Court fines and forfeitures	\$ 15,000	\$ 15,000	\$ 12,603	\$ (2,397)
Total fines and forfeitures	\$ 15,000	\$ 15,000	\$ 12,603	\$ (2,397)
Revenue from use of money and property:				
Revenue from use of money	\$ 2,500	\$ 2,500	\$ 1,596	\$ (904)
Revenue from use of property	6,750	6,750	9,887	3,137
Total revenue from use of money and property	\$ 9,250	\$ 9,250	\$ 11,483	\$ 2,233
Charges for services:				
Charges for tax review fees	\$ 1,200	\$ 1,200	\$ 989	\$ (211)
Charges for parks and recreation	-	-	255	255
Charges for copies	-	-	1,293	1,293
Charges for code enforcement	-	-	770	770
Charges for library	800	800	725	(75)
Total charges for services	\$ 2,000	\$ 2,000	\$ 4,032	\$ 2,032
Miscellaneous revenue:				
Miscellaneous	\$ -	\$ -	\$ 27,941	\$ 27,941
Total miscellaneous revenue	\$ -	\$ -	\$ 27,941	\$ 27,941

Municipal Corporation of Cape Charles, Virginia
Schedule of Revenues - Budget and Actual
General Fund
For the Year Ended June 30, 2013

Schedule 1
Page 2 of 2

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Revenues from local sources: (Continued)				
Recovered costs:				
County contribution for Library	\$ 20,000	\$ 20,000	\$ 20,000	\$ -
Total recovered costs	\$ 20,000	\$ 20,000	\$ 20,000	\$ -
 Total revenue from local sources	 \$ 1,742,207	 \$ 1,742,207	 \$ 1,801,427	 \$ 59,220
 Revenue from the Commonwealth:				
Noncategorical aid:				
Communications tax	\$ 49,000	\$ 49,000	\$ 48,244	\$ (756)
Rolling stock tax	4	4	-	(4)
Personal property tax relief funds	35,424	35,424	35,424	-
Total noncategorical aid	\$ 84,428	\$ 84,428	\$ 83,668	\$ (760)
Categorical aid:				
Fire programs	\$ 8,000	\$ 8,000	\$ 8,000	\$ -
Arts grant	5,000	5,000	5,000	-
Law enforcement grant HB 599	28,097	28,097	28,096	(1)
Litter control	1,000	1,000	-	(1,000)
Disaster recovery grant	-	-	1,440	1,440
Total categorical aid	\$ 42,097	\$ 42,097	\$ 42,536	\$ 439
 Total revenue from the Commonwealth	 \$ 126,525	 \$ 126,525	 \$ 126,204	 \$ (321)
 Revenue from the federal government:				
Categorical aid:				
TEA-21 grant	\$ 76,800	\$ 76,800	\$ 28,005	\$ (48,795)
JAG grant	750	750	2,568	1,818
Transportation safety grant	3,575	3,575	729	(2,846)
Rural Development grant	25,500	25,500	12,750	(12,750)
Disaster recovery grant	-	-	92,938	92,938
Total categorical aid	\$ 106,625	\$ 106,625	\$ 136,990	\$ 30,365
 Total revenue from the federal government	 \$ 106,625	 \$ 106,625	 \$ 136,990	 \$ 30,365
 Total General Fund	 \$ 1,975,357	 \$ 1,975,357	 \$ 2,064,621	 \$ 89,264

Municipal Corporation of Cape Charles, Virginia
Schedule of Expenditures - Budget and Actual
General Fund
For the Year Ended June 30, 2013

Schedule 2
Page 1 of 2

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
General government administration:				
Legislative:				
Town Council	\$ 13,753	\$ 13,753	\$ 11,835	\$ 1,918
Total legislative	\$ 13,753	\$ 13,753	\$ 11,835	\$ 1,918
General and financial administration:				
Town Clerk	\$ 100,585	\$ 100,585	\$ 93,356	\$ 7,229
Town Manager	307,530	307,530	376,798	(69,268)
Finance	181,936	181,936	179,452	2,484
Total general and financial administration	\$ 590,051	\$ 590,051	\$ 649,606	\$ (59,555)
Total general government administration	\$ 603,804	\$ 603,804	\$ 661,441	\$ (57,637)
Public safety:				
Law enforcement and traffic control:				
Police	\$ 363,063	\$ 363,063	\$ 368,446	\$ (5,383)
Total law enforcement and traffic control	\$ 363,063	\$ 363,063	\$ 368,446	\$ (5,383)
Inspections:				
Code enforcement	\$ 99,734	\$ 99,734	\$ 73,368	\$ 26,366
Total inspections	\$ 99,734	\$ 99,734	\$ 73,368	\$ 26,366
Total public safety	\$ 462,797	\$ 462,797	\$ 441,814	\$ 20,983
Public works:				
Maintenance of general buildings and grounds:				
General properties	\$ 538,776	\$ 538,776	\$ 535,873	\$ 2,903
Total public works	\$ 538,776	\$ 538,776	\$ 535,873	\$ 2,903
Parks, recreation, and cultural:				
Parks and recreation:				
Parks and recreation	\$ 62,701	\$ 62,701	\$ 62,743	\$ (42)
Total parks and recreation	\$ 62,701	\$ 62,701	\$ 62,743	\$ (42)
Library:				
Library administration	\$ 105,725	\$ 105,725	\$ 97,560	\$ 8,165
Total library	\$ 105,725	\$ 105,725	\$ 97,560	\$ 8,165
Total parks, recreation, and cultural	\$ 168,426	\$ 168,426	\$ 160,303	\$ 8,123

Municipal Corporation of Cape Charles, Virginia
Schedule of Expenditures - Budget and Actual
General Fund
For the Year Ended June 30, 2013

Schedule 2
Page 2 of 2

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:(Continued)				
Community development:				
Planning and community development:				
Planning	\$ 87,428	\$ 87,428	\$ 85,620	\$ 1,808
Total planning and community development	\$ 87,428	\$ 87,428	\$ 85,620	\$ 1,808
Total community development	\$ 87,428	\$ 87,428	\$ 85,620	\$ 1,808
Capital projects:				
Purchase of land and building	\$ -	\$ 207,633	\$ 207,633	\$ -
Total capital projects	\$ -	\$ 207,633	\$ 207,633	\$ -
Debt service:				
Principal retirement	\$ 67,593	\$ 67,593	\$ 73,674	\$ (6,081)
Interest and other fiscal charges	46,533	46,533	53,338	(6,805)
Total debt service	\$ 114,126	\$ 114,126	\$ 127,012	\$ (12,886)
Total General Fund	\$ 1,975,357	\$ 2,182,990	\$ 2,219,696	\$ (36,706)

OTHER STATISTICAL INFORMATION

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Table 1

Municipal Corporation of Cape Charles, Virginia
Government-wide Expenses by Function
Last Ten Fiscal Years

Fiscal Year	General Government		Parks, Recreation, and Cultural				Interest on Long-term Debt		Enterprise Funds	Total
	Administration	Public Safety (1)	Public Works	Recreation, and Cultural	Community Development	on Long-term Debt				
2004	\$ 401,153	\$ 327,616	\$ 236,981	\$ 39,179	\$ 105,111	\$ -	\$ 1,110,996	\$ 2,221,036		
2005	416,358	478,635	226,675	98,435	63,820	765	1,248,707	2,533,395		
2006	672,885	479,513	311,465	49,130	71,942	21,589	1,430,407	3,036,931		
2007	716,874	645,866	378,102	184,678	117,189	113,590	1,745,095	3,901,394		
2008	423,662	467,252	557,261	179,575	100,263	51,882	1,916,132	3,696,027		
2009	476,972	456,135	374,459	213,545	91,330	50,127	1,753,277	3,415,845		
2010	540,006	370,756	355,205	228,404	72,755	47,742	1,993,329	3,608,197		
2011	771,867	412,351	736,974	134,290	81,885	64,131	1,984,209	4,185,707		
2012	770,193	422,784	447,869	227,507	72,660	51,332	2,326,252	4,318,597		
2013	688,965	418,308	411,438	298,615	80,967	52,426	3,033,294	4,984,013		

(1) Code enforcement expenses were reported as Community Development rather than Public Safety in 2004.

Table 2

Municipal Corporation of Cape Charles, Virginia
Government-wide Revenues
Last Ten Fiscal Years

Fiscal Year	PROGRAM REVENUES				GENERAL REVENUES						
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Miscellaneous	Grants and Contributions Not Restricted to Specific Programs	Total	
2004	\$ 1,372,436	\$ 102,215	\$ -	\$ -	\$ 598,294	\$ 423,368	\$ 1,910	\$ -	\$ -	\$ 2,498,223	
2005	2,244,238	132,106	-	-	845,327	446,686	22,335	16,506	35,550	3,742,748	
2006	1,531,329	520,850	315,600		878,058	477,148	63,439	17,141	136,630	3,940,195	
2007	1,694,211	159,796	119,511		1,047,903	375,147	108,845	23,570	61,558	3,590,541	
2008	1,840,747	91,488	244,190		1,092,242	474,193	76,620	3,735	35,422	3,858,637	
2009	1,515,454	107,202	728,590		1,128,747	415,231	19,310	31,741	35,430	3,981,705	
2010	1,766,997	41,362	3,228,486		1,309,491	408,522	7,177	19,072	84,790	6,865,897	
2011	1,913,141	53,789	10,629,514		1,175,993	434,391	7,462	91,285	84,549	14,390,124	
2012	2,256,933	67,227	2,783,872		1,301,439	455,148	3,231	25,692	83,544	6,977,086	
2013	2,454,574	42,299	762,834		1,325,691	429,122	11,663	41,470	83,668	5,151,321	

Table 3

Municipal Corporation of Cape Charles, Virginia
General Governmental Expenditures by Function (1,3)
Last Ten Fiscal Years

Fiscal Year	General		Parks, Recreation, and Cultural					Total
	Government Administration	Public Safety (2)	Public Works	Recreation, and Cultural	Community Development	Debt Service		
2004	\$ 407,426	\$ 338,000	\$ 237,965	\$ 81,679	\$ 99,822	\$ -	\$ 1,164,892	
2005	445,330	496,560	217,905	110,775	63,820	-	1,334,390	
2006	649,512	490,190	306,803	65,316	70,747	30,856	1,613,424	
2007	697,049	625,181	307,665	76,495	118,384	101,223	1,925,997	
2008	596,869	447,301	542,103	107,922	98,134	113,018	1,905,347	
2009	515,891	441,025	358,766	102,885	89,316	120,982	1,628,865	
2010	503,997	381,947	1,010,388	119,252	75,878	100,823	2,192,285	
2011	741,412	397,501	767,847	133,369	90,925	117,546	2,248,600	
2012	804,556	426,190	523,896	140,580	78,201	116,088	2,089,511	
2013	661,441	441,814	535,873	160,303	85,620	127,012	2,012,063	

(1) Includes General Fund.

(2) Code enforcement expenditures were reported as Community Development rather than Public Safety in 2004.

(3) Does not include capital project expenditures.

Table 4

Municipal Corporation of Cape Charles, Virginia
General Governmental Revenues by Source (1)
Last Ten Fiscal Years

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, Regulatory Licenses	Fines and Forfeitures	Revenue from the			Recovered Costs	Inter-governmental	Total
					Use of Money and Property	Charges for Services	Miscellaneous			
2004	\$ 585,149	\$ 399,313	\$ 288,044	\$ 3,181	\$ 1,910	\$ 7,620	\$ 3,176	\$ -	\$ 104,100	\$ 1,392,493
2005	808,543	446,686	495,982	3,798	14,005	35,857	16,506	42,926	94,717	1,959,020
2006	868,158	477,148	120,387	6,927	63,432	7,082	17,141	32,500	495,324	2,088,099
2007	1,030,953	375,147	94,615	6,343	108,842	6,833	23,570	32,500	221,354	1,900,157
2008	1,083,243	474,193	83,529	22,935	76,616	3,425	3,735	15,500	126,910	1,890,086
2009	1,074,282	415,231	53,441	10,469	19,310	3,726	31,741	15,500	142,632	1,766,332
2010	1,238,835	408,522	50,448	10,736	5,942	4,193	2,812	17,348	348,548	2,087,384
2011	1,239,811	434,391	47,391	23,051	6,552	3,223	16,048	24,540	878,774	2,673,781
2012	1,227,729	455,148	40,821	13,020	3,057	2,007	5,780	64,074	561,861	2,373,497
2013	1,225,360	429,122	70,886	12,603	11,483	4,032	27,941	20,000	263,194	2,064,621

(1) Includes General Fund

Table 5

Municipal Corporation of Cape Charles, Virginia
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy (1)	Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1)		Total Tax Collections	Percent of Total Tax Collections to Tax Levy		Outstanding Delinquent Taxes to Tax Levy	
							Total Tax Collections		Outstanding Delinquent Taxes (1)	
2004	\$ 594,654	\$ 545,309	91.70%	\$ 34,563	\$ 579,872	97.51%	\$ 83,908	14.11%		
2005	794,493	772,675	97.25%	53,294	825,969	103.96%	72,568	9.13%		
2006	914,102	883,820	96.69%	14,902	898,722	98.32%	75,791	8.29%		
2007	1,090,686	1,049,395	96.21%	9,353	1,058,748	97.07%	63,626	5.83%		
2008	1,134,614	1,079,654	95.16%	21,808	1,101,462	97.08%	72,624	6.40%		
2009	1,148,978	1,052,270	91.58%	24,657	1,076,927	93.73%	125,916	10.96%		
2010	1,305,225	1,233,336	94.49%	19,941	1,253,277	96.02%	197,746	15.15%		
2011	1,306,596	1,211,634	92.73%	10,123	1,221,757	93.51%	133,928	10.25%		
2012	1,334,098	1,194,242	89.52%	43,357	1,237,599	92.77%	198,183	14.86%		
2013	1,346,641	1,168,065	86.74%	59,536	1,227,601	91.16%	263,301	19.55%		

(1) Exclusive of penalties, interest and land redemptions.

Table 6

Municipal Corporation of Cape Charles, Virginia
Assessed Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Real Estate (1)	Personal Property	Mobile Homes	Public Utility		Total
				Real Estate (2)	Real Estate (2)	
2004	\$ 101,456,900	\$ 7,663,100	\$ 18,120	\$ 1,267,559	\$ 1,267,559	\$ 110,405,679
2005	214,842,500	9,501,400	15,120	1,734,202	1,734,202	226,093,222
2006	248,804,897	9,970,700	27,920	1,649,630	1,649,630	260,453,147
2007	281,671,100	12,756,100	34,320	1,180,071	1,180,071	295,641,591
2008	309,377,451	12,581,000	34,300	1,086,411	1,086,411	323,079,162
2009	578,730,450	13,332,827	17,500	2,303,243	2,303,243	594,384,020
2010	610,324,249	12,728,600	17,500	3,052,751	3,052,751	626,123,100
2011	618,341,300	12,162,400	17,000	3,678,477	3,678,477	634,199,177
2012	622,094,327	14,489,100	17,000	3,940,015	3,940,015	640,540,442
2013	623,140,200	15,296,652	17,000	3,688,742	3,688,742	642,142,594

(1) Real estate is assessed at 100% of fair market value.

(2) Assessed values are established by the State Corporation Commission.

Table 7

Municipal Corporation of Cape Charles, Virginia
Property Tax Rates (1)
Last Ten Fiscal Years

Fiscal Year	Real Estate		Personal Property		Mobile Homes		Public Utility
							Real Estate
2004	\$	0.47	\$	2.00	\$	0.47	\$ 0.47
2005		0.3008		2.00		0.3008	0.3008
2006		0.3008		2.00		0.3008	0.3008
2007		0.3008		2.00		0.3008	0.3008
2008		0.3008		2.00		0.3008	0.3008
2009		0.1628		2.00		0.1628	0.1628
2010		0.1828		2.00		0.1828	0.1828
2011		0.1828		2.00		0.1828	0.1828
2012		0.1828		2.00		0.1828	0.1828
2013		0.1828		2.00		0.1828	0.1828

(1) Per \$100 of assessed value.

Table 8

**Municipal Corporation of Cape Charles, Virginia
Computation of Legal Debt Margin
At June 30, 2013**

Assessed value of real property, January 1, 2012 (1)	\$ 626,828,942
Debt limit: 10% of assessed value	\$ 62,682,894
Amount of debt applicable to debt limit:	
Gross debt (2)	\$ 9,442,220
Less: Revenue bonds and notes secured by property	(24,856)
Net general obligation bonds and loans	\$ 9,417,364
Legal debt limit	\$ 53,265,530

(1) Assessed value of real property, including public service corporations as of January 1, 2012.

(2) Includes bonded debt and long-term notes payable.

Table 9

Municipal Corporation of Cape Charles, Virginia
Ratio of Net General Bonded Debt to
Assessed Value and Net Bonded Debt Per Capita
Last Ten Fiscal Years

Fiscal Year	Population (1)	Assessed Value (2)	Gross Bonded Debt (3)	Less:		Net Bonded Debt (4)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
				Debt Service Monies Available	Debt Payable from Enterprise Revenues (4)			
2004	1,134	\$ 110,405,679	\$ 1,751,686	\$ -	\$ 1,751,686	\$ -	0.00%	\$ -
2005	1,134	226,093,222	1,713,987	-	1,713,987	-	0.00%	-
2006	1,134	260,453,147	2,773,334	-	1,673,334	1,100,000	0.42%	970
2007	1,134	295,641,591	3,181,952	-	2,026,331	1,155,621	0.39%	1,019
2008	1,134	323,079,162	3,088,603	-	1,974,829	1,113,774	0.34%	982
2009	1,134	594,384,020	4,224,092	-	3,155,384	1,068,708	0.18%	942
2010	1,009	626,123,100	9,962,723	-	8,766,119	1,196,604	0.19%	1,186
2011	1,009	634,199,177	10,703,649	-	9,554,330	1,149,319	0.18%	1,139
2012	1,009	640,540,442	9,092,562	-	7,998,966	1,093,596	0.17%	1,084
2013	1,009	642,142,594	9,417,364	-	8,378,491	1,038,873	0.16%	1,030

(1) United States Census Bureau, Census 2000 and Census 2010.

(2) From Table 6.

(3) Includes all long-term general obligation bonded debt. Excludes capital leases and compensated absences.

(4) Includes general obligation debt payable from enterprise revenues.

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COMPLIANCE SECTION

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ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

**To the Honorable Members of the Town Council
Municipal Corporation of Cape Charles
Cape Charles, 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, and each major fund of Municipal Corporation of Cape Charles, Virginia as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Municipal Corporation of Cape Charles, Virginia's basic financial statements, and have issued our report thereon dated May 2, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Municipal Corporation of Cape Charles, Virginia'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 Municipal Corporation of Cape Charles, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of Municipal Corporation of Cape Charles, Virginia's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses, 2013-01.

Compliance and Other Matters

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

Municipal Corporation of Cape Charles, Virginia's Response to Findings

Municipal Corporation of Cape Charles, Virginia's response to the findings identified in our audit is described in the accompany schedule of findings and responses. Municipal Corporation of Cape Charles, Virginia's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing 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.

A handwritten signature in black ink, appearing to read "D. F. Clark", followed by a long horizontal line.

Richmond, Virginia
May 2, 2014

Municipal Corporation of Cape Charles, Virginia
Schedule of Findings and Responses
For the year ended June 30, 2013

Section I-Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	<u>unmodified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	<u> ✓ </u> yes	<u> </u> no
Significant deficiency(ies) identified?	<u> </u> yes	<u> ✓ </u> none reported
Noncompliance material to financial statements noted?	<u> </u> yes	<u> ✓ </u> no

Section II-Financial Statement Findings

2013-01

Financial Reporting

Condition:	Inadequate internal controls over financial statement reporting.
Criteria:	Internal controls should be in place that provide assurance that audited financial statements reconcile to the Town's internal documents.
Context:	Through review of balance sheet accounts at June 30, 2013, it was noted that year-end entries had not been prepared and posted for most accounts nor had prior year accrual entries been reversed in FY12.
Effect:	Audited financial statements, including related footnotes, may contain an undetected material misstatement.
Cause:	Procedures have not been implemented to provide the necessary internal controls over financial reporting.
Recommendation:	Procedures should be implemented for the posting of all year-end entries to convert general ledger accounts to the reporting basis of the individual funds. This would include making entries to post current year receivables, interest payable, accrued leave liabilities, principal payments on debt, and capital assets transactions, including depreciation.
Management's Response:	The Town is considering corrective action for FY14.

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