

MUNICIPAL CORPORATION OF CAPE CHARLES, VIRGINIA

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2014

MUNICIPAL CORPORATION OF CAPE CHARLES, VIRGINIA

ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of pension funding progress on pages 4-9, 49, and 50 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.

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, the 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 March 31, 2015, 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 dark ink, appearing to read "D. F. Clark", followed by a long horizontal line extending to the right.

Richmond, Virginia
March 31, 2015

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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, 2014. 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 \$25,202,836 (net position).

Fund Financial Statements

The General Fund, on a current financial resources basis, reported revenues and other financing sources in excess of expenditures and other uses by \$172,268 (Exhibit 5).

- < As of the close of the current fiscal year, the Town's general fund reported an ending fund balance of \$2,241,330, an increase of \$172,268 in comparison with the prior year.
- < The combined long-term obligations increased \$657,073 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 following 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 statements 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 \$25,202,836 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	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 2,549,313	\$ 2,496,611	\$ 578,551	\$ 103,221	\$ 3,127,864	\$ 2,599,832
Capital assets	4,062,535	4,070,147	28,848,239	29,400,508	32,910,774	33,470,655
Total assets	<u>\$ 6,611,848</u>	<u>\$ 6,566,758</u>	<u>\$ 29,426,790</u>	<u>\$ 29,503,729</u>	<u>\$ 36,038,638</u>	<u>\$ 36,070,487</u>
Current liabilities	\$ 131,838	\$ 132,834	\$ 499,910	\$ 588,375	\$ 631,748	\$ 721,209
Long-term liabilities outstanding	1,377,798	1,134,475	8,826,256	8,412,505	10,204,054	9,546,980
Total liabilities	<u>\$ 1,509,636</u>	<u>\$ 1,267,309</u>	<u>\$ 9,326,166</u>	<u>\$ 9,000,880</u>	<u>\$ 10,835,802</u>	<u>\$ 10,268,189</u>
Deferred Inflows of resources:						
Unavailable revenue	\$ -	\$ 7,121	\$ -	\$ -	\$ -	\$ 7,121
Total deferred inflows of resources	<u>\$ -</u>	<u>\$ 7,121</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,121</u>
Net position:						
Net investment in capital assets	\$ 3,697,627	\$ 3,319,472	\$ 20,055,013	\$ 21,022,017	\$ 23,752,640	\$ 24,341,489
Restricted for:						
Debt covenants	-	-	257,582	354,834	257,582	354,834
Unrestricted	1,404,585	1,972,856	(211,971)	(874,002)	1,192,614	1,098,854
Total net position	<u><u>\$ 5,102,212</u></u>	<u><u>\$ 5,292,328</u></u>	<u><u>\$ 20,100,624</u></u>	<u><u>\$ 20,502,849</u></u>	<u><u>\$ 25,202,836</u></u>	<u><u>\$ 25,795,177</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Analysis (Continued)

During the current fiscal year, the Town's net position decreased by \$592,341. 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	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 77,698	\$ 87,521	\$ 2,493,870	\$ 2,367,053	\$ 2,571,568	\$ 2,454,574
Operating grants and contributions	45,009	41,096	-	1,203	45,009	42,299
Capital grants and contributions	119,759	138,430	49,400	624,404	169,159	762,834
General revenues:						
General property taxes	1,286,747	1,325,691	-	-	1,286,747	1,325,691
Other local taxes	511,211	429,122	-	-	511,211	429,122
Grants and other contributions not restricted	82,852	83,668	-	-	82,852	83,668
Other general revenues	19,764	39,424	30,522	13,709	50,286	53,133
Total revenues	<u>\$ 2,143,040</u>	<u>\$ 2,144,952</u>	<u>\$ 2,573,792</u>	<u>\$ 3,006,369</u>	<u>\$ 4,716,832</u>	<u>\$ 5,151,321</u>
Expenses:						
General government administration	\$ 693,614	\$ 688,965	\$ -	\$ -	\$ 693,614	\$ 688,965
Public safety	409,347	418,308	-	-	409,347	418,308
Public works	768,491	411,438	-	-	768,491	411,438
Parks, recreation, and cultural	342,274	298,615	-	-	342,274	298,615
Community development	63,438	80,967	-	-	63,438	80,967
Interest and other fiscal charges	55,992	52,426	-	-	55,992	52,426
Enterprise funds	-	-	2,976,017	3,033,294	2,976,017	3,033,294
Total expenses	<u>\$ 2,333,156</u>	<u>\$ 1,950,719</u>	<u>\$ 2,976,017</u>	<u>\$ 3,033,294</u>	<u>\$ 5,309,173</u>	<u>\$ 4,984,013</u>
Change in net position	\$ (190,116)	\$ 194,233	\$ (402,225)	\$ (26,925)	\$ (592,341)	\$ 167,308
Beginning of year	5,292,328	5,098,095	20,502,849	20,529,774	25,795,177	25,627,869
End of year	<u>\$ 5,102,212</u>	<u>\$ 5,292,328</u>	<u>\$ 20,100,624</u>	<u>\$ 20,502,849</u>	<u>\$ 25,202,836</u>	<u>\$ 25,795,177</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 \$2,241,330, an increase of \$172,268 in comparison with the prior year. \$1,281,179 of June 30, 2014 fund balance 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 (\$211,971). Total net position decreased \$402,225. 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 \$362,870. Actual expenditures and other uses were less than budgetary estimates by \$568,513, resulting in a positive variance of \$205,643.

Capital Asset and Debt Administration

Capital assets - The Town's investment in capital assets for its governmental activities and business type activities as of June 30, 2014 amounts to \$4,062,535 and \$28,848,239, respectively (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 \$10,118,285. Of this amount, \$10,094,123 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 \$658,314.

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

Next Year's Budgets and Rates

The fiscal year 2015 budget decreased by approximately 7%. All tax rates remained the same as in fiscal year 2014.

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, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,114,733	\$ 194,546	\$ 1,309,279
Receivables (net of allowance for uncollectibles):			
Taxes receivable	221,653	-	221,653
Accounts receivable	53,944	257,348	311,292
Other receivable	499	5,000	5,499
Internal balances	158,190	(158,190)	-
Due from other governmental units	40,143	-	40,143
Inventories	-	22,265	22,265
Restricted assets:			
Cash and cash equivalents - bond requirements	-	257,582	257,582
Cash and cash equivalents - unspent bond proceeds	960,151	-	960,151
Capital assets (net of accumulated depreciation):			
Land and land improvements	2,114,692	-	2,114,692
Buildings and improvements	1,005,626	358,328	1,363,954
Improvements other than buildings	-	7,215,892	7,215,892
Water and sewer system	-	21,061,860	21,061,860
Machinery and equipment	121,603	188,814	310,417
Infrastructure	783,206	-	783,206
Construction in progress	37,408	23,345	60,753
Total assets	<u>\$ 6,611,848</u>	<u>\$ 29,426,790</u>	<u>\$ 36,038,638</u>
LIABILITIES			
Accounts payable	\$ 42,523	\$ 143,867	\$ 186,390
Accrued liabilities	68,798	265,165	333,963
Accrued interest payable	20,517	51,799	72,316
Amounts held for others	-	39,079	39,079
Long-term liabilities:			
Due within one year	91,396	424,675	516,071
Due in more than one year	1,286,402	8,401,581	9,687,983
Total liabilities	<u>\$ 1,509,636</u>	<u>\$ 9,326,166</u>	<u>\$ 10,835,802</u>
NET POSITION			
Net investment in capital assets	\$ 3,697,627	\$ 20,055,013	\$ 23,752,640
Restricted for:			
Debt service and bond covenants	-	257,582	257,582
Unrestricted (deficit)	1,404,585	(211,971)	1,192,614
Total net position	<u>\$ 5,102,212</u>	<u>\$ 20,100,624</u>	<u>\$ 25,202,836</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, 2014

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
PRIMARY GOVERNMENT:							
Governmental activities:							
General government administration	\$ 693,614	\$ 601	\$ -	\$ -	\$ (693,013)	\$ -	\$ (693,013)
Public safety	409,347	75,363	38,949		(295,035)	-	(295,035)
Public works	768,491	-	1,060	94,759	(672,672)	-	(672,672)
Parks, recreation, and cultural	342,274	1,734	5,000	25,000	(310,540)	-	(310,540)
Community development	63,438	-	-	-	(63,438)	-	(63,438)
Interest on long-term debt	55,992	-	-	-	(55,992)	-	(55,992)
Total governmental activities	\$ 2,333,156	\$ 77,698	\$ 45,009	\$ 119,759	\$ (2,090,690)	\$ -	\$ (2,090,690)
Business-type activities:							
Water and Sewer	\$ 1,678,294	\$ 1,461,891	\$ -	\$ 49,400	\$ -	\$ (167,003)	\$ (167,003)
Harbor	1,129,496	864,410	-	-	-	(265,086)	(265,086)
Sanitation	168,227	167,569	-	-	-	(658)	(658)
Total business-type activities	\$ 2,976,017	\$ 2,493,870	\$ -	\$ 49,400	\$ -	\$ (432,747)	\$ (432,747)
Total primary government	\$ 5,309,173	\$ 2,571,568	\$ 45,009	\$ 169,159	\$ (2,090,690)	\$ (432,747)	\$ (2,523,437)
General revenues:							
General property taxes		\$ 1,286,747	\$ -	\$ -	\$ 1,286,747		
Restaurant food taxes		241,874	-	-	241,874		
Business license taxes		95,549	-	-	95,549		
Other local taxes		173,788	-	-	173,788		
Unrestricted revenues from use of money and property		8,148		159	159	8,307	
Miscellaneous		11,616		30,363	30,363	41,979	
Grants and contributions not restricted to specific programs		82,852		-	-	82,852	
Total general revenues		\$ 1,900,574	\$ 30,522	\$ 1,931,096			
Change in net position		(190,116)	(402,225)	(592,341)			
Net position - beginning		\$ 5,292,328	\$ 20,502,849	\$ 25,795,177			
Net position - ending		\$ 5,102,212	\$ 20,100,624	\$ 25,202,836			

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, 2014

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 1,114,733
Receivables:	
Taxes receivable	221,653
Accounts receivable	53,944
Due from other funds	501,471
Due from other governmental units	40,143
Other receivables	499
Restricted assets:	
Cash and cash equivalents - unspent bond proceeds	960,151
Total assets	<u>\$ 2,892,594</u>
LIABILITIES	
Accounts payable	\$ 42,523
Accrued liabilities	68,798
Due to other funds	343,281
Total liabilities	<u>\$ 454,602</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	<u>\$ 196,662</u>
FUND BALANCE	
Restricted:	
Unspent bond proceeds	\$ 960,151
Unassigned	1,281,179
Total fund balance	<u>\$ 2,241,330</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 2,892,594</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, 2014

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

Total fund balance per Exhibit 3 - Balance Sheet - Governmental Fund	\$ 2,241,330
--	--------------

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Capital assets	\$ 7,184,186	
Accumulated depreciation	(3,121,651)	4,062,535

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

196,662

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	\$ (1,300,897)	
Capital lease obligations	(6,031)	
Notes payable	(18,131)	
Compensated absences	(52,739)	
Accrued interest payable	(20,517)	(1,398,315)

Net position of governmental activities

\$ 5,102,212

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, 2014

	<u>General</u>
REVENUES	
General property taxes	\$ 1,398,054
Other local taxes	511,211
Permits, privilege fees, and regulatory licenses	60,905
Fines and forfeitures	14,458
Revenue from the use of money and property	8,148
Charges for services	2,335
Miscellaneous	11,616
Recovered costs	20,000
Intergovernmental:	
Commonwealth	130,326
Federal	117,294
Total revenues	<u>\$ 2,274,347</u>
EXPENDITURES	
Current:	
General government administration	\$ 671,028
Public safety - police department	333,833
Public safety - code enforcement	72,419
Public works	430,871
Parks, recreation, and cultural	203,466
Community development	60,299
Capital projects	517,893
Debt service:	
Principal retirement	76,386
Interest and other fiscal charges	55,850
Total expenditures	<u>\$ 2,422,045</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (147,698)</u>
OTHER FINANCING SOURCES (USES)	
Issuance of general obligation bonds	\$ 319,966
Total other financing sources (uses)	<u>\$ 319,966</u>
Net change in fund balance	\$ 172,268
Fund balance - beginning	2,069,062
Fund balance - ending	<u><u>\$ 2,241,330</u></u>

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

Municipal Corporation of Cape Charles, Virginia
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balance of Governmental Fund
to the Statement of Activities
For the Year Ended June 30, 2014

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

Net change in fund balance - total governmental fund	\$	172,268
--	----	---------

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 depreciation expense exceeded the capital outlays in the current period.

Capital outlays	\$	227,311	
Depreciation expense		<u>(234,923)</u>	(7,612)

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.		(111,307)
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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	\$	57,942	
Principal retirement on capital lease obligations		11,719	
Principal retirement on notes payable		6,725	
Issuance of general obligation bonds		<u>(319,966)</u>	(243,580)

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	\$	257	
(Increase) decrease in interest payable		<u>(142)</u>	115

Change in net position of governmental activities	\$	<u><u>(190,116)</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, 2014

	<u>Water and Sewer</u>	<u>Harbor</u>	<u>Sanitation</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 194,046	\$ 500	\$ -	\$ 194,546
Accounts receivables, net of allowance for uncollectibles	192,012	44,738	20,598	257,348
Due from other funds	90,244	46,703	253,039	389,986
Other receivables	5,000	-	-	5,000
Inventories	-	22,265	-	22,265
Total current assets	<u>\$ 481,302</u>	<u>\$ 114,206</u>	<u>\$ 273,637</u>	<u>\$ 869,145</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents - bond requirements	\$ 257,582	\$ -	\$ -	\$ 257,582
Total restricted assets	<u>\$ 257,582</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 257,582</u>
Capital assets (net of accumulated depreciation):				
Water and sewer system	\$ 21,061,860	\$ -	\$ -	\$ 21,061,860
Buildings and improvements	-	358,328	-	358,328
Improvements other than buildings	3,539,428	3,676,464	-	7,215,892
Machinery and equipment	116,868	71,946	-	188,814
Construction in progress	23,345	-	-	23,345
Total capital assets	<u>\$ 24,741,501</u>	<u>\$ 4,106,738</u>	<u>\$ -</u>	<u>\$ 28,848,239</u>
Total noncurrent assets	<u>\$ 24,999,083</u>	<u>\$ 4,106,738</u>	<u>\$ -</u>	<u>\$ 29,105,821</u>
Total assets	<u>\$ 25,480,385</u>	<u>\$ 4,220,944</u>	<u>\$ 273,637</u>	<u>\$ 29,974,966</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 81,497	\$ 48,771	\$ 13,599	\$ 143,867
Accrued liabilities	238,307	25,914	944	265,165
Due to other funds	46,516	501,471	189	548,176
Interest payable	33,287	18,512	-	51,799
Customer deposits payable	37,179	1,900	-	39,079
Bonds payable - current portion	353,658	67,714	-	421,372
Compensated absences - current portion	2,521	782	-	3,303
Total current liabilities	<u>\$ 792,965</u>	<u>\$ 665,064</u>	<u>\$ 14,732</u>	<u>\$ 1,472,761</u>
Noncurrent liabilities:				
Bonds payable - net of current portion	\$ 7,113,678	\$ 1,258,176	-	\$ 8,371,854
Compensated absences - net of current portion	22,690	7,037	-	29,727
Total noncurrent liabilities	<u>\$ 7,136,368</u>	<u>\$ 1,265,213</u>	<u>\$ -</u>	<u>\$ 8,401,581</u>
Total liabilities	<u>\$ 7,929,333</u>	<u>\$ 1,930,277</u>	<u>\$ 14,732</u>	<u>\$ 9,874,342</u>
NET POSITION				
Net investment in capital assets	\$ 17,274,165	\$ 2,780,848	-	\$ 20,055,013
Restricted for debt service and bond covenants	257,582	-	-	257,582
Unrestricted	19,305	(490,181)	258,905	(211,971)
Total net position	<u>\$ 17,551,052</u>	<u>\$ 2,290,667</u>	<u>\$ 258,905</u>	<u>\$ 20,100,624</u>

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, 2014

	<u>Water and Sewer</u>	<u>Harbor</u>	<u>Sanitation</u>	<u>Total</u>
OPERATING REVENUES				
Charges for services:				
Water	\$ 500,968	\$ -	\$ -	\$ 500,968
Sewer	923,509	-	-	923,509
Septic	6,400	-	-	6,400
Harbor fees	-	202,008	-	202,008
Penalties	31,014	-	-	31,014
Refuse collection	-	-	167,569	167,569
Fuel and oil sales	-	632,386	-	632,386
Events	-	30,016	-	30,016
Miscellaneous	16,227	14,136	-	30,363
Total operating revenues	<u>\$ 1,478,118</u>	<u>\$ 878,546</u>	<u>\$ 167,569</u>	<u>\$ 2,524,233</u>
OPERATING EXPENSES				
Personnel services	\$ 361,460	\$ 140,180	\$ 4,992	\$ 506,632
Fringe benefits	136,559	32,642	2,328	171,529
Contractual services	128,611	6,041	159,336	293,988
Other supplies and expenses	331,950	707,385	1,473	1,040,808
Depreciation	638,151	199,234	98	837,483
Total operating expenses	<u>\$ 1,596,731</u>	<u>\$ 1,085,482</u>	<u>\$ 168,227</u>	<u>\$ 2,850,440</u>
Operating income (loss)	<u>\$ (118,613)</u>	<u>\$ (206,936)</u>	<u>\$ (658)</u>	<u>\$ (326,207)</u>
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	\$ 159	\$ -	\$ -	\$ 159
Connection fees	49,400	-	-	49,400
Interest and fiscal charges	(81,563)	(44,014)	-	(125,577)
Total nonoperating revenues (expenses)	<u>\$ (32,004)</u>	<u>\$ (44,014)</u>	<u>\$ -</u>	<u>\$ (76,018)</u>
Change in net position	<u>\$ (150,617)</u>	<u>\$ (250,950)</u>	<u>\$ (658)</u>	<u>\$ (402,225)</u>
Total net position - beginning	17,701,669	2,541,617	259,563	20,502,849
Total net position - ending	<u>\$ 17,551,052</u>	<u>\$ 2,290,667</u>	<u>\$ 258,905</u>	<u>\$ 20,100,624</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, 2014

	<u>Water and Sewer</u>	<u>Harbor</u>	<u>Sanitation</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 1,491,936	\$ 891,132	\$ 171,271	\$ 2,554,339
Payments for operating expenses	(514,341)	(756,703)	(173,507)	(1,444,551)
Payments to employees	(499,792)	(159,560)	(7,320)	(666,672)
Net cash provided by (used for) operating activities	\$ 477,803	\$ (25,131)	\$ (9,556)	\$ 443,116
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	\$ (919,795)	\$ -	\$ -	\$ (919,795)
Transfers from other funds	-	219,042	9,556	228,598
Net cash provided by (used for) noncapital financing activities	\$ (919,795)	\$ 219,042	\$ 9,556	\$ (691,197)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Additions to capital assets	\$ (265,716)	\$ (19,498)	\$ -	\$ (285,214)
Principal payments on bonds	(1,470,808)	(130,322)	-	(1,601,130)
Connection fees	49,400	-	-	49,400
Capital grants	288,395	9,884	-	298,279
Proceeds from indebtedness	2,015,864	-	-	2,015,864
Interest payments	(79,986)	(53,975)	-	(133,961)
Net cash provided by (used for) capital and related financing activities	\$ 537,149	\$ (193,911)	\$ -	\$ 343,238
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends received	\$ 159	\$ -	\$ -	\$ 159
Net cash provided by (used for) investing activities	\$ 159	\$ -	\$ -	\$ 159
Net increase (decrease) in cash and cash equivalents	\$ 95,316	\$ -	\$ -	\$ 95,316
Cash and cash equivalents - beginning - including restricted	356,312	500	-	356,812
Cash and cash equivalents - ending - including restricted	\$ 451,628	\$ 500	\$ -	\$ 452,128
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (118,613)	\$ (206,936)	\$ (658)	\$ (326,207)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation expense	\$ 638,151	\$ 199,234	\$ 98	\$ 837,483
(Increase) decrease in accounts receivable	5,990	13,436	3,702	23,128
(Increase) decrease in inventories	-	(10,223)	-	(10,223)
Increase (decrease) in customer deposits	7,828	(850)	-	6,978
Increase (decrease) in accounts payable	(53,780)	(33,054)	(12,698)	(99,532)
Increase (decrease) in accrued liabilities	1,370	11,103	-	12,473
Increase (decrease) in compensated absences	(3,143)	2,159	-	(984)
Total adjustments	\$ 596,416	\$ 181,805	\$ (8,898)	\$ 769,323
Net cash provided by (used for) operating activities	\$ 477,803	\$ (25,131)	\$ (9,556)	\$ 443,116

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, 2014

Note 1 – Summary of Significant Accounting Policies:

The Municipal Corporation of Cape Charles, Virginia (the "Municipal Corp.") is governed by an elected mayor and a six member Council. The Municipal Corp. 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 Municipal Corp.'s accounting policies are described below.

Financial Statement Presentation - The Municipal Corp.'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.

Notes to Financial Statements
As of June 30, 2014 (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.

Notes to Financial Statements
As of June 30, 2014 (Continued)

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

B. Individual Component Unit Disclosures

Blended Component Units. The Municipal Corp. has no blended component units at June 30, 2014.

Discretely Presented Component Units. - The Municipal Corp. has no discretely presented component units at June 30, 2014.

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.

Notes to Financial Statements
As of June 30, 2014 (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 unavailable revenues. Sales and utility taxes, which are collected by the state or utility and subsequently remitted to the Municipal Corp., are recognized as revenues and receivables upon collection by the state or utility, which is generally within two months preceding receipt by the Municipal Corp..

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 Municipal Corp. 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 Municipal Corp.. 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.

Notes to Financial Statements
As of June 30, 2014 (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 Municipal Corp.

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 Municipal Corp. 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 \$117,325, and \$61,833, respectively, at June 30, 2014.

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

Notes to Financial Statements
As of June 30, 2014 (Continued)

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

G. Receivables and Payables (continued)

The Municipal Corp. bills and collects its own property taxes. Property taxes are based upon the rate levied by Municipal Corp. Council multiplied by the taxable assessed value. The assessed value of real and personal property is determined for the Municipal Corp. 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 or business-type activities column in the government-wide financial statements. Capital assets are defined by the Municipal Corp. 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. No interest was capitalized for the fiscal year ended June 30, 2014.

Property, plant and equipment of the Municipal Corp. 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.

Notes to Financial Statements
As of June 30, 2014 (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 Municipal Corp.'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 represents 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.

Notes to Financial Statements
As of June 30, 2014 (Continued)

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

O. Fund Equity

The Municipal Corp. 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 (Corp.us 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 Municipal Corp.'s policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

Municipal Corp. 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 Municipal Corp. 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. 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 Municipal Corp. has no reportable deferred outflows of resources.

Notes to Financial Statements
As of June 30, 2014 (Continued)

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

P. Deferred Outflows/Inflows of Resources (Continued)

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 Municipal Corp. 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 is deferred and recognized as an inflow of resources in the period that the amount becomes unavailable.

Q. Net Position Flow Assumption

Sometimes the Municipal Corp. 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 Municipal Corp.'s policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

R. 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 Statements 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 Municipal Corp. believes the implementation of Statement No. 68 will significantly impact the Municipal Corp.'s net position; however, no formal study or estimate of the impact of this standard has been performed.

Note 2—Stewardship, Compliance, and Accounting:

The following procedures are used by the Municipal Corp. in establishing the budgetary data reflected in the financial statements:

1. Prior to June 1st, the Mayor submits to the Municipal Corp. 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.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements As of June 30, 2014 (Continued)

Note 2—Stewardship, Compliance, and Accounting: (Continued)

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 Municipal Corp. Council or Municipal Corp. Manager.
5. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
6. Appropriations lapse on June 30, for all Municipal Corp. units.

Expenditures and Appropriations

Expenditures did not exceed appropriations in any funds for the fiscal year ended June 30, 2014.

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.

Investments

Statutes authorize the Municipal Corp. 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 Municipal Corp.’s rated debt investments as of June 30, 2014 were rated by Standard and Poor’s and the ratings are presented below using the Standard and Poor’s rating scale. The Municipal Corp.’s investment policy has an emphasis on high credit quality and known marketability. The Municipal Corp.’s policy seeks to maximize the rate of return on investments while maintaining a low level of risk.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2014 (Continued)

Note 3 – Deposits and Investments: (Continued)

Credit Risk of Debt Securities (Continued)

<u>Rated Debt Investments</u>	<u>Fair Quality Rating</u>
	<u>AAAm</u>
Local Government Investment Pool	\$ 606,717
Virginia State Non-Arbitrage Program	959,746
Money Market Mutual Fund	257,987
Total	<u>\$ 1,824,450</u>

External Investment Pools

The State Non-Arbitrage Pool (SNAP) is an open-end management investment company registered with the Securities and Exchange Commission. The fair value of the positions in the Local Government Investment Pool (LGIP) and SNAP are the same as the value of the pool shares. As LGIP 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.

Note 4 – Due to/from Other Governments:

At June 30, 2014, the Municipal Corp. has receivables from other governments as follows:

	<u>Governmental Activities</u>
Other Local Governments:	
County of Northampton	\$ 24,657
Commonwealth of Virginia:	
Communications tax	7,990
Fire programs fund	1,000
Federal Government:	
ISTEA Grant	<u>6,496</u>
Total due from other governments	<u>\$ 40,143</u>

Municipal Corporation of Cape Charles, Virginia

**Notes to Financial Statements
As of June 30, 2014 (Continued)**

Note 5 – Interfund Obligations:

Details of the Municipal Corp.'s interfund receivable and payables as of June 30, 2014, are as follows:

	Interfund Receivables	Interfund Payables
General Fund	\$ 501,471	\$ 343,281
Water and Sewer Fund	90,244	46,516
Harbor Fund	46,703	501,471
Sanitation Fund	253,039	189
	<u>891,457</u>	<u>891,457</u>
Total	\$ <u>891,457</u>	\$ <u>891,457</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.

Note 6 – Capital Assets:

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2014:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Governmental Activities:				
Capital assets not subject to depreciation:				
Construction in progress	\$ -	\$ 37,408	\$ -	\$ 37,408
Land and land improvements	2,012,729	101,963	-	2,114,692
Total capital assets not subject to depreciation	\$ 2,012,729	\$ 139,371	\$ -	\$ 2,152,100
Capital assets subject to depreciation:				
Buildings and improvements	\$ 3,064,540	\$ 52,360	\$ -	\$ 3,116,900
Machinery and equipment	955,360	35,580	-	990,940
Infrastructure	924,246	-	-	924,246
Total capital assets subject to depreciation	\$ 4,944,146	\$ 87,940	\$ -	\$ 5,032,086
Less accumulated depreciation for:				
Buildings and improvements	\$ 1,961,574	\$ 149,700	\$ -	\$ 2,111,274
Machinery and equipment	821,084	48,253	-	869,337
Infrastructure	104,070	36,970	-	141,040
Total accumulated depreciation	\$ 2,886,728	\$ 234,923	\$ -	\$ 3,121,651
Total capital assets subject to depreciation, net	\$ 2,057,418	\$ (146,983)	\$ -	\$ 1,910,435
Governmental activities capital assets, net	\$ 4,070,147	\$ (7,612)	\$ -	\$ 4,062,535

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2014 (Continued)

Note 6 — Capital Assets: (Continued)

Business-type Activities:	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets not subject to depreciation:				
Construction in progress	\$ 539,934	\$ 23,345	\$ 539,934	\$ 23,345
Capital assets subject to depreciation:				
Water and sewer system	\$ 25,129,397	\$ 167,694	\$ -	\$ 25,297,091
Buildings and improvements	755,670	-	-	755,670
Improvements other than buildings	9,560,071	579,408	-	10,139,479
Machinery and equipment	669,109	54,701	-	723,810
Total capital assets subject to depreciation	\$ 36,114,247	\$ 801,803	\$ -	\$ 36,916,050
Less accumulated depreciation for:				
Water and sewer system	\$ 3,731,047	\$ 504,184	\$ -	\$ 4,235,231
Buildings and improvements	364,767	32,575	-	397,342
Improvements other than buildings	2,653,086	270,501	-	2,923,587
Machinery and equipment	504,773	30,223	-	534,996
Total accumulated depreciation	\$ 7,253,673	\$ 837,483	\$ -	\$ 8,091,156
Total capital assets subject to depreciation, net	\$ 28,860,574	\$ (35,680)	\$ -	\$ 28,824,894
Business-type activities capital assets, net	\$ 29,400,508	\$ (12,335)	\$ 539,934	\$ 28,848,239

Depreciation expense was charged to functions/programs as follows:

Governmental activities:

General government administration	\$ 22,045
Public safety	33,626
Public works	20,734
Parks, recreation and cultural	158,518
Total governmental activities	\$ 234,923

Business-type activities:

Water and Sewer	\$ 638,151
Harbor	199,234
Sanitation	98
Total business-type activities	\$ 837,483

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2014 (Continued)

Note 7 – Long-term Obligations:

The following is a summary of long-term obligation transactions of the Municipal Corp. for the year ended June 30, 2014:

	Amounts Payable at July 1, 2013	Increases	Decreases	Amounts Payable at June 30, 2014	Amounts Due Within One Year
Governmental activities:					
Compensated absences	\$ 52,996	\$ -	\$ 257	\$ 52,739	\$ 5,274
General obligation bonds	1,038,873	319,966	57,942	1,300,897	73,151
Capital lease obligations	17,750	-	11,719	6,031	6,031
Notes payable	24,856	-	6,725	18,131	6,940
Total obligations from governmental activities	\$ 1,134,475	\$ 319,966	\$ 76,643	\$ 1,377,798	\$ 91,396
Business-type activities:					
Compensated absences	\$ 34,014	\$ -	\$ 984	\$ 33,030	\$ 3,303
General obligation bonds	8,378,492	2,015,864	1,601,130	8,793,226	421,372
Total obligations from business- type activities	\$ 8,412,506	\$ 2,015,864	\$ 1,602,114	\$ 8,826,256	\$ 424,675
Total long-term obligations	\$ 9,546,981	\$ 2,335,830	\$ 1,678,757	\$ 10,204,054	\$ 516,071

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Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2014 (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 Obligation Bonds		Notes Payable		General Obligation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 73,151	\$ 50,310	\$ 6,940	\$ 547	\$ 409,023	\$ 140,748
2016	71,523	47,449	7,167	320	423,651	136,405
2017	78,573	44,491	3,238	86	425,600	130,578
2018	80,813	41,228	786	3	463,361	124,132
2019	73,823	38,202	-	-	475,350	117,440
2020	74,553	35,263	-	-	482,621	110,375
2021	77,874	32,093	-	-	490,300	102,989
2022	81,508	28,726	-	-	497,666	94,808
2023	85,142	25,307	-	-	506,031	86,426
2024	89,618	21,696	-	-	512,556	77,738
2025	93,566	17,769	-	-	521,607	68,766
2026	98,143	13,528	-	-	532,031	59,407
2027	101,250	9,046	-	-	542,923	49,226
2028	42,701	6,329	-	-	541,472	39,685
2029	45,000	5,047	-	-	552,173	30,072
2030	45,739	3,700	-	-	560,435	20,126
2031	21,038	2,330	-	-	377,135	9,913
2032	21,666	1,772	-	-	380,507	6,310
2033	22,294	1,198	-	-	48,706	2,618
2034	22,922	608	-	-	50,078	1,327
Total	\$ <u>1,300,897</u>	\$ <u>426,092</u>	\$ <u>18,131</u>	\$ <u>956</u>	\$ <u>8,793,226</u>	\$ <u>1,409,089</u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2014 (Continued)

Note 7 – Long-term Obligations: (Continued)

Long-term obligations at June 30, 2014 are as follows:

	<u>Amount Outstanding</u>
<u>Details of Long-term Indebtedness:</u>	
<u>Governmental Activities:</u>	
Details of General Obligation bonds:	
\$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	\$ 804,750
\$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
\$1,019,000 public improvement general obligation bond issued December 18, 2013, due in various annual installments through March 1, 2034, interest at 2.65%, loan split between general government and enterprise funds	<u>319,966</u>
Total general obligation debt	\$ <u>1,300,897</u>
Details of Notes Payable:	
\$15,750 Rural Development note issued September 19, 2012, due in monthly installments of \$277 through September, 2017, interest at 3.375%	\$ 10,184
\$11,745 Rural Development note issued April 23, 2013, due in annual installments of \$4,163 through April, 2016, interest at 3.125%	<u>7,947</u>
Total notes payable	\$ <u>18,131</u>
Capital lease obligations (see Note 8)	\$ <u>6,031</u>
Compensated Absences (payable from the General Fund)	\$ <u>52,739</u>
Total governmental activities obligations payable	\$ <u><u>1,377,798</u></u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2014 (Continued)

Note 7 – Long-term Obligations: (Continued)

Long-term obligations at June 30, 2014 are as follows: (continued)

	<u>Amount Outstanding</u>
<u>Business-type Activities:</u>	
Details of General Obligation Bonds:	
\$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	\$ 445,250
\$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	1,943,820
\$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%	170,000
\$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%	4,341,122
\$1,019,000 public improvement general obligation bond issued December 18, 2013, due in various annual installments through March 1, 2034, interest at 2.65%, loan split between general government and enterprise funds	699,034
\$1,201,000 refunding general obligation bond issued December 18, 2013, due in various annual installments through March 1, 2032, interest at 2.65%	<u>1,194,000</u>
Total general obligation bonds payable	\$ <u>8,793,226</u>
Compensated Absences (payable from Enterprise Funds)	\$ <u>33,030</u>
Total business-type activities obligations payable	<u>\$ 8,826,256</u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2014 (Continued)

Note 8 – Capital Leases:

The government has entered into a lease agreement as lessee for financing the acquisition of a police cruiser. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Equipment	\$ 23,425
Less: accumulated depreciation	(14,055)
Total	<u>\$ 9,370</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014, were as follows:

Year Ended June 30	Governmental Activities
2015	<u>6,429</u>
Total minimum lease payments	\$ 6,429
Less: amount representing interest	<u>(398)</u>
Present value of minimum lease payments	<u>\$ 6,031</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 \$196,662 consists of the following:

Unavailable Tax Revenue - Unavailable revenue representing uncollected tax billings not available for funding of current expenditures totaled \$196,662 at June 30, 2014.

Notes to Financial Statements
As of June 30, 2014 (Continued)

Note 10 – Litigation:

At June 30, 2014, there were no matters of litigation involving the Municipal Corp. or which would materially affect the Municipal Corp.'s financial position should any court decisions on pending matters not be favorable to the Municipal Corp.

Note 11 – Risk Management:

The Municipal Corp. 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 Municipal Corp. 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 Municipal Corp. 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 – Pension Plan:

A. Plan Description

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

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

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

VRS – PLAN 1

1. **Plan Overview** - VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.
2. **Eligible Members** - Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

Note 12 – Pension Plan: (Continued)

A. Plan Description (Continued)

VRS – PLAN 1 (CONTINUED)

3. **Hybrid Opt-In Election** - VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.

4. **Retirement Contributions** - Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.
5. **Creditable Service** - Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.
6. **Vesting** - Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.

Members are always 100% vested in the contributions that they make.

Notes to Financial Statements
As of June 30, 2014 (Continued)

Note 12 – Pension Plan: (Continued)

A. Plan Description (Continued)

VRS – PLAN 1 (CONTINUED)

7. **Calculating the Benefit** - The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.

An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

8. **Average Final Compensation** - A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

9. **Service Retirement Multiplier** - The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.

10. **Normal Retirement Age** - Age 65.

11. **Earliest Unreduced Retirement Eligibility** - Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.

Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

12. **Earliest Reduced Retirement Eligibility** - Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.

13. **Cost-of-Living Adjustment (COLA) in Retirement** - The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.

14. **Eligibility** - For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.

For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

Note 12 – Pension Plan: (Continued)

A. Plan Description (Continued)

VRS – PLAN 1 (CONTINUED)

15. Exceptions to COLA Effective Dates - The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

16. Disability Coverage - Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.

Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

17. Purchase of Prior Service - Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

Note 12 — Pension Plan: (Continued)

A. Plan Description (Continued)

VRS – PLAN 2

1. **Plan Overview** - VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.
2. **Eligible Members** - Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.
3. **Hybrid Opt-In Election** - VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.

4. **Retirement Contributions** - Same as VRS Plan 1—Refer to Section 4.
5. **Creditable Service** - Same as VRS Plan 1— Refer to Section 5.
6. **Vesting** - Same as VRS Plan 1—Refer to Section 6.
7. **Calculating the Benefit** - Same as VRS Plan 1—Refer to Section 7.
8. **Average Final Compensation** - A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.
9. **Service Retirement Multiplier** - Same as Plan1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.
10. **Normal Retirement Age** - Normal Social Security retirement age.

Note 12 – Pension Plan: (Continued)

A. Plan Description (Continued)

VRS – PLAN 2 (CONTINUED)

- 11. Earliest Unreduced Retirement Eligibility** - Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

- 12. Earliest Reduced Retirement Eligibility** - Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

- 13. Cost-of-Living Adjustment (COLA) in Retirement** - The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.

- 14. Eligibility** - Same as VRS Plan 1–Refer to Section 14.

- 15. Exceptions to COLA Effective Dates** - Same as VRS Plan 1–Refer to Section 15.

- 16. Disability Coverage** - Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.

Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

- 17. Purchase of Prior Service** - Same as VRS Plan 1–Refer to Section 17.

Note 12 – Pension Plan: (Continued)

A. Plan Description (Continued)

HYBRID RETIREMENT PLAN

1. **Plan Overview** - The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See “Eligible Members”)
 - The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.
 - The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
 - In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
2. **Eligible Members** - Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:
 - State employees*
 - School division employees
 - Political subdivision employees*
 - Judges appointed or elected to an original term on or after January 1, 2014
 - Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan’s effective date for opt-in members was July 1, 2014

Notes to Financial Statements
As of June 30, 2014 (Continued)

Note 12 – Pension Plan: (Continued)

A. Plan Description (Continued)

HYBRID RETIREMENT PLAN (CONTINUED)

3. ***Non-Eligible Members** - Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

- Members of the State Police Officers' Retirement System (SPORS)
- Members of the Virginia Law Officers' Retirement System (VaLORS)
- Political subdivision employees who are covered by enhanced benefits for hazardous duty employees

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.

4. **Retirement Contributions** - A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

5. **Creditable Service**

Defined Benefit Component - Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Defined Contribution Component - Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Note 12 – Pension Plan: (Continued)

A. Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

6. Vesting

Defined Benefit Component - Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contribution Component - Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.

Members are always 100% vested in the contributions that they make.

Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

- After two years, a member is 50% vested and may withdraw 50% of employer contributions.
- After three years, a member is 75% vested and may withdraw 75% of employer contributions.
- After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distribution is not required by law until age 70½.

7. Calculating the Benefit

Defined Benefit Component - Same as VRS Plan 1–Refer to Section 7.

Defined Contribution Component - The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

8. Average Final Compensation - Same as VRS Plan 2–Refer to Section 8. It is used in the retirement formula for the defined benefit component of the plan.

9. Service Retirement Multiplier - The retirement multiplier is 1.0%.

For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

Note 12 – Pension Plan: (Continued)

A. Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

10. Normal Retirement Age

Defined Benefit Component - Same as VRS Plan 2–Refer to Section 10.

Defined Contribution Component - Members are eligible to receive distributions upon leaving employment, subject to restrictions.

11. Earliest Unreduced Retirement Eligibility

Defined Benefit Component - Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Defined Contribution Component - Members are eligible to receive distributions upon leaving employment, subject to restrictions.

12. Earliest Reduced Retirement Eligibility

Defined Benefit Component - Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

Defined Contribution Component - Members are eligible to receive distributions upon leaving employment, subject to restrictions.

13. Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component - Same as VRS Plan 2–Refer to Section 13.

Defined Contribution Component - Not Applicable.

14. Eligibility - Same as VRS Plan 1 and VRS Plan 2–Refer to Section 14.

15. Exceptions to COLA Effective Dates - Same as VRS Plan 1 and VRS Plan 2–Refer to Section 15.

Notes to Financial Statements
As of June 30, 2014 (Continued)

Note 12 – Pension Plan: (Continued)

A. Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

- 16. Disability Coverage** - Eligible political subdivision and school division members (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.

State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

17. Purchase of Prior Service

Defined Benefit Component - Same as VRS Plan 1 and VRS Plan 2—Refer to Section 17.

Defined Contribution Component - Not Applicable.

The System issues a publicly available comprehensive annual financial report 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/2013-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Municipal Corp. 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 Municipal Corp.'s contribution rate for the fiscal year ended 2014 was 8.79% of annual covered payroll.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements As of June 30, 2014 (Continued)

Note 12 — Pension Plan: (Continued)

C. Annual Pension Cost

For fiscal year 2014, the Municipal Corp.'s annual pension cost of \$95,548 was equal to the Municipal Corp.'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
June 30, 2014	\$ 95,548	100%	\$ -
June 30, 2013	91,628	100%	-
June 30, 2012	72,799	100%	-

(1) Employer portion only

The fiscal year 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees 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 Municipal Corp.'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 Municipal Corp.'s unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

D. Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was 91.90% funded. The actuarial accrued liability for benefits was \$2,125,326, and the actuarial value of assets was \$1,953,074, resulting in an unfunded actuarial accrued liability (UAAL) of \$172,252. The covered payroll (annual payroll of active employees covered by the plan) was \$981,500, and ratio of the UAAL to the covered payroll was 17.55%.

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.

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, 2014

	<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	\$ 1,307,356	\$ 1,307,356	\$ 1,398,054	\$ 90,698
Other local taxes	479,500	479,500	511,211	31,711
Permits, privilege fees, and regulatory licenses	58,650	58,650	60,905	2,255
Fines and forfeitures	17,800	17,800	14,458	(3,342)
Revenue from the use of money and property	10,700	10,700	8,148	(2,552)
Charges for services	3,150	3,150	2,335	(815)
Miscellaneous	3,450	3,450	11,616	8,166
Recovered costs	20,000	20,000	20,000	-
Intergovernmental:				
Commonwealth	127,024	127,024	130,326	3,302
Federal	929,553	929,553	117,294	(812,259)
Total revenues	<u>\$ 2,957,183</u>	<u>\$ 2,957,183</u>	<u>\$ 2,274,347</u>	<u>\$ (682,836)</u>
EXPENDITURES				
Current:				
General government administration	\$ 639,423	\$ 639,423	\$ 671,028	\$ (31,605)
Public safety - police department	347,289	347,289	333,833	13,456
Public safety - code enforcement	77,955	77,955	72,419	5,536
Public works	416,619	416,619	430,871	(14,252)
Parks, recreation, and cultural	179,209	212,584	203,466	9,118
Community development	66,906	66,906	60,299	6,607
Capital projects	1,100,000	1,100,000	517,893	582,107
Debt service:				
Principal retirement	122,104	122,104	76,386	45,718
Interest and other fiscal charges	7,678	7,678	55,850	(48,172)
Total expenditures	<u>\$ 2,957,183</u>	<u>\$ 2,990,558</u>	<u>\$ 2,422,045</u>	<u>\$ 568,513</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ (33,375)</u>	<u>\$ (147,698)</u>	<u>\$ (114,323)</u>
OTHER FINANCING SOURCES (USES)				
Issuance of general obligation bonds	\$ -	\$ -	\$ 319,966	\$ 319,966
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 319,966</u>	<u>\$ 319,966</u>
Net change in fund balance	\$ -	\$ (33,375)	\$ 172,268	\$ 205,643
Fund balance - beginning	-	33,375	2,069,062	2,035,687
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,241,330</u>	<u>\$ 2,241,330</u>

Municipal Corporation of Cape Charles, Virginia
Schedule of Pension Funding Progress - Virginia Retirement System

Exhibit 11

For the Year Ended June 30, 2014

Acturial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as Percentage of Covered Payroll
6/29/2013	\$ 1,953,074	\$ 2,125,326	\$ 172,252	91.90%	\$ 981,500	17.55%
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%

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, 2014

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:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 1,118,856	\$ 1,118,856	\$ 1,221,896	\$ 103,040
Personal property taxes	136,000	136,000	88,148	(47,852)
Machinery and tools taxes	30,500	30,500	26,840	(3,660)
Penalties and interest	22,000	22,000	61,170	39,170
Total general property taxes	<u>\$ 1,307,356</u>	<u>\$ 1,307,356</u>	<u>\$ 1,398,054</u>	<u>\$ 90,698</u>
Other local taxes:				
Local sales and use taxes	\$ 39,000	\$ 39,000	\$ 39,442	\$ 442
Consumers' utility taxes	45,000	45,000	46,614	1,614
Business license taxes	84,000	84,000	95,549	11,549
Motor vehicle licenses	29,000	29,000	24,550	(4,450)
Admissions taxes	23,000	23,000	20,521	(2,479)
Short term rental tax	4,500	4,500	4,618	118
Hotel and motel room taxes	35,000	35,000	38,043	3,043
Restaurant food taxes	220,000	220,000	241,874	21,874
Total other local taxes	<u>\$ 479,500</u>	<u>\$ 479,500</u>	<u>\$ 511,211</u>	<u>\$ 31,711</u>
Permits, privilege fees, and regulatory licenses:				
Permits and other licenses	\$ 58,650	\$ 58,650	\$ 60,905	\$ 2,255
Total permits, privilege fees, and regulatory licenses	<u>\$ 58,650</u>	<u>\$ 58,650</u>	<u>\$ 60,905</u>	<u>\$ 2,255</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 17,800	\$ 17,800	\$ 14,458	\$ (3,342)
Total fines and forfeitures	<u>\$ 17,800</u>	<u>\$ 17,800</u>	<u>\$ 14,458</u>	<u>\$ (3,342)</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 1,500	\$ 1,500	\$ 1,761	\$ 261
Revenue from use of property	9,200	9,200	6,387	(2,813)
Total revenue from use of money and property	<u>\$ 10,700</u>	<u>\$ 10,700</u>	<u>\$ 8,148</u>	<u>\$ (2,552)</u>
Charges for services:				
Charges for tax review fees	\$ 1,500	\$ 1,500	\$ -	\$ (1,500)
Charges for parks and recreation	350	350	516	166
Charges for copies	500	500	601	101
Charges for library	800	800	1,218	418
Total charges for services	<u>\$ 3,150</u>	<u>\$ 3,150</u>	<u>\$ 2,335</u>	<u>\$ (815)</u>
Miscellaneous revenue:				
Miscellaneous	\$ 3,450	\$ 3,450	\$ 11,616	\$ 8,166
Total miscellaneous revenue	<u>\$ 3,450</u>	<u>\$ 3,450</u>	<u>\$ 11,616</u>	<u>\$ 8,166</u>

Municipal Corporation of Cape Charles, Virginia
Schedule of Revenues - Budget and Actual
General Fund
For the Year Ended June 30, 2014

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	\$ 1,900,606	\$ 1,900,606	\$ 2,026,727	\$ 126,121
Revenue from the Commonwealth:				
Noncategorical aid:				
Communications tax	\$ 52,000	\$ 52,000	\$ 47,420	\$ (4,580)
Rolling stock tax	4	4	8	4
Personal property tax relief funds	35,424	35,424	35,424	-
Total noncategorical aid	\$ 87,428	\$ 87,428	\$ 82,852	\$ (4,576)
Categorical aid:				
Fire programs	\$ 8,000	\$ 8,000	\$ 10,000	\$ 2,000
Arts grant	2,500	2,500	5,000	2,500
Law enforcement grant HB 599	28,096	28,096	28,096	-
Litter control	1,000	1,000	1,060	60
Disaster recovery grant	-	-	3,318	3,318
Total categorical aid	\$ 39,596	\$ 39,596	\$ 47,474	\$ 7,878
Total revenue from the Commonwealth	\$ 127,024	\$ 127,024	\$ 130,326	\$ 3,302
Revenue from the federal government:				
Categorical aid:				
TEA-21 grant	\$ 600,000	\$ 600,000	\$ 76,804	\$ (523,196)
JAG grant	11,853	11,853	853	(11,000)
Transportation safety grant	1,500	1,500	-	(1,500)
Rural Development grant	-	-	25,000	25,000
Disaster recovery grant	316,200	316,200	14,637	(301,563)
Total categorical aid	\$ 929,553	\$ 929,553	\$ 117,294	\$ (812,259)
Total revenue from the federal government	\$ 929,553	\$ 929,553	\$ 117,294	\$ (812,259)
Total General Fund	\$ 2,957,183	\$ 2,957,183	\$ 2,274,347	\$ (682,836)

Municipal Corporation of Cape Charles, Virginia
Schedule of Expenditures - Budget and Actual
General Fund
For the Year Ended June 30, 2014

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	\$ 19,897	\$ 19,897	\$ 17,075	\$ 2,822
Total legislative	\$ 19,897	\$ 19,897	\$ 17,075	\$ 2,822
General and financial administration:				
Town Clerk	\$ 119,563	\$ 119,563	\$ 115,521	\$ 4,042
Town Manager	303,992	303,992	338,755	(34,763)
Finance	195,971	195,971	199,677	(3,706)
Total general and financial administration	\$ 619,526	\$ 619,526	\$ 653,953	\$ (34,427)
Total general government administration	\$ 639,423	\$ 639,423	\$ 671,028	\$ (31,605)
Public safety:				
Law enforcement and traffic control:				
Police	\$ 347,289	\$ 347,289	\$ 333,833	\$ 13,456
Total law enforcement and traffic control	\$ 347,289	\$ 347,289	\$ 333,833	\$ 13,456
Inspections:				
Code enforcement	\$ 77,955	\$ 77,955	\$ 72,419	\$ 5,536
Total inspections	\$ 77,955	\$ 77,955	\$ 72,419	\$ 5,536
Total public safety	\$ 425,244	\$ 425,244	\$ 406,252	\$ 18,992
Public works:				
Maintenance of general buildings and grounds:				
General properties	\$ 416,619	\$ 416,619	\$ 430,871	\$ (14,252)
Total public works	\$ 416,619	\$ 416,619	\$ 430,871	\$ (14,252)
Parks, recreation, and cultural:				
Parks and recreation:				
Parks and recreation	\$ 60,611	\$ 60,611	\$ 57,352	\$ 3,259
Total parks and recreation	\$ 60,611	\$ 60,611	\$ 57,352	\$ 3,259
Library:				
Library administration	\$ 118,598	\$ 151,973	\$ 146,114	\$ 5,859
Total library	\$ 118,598	\$ 151,973	\$ 146,114	\$ 5,859
Total parks, recreation, and cultural	\$ 179,209	\$ 212,584	\$ 203,466	\$ 9,118

Municipal Corporation of Cape Charles, Virginia
Schedule of Expenditures - Budget and Actual
General Fund
For the Year Ended June 30, 2014

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	\$ 66,906	\$ 66,906	\$ 60,299	\$ 6,607
Total planning and community development	\$ 66,906	\$ 66,906	\$ 60,299	\$ 6,607
Total community development	\$ 66,906	\$ 66,906	\$ 60,299	\$ 6,607
Capital projects:				
Purchase of land	\$ -	\$ -	\$ 101,963	\$ (101,963)
Fishing pier repairs	310,000	310,000	305,109	4,891
Multi-use trail	750,000	750,000	58,461	691,539
Civic Center renovation	40,000	40,000	52,360	(12,360)
Total capital projects	\$ 1,100,000	\$ 1,100,000	\$ 517,893	\$ 582,107
Debt service:				
Principal retirement	\$ 122,104	\$ 122,104	\$ 76,386	\$ 45,718
Interest and other fiscal charges	7,678	7,678	55,850	(48,172)
Total debt service	\$ 129,782	\$ 129,782	\$ 132,236	\$ (2,454)
Total General Fund	\$ 2,957,183	\$ 2,990,558	\$ 2,422,045	\$ 568,513

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		Public		Parks, Recreation, and Cultural		Community Development		Interest on Long- term Debt		Enterprise Funds		Total
	Government Administration	Public Safety	Public Works	Public Works	Recreation, and Cultural	Community Development	Community Development	Community Development	Interest on Long- term Debt	Interest on Long- term Debt	Enterprise Funds	Enterprise Funds	
2005	\$ 416,358	\$ 478,635	\$ 226,675	\$ 226,675	\$ 98,435	\$ 63,820	\$ 63,820	\$ 63,820	\$ 765	\$ 765	\$ 1,248,707	\$ 1,248,707	2,533,395
2006	672,885	479,513	311,465	311,465	49,130	71,942	71,942	71,942	21,589	21,589	1,430,407	1,430,407	3,036,931
2007	716,874	645,866	378,102	378,102	184,678	117,189	117,189	117,189	113,590	113,590	1,745,095	1,745,095	3,901,394
2008	423,662	467,252	557,261	557,261	179,575	100,263	100,263	100,263	51,882	51,882	1,916,132	1,916,132	3,696,027
2009	476,972	456,135	374,459	374,459	213,545	91,330	91,330	91,330	50,127	50,127	1,753,277	1,753,277	3,415,845
2010	540,006	370,756	355,205	355,205	228,404	72,755	72,755	72,755	47,742	47,742	1,993,329	1,993,329	3,608,197
2011	771,867	412,351	736,974	736,974	134,290	81,885	81,885	81,885	64,131	64,131	1,984,209	1,984,209	4,185,707
2012	770,193	422,784	447,869	447,869	227,507	72,660	72,660	72,660	51,332	51,332	2,326,252	2,326,252	4,318,597
2013	688,965	418,308	411,438	411,438	298,615	80,967	80,967	80,967	52,426	52,426	3,033,294	3,033,294	4,984,013
2014	693,614	409,347	768,491	768,491	342,274	63,438	63,438	63,438	55,992	55,992	2,976,017	2,976,017	5,309,173

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
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
2014	2,571,568	45,009	169,159		1,286,747	511,211	8,307	41,979	82,852	4,716,832

Table 3

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

Fiscal Year	General		Parks,				Total
	Government Administration	Public Safety	Public Works	Recreation, and Cultural	Community Development	Debt Service	
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
2014	671,028	406,252	430,871	203,466	60,299	132,236	1,904,152

(1) Includes General Fund.

(2) 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,		Fines and Forfeitures	Revenue from the Use of Money and Property		Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental	Total
			Privilege Fees, Regulatory Licenses									
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		
2014	1,398,054	511,211	60,905	14,458	8,148	2,335	11,616	20,000	247,620	2,274,347		

(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	
	\$		\$			\$		\$		%		\$	
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%
2014	1,331,614		1,188,974		89.29%	147,910		1,336,884		100.40%		196,662	14.77%

(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)	
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
2014	409,929,500	14,324,494	15,800	3,688,742	3,688,742	427,958,536

(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
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
2014		0.2759		2.00		0.2759	0.2759

(1) Per \$100 of assessed value.

Table 8

Municipal Corporation of Cape Charles, Virginia
Computation of Legal Debt Margin
At June 30, 2014

Assessed value of real property, January 1, 2013 (1)	<u>\$ 413,618,242</u>
Debt limit: 10% of assessed value	\$ 41,361,824
Amount of debt applicable to debt limit:	
Gross debt (2)	<u>\$ 10,112,254</u>
Less: Revenue bonds and notes secured by property	<u>(18,132)</u>
Net general obligation bonds and loans	<u>\$ 10,094,122</u>
Legal debt limit	<u>\$ 31,267,702</u>

(1) Assessed value of real property, including public service corporations
as of January 1, 2013

(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)			
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
2014	1,009	427,958,536	10,094,123	-	8,793,226	1,300,897	0.30%	1,289

(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 Municipal Corp. 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 Municipal Corps*, 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, 2014, 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 March 31, 2015.

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 deficiency described in the accompanying schedule of findings and responses to be a material weakness, 2014-001.

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
March 31, 2015

Municipal Corporation of Cape Charles, Virginia
Schedule of Findings and Responses
For the year ended June 30, 2014

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

2014-001

Financial Reporting

Condition:	Inadequate internal controls over financial statement reporting.
Criteria:	Internal controls should be in place that provides assurance that audited financial statements reconcile to the Municipal Corp.'s internal documents.
Context:	Through review of balance sheet accounts at June 30, 2014, it was noted that year-end entries had not been prepared and posted for most accounts.
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 Municipal Corp. is considering corrective action for FY15.

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