

MUNICIPAL CORPORATION
OF
CAPE CHARLES, VIRGINIA



ANNUAL FINANCIAL REPORT

FOR FISCAL YEAR ENDED JUNE 30, 2012

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Municipal Corporation of Cape Charles, Virginia, as of and for the year ended June 30, 2012, which collectively comprise the Municipal Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipal Corporation of Cape Charles, Virginia's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Municipal Corporation of Cape Charles, Virginia, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2013, on our consideration of the 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* and should be considered in assessing the results of our audit.

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 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 management's discussion and analysis and schedule of funding progress 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 management's discussion and analysis and schedule of funding progress 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipal Corporation of Cape Charles, Virginia's financial statements as a whole. The supporting schedules and statistical information are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*, and is also not a required part of the financial statements. The supporting schedules and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The 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 it.



Richmond, Virginia
March 29, 2013

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 the Municipal Corporation of Cape Charles, Virginia 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, 2012. 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 at the close of the most recent fiscal year by \$25,627,869 (net assets).

Fund Financial Statements

The Governmental Funds, on a current financial resource basis, reported revenues and other financing sources in excess of expenditures and other uses by \$300,982 (Exhibit 5).

< As of the close of the current fiscal year; the Town's funds reported an ending fund balance of \$2,197,142, an increase of \$300,982 in comparison with the prior year.

< The combined long-term obligations decreased \$1,593,249 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 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 assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, police protection, cultural events, recreation, and community development.

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

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

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

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

Notes to the financial statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information - In addition to the basic financial statement and accompanying notes, this report also presents certain required supplementary information for budgetary comparison schedules.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Town's financial position. In the case of the Town, assets exceeded liabilities by \$25,627,869 at the close of the most recent fiscal year. The following table summarizes the Town's Statement of Net Assets:

Municipal Corporation of Cape Charles, Virginia's Net Assets						
	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 2,474,746	\$ 2,206,033	\$ 252,971	\$ 4,436,978	\$ 2,727,717	\$ 6,643,011
Capital assets	3,894,826	3,922,529	28,873,778	24,836,723	32,768,604	28,759,252
Total assets	\$ 6,369,572	\$ 6,128,562	\$ 29,126,749	\$ 29,273,701	\$ 35,496,321	\$ 35,402,263
Current liabilities	\$ 91,254	\$ 196,456	\$ 564,070	\$ 1,430,050	\$ 655,324	1,626,506
Long-term liabilities outstanding	1,180,223	1,224,799	8,032,905	9,581,578	9,213,128	10,806,377
Total liabilities	\$ 1,271,477	\$ 1,421,255	\$ 8,596,975	\$ 11,011,628	\$ 9,868,452	\$ 12,432,883
Net assets:						
Invested in capital assets, net of related debt	\$ 3,309,249	\$ 2,745,834	\$ 21,132,404	\$ 15,282,393	\$ 24,441,653	18,028,227
Unrestricted	1,788,846	1,961,473	(602,630)	2,979,680	1,186,216	4,941,153
Total net assets	\$ 5,098,095	\$ 4,707,307	\$ 20,529,774	\$ 18,262,073	\$ 25,627,869	22,969,380

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Analysis (Continued)

During the current fiscal year, the Town's net assets increased by \$2,658,489. The following table summarizes the Town's Statement of Activities:

Municipal Corporation of Cape Charles, Virginia's Changes in Net Assets						
	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 55,848	\$ 73,665	\$ 2,201,085	\$ 1,839,476	\$ 2,256,933	\$ 1,913,141
Operating grants and contributions	67,227	53,789	-	-	67,227	53,789
Capital grants and contributions	411,090	740,436	2,372,782	9,889,078	2,783,872	10,629,514
General revenues:						
General property taxes	1,301,439	1,175,993	-	-	1,301,439	1,175,993
Other local taxes	455,148	434,391	-	-	455,148	434,391
Grants and other contributions not restricted	83,544	84,549	-	-	83,544	84,549
Other general revenues	8,837	22,600	20,086	76,147	28,923	98,747
Total revenues	<u>\$ 2,383,133</u>	<u>\$ 2,585,423</u>	<u>\$ 4,593,953</u>	<u>\$ 11,804,701</u>	<u>\$ 6,977,086</u>	<u>\$ 14,390,124</u>
Expenses:						
General government administration	\$ 770,193	\$ 771,867	\$ -	\$ -	\$ 770,193	\$ 771,867
Public safety	422,784	412,351	-	-	422,784	412,351
Public works	447,869	736,974	-	-	447,869	736,974
Parks, recreation, and cultural	227,507	134,290	-	-	227,507	134,290
Community development	72,660	81,885	-	-	72,660	81,885
Interest and other fiscal charges	51,332	64,131	-	-	51,332	64,131
Enterprise funds	-	-	2,326,252	1,984,209	2,326,252	1,984,209
Total expenses	<u>\$ 1,992,345</u>	<u>\$ 2,201,498</u>	<u>\$ 2,326,252</u>	<u>\$ 1,984,209</u>	<u>\$ 4,318,597</u>	<u>\$ 4,185,707</u>
Change in net assets	\$ 390,788	\$ 383,925	\$ 2,267,701	\$ 9,820,492	\$ 2,658,489	\$ 10,204,417
Beginning of year	4,707,307	4,323,382	18,262,073	8,441,581	22,969,380	12,764,963
End of year	<u>\$ 5,098,095</u>	<u>\$ 4,707,307</u>	<u>\$ 20,529,774</u>	<u>\$ 18,262,073</u>	<u>\$ 25,627,869</u>	<u>\$ 22,969,380</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, unreserved 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 \$2,197,142, an increase of \$300,982 in comparison with the prior year, of which \$2,190,276 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 assets at the end of the year amounted to (\$602,630). Total net assets increased \$2,267,701. 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 \$301,207. Actual expenditures and other uses were more than budgetary estimates by \$225, resulting in a positive variance of \$300,982.

Capital Asset and Debt Administration

Capital assets - The Town's investment in capital assets for its governmental operations as of June 30, 2012 amounts to \$3,894,826 (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 the notes of this report.

Long-term debt - At the end of the current fiscal year, the Town had total debt outstanding of \$9,127,124. Of this amount, \$9,092,562 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).

During the current fiscal year, the Town's total debt outstanding decreased by \$1,603,901.

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

Economic Factors and Next Year's Budgets and Rates

- < The unemployment rate for Northampton County, Virginia, of which the Municipal Corporation of Cape Charles, Virginia is an incorporated Town, was 8.1 percent at June 30, 2012, in comparison to the state's average unemployment rate of 5.7 percent.

All of these factors were considered in preparing the Town's budget for the 2013 fiscal year.

The fiscal year 2013 budget decreased by approximately 34%, primarily due to anticipated completion of water and wastewater capital projects. All tax rates remained the same as in fiscal year 2012.

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 Assets
June 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,139,755	\$ 99,068	\$ 1,238,823
Receivables (net of allowance for uncollectibles):			
Taxes receivable	260,310	-	260,310
Accounts receivable	52,215	230,730	282,945
Other receivable	-	5,000	5,000
Internal balances	406,280	(406,280)	-
Due from other governmental units	66,739	49,502	116,241
Inventories	-	17,359	17,359
Prepaid expenses	6,866	-	6,866
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents -Unspent bond proceeds	542,581	257,592	800,173
Capital assets (net of accumulated depreciation):			
Land and land improvements	1,866,961	-	1,866,961
Buildings and improvements	1,116,746	423,478	1,540,224
Improvements other than buildings	-	3,248,067	3,248,067
Water and sewer system	-	2,516,546	2,516,546
Machinery and equipment	111,725	155,053	266,778
Infrastructure	799,394	-	799,394
Construction in progress	-	22,530,634	22,530,634
Total assets	<u>\$ 6,369,572</u>	<u>\$ 29,126,749</u>	<u>\$ 35,496,321</u>
LIABILITIES			
Accounts payable	\$ 41,241	\$ 236,709	\$ 277,950
Accrued liabilities	19,270	247,334	266,604
Accrued interest payable	21,288	61,806	83,094
Unearned revenue	9,455	-	9,455
Amounts held for others	-	18,221	18,221
Long-term liabilities:			
Due within one year	76,742	179,711	256,453
Due in more than one year	1,103,481	7,853,194	8,956,675
Total liabilities	<u>\$ 1,271,477</u>	<u>\$ 8,596,975</u>	<u>\$ 9,868,452</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 3,309,249	\$ 21,132,404	\$ 24,441,653
Unrestricted (deficit)	1,788,846	(602,630)	1,186,216
Total net assets	<u>\$ 5,098,095</u>	<u>\$ 20,529,774</u>	<u>\$ 25,627,869</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, 2012

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:						
Governmental activities:						
General government administration	\$ 770,193	\$ 1,140	\$ -	\$ (769,053)	\$ -	\$ (769,053)
Public safety	422,784	53,841	62,227	(306,716)	-	(306,716)
Public works	447,869	-	-	(312,640)	-	(312,640)
Parks, recreation, and cultural	227,507	867	5,000	(221,640)	-	(221,640)
Community development	72,660	-	-	203,201	-	203,201
Interest on long-term debt	51,332	-	-	(51,332)	-	(51,332)
Total governmental activities	\$ 1,992,345	\$ 55,848	\$ 67,227	\$ (1,458,180)	\$ -	\$ (1,458,180)
Business-type activities:						
Water and Sewer	\$ 1,164,672	\$ 1,195,337	\$ -	\$ -	\$ 1,594,202	\$ 1,594,202
Harbor	1,001,291	817,035	-	-	624,989	624,989
Sanitation	160,289	188,713	-	-	28,424	28,424
Total business-type activities	\$ 2,326,252	\$ 2,201,085	\$ -	\$ -	\$ 2,247,615	\$ 2,247,615
Total primary government	\$ 4,318,597	\$ 2,256,933	\$ 67,227	\$ (1,458,180)	\$ 2,247,615	\$ 789,435
General revenues:						
General property taxes				\$ 1,301,439	\$ -	\$ 1,301,439
Restaurant food taxes				182,767	-	182,767
Business license taxes				87,033	-	87,033
Other local taxes				185,348	-	185,348
Unrestricted revenues from use of money and property				3,057	174	3,231
Miscellaneous				5,780	19,912	25,692
Grants and contributions not restricted to specific programs				83,544	-	83,544
Total general revenues				\$ 1,848,968	\$ 20,086	\$ 1,869,054
Change in net assets				390,788	2,267,701	2,658,489
Net assets - beginning, as restated				\$ 4,707,307	\$ 18,262,073	\$ 22,969,380
Net assets - ending				\$ 5,098,095	\$ 20,529,774	\$ 25,627,869

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
General Fund
June 30, 2012

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 1,139,755
Receivables:	
Taxes receivable	260,310
Accounts receivable	52,215
Due from other funds	632,814
Due from other governmental units	66,739
Prepaid items	6,866
Restricted assets:	
Temporarily restricted:	
Cash and cash equivalents - Unspent bond proceeds	542,581
Total assets	<u>\$ 2,701,280</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 41,241
Accrued liabilities	19,270
Due to other funds	226,534
Deferred revenue	217,093
Total liabilities	<u>\$ 504,138</u>
Fund balances:	
Nonspendable:	
Prepaid Items	<u>\$ 6,866</u>
Unassigned	\$ 2,190,276
Total fund balances	<u>\$ 2,197,142</u>
Total liabilities and fund balances	<u>\$ 2,701,280</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 Funds
To the Statement of Net Assets
June 30, 2012

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

Total fund balances per Exhibit 3 - Balance Sheet - General Fund		\$ 2,197,142
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets		\$ 6,557,735
Accumulated depreciation		<u>(2,662,909)</u>
		3,894,826
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. The following represents deferred property taxes.		
		207,638
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		\$(1,093,596)
Capital lease obligations		(34,562)
Compensated absences		(52,065)
Accrued interest payable		<u>(21,288)</u>
		(1,201,511)
Net assets of governmental activities		<u><u>\$ 5,098,095</u></u>

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 Balances
Governmental Fund
For the Year Ended June 30, 2012

		<u>General</u>
REVENUES		
General property taxes	\$	1,227,729
Other local taxes		455,148
Permits, privilege fees, and regulatory licenses		40,821
Fines and forfeitures		13,020
Revenue from the use of money and property		3,057
Charges for services		2,007
Miscellaneous		5,780
Recovered costs		64,074
Intergovernmental revenues:		
Commonwealth		144,189
Federal		417,672
Total revenues	\$	<u>2,373,497</u>
EXPENDITURES		
Current:		
General government administration	\$	804,556
Public safety - police department		352,668
Public safety - code enforcement		73,522
Public works		523,896
Parks, recreation, and cultural		140,580
Community development		78,201
Debt service:		
Principal retirement		65,533
Interest and other fiscal charges		50,555
Total expenditures	\$	<u>2,089,511</u>
Excess (deficiency) of revenues over (under) expenditures	\$	<u>283,986</u>
OTHER FINANCING SOURCES (USES)		
Issuance of capital leases	\$	16,996
Total other financing sources (uses)	\$	<u>16,996</u>
Net change in fund balances	\$	300,982
Fund balances - beginning		1,896,160
Fund balances - ending	\$	<u><u>2,197,142</u></u>

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

Municipal Corporation of Cape Charles, Virginia
Reconciliation of Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2012

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

Net change in fund balances - total governmental funds		\$ 300,982
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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 exceeded capital outlays in the current period.

Capital outlays	\$ 179,137	
Depreciation expense	<u>(206,840)</u>	(27,703)

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 deferred taxes.		73,710
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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 assets. A summary of items supporting this adjustment is as follows:

Principal retirement on general obligation bonds	\$ 54,723	
Principal retirement on capital lease obligations	10,810	
Issuance of capital leases	<u>(16,996)</u>	48,537

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:

Decrease in accrued leave	\$ (3,961)	
Increase in interest payable	<u>(777)</u>	(4,738)

Change in net assets of governmental activities		<u>\$ 390,788</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 Assets
Proprietary Funds
June 30, 2012

	<u>Water and Sewer</u>	<u>Harbor</u>	<u>Sanitation</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 98,568	\$ 500	\$ -	\$ 99,068
Accounts receivables, net of allowance for uncollectibles	157,704	52,387	20,639	230,730
Due from other funds	-	31,178	226,536	257,714
Due from other governmental units	49,502	-	-	49,502
Other receivables	5,000	-	-	5,000
Inventories	-	17,359	-	17,359
Total current assets	<u>\$ 310,774</u>	<u>\$ 101,424</u>	<u>\$ 247,175</u>	<u>\$ 659,373</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents - Unspent bond proceeds	\$ 257,592	\$ -	\$ -	\$ 257,592
Total restricted assets	<u>\$ 257,592</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 257,592</u>
Capital assets (net of accumulated depreciation):				
Water and sewer system	\$ 2,516,546	\$ -	\$ -	\$ 2,516,546
Buildings and improvements	-	423,478	-	423,478
Improvements other than buildings	1,407,664	1,840,403	-	3,248,067
Machinery and equipment	79,852	74,513	688	155,053
Construction in progress	20,388,900	2,141,734	-	22,530,634
Total capital assets	<u>\$ 24,392,962</u>	<u>\$ 4,480,128</u>	<u>\$ 688</u>	<u>\$ 28,873,778</u>
Total noncurrent assets	<u>\$ 24,650,554</u>	<u>\$ 4,480,128</u>	<u>\$ 688</u>	<u>\$ 29,131,370</u>
Total assets	<u>\$ 24,961,328</u>	<u>\$ 4,581,552</u>	<u>\$ 247,863</u>	<u>\$ 29,790,743</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 215,600	\$ 8,397	\$ 12,712	\$ 236,709
Accrued liabilities	236,719	9,671	944	247,334
Due to other funds	467,379	196,428	187	663,994
Interest payable	32,188	29,618	-	61,806
Customer deposits payable	15,671	2,550	-	18,221
Bonds payable - current portion	47,124	129,193	-	176,317
Compensated absences - current portion	2,828	566	-	3,394
Total current liabilities	<u>\$ 1,017,509</u>	<u>\$ 376,423</u>	<u>\$ 13,843</u>	<u>\$ 1,407,775</u>
Noncurrent liabilities:				
Bonds payable - net of current portion	\$ 6,366,438	\$ 1,456,211	\$ -	\$ 7,822,649
Compensated absences - net of current portion	25,449	5,096	-	30,545
Total noncurrent liabilities	<u>\$ 6,391,887</u>	<u>\$ 1,461,307</u>	<u>\$ -</u>	<u>\$ 7,853,194</u>
Total liabilities	<u>\$ 7,409,396</u>	<u>\$ 1,837,730</u>	<u>\$ 13,843</u>	<u>\$ 9,260,969</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 18,236,992	\$ 2,894,724	\$ 688	\$ 21,132,404
Unrestricted	(685,060)	(150,902)	233,332	(602,630)
Total net assets	<u>\$ 17,551,932</u>	<u>\$ 2,743,822</u>	<u>\$ 234,020</u>	<u>\$ 20,529,774</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 Assets
Proprietary Funds
For the Year Ended June 30, 2012

	<u>Water and Sewer</u>	<u>Harbor</u>	<u>Sanitation</u>	<u>Total</u>
OPERATING REVENUES				
Charges for services:				
Water	\$ 626,155	\$ -	\$ -	\$ 626,155
Sewer	520,414	-	-	520,414
Harbor fees	-	213,461	-	213,461
Penalties	38,721	-	-	38,721
Refuse collection	-	-	188,713	188,713
Fuel sales	-	603,574	-	603,574
Miscellaneous	858	19,054	-	19,912
Total operating revenues	<u>\$ 1,186,148</u>	<u>\$ 836,089</u>	<u>\$ 188,713</u>	<u>\$ 2,210,950</u>
OPERATING EXPENSES				
Personnel services	\$ 359,693	\$ 105,885	\$ -	\$ 465,578
Fringe benefits	149,093	26,095	-	175,188
Contractual services	99,096	20,683	149,584	269,363
Other supplies and expenses	304,793	692,461	10,115	1,007,369
Depreciation	182,142	147,565	590	330,297
Total operating expenses	<u>\$ 1,094,817</u>	<u>\$ 992,689</u>	<u>\$ 160,289</u>	<u>\$ 2,247,795</u>
Operating income (loss)	<u>\$ 91,331</u>	<u>\$ (156,600)</u>	<u>\$ 28,424</u>	<u>\$ (36,845)</u>
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	\$ 174	\$ -	\$ -	\$ 174
Connection fees	10,047	-	-	10,047
Interest and fiscal charges	(69,855)	(8,602)	-	(78,457)
Total nonoperating revenues (expenses)	<u>\$ (59,634)</u>	<u>\$ (8,602)</u>	<u>\$ -</u>	<u>\$ (68,236)</u>
Income (loss) before contributions	<u>\$ 31,697</u>	<u>\$ (165,202)</u>	<u>\$ 28,424</u>	<u>\$ (105,081)</u>
Capital contributions and construction grants	<u>\$ 1,563,537</u>	<u>\$ 809,245</u>	<u>\$ -</u>	<u>\$ 2,372,782</u>
Change in net assets	<u>\$ 1,595,234</u>	<u>\$ 644,043</u>	<u>\$ 28,424</u>	<u>\$ 2,267,701</u>
Total net assets - beginning	15,956,698	2,099,779	205,596	18,262,073
Total net assets - ending	<u>\$ 17,551,932</u>	<u>\$ 2,743,822</u>	<u>\$ 234,020</u>	<u>\$ 20,529,774</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, 2012

	<u>Water and Sewer</u>	<u>Harbor</u>	<u>Sanitation</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 1,174,530	\$ 817,093	\$ 188,713	\$ 2,180,336
Payments for operating expenses	(1,309,473)	(700,265)	(146,987)	(2,156,725)
Payments to employees	(505,101)	(128,974)	-	(634,075)
Net cash provided by (used for) operating activities	<u>\$ (640,044)</u>	<u>\$ (12,146)</u>	<u>\$ 41,726</u>	<u>\$ (610,464)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	<u>\$ 3,778,483</u>	<u>\$ (119,437)</u>	<u>\$ (41,726)</u>	<u>\$ 3,617,320</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Additions to capital assets	\$ (3,769,862)	\$ (597,490)	\$ -	\$ (4,367,352)
Principal payments on bonds and capital leases	(2,930,422)	(129,193)	-	(3,059,615)
Connection fees	10,047	-	-	10,047
Capital grants	2,304,802	860,026	-	3,164,828
Proceeds from indebtedness	1,504,251	-	-	1,504,251
Interest payments	(59,981)	(1,560)	-	(61,541)
Net cash provided by (used for) capital and related financing activities	<u>\$ (2,941,165)</u>	<u>\$ 131,783</u>	<u>\$ -</u>	<u>\$ (2,809,382)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends received	\$ 174	\$ -	\$ -	\$ 174
Net cash provided by (used for) investing activities	<u>\$ 174</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 174</u>
Net increase (decrease) in cash and cash equivalents	\$ 197,448	\$ 200	\$ -	\$ 197,648
Cash and cash equivalents - beginning - including restricted	158,712	300	-	159,012
Cash and cash equivalents - ending - including restricted	<u>\$ 356,160</u>	<u>\$ 500</u>	<u>\$ -</u>	<u>\$ 356,660</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 91,331	\$ (156,600)	\$ 28,424	\$ (36,845)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation expense	\$ 182,142	\$ 147,565	\$ 590	\$ 330,297
(Increase) decrease in accounts receivable	(11,618)	(18,996)	-	(30,614)
(Increase) decrease in inventories	-	2,904	-	2,904
Increase (decrease) in customer deposits	8,621	-	-	8,621
Increase (decrease) in accounts payable	(886,252)	7,524	12,712	(866,016)
Increase (decrease) in accrued liabilities	(27,953)	2,451	-	(25,502)
Increase (decrease) compensated absences liability	3,685	3,006	-	6,691
Total adjustments	<u>\$ (731,375)</u>	<u>\$ 144,454</u>	<u>\$ 13,302</u>	<u>\$ (573,619)</u>
Net cash provided by (used for) operating activities	<u>\$ (640,044)</u>	<u>\$ (12,146)</u>	<u>\$ 41,726</u>	<u>\$ (610,464)</u>

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, 2012

Note 1—Summary of Significant Accounting Policies:

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

The financial statements of the 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 government's accounting policies are described below.

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

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

Government-wide and Fund Financial Statements

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

The government-wide financial statements (i.e., the Statement of Net Assets 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 Assets - The Statement of Net Assets 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 Assets and will report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net assets of a government will be broken down into three categories - 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Notes to Financial Statements
As of June 30, 2012 (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.

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

B. Individual Component Unit Disclosures

Blended Component Unit. The Town has no blended component units at June 30, 2012.

Discretely Presented Component Units. - The Town has no discretely presented component units at June 30, 2012.

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 Town applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

When both restricted and unrestricted resources are available for use, the Town generally first uses restricted assets. The Town may defer the use of restricted assets based on a review of the specific transaction.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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.

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

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

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as deferred revenues. Sales and utility taxes, which are collected by the state or utility and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the state or utility, which is generally within two months preceding receipt by the Town.

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

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

1. Governmental Funds

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

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

2. Proprietary Funds

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

Enterprise Funds

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

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 government.

E. Investments

Investments are stated 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.

Investments for the governmental unit are reported at fair value.

F. Receivables and Payables

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

All trade and property tax receivables are shown net of an allowance for uncollectibles. The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance for uncollectible taxes, utility billing and harbor billing amounted to approximately \$0, \$85,510, and \$9,454 respectively at June 30, 2012.

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

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

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

G. Capital Assets

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government 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

H. 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 Assets. 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.

I. Retirement Plan

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

J. 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.

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

K. Net Assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets.

L. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. 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, as well as bond issuance costs, 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

M. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies and vehicle repair parts. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchases.

Certain payments to vendors reflect cost 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.

N. Fund Equity

Beginning with fiscal year 2011, the Town implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);

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

N. Fund Equity (Continued)

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

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

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

Note 2—Stewardship, Compliance, and Accounting:

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

1. Prior to June 1st, the Mayor submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the department or category level. The appropriation for each department or category can be revised only by the Town Council or Town Manager.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2012 (Continued)

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

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

Expenditures and Appropriations

Expenditures exceeded appropriations in the general fund at June 30, 2012.

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 Town to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP).

Credit Risk of Debt Securities

The Town's rated debt investments as of June 30, 2012 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale. The Town's investment policy has an emphasis on high credit quality and known marketability. The Town's policy seeks to maximize the rate of return on investments while maintaining a low level of risk.

	<u>Fair Quality Ratings</u>	
	<u>AAAm</u>	
Local Government Investment Pool	\$	536,748
Money Market Mutual Fund		800,226
Total	\$	<u>1,336,974</u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2012 (Continued)

Note 3—Deposits and Investments (Continued):

External Investment Pools

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

Note 4—Due to/from Other Governments:

At June 30, 2012, the Town has receivables from other governments as follows:

	Governmental and Business-Type Activities
Other Local Governments:	
County of Northampton	\$ 9,143
Commonwealth of Virginia:	
Communications tax	8,218
Rolling stock tax	4
VA Drinking water state revolving fund	15,000
DMV law enforcement grant	561
Fire programs fund	<u>800</u>
Federal Government:	
FEMA	48,013
EPA Stag grant	<u>34,502</u>
Total due from other governments	<u>\$ 116,241</u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2012 (Continued)

Note 5—Interfund Obligations:

Details of the Town’s interfund receivable and payables as of June 30, 2012, are as follows:

	Interfund Receivables	Interfund Payables
General Fund	\$ 632,814	\$ 226,534
Water and Sewer Fund	-	467,379
Harbor Fund	31,178	196,428
Sanitation Fund	226,536	187
	<u>890,528</u>	<u>890,528</u>
Total	<u>\$ 890,528</u>	<u>\$ 890,528</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, 2012:

Governmental Activities:	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Capital assets not subject to depreciation:				
Land and land improvements	\$ 1,866,961	\$ -	\$ -	\$ 1,866,961
Total capital assets not subject to depreciation	<u>\$ 1,866,961</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,866,961</u>
Capital assets subject to depreciation:				
Buildings and improvements	\$ 2,845,631	\$ 88,226	\$ -	\$ 2,933,857
Machinery and equipment	854,998	35,425	-	890,423
Infrastructure	811,008	55,486	-	866,494
Total capital assets subject to depreciation	<u>\$ 4,511,637</u>	<u>\$ 179,137</u>	<u>\$ -</u>	<u>\$ 4,690,774</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 1,676,290	\$ 140,821	\$ -	\$ 1,817,111
Machinery and equipment	747,339	31,359	-	778,698
Infrastructure	32,440	34,660	-	67,100
Total accumulated depreciation	<u>\$ 2,456,069</u>	<u>\$ 206,840</u>	<u>\$ -</u>	<u>\$ 2,662,909</u>
Total capital assets subject to depreciation, net	<u>\$ 2,055,568</u>	<u>\$ (27,703)</u>	<u>\$ -</u>	<u>\$ 2,027,865</u>
Governmental activities capital assets, net	<u>\$ 3,922,529</u>	<u>\$ (27,703)</u>	<u>\$ -</u>	<u>\$ 3,894,826</u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2012 (Continued)

Note 6—Capital Assets: (Continued)

Business-Type Activities:	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Capital assets not subject to depreciation:				
Construction in progress	\$ 18,207,704	\$ 4,322,930	\$ -	\$ 22,530,634
Capital assets subject to depreciation:				
Water and sewer system	\$ 5,746,763	\$ -	\$ -	\$ 5,746,763
Buildings and improvements	755,670	-	-	755,670
Improvements other than buildings	5,659,998	-	-	5,659,998
Machinery and equipment	587,828	44,422	-	632,250
 Total capital assets subject to depreciation	 \$ 12,750,259	 \$ 44,422	 \$ -	 \$ 12,794,681
Less accumulated depreciation for:				
Water and sewer system	\$ 3,115,447	\$ 114,770	\$ -	\$ 3,230,217
Buildings and improvements	299,617	32,575	-	332,192
Improvements other than buildings	2,259,797	152,134	-	2,411,931
Machinery and equipment	446,379	30,818	-	477,197
 Total accumulated depreciation	 \$ 6,121,240	 \$ 330,297	 \$ -	 \$ 6,451,537
 Total capital assets subject to depreciation, net	 \$ 6,629,019	 \$ (285,875)	 \$ -	 \$ 6,343,144
 Business-type activities capital assets, net	 \$ 24,836,723	 4,037,055	 -	 28,873,778

Depreciation expense was charged to functions/programs as follows:

Governmental activities:

General government administration	\$ 21,113
Public safety	19,106
Public works	11,163
Parks, recreation and cultural	155,458
 Total Governmental activities	 \$ 206,840

Business-type activities:

Water and Sewer	\$ 182,142
Harbor	147,565
Sanitation	590
 Total Business-type activities	 \$ 330,297

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2012 (Continued)

Note 7—Long Term Obligations:

The following is a summary of long-term obligation transactions of the Town for the year ended June 30, 2012:

	Amounts Payable at July 1, 2011	Increases	Decreases	Amounts Payable at June 30, 2012	Amounts Due Within One Year
Governmental activities:					
Compensated absences payable	\$ 48,104	\$ 8,771	\$ 4,810	\$ 52,065	\$ 5,207
General obligation bonds	1,148,319	-	54,723	1,093,596	54,723
Capital lease obligations	28,376	16,996	10,810	34,562	16,812
Total obligations from governmental activities	\$ 1,224,799	\$ 25,767	\$ 70,343	\$ 1,180,223	\$ 76,742
Business-type activities:					
Compensated absences payable	\$ 27,248	\$ 9,416	\$ 2,725	\$ 33,939	\$ 3,394
General obligation bonds	9,554,330	1,504,251	3,059,615	7,998,966	176,317
Total obligations from business-type activities	\$ 9,581,578	\$ 1,513,667	\$ 3,062,340	\$ 8,032,905	\$ 179,711
Total Long-term Obligations	\$ 10,806,377	\$ 1,539,434	\$ 3,132,683	\$ 9,213,128	\$ 256,452

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2012 (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		General Obligation Bonds	
	Principal	Interest	Principal	Interest
2013	\$ 54,723	\$ 46,532	\$ 176,317	\$ 158,547
2014	57,942	44,243	179,926	153,252
2015	67,499	41,831	177,290	146,698
2016	61,161	39,120	190,646	141,140
2017	69,781	36,436	194,147	134,084
2018	77,987	33,406	198,172	126,315
2019	61,891	30,455	191,610	119,139
2020	62,307	27,832	198,657	112,025
2021	65,942	24,987	207,610	104,536
2022	69,576	21,936	216,696	96,154
2023	73,210	18,833	225,920	87,459
2024	76,430	15,538	230,705	78,365
2025	80,064	11,961	240,228	68,960
2026	83,699	8,078	249,911	59,080
2027	87,748	3,979	264,349	48,314
2028	14,127	1,619	231,636	38,009
2029	14,542	1,095	240,073	28,371
2030	14,967	555	248,697	18,366
2031	-	-	87,919	7,985
2032	-	-	96,163	3,512
2033	-	-	2,058	786
2034	-	-	2,125	719
2035	-	-	2,194	650
2036	-	-	2,265	579
2037	-	-	2,339	505
2038	-	-	2,414	430
2039	-	-	2,493	351
2040	-	-	2,574	270
2041	-	-	2,657	187
2042	-	-	2,743	100
2043	-	-	1,514	13
*	-	-	3,926,918	-
Total	\$ <u>1,093,596</u>	\$ <u>408,436</u>	\$ <u>7,998,966</u>	\$ <u>1,734,901</u>

* The VRA/VA Water Facilities Revolving Fund bond was not fully drawn down at June 30, 2012. Amortization schedule not yet available.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2012 (Continued)

Note 7—Long-Term Obligations: (Continued)

Long-term obligations at June 30, 2012 are as follows:

	<u>Amount Outstanding</u>
<u>Details of Long-term Indebtedness:</u>	
<u>Governmental Activities:</u>	
<u>Details of General Obligation bonds:</u>	
\$1,795,000 2006B revenue bonds 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	\$ 917,415
\$2,120,000 VML/VAco recovery act bond issued March 2, 2010, due in various annual installments through February 15, 2030, interest at various rates from 3.518% to 6.567%, loan split between general government and enterprise funds	176,181
Total general obligation debt	\$ 1,093,596
Capital lease obligations (see Note 8)	\$ 34,562
Compensated Absences (payable from the General Fund)	\$ 52,065
Total governmental activities obligations payable	\$ 1,180,223
<u>Business-type Activities:</u>	
<u>Details of General Obligation Bonds:</u>	
\$1,795,000 2006B revenue bonds 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	\$ 507,585
\$1,579,300 FHA general obligation bond issued September 3, 1992, due in monthly installments of \$7,755 through August 2032, interest at 5.0%	1,175,049
\$62,500 FHA general obligation bond issued December 30, 2003, due in monthly installments of \$237 through December 2044, interest at 3.25%	55,594
\$2,120,000 VML/VAco recovery act 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 VML/VAco recovery act bond issued March 2, 2010, due in various annual installments through February 15, 2017, interest at various rates from 2.00% to 4.00%	390,000
\$5,151,627 VRA/VA Water Facilities Revolving Fund issued November 30, 2010, not fully drawn down as of June 30, 2012.	3,926,918
Total general obligation bonds payable	\$ 7,998,966
Compensated Absences (payable from Enterprise Funds)	\$ 33,939
Total business-type activities obligations payable	\$ 8,032,905

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2012 (Continued)

Note 8—Capital Leases:

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

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Equipment	\$ 69,102
Less: accumulated depreciation	(27,376)
Total	\$ 41,726

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012, were as follows:

Year Ended June 30	Governmental Activities
2013	\$ 19,051
2014	12,870
2015	6,429
Total minimum lease payments	\$ 38,350
Less: amount representing interest	(3,788)
Present value of minimum lease payments	\$ 34,562

Note 9—Deferred Revenue:

Deferred 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. Deferred revenue totaling \$217,093 consists of the following:

Deferred Property Tax Revenue - Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled \$207,638 at June 30, 2012.

Prepaid Property Taxes - Property taxes due subsequent to June 30, 2012, but paid in advance by the tax payers totaled \$9,455 at June 30, 2012.

Notes to Financial Statements
As of June 30, 2012 (Continued)

Note 10—Litigation:

At June 30, 2012, there were no matters of litigation involving the Town or which would materially affect the Town's financial position should any court decisions on pending matters not be favorable to the Town.

Note 11—Risk Management:

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates with other localities in a public entity risk pool for their coverage of workers' compensation, public officials' liability and all other risks of loss. The Town pays an annual premium to the pools for its general insurance through member premiums. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 12—Defined Benefit Pension Plan:

A. Plan Description

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

All full-time, salaried permanent employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

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

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least five years of service credit or age 50 with at least ten years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with a least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

Note 12 – Defined Benefit Pension Plan: (Continued)

A. Plan Description (Continued)

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

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

The System issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS Website at: <http://www.varetire.org/Pdf/Publications/2011-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. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2012 was 7.15% of annual covered payroll.

Notes to Financial Statements
As of June 30, 2012 (Continued)

Note 12 – Defined Benefit Pension Plan: (Continued)

C. Annual Pension Cost

For fiscal year 2012, the Town’s annual pension cost of \$123,708 (which includes the portion of the employee share assumed by the employer which was \$50,909) was equal to the Town’s required and actual contributions.

Three Year Trend Information for Municipal Corporation of Cape Charles

Fiscal Year Ending	Annual Pension Cost (APC) (1)	Percentage of APC Contributed	Net Pension Obligation
Town:			
June 30, 2012	\$ 72,799	100%	\$ -
June 30, 2011	72,668	100%	-
June 30, 2010	68,202	100%	-

(1) Employer portion only

The fiscal year 2012 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (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. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Town’s assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town’s unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

D. Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was 88.72% funded. The actuarial accrued liability for benefits was \$1,877,730, and the actuarial value of assets was \$1,665,950, resulting in an unfunded actuarial accrued liability (UAAL) of \$211,780. The covered payroll (annual payroll of active employees covered by the plan) was \$1,020,456, and ratio of the UAAL to the covered payroll was 20.75%.

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.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2012 (Continued)

Note 13 – Commitments and Contingencies:

Federal programs in which the Town participates were audited in accordance with the provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements.

While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowance of current grant program expenditures, if any, would be immaterial.

The following construction contracts were outstanding at June 30, 2012:

<u>Fund</u>	<u>Project</u>	<u>Contractor</u>	<u>Amount Of Contract</u>	<u>Contract Outstanding At June 30, 2012</u>
Water & Sewer	Waste Water Treatment Plant and I & I	Stearns and Wheeler	\$ 4,472,537	\$ 30,302
Water & Sewer	Waste Water Treatment Plant	WM Schlosser Company	15,162,491	1,148,640

REQUIRED SUPPLEMENTARY INFORMATION

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Municipal Corporation of Cape Charles, Virginia
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
General property taxes	\$ 1,218,076	\$ 1,218,076	\$ 1,227,729	\$ 9,653
Other local taxes	357,200	357,200	455,148	97,948
Permits, privilege fees, and regulatory licenses	47,700	47,700	40,821	(6,879)
Fines and forfeitures	17,000	17,000	13,020	(3,980)
Revenue from the use of money and property	2,500	2,500	3,057	557
Charges for services	2,200	2,200	2,007	(193)
Miscellaneous	-	-	5,780	5,780
Recovered costs	15,500	15,500	64,074	48,574
Intergovernmental revenues:				
Commonwealth	120,526	120,526	144,189	23,663
Federal	291,588	291,588	417,672	126,084
Total revenues	<u>\$ 2,072,290</u>	<u>\$ 2,072,290</u>	<u>\$ 2,373,497</u>	<u>\$ 301,207</u>
EXPENDITURES				
Current:				
General government administration	\$ 793,752	\$ 793,752	\$ 804,556	\$ (10,804)
Public safety - police department	339,986	356,982	352,668	4,314
Public safety - code enforcement	81,999	81,999	73,522	8,477
Public works	506,607	506,607	523,896	(17,289)
Parks, recreation, and cultural	156,632	156,632	140,580	16,052
Community development	85,366	85,366	78,201	7,165
Debt service:				
Principal retirement	54,723	54,723	65,533	(10,810)
Interest and other fiscal charges	53,225	53,225	50,555	2,670
Total expenditures	<u>\$ 2,072,290</u>	<u>\$ 2,089,286</u>	<u>\$ 2,089,511</u>	<u>\$ (225)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ (16,996)</u>	<u>\$ 283,986</u>	<u>\$ 300,982</u>
OTHER FINANCING SOURCES (USES)				
Issuance of capital leases	\$ -	\$ 16,996	\$ 16,996	\$ -
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ 16,996</u>	<u>\$ 16,996</u>	<u>\$ -</u>
Net change in fund balances	\$ -	\$ -	\$ 300,982	\$ 300,982
Fund balances - beginning	-	-	1,896,160	1,896,160
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,197,142</u>	<u>\$ 2,197,142</u>

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

Exhibit 11

For the Year Ended June 30, 2012

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded (Excess Funded) Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	UAAL as % of Payroll
Town						
6/30/2011	\$ 1,665,950	\$ 1,877,730	\$ 211,780	88.72%	\$ 1,020,456	20.75%
6/30/2010	1,528,767	1,660,255	131,488	92.08%	994,672	13.22%
6/30/2009	1,426,469	1,427,298	829	99.94%	954,950	0.09%
6/30/2008	1,282,550	1,286,226	3,676	99.71%	1,009,307	0.36%
6/30/2007	1,098,992	1,087,819	(11,173)	101.03%	819,954	-1.36%
6/30/2006	906,574	861,257	(45,317)	105.26%	913,935	-4.96%
6/30/2005	789,745	905,643	115,898	87.20%	749,574	15.46%
6/30/2004	713,927	750,693	36,766	95.10%	644,674	5.70%
6/30/2003	642,114	567,357	(74,757)	113.18%	362,452	-20.63%
6/30/2002	577,063	593,758	16,695	97.19%	509,221	3.28%

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, 2012

<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	\$ 1,070,076	\$ 1,070,076	\$ 1,091,323	\$ 21,247
Personal property taxes	115,000	115,000	76,033	(38,967)
Machinery and tools taxes	15,000	15,000	34,819	19,819
Penalties and interest	18,000	18,000	25,554	7,554
Total general property taxes	<u>\$ 1,218,076</u>	<u>\$ 1,218,076</u>	<u>\$ 1,227,729</u>	<u>\$ 9,653</u>
Other local taxes:				
Local sales and use taxes	\$ 35,000	\$ 35,000	\$ 39,361	\$ 4,361
Consumers' utility taxes	47,000	47,000	44,451	(2,549)
Cable television franchise license tax	15,000	15,000	27,350	12,350
Business license taxes	48,500	48,500	87,033	38,533
Motor vehicle licenses	20,000	20,000	22,150	2,150
Admissions taxes	23,000	23,000	21,113	(1,887)
Short term rental tax	3,700	3,700	3,827	127
Hotel and motel room taxes	18,000	18,000	27,096	9,096
Restaurant food taxes	147,000	147,000	182,767	35,767
Total other local taxes	<u>\$ 357,200</u>	<u>\$ 357,200</u>	<u>\$ 455,148</u>	<u>\$ 97,948</u>
Permits, privilege fees, and regulatory licenses:				
Permits and other licenses	\$ 47,700	\$ 47,700	\$ 40,821	\$ (6,879)
Total permits, privilege fees, and regulatory licenses	<u>\$ 47,700</u>	<u>\$ 47,700</u>	<u>\$ 40,821</u>	<u>\$ (6,879)</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 17,000	\$ 17,000	\$ 13,020	\$ (3,980)
Total fines and forfeitures	<u>\$ 17,000</u>	<u>\$ 17,000</u>	<u>\$ 13,020</u>	<u>\$ (3,980)</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 2,500	\$ 2,500	\$ 1,793	\$ (707)
Revenue from use of property	-	-	1,264	1,264
Total revenue from use of money and property	<u>\$ 2,500</u>	<u>\$ 2,500</u>	<u>\$ 3,057</u>	<u>\$ 557</u>
Charges for services:				
Charges for tax review fees	\$ 1,500	\$ 1,500	\$ 1,140	\$ (360)
Charges for library	700	700	867	167
Total charges for services	<u>\$ 2,200</u>	<u>\$ 2,200</u>	<u>\$ 2,007</u>	<u>\$ (193)</u>
Miscellaneous revenue:				
Miscellaneous	\$ -	\$ -	\$ 5,780	\$ 5,780
Total miscellaneous revenue	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,780</u>	<u>\$ 5,780</u>

Municipal Corporation of Cape Charles, Virginia
Schedule of Revenues - Budget and Actual
General Fund
For the Year Ended June 30, 2012

<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)				
Recovered costs:				
County contribution for Library	\$ 15,500	\$ 15,500	\$ 15,500	\$ -
Other recovered costs	-	-	41,074	41,074
County contribution for tourism	-	-	7,500	7,500
Total recovered costs	<u>\$ 15,500</u>	<u>\$ 15,500</u>	<u>\$ 64,074</u>	<u>\$ 48,574</u>
Total revenue from local sources	<u>\$ 1,660,176</u>	<u>\$ 1,660,176</u>	<u>\$ 1,811,636</u>	<u>\$ 151,460</u>
Revenue from the Commonwealth:				
Noncategorical aid:				
Communications tax	\$ 43,000	\$ 43,000	\$ 48,116	\$ 5,116
Rolling stock tax	5	5	4	(1)
Personal property tax relief funds	35,424	35,424	35,424	-
Total noncategorical aid	<u>\$ 78,429</u>	<u>\$ 78,429</u>	<u>\$ 83,544</u>	<u>\$ 5,115</u>
Categorical aid:				
Fire programs	\$ 8,000	\$ 8,000	\$ 8,000	\$ -
Arts grant	5,000	5,000	5,000	-
Law enforcement grant HB 599	28,097	28,097	28,096	(1)
Litter control	1,000	1,000	-	(1,000)
Disaster recovery grant	-	-	19,549	19,549
Total other categorical aid	<u>\$ 42,097</u>	<u>\$ 42,097</u>	<u>\$ 60,645</u>	<u>\$ 18,548</u>
Total categorical aid	<u>\$ 42,097</u>	<u>\$ 42,097</u>	<u>\$ 60,645</u>	<u>\$ 18,548</u>
Total revenue from the Commonwealth	<u>\$ 120,526</u>	<u>\$ 120,526</u>	<u>\$ 144,189</u>	<u>\$ 23,663</u>
Revenue from the federal government:				
Categorical aid:				
TEA-21 grant	\$ 80,000	\$ 80,000	\$ 53,774	\$ (26,226)
JAG grant	1,885	1,885	-	(1,885)
Transportation safety grant	-	-	6,582	6,582
Community development block grant	209,703	209,703	275,861	66,158
Disaster recovery grant	-	-	81,455	81,455
Total categorical aid	<u>\$ 291,588</u>	<u>\$ 291,588</u>	<u>\$ 417,672</u>	<u>\$ 126,084</u>
Total revenue from the federal government	<u>\$ 291,588</u>	<u>\$ 291,588</u>	<u>\$ 417,672</u>	<u>\$ 126,084</u>
Total General Fund	<u>\$ 2,072,290</u>	<u>\$ 2,072,290</u>	<u>\$ 2,373,497</u>	<u>\$ 301,207</u>

Municipal Corporation of Cape Charles, Virginia
Schedule of Expenditures - Budget and Actual
General Fund
For the Year Ended June 30, 2012

<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	\$ 9,988	\$ 9,988	\$ 8,034	\$ 1,954
Total legislative	<u>\$ 9,988</u>	<u>\$ 9,988</u>	<u>\$ 8,034</u>	<u>\$ 1,954</u>
General and financial administration:				
Town Clerk	\$ 82,955	\$ 82,955	\$ 81,210	\$ 1,745
Town Manager	503,338	503,338	529,223	(25,885)
Finance	197,471	197,471	186,089	11,382
Total general and financial administration	<u>\$ 783,764</u>	<u>\$ 783,764</u>	<u>\$ 796,522</u>	<u>\$ (12,758)</u>
Total general government administration	<u>\$ 793,752</u>	<u>\$ 793,752</u>	<u>\$ 804,556</u>	<u>\$ (10,804)</u>
Public safety:				
Law enforcement and traffic control:				
Police	\$ 339,986	\$ 356,982	\$ 352,668	\$ 4,314
Total law enforcement and traffic control	<u>\$ 339,986</u>	<u>\$ 356,982</u>	<u>\$ 352,668</u>	<u>\$ 4,314</u>
Inspections:				
Code enforcement	\$ 81,999	\$ 81,999	\$ 73,522	\$ 8,477
Total inspections	<u>\$ 81,999</u>	<u>\$ 81,999</u>	<u>\$ 73,522</u>	<u>\$ 8,477</u>
Total public safety	<u>\$ 421,985</u>	<u>\$ 438,981</u>	<u>\$ 426,190</u>	<u>\$ 12,791</u>
Public works:				
Maintenance of general buildings and grounds:				
General properties	\$ 506,607	\$ 506,607	\$ 523,896	\$ (17,289)
Total public works	<u>\$ 506,607</u>	<u>\$ 506,607</u>	<u>\$ 523,896</u>	<u>\$ (17,289)</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Community center	\$ 58,436	\$ 58,436	\$ 53,937	\$ 4,499
Total parks and recreation	<u>\$ 58,436</u>	<u>\$ 58,436</u>	<u>\$ 53,937</u>	<u>\$ 4,499</u>
Library:				
Library administration	\$ 98,196	\$ 98,196	\$ 86,643	\$ 11,553
Total library	<u>\$ 98,196</u>	<u>\$ 98,196</u>	<u>\$ 86,643</u>	<u>\$ 11,553</u>
Total parks, recreation, and cultural	<u>\$ 156,632</u>	<u>\$ 156,632</u>	<u>\$ 140,580</u>	<u>\$ 16,052</u>

Municipal Corporation of Cape Charles, Virginia
Schedule of Expenditures - Budget and Actual
General Fund
For the Year Ended June 30, 2012

<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	\$ 85,366	\$ 85,366	\$ 78,201	\$ 7,165
Total planning and community development	<u>\$ 85,366</u>	<u>\$ 85,366</u>	<u>\$ 78,201</u>	<u>\$ 7,165</u>
Total community development	<u>\$ 85,366</u>	<u>\$ 85,366</u>	<u>\$ 78,201</u>	<u>\$ 7,165</u>
Debt service:				
Principal retirement	\$ 54,723	\$ 54,723	\$ 65,533	\$ (10,810)
Interest and other fiscal charges	53,225	53,225	50,555	2,670
Total debt service	<u>\$ 107,948</u>	<u>\$ 107,948</u>	<u>\$ 116,088</u>	<u>\$ (8,140)</u>
Total General Fund	<u>\$ 2,072,290</u>	<u>\$ 2,089,286</u>	<u>\$ 2,089,511</u>	<u>\$ (225)</u>

OTHER STATISTICAL INFORMATION

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Table 1

**Municipal Corporation of Cape Charles, Virginia
Government-Wide Expenses by Function
Last Ten Fiscal Years (1)**

Fiscal Year	General Government Administration	Public Safety (2)	Public Works	Parks, Recreation, and Cultural	Community Development	Interest on Long-Term Debt	Enterprise Funds	Total
2003-04	\$ 401,153	\$ 327,616	\$ 236,981	\$ 39,179	\$ 105,111	\$ -	\$ 1,110,996	\$ 2,221,036
2004-05	416,358	478,635	226,675	98,435	63,820	765	1,248,707	2,533,395
2005-06	672,885	479,513	311,465	49,130	71,942	21,589	1,430,407	3,036,931
2006-07	716,874	645,866	378,102	184,678	117,189	113,590	1,745,095	3,901,394
2007-08	423,662	467,252	557,261	179,575	100,263	51,882	1,916,132	3,696,027
2008-09	476,972	456,135	374,459	213,545	91,330	50,127	1,753,277	3,415,845
2009-10	540,006	370,756	355,205	228,404	72,755	47,742	1,993,329	3,608,197
2010-11	771,867	412,351	736,974	134,290	81,885	64,131	1,984,209	4,185,707
2011-12	770,193	422,784	447,869	227,507	72,660	51,332	2,326,252	4,318,597

(1) Information has only been available for nine years.

(2) Code enforcement expenses were reported as Community Development rather than Public Safety in 2003-04.

Table 2

Municipal Corporation of Cape Charles, Virginia
Government-Wide Revenues
Last Ten Fiscal Years (1)

Fiscal Year	PROGRAM REVENUES				GENERAL REVENUES						Total
	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		
2003-04	\$ 1,372,436	\$ 102,215	\$ -	\$ -	\$ 598,294	\$ 423,368	\$ 1,910	\$ -	\$ -	\$ 2,498,223	
2004-05	2,244,238	132,106	-	-	845,327	446,686	22,335	16,506	35,550	3,742,748	
2005-06	1,531,329	520,850	315,600		878,058	477,148	63,439	17,141	136,630	3,940,195	
2006-07	1,694,211	159,796	119,511		1,047,903	375,147	108,845	23,570	61,558	3,590,541	
2007-08	1,840,747	91,488	244,190		1,092,242	474,193	76,620	3,735	35,422	3,858,637	
2008-09	1,515,454	107,202	728,590		1,128,747	415,231	19,310	31,741	35,430	3,981,705	
2009-10	1,766,997	41,362	3,228,486		1,309,491	408,522	7,177	19,072	84,790	6,865,897	
2010-11	1,913,141	53,789	10,629,514		1,175,993	434,391	7,462	91,285	84,549	14,390,124	
2011-12	2,256,933	67,227	2,783,872		1,301,439	455,148	3,231	25,692	83,544	6,977,086	

(1) Information has only been available for nine years.

Table 3

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

Fiscal Year	General Government Administration	Public Safety (2)	Public Works	Parks, Recreation, and Cultural	Community Development	Debt Service	Total
2003	\$ 299,977	\$ 217,251	\$ 177,633	\$ 74,990	\$ 196,978	\$ -	\$ 966,829
2004	407,426	338,000	237,965	81,679	99,822	-	1,164,892
2005	445,330	496,560	217,905	110,775	63,820	-	1,334,390
2006	649,512	490,190	306,803	65,316	70,747	30,856	1,613,424
2007	697,049	625,181	307,665	76,495	118,384	101,223	1,925,997
2008	596,869	447,301	542,103	107,922	98,134	113,018	1,905,347
2009	515,891	441,025	358,766	102,885	89,316	120,982	1,628,865
2010	503,997	381,947	1,010,388	119,252	75,878	100,823	2,192,285
2011	741,412	397,501	767,847	133,369	90,925	117,546	2,248,600
2012	804,556	426,190	523,896	140,580	78,201	116,088	2,089,511

(1) Includes General Fund.

(2) Code enforcement expenditures were reported as Community Development rather than Public Safety prior to fiscal year 2005.

Table 4

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

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, Regulatory Licenses	Fines and Forfeitures	Revenue from the Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental	Total
2003	\$ 393,908	\$ 209,514	\$ 189,042	\$ 1,571	\$ 3,932	\$ 480	\$ 44,888	\$ -	\$ 192,476	\$ 1,035,811
2004	585,149	399,313	288,044	3,181	1,910	7,620	3,176	-	104,100	1,392,493
2005	808,543	446,686	495,982	3,798	14,005	35,857	16,506	42,926	94,717	1,959,020
2006	868,158	477,148	120,387	6,927	63,432	7,082	17,141	32,500	495,324	2,088,099
2007	1,030,953	375,147	94,615	6,343	108,842	6,833	23,570	32,500	221,354	1,900,157
2008	1,083,243	474,193	83,529	22,935	76,616	3,425	3,735	15,500	126,910	1,890,086
2009	1,074,282	415,231	53,441	10,469	19,310	3,726	31,741	15,500	142,632	1,766,332
2010	1,238,835	408,522	50,448	10,736	5,942	4,193	2,812	17,348	348,548	2,087,384
2011	1,239,811	434,391	47,391	23,051	6,552	3,223	16,048	24,540	878,774	2,673,781
2012	1,227,729	455,148	40,821	13,020	3,057	2,007	5,780	64,074	561,861	2,373,497

(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 (1)	Percent of Outstanding Delinquent Taxes to Tax Levy
2003	\$ 405,108	\$ 370,125	91.36%	\$ 14,027	\$ 384,152	94.83%	\$ 71,396	17.62%
2004	594,654	545,309	91.70%	34,563	579,872	97.51%	83,908	14.11%
2005	794,493	772,675	97.25%	53,294	825,969	103.96%	72,568	9.13%
2006	914,102	883,820	96.69%	14,902	898,722	98.32%	75,791	8.29%
2007	1,090,686	1,049,395	96.21%	9,353	1,058,748	97.07%	63,626	5.83%
2008	1,134,614	1,079,654	95.16%	21,808	1,101,462	97.08%	72,624	6.40%
2009	1,148,978	1,052,270	91.58%	24,657	1,076,927	93.73%	125,916	10.96%
2010	1,305,225	1,233,336	94.49%	19,941	1,253,277	96.02%	197,746	15.15%
2011	1,306,596	1,211,634	92.73%	10,123	1,221,757	93.51%	133,928	10.25%
2012	1,334,098	1,194,242	89.52%	43,357	1,237,599	92.77%	198,183	14.86%

(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)	
2003	\$ 80,469,500	\$ 7,320,330	\$ 15,620	\$ 1,815,657	\$	89,621,107
2004	101,456,900	7,663,100	18,120	1,267,559		110,405,679
2005	214,842,500	9,501,400	15,120	1,734,202		226,093,222
2006	248,804,897	9,970,700	27,920	1,649,630		260,453,147
2007	281,671,100	12,756,100	34,320	1,180,071		295,641,591
2008	309,377,451	12,581,000	34,300	1,086,411		323,079,162
2009	578,730,450	13,332,827	17,500	2,303,243		594,384,020
2010	610,324,249	12,728,600	17,500	3,052,751		626,123,100
2011	618,341,300	12,162,400	17,000	3,678,477		634,199,177
2012	622,094,327	14,489,100	17,000	3,940,015		640,540,442

(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	
2003	\$ 0.37	\$ 2.00	\$ 0.37	\$	0.37
2004	0.47	2.00	0.47		0.47
2005	0.3008	2.00	0.3008		0.3008
2006	0.3008	2.00	0.3008		0.3008
2007	0.3008	2.00	0.3008		0.3008
2008	0.3008	2.00	0.3008		0.3008
2009	0.1628	2.00	0.1628		0.1628
2010	0.1828	2.00	0.1828		0.1828
2011	0.1828	2.00	0.1828		0.1828
2012	0.1828	2.00	0.1828		0.1828

(1) Per \$100 of assessed value.

Table 8

**Municipal Corporation of Cape Charles, Virginia
Computation of Legal Debt Margin
At June 30, 2012**

Assessed value of real property, January 1, 2011 (1)	<u>\$ 613,377,000</u>
Debt limit: 10% of assessed value	\$ 61,337,700
Amount of debt applicable to debt limit:	
Gross debt (2)	<u>\$ 9,092,562</u>
Less: Revenue bonds and notes secured by property	<u>-</u>
Net general obligation bonds and loans	<u>\$ 9,092,562</u>
Legal debt limit	<u>\$ 52,245,138</u>

(1) Assessed value of real property, including public service corporations as of January 1, 2011.

(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)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2003	1,134	\$ 89,621,107	\$ 1,722,422	1.92%	\$ 1,519
2004	1,134	110,405,679	1,751,686	1.59%	1,545
2005	1,134	226,093,222	1,713,987	0.76%	1,511
2006	1,134	260,453,147	2,773,334	1.06%	2,446
2007	1,134	295,641,591	3,181,952	1.08%	2,806
2008	1,134	323,079,162	3,088,603	0.96%	2,724
2009	1,134	594,384,020	4,224,092	0.71%	3,725
2010	1,009	626,123,100	9,962,723	1.59%	9,874
2011	1,009	634,199,177	10,703,649	1.69%	10,608
2012	1,009	640,540,442	9,092,562	1.42%	9,011

(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.

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COMPLIANCE SECTION

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

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

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Municipal Corporation of Cape Charles, Virginia, as of and for the year ended June 30, 2012, which collectively comprise the Municipal Corporation of Cape Charles, Virginia's basic financial statements and have issued our report thereon dated March 29, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Municipal Corporation of Cape Charles, Virginia is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Municipal Corporation of Cape Charles, Virginia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipal Corporation of Cape Charles, Virginia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipal Corporation of Cape Charles, Virginia's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses (2012-01).

Compliance and Other Matters

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

We noted certain other matters involving the internal control and its operation that we reported to management of the Municipal Corporation of Cape Charles, Virginia, in a separate letter dated March 29, 2013.

The Municipal Corporation of Cape Charles, Virginia's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Municipal Corporation of Cape Charles, Virginia's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Town Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "R. F. Cox", followed by a horizontal line extending to the right.

Richmond, Virginia
March 29, 2013

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the Municipal Corporation of Cape Charles, Virginia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Municipal Corporation of Cape Charles, Virginia's major federal programs for the year ended June 30, 2012. The Municipal Corporation of Cape Charles, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Municipal Corporation of Cape Charles, Virginia's management. Our responsibility is to express an opinion on the Municipal Corporation of Cape Charles, Virginia's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipal Corporation of Cape Charles, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Municipal Corporation of Cape Charles, Virginia's compliance with those requirements.

In our opinion, the Municipal Corporation of Cape Charles, Virginia complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Municipal Corporation of Cape Charles, Virginia is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Municipal Corporation of Cape Charles, Virginia's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipal Corporation of Cape Charles, Virginia's internal control over compliance.

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

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

This report is intended solely for the information and use of management, the Town Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "R. F. Clark", followed by a horizontal line extending to the right.

Richmond, Virginia
March 29, 2013

Municipal Corporation of Cape Charles, Virginia
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Federal Grantor/Pass - Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Transportation:			
Pass Through Payments:			
Virginia Department of Transportation:			
Highway Planning and Construction	20.205	unknown	\$ 53,774
Department of Motor Vehicles:			
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	60507-51192	<u>6,582</u>
Total Department of Transportation			<u>\$ 60,356</u>
Environmental Protection Agency:			
Direct Payments:			
Congressionally Mandated Projects			
ARRA - Capitalization Grants for Drinking Water	66.202	N/A	\$ 449,030
State Revolving Funds	66.468	N/A	<u>15,000</u>
Total Environmental Protection Agency			<u>\$ 464,030</u>
Department of Homeland Security:			
Pass Through Payments:			
Department of Emergency Services:			
Disaster Grants - Public Assistance	97.036	77602-145	<u>81,455</u>
Department of Housing and Urban Development:			
Pass Through Payments:			
Department of Housing and Community Development:			
Community Development Block Grants	14.228	5330500-50798	<u>\$ 275,861</u>
Total Expenditures of Federal Awards			<u><u>\$ 881,702</u></u>

See accompanying notes to schedule of expenditures of federal awards.

Municipal Corporation of Cape Charles, Virginia

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Municipal Corporation of Cape Charles, Virginia under programs of the federal government for the year ended June 30, 2012. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Municipal Corporation of Cape Charles, Virginia, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Municipal Corporation of Cape Charles, Virginia.

Note B - Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

Note C - Relationship to Financial Statements

Federal expenditures, revenues and capital contributions are reported in the Town's basic financial statements as follows:

Intergovernmental federal revenues per the basic financial statements:	
Primary government:	
General Fund	\$ 417,672
Proprietary Fund:	
Water and Sewer Fund	464,030
Total primary government	\$ <u>881,702</u>
Total federal expenditures per basic financial statements	\$ <u>881,702</u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards	\$ <u><u>881,702</u></u>

Municipal Corporation of Cape Charles, Virginia
 Schedule of Findings and Questioned Costs
 For the year ended June 30, 2012

Section I-Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? ✓ yes no

Significant deficiency(ies) identified? yes ✓ none reported

Noncompliance material to financial statements noted? yes ✓ no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes ✓ no

Significant deficiency(ies) identified? yes ✓ none reported

Type of auditor's report issued on compliance
for major programs: unqualified

Any audit findings disclosed that are required to be
reported in accordance with section 510(a) of OMB
Circular A-133? yes ✓ no

Identification of major programs:

CFDA Number(s)
66.202

Name of Federal Program or Cluster
Congressionally Mandated Projects

Dollar threshold used to distinguish between type A
and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

 yes ✓ no

Municipal Corporation of Cape Charles, Virginia
 Schedule of Findings and Questioned Costs (Continued)
 For the year ended June 30, 2012

Section II-Financial Statement Findings

2012-01

Financial Reporting

Condition:	Inadequate internal controls over financial statement reporting.
Criteria:	Internal controls should be in place that provide assurance that audited financial statements reconcile to the Town's internal documents.
Context:	Through review of balance sheet accounts at June 30, 2012, it was noted that year-end entries had not been prepared and posted for most accounts nor had prior year accrual entries been reversed in FY12.
Effect:	Audited financial statements, including related footnotes, may contain an undetected material misstatement.
Cause:	Procedures have not been implemented to provide the necessary internal controls over financial reporting.
Recommendation:	Procedures should be implemented for the posting of all year entries to convert general ledger accounts to the reporting basis of the individual funds. This would include making entries to post current year receivables, interest payable, accrued leave liabilities, principal payments on debt, and capital assets transactions, including depreciation.
Management's Response:	The Town plans corrective action for FY13.

Section III - Federal Award Findings and Questioned Costs

None

Municipal Corporation of Cape Charles, Virginia

Schedule of Prior Year Findings and Questioned Costs
For the year ended June 30, 2012

There were Financial Statement Findings in the prior year and a description of those findings are included in the Audited Annual Financial Report for the fiscal year ended June 30, 2011.

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