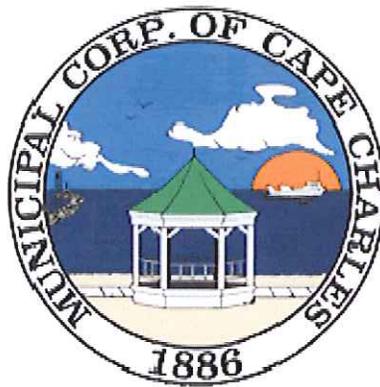


MUNICIPAL CORPORATION
OF
CAPE CHARLES, VIRGINIA



ANNUAL FINANCIAL REPORT

FOR FISCAL YEAR ENDED JUNE 30, 2010

MUNICIPAL CORPORATION OF CAPE CHARLES, VIRGINIA

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2010

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MUNICIPAL CORPORATION OF CAPE CHARLES, VIRGINIA

ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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MUNICIPAL CORPORATION OF CAPE CHARLES, VIRGINIA

ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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MUNICIPAL CORPORATION OF CAPE CHARLES, VIRGINIA

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FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditor's 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, each major fund, and the aggregate remaining fund information of the Municipal Corporation of Cape Charles, Virginia, as of and for the year ended June 30, 2010, 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.

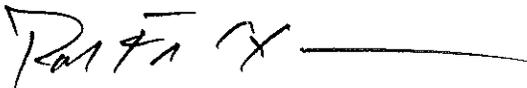
We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, 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, each major fund, and the aggregate remaining fund information of the Municipal Corporation of Cape Charles, Virginia, as of June 30, 2010, 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 17, 2011, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, budgetary comparison information, and the Schedule of Pension Funding Progress as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 basic financial statements. The supporting schedules and other statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Municipal Corporation of Cape Charles, Virginia. The Other Supplementary Information including the budgetary comparison schedules and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The other statistical information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

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

Richmond, Virginia
March 17, 2011

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, 2010. 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 \$12,695,113 (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 \$87,623 (Exhibit 5).

< As of the close of the current fiscal year; the Town's funds reported an ending fund balance of \$1,453,843, an increase of \$87,623 in comparison with the prior year.

< The combined long-term obligations increased \$5,748,225 during the current fiscal year, due mainly to the issuance of \$5,668,820 general obligation bonds.

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, sanitation, 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 \$12,695,113 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	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 1,714,351	\$ 1,557,012	\$ 5,757,271	\$ 567,926	\$ 7,471,622	\$ 2,124,938
Capital assets	3,952,042	3,447,390	12,169,287	8,299,934	16,121,329	11,747,324
Total assets	\$ 5,666,393	\$ 5,004,402	\$ 17,926,558	\$ 8,867,860	\$ 23,592,951	\$ 13,872,262
Current liabilities	\$ 83,300	\$ 83,586	\$ 758,016	\$ 42,966	\$ 841,316	126,552
Long-term liabilities outstanding	1,259,711	1,123,258	8,796,811	3,185,039	10,056,522	4,308,297
Total liabilities	\$ 1,343,011	\$ 1,206,844	\$ 9,554,827	\$ 3,228,005	\$ 10,897,838	\$ 4,434,849
Net assets:						
Invested in capital assets, net of related debt	\$ 2,739,095	\$ 2,373,232	\$ 6,791,588	\$ 5,144,550	\$ 9,530,683	7,517,782
Restricted for:						
Debt service	-	-	95,904	95,904	95,904	95,904
Unrestricted	1,584,287	1,424,326	1,484,239	399,401	3,068,526	1,823,727
Total net assets	\$ 4,323,382	\$ 3,797,558	\$ 8,371,731	\$ 5,639,855	\$ 12,695,113	9,437,413

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Analysis (Continued)

During the current fiscal year, the Town's net assets increased by \$3,257,700. 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	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 65,377	\$ 67,636	\$ 1,701,620	\$ 1,447,818	\$ 1,766,997	\$ 1,515,454
Operating grants and contributions	41,362	107,202	-	-	41,362	107,202
Capital grants and contributions	222,396	-	3,006,090	728,590	3,228,486	728,590
General revenues:						
General property taxes	1,309,491	1,128,747	-	-	1,309,491	1,128,747
Other local taxes	408,522	415,231	-	-	408,522	415,231
Grants and other contributions not restricted	84,790	35,430	-	-	84,790	35,430
Other general revenues	8,754	51,051	17,495	1,633	26,249	52,684
Total revenues	\$ 2,140,692	\$ 1,805,297	\$ 4,725,205	\$ 2,178,041	\$ 6,865,897	\$ 3,983,338
Expenses:						
General government administration						
General government administration	\$ 540,006	\$ 476,972	\$ -	\$ -	\$ 540,006	\$ 476,972
Public safety	370,756	456,135	-	-	370,756	456,135
Public works	355,205	374,459	-	-	355,205	374,459
Parks, recreation, and cultural	228,404	213,545	-	-	228,404	213,545
Community development	72,755	91,330	-	-	72,755	91,330
Interest and other fiscal charges	47,742	50,127	-	-	47,742	50,127
Enterprise funds	-	-	1,993,329	1,753,276	1,993,329	1,753,276
Total expenses	\$ 1,614,868	\$ 1,662,568	\$ 1,993,329	\$ 1,753,276	\$ 3,608,197	\$ 3,415,844
Change in net assets	\$ 525,824	\$ 142,729	\$ 2,731,876	\$ 424,765	\$ 3,257,700	\$ 567,494
Beginning of year	3,797,558	3,654,829	5,639,855	5,215,090	9,437,413	8,869,919
End of year	<u>\$ 4,323,382</u>	<u>\$ 3,797,558</u>	<u>\$ 8,371,731</u>	<u>\$ 5,639,855</u>	<u>\$ 12,695,113</u>	<u>\$ 9,437,413</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 \$1,453,843, an increase of \$87,623 in comparison with the prior year, of which \$1,453,246 was undesignated.

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 \$1,484,239. Total net assets increased \$2,731,876. 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 more than actual revenues and other sources by \$675,220. Actual expenditures and other uses were less than budgetary estimates by \$762,843, resulting in a positive variance of \$87,623.

Capital Asset and Debt Administration

Capital assets - The Town's investment in capital assets for its governmental operations as of June 30, 2010 amounts to \$3,952,042 (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 \$9,979,066. Of this amount, \$9,962,723 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 increased by \$5,749,524.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Economic Factors and Next Year's Budgets and Rates

- < The unemployment rate for Northampton County, Virginia, of which the Municipal Corporation of Cape Charles, Virginia is an incorporated Town, was 7.9 percent at June 30, 2010, in comparison to the state's average unemployment rate of 7.1 percent.

All of these factors were considered in preparing the Town's budget for the 2011 fiscal year.

The fiscal year 2011 budget increased by approximately 65%, due to a large increase in capital projects. All tax rates remained the same as in fiscal year 2010.

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, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,766,661	\$ 209,440	\$ 1,976,101
Receivables (net of allowance for uncollectibles):			
Taxes receivable	225,157	-	225,157
Accounts receivable	34,516	204,865	239,381
Other receivable	-	12,700	12,700
Internal balances	(3,004,908)	3,004,908	-
Due from other governmental units	113,125	574,660	687,785
Inventories	-	16,081	16,081
Prepaid expenses	597	-	597
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents -bond requirements	-	95,904	95,904
Cash and cash equivalents -Unspent bond proceeds	2,579,203	1,638,713	4,217,916
Capital assets (net of accumulated depreciation):			
Land and land improvements	1,866,961	-	1,866,961
Buildings and improvements	1,305,751	488,628	1,794,379
Improvements other than buildings	-	2,529,562	2,529,562
Water and sewer system	-	2,746,251	2,746,251
Machinery and equipment	108,592	179,501	288,093
Construction in progress	670,738	6,225,345	6,896,083
Total assets	<u>\$ 5,666,393</u>	<u>\$ 17,926,558</u>	<u>\$ 23,592,951</u>
LIABILITIES			
Accounts payable	\$ 26,550	\$ 438,553	\$ 465,103
Accrued liabilities	34,848	279,648	314,496
Accrued interest payable	20,538	34,115	54,653
Unearned revenue	1,364	-	1,364
Amounts held for others	-	5,700	5,700
Long-term liabilities:			
Due within one year	58,064	62,430	120,494
Due in more than one year	1,201,647	8,734,381	9,936,028
Total liabilities	<u>\$ 1,343,011</u>	<u>\$ 9,554,827</u>	<u>\$ 10,897,838</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 2,739,095	\$ 6,791,588	\$ 9,530,683
Restricted for:			
Debt service and bond covenants	-	95,904	95,904
Unrestricted (deficit)	1,584,287	1,484,239	3,068,526
Total net assets	<u>\$ 4,323,382</u>	<u>\$ 8,371,731</u>	<u>\$ 12,695,113</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, 2010

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	\$ 540,006	\$ -	\$ -	\$ (540,006)	\$ -	\$ -	\$ (540,006)
Public safety	370,756	50,448	38,862	(281,446)	-	-	(281,446)
Public works	355,205	-	-	(172,097)	-	-	(172,097)
Parks, recreation, and cultural	228,404	13,024	2,500	(212,880)	-	-	(212,880)
Community development	72,755	1,905	-	(31,562)	-	-	(31,562)
Interest on long-term debt	47,742	-	-	(47,742)	-	-	(47,742)
Total governmental activities	\$ 1,614,868	\$ 65,377	\$ 41,362	\$ (1,285,733)	\$ -	\$ -	\$ (1,285,733)
Business-type activities:							
Water and Sewer Fund	\$ 1,180,674	\$ 1,065,444	\$ -	\$ -	\$ 2,390,860	\$ -	\$ 2,390,860
Harbor	654,911	431,911	-	-	277,000	-	277,000
Sanitation	157,744	204,265	-	-	46,521	-	46,521
Total business-type activities	\$ 1,993,329	\$ 1,701,620	\$ -	\$ -	\$ 2,714,381	\$ -	\$ 2,714,381
Total primary government	\$ 3,608,197	\$ 1,766,997	\$ 41,362	\$ (1,285,733)	\$ 2,714,381	\$ -	\$ 1,428,648
General revenues:							
General property taxes				\$ 1,309,491	\$ -	\$ -	\$ 1,309,491
Restaurant food taxes				154,644	-	-	154,644
Business license taxes				83,126	-	-	83,126
Other local taxes				170,752	-	-	170,752
Unrestricted revenues from use of money and property				5,942	1,235	-	7,177
Miscellaneous				2,812	16,260	-	19,072
Grants and contributions not restricted to specific programs				84,790	-	-	84,790
Total general revenues				\$ 1,811,557	\$ 17,495	\$ -	\$ 1,829,052
Change in net assets				525,824	2,731,876	-	3,257,700
Net assets - beginning				\$ 3,797,558	\$ 5,639,855	\$ -	\$ 9,437,413
Net assets - ending				\$ 4,323,382	\$ 8,371,731	\$ -	\$ 12,695,113

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

FUND FINANCIAL STATEMENTS

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Municipal Corporation of Cape Charles, Virginia
Balance Sheet
Governmental Fund
June 30, 2010

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 1,766,661
Receivables (net of allowance for uncollectibles):	
Taxes receivable	225,157
Accounts receivable	34,516
Due from other governmental units	113,125
Prepaid items	597
Restricted assets:	
Temporarily restricted:	
Cash and cash equivalents - debt proceeds	2,579,203
Total assets	<u>\$ 4,719,259</u>
 LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 26,550
Accrued liabilities	34,848
Due to other funds	3,004,908
Deferred revenue	199,110
Total liabilities	<u>\$ 3,265,416</u>
Fund balances:	
Reserved for:	
Prepaid Items	\$ 597
Unreserved, undesignated reported in:	
General fund	1,453,246
Total fund balances	<u>\$ 1,453,843</u>
Total liabilities and fund balances	<u>\$ 4,719,259</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, 2010**

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds		\$ 1,453,843
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets	\$ 6,194,314	
Accumulated depreciation	<u>(2,242,272)</u>	3,952,042
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.		
		197,746
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	\$(1,196,604)	
Capital lease obligations	(16,343)	
Compensated absences	(46,764)	
Accrued interest payable	<u>(20,538)</u>	(1,280,249)
Net assets of governmental activities		<u><u>\$ 4,323,382</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, 2010

		<u>General</u>
REVENUES		
General property taxes	\$	1,238,835
Other local taxes		408,522
Permits, privilege fees, and regulatory licenses		50,448
Fines and forfeitures		10,736
Revenue from the use of money and property		5,942
Charges for services		4,193
Miscellaneous		2,812
Recovered costs		17,348
Intergovernmental revenues:		
Commonwealth		126,152
Federal		222,396
Total revenues	\$	<u>2,087,384</u>
EXPENDITURES		
Current:		
General government administration	\$	503,997
Public safety - police department		317,642
Public safety - code enforcement		64,305
Public works		1,010,388
Parks, recreation, and cultural		119,252
Community development		75,878
Debt service:		
Principal retirement		53,735
Interest and other fiscal charges		47,088
Total expenditures	\$	<u>2,192,285</u>
Excess (deficiency) of revenues over (under) expenditures	\$	<u>(104,901)</u>
OTHER FINANCING SOURCES (USES)		
Issuance of general obligation bonds	\$	176,181
Issuance of capital leases		16,343
Total other financing sources (uses)	\$	<u>192,524</u>
Net change in fund balances	\$	87,623
Fund balances - beginning		1,366,220
Fund balances - ending	\$	<u><u>1,453,843</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, 2010

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

Net change in fund balances - total governmental funds	\$	87,623
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current period.</p>		
Capital outlay	\$ 696,277	
Depreciation expense	<u>(191,625)</u>	504,652
<p>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.</p>		
		70,656
<p>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:</p>		
Principal retirement on general obligation bonds	\$ 48,285	
Principal retirement on capital lease obligations	5,450	
Issuance of general obligation bonds	(176,181)	
Issuance of capital leases	<u>(16,343)</u>	(138,789)
<p>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:</p>		
Decrease in accrued leave	\$ 2,336	
Increase in interest payable	<u>(654)</u>	1,682
Change in net assets of governmental activities		<u>\$ 525,824</u>

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, 2010

	<u>Water and Sewer</u>	<u>Harbor</u>	<u>Sanitation</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 209,140	\$ 300	\$ -	\$ 209,440
Accounts receivables, net of allowance for uncollectibles	129,417	56,922	18,526	204,865
Due from other funds	2,157,892	708,504	153,043	3,019,439
Due from other governmental units	314,173	260,487	-	574,660
Other receivables	12,700	-	-	12,700
Inventories	-	16,081	-	16,081
Total current assets	<u>\$ 2,823,322</u>	<u>\$ 1,042,294</u>	<u>\$ 171,569</u>	<u>\$ 4,037,185</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents - bond requirements	\$ 95,904	\$ -	\$ -	\$ 95,904
Cash and cash equivalents - Unspent bond proceeds	1,638,713	-	-	1,638,713
Total restricted assets	<u>\$ 1,734,617</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,734,617</u>
Capital assets (net of accumulated depreciation):				
Water and sewer system	\$ 2,746,251	\$ -	\$ -	\$ 2,746,251
Buildings and improvements	-	488,628	-	488,628
Improvements other than buildings	1,504,289	1,025,273	-	2,529,562
Machinery and equipment	78,949	98,685	1,867	179,501
Construction in progress	5,325,056	900,289	-	6,225,345
Total capital assets	<u>\$ 9,654,545</u>	<u>\$ 2,512,875</u>	<u>\$ 1,867</u>	<u>\$ 12,169,287</u>
Total noncurrent assets	<u>\$ 11,389,162</u>	<u>\$ 2,512,875</u>	<u>\$ 1,867</u>	<u>\$ 13,903,904</u>
Total assets	<u>\$ 14,212,484</u>	<u>\$ 3,555,169</u>	<u>\$ 173,436</u>	<u>\$ 17,941,089</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 400,644	\$ 37,909	\$ -	\$ 438,553
Accrued liabilities	274,587	4,442	619	279,648
Due to other funds	14,204	-	327	14,531
Interest payable	17,064	17,051	-	34,115
Customer deposits payable	2,850	2,850	-	5,700
Bonds payable - current portion	42,426	16,935	-	59,361
Compensated absences - current portion	2,547	522	-	3,069
Total current liabilities	<u>\$ 754,322</u>	<u>\$ 79,709</u>	<u>\$ 946</u>	<u>\$ 834,977</u>
Noncurrent liabilities:				
Bonds payable - net of current portion	\$ 6,992,160	\$ 1,714,598	\$ -	\$ 8,706,758
Compensated absences - net of current portion	22,928	4,695	-	27,623
Total noncurrent liabilities	<u>\$ 7,015,088</u>	<u>\$ 1,719,293</u>	<u>\$ -</u>	<u>\$ 8,734,381</u>
Total liabilities	<u>\$ 7,769,410</u>	<u>\$ 1,799,002</u>	<u>\$ 946</u>	<u>\$ 9,569,358</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 5,328,852	\$ 1,460,869	\$ 1,867	\$ 6,791,588
Restricted for debt service and bond covenants	95,904	-	-	95,904
Unrestricted	1,018,318	295,298	170,623	1,484,239
Total net assets	<u>\$ 6,443,074</u>	<u>\$ 1,756,167</u>	<u>\$ 172,490</u>	<u>\$ 8,371,731</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, 2010

	<u>Water and Sewer</u>	<u>Harbor</u>	<u>Sanitation</u>	<u>Total</u>
OPERATING REVENUES				
Charges for services:				
Water	\$ 458,036	\$ -	\$ -	\$ 458,036
Sewer	565,127	-	-	565,127
Harbor fees	-	138,674	-	138,674
Penalties	42,281	-	-	42,281
Refuse collection	-	-	204,265	204,265
Fuel sales	-	293,237	-	293,237
Miscellaneous	6,696	9,564	-	16,260
Total operating revenues	<u>\$ 1,072,140</u>	<u>\$ 441,475</u>	<u>\$ 204,265</u>	<u>\$ 1,717,880</u>
OPERATING EXPENSES				
Personnel services	\$ 358,002	\$ 90,347	\$ -	\$ 448,349
Fringe benefits	147,654	32,990	-	180,644
Contractual services	102,555	3,628	148,334	254,517
Other supplies and expenses	207,899	353,066	8,820	569,785
Depreciation	192,054	125,641	590	318,285
Total operating expenses	<u>\$ 1,008,164</u>	<u>\$ 605,672</u>	<u>\$ 157,744</u>	<u>\$ 1,771,580</u>
Operating income (loss)	<u>\$ 63,976</u>	<u>\$ (164,197)</u>	<u>\$ 46,521</u>	<u>\$ (53,700)</u>
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental revenue	\$ 2,445,902	\$ 500,000	\$ -	\$ 2,945,902
Investment earnings	931	304	-	1,235
Connection fees	60,188	-	-	60,188
Bond issuance costs	(35,122)	(22,752)	-	(57,874)
Interest and fiscal charges	(137,388)	(26,487)	-	(163,875)
Total nonoperating revenues (expenses)	<u>\$ 2,334,511</u>	<u>\$ 451,065</u>	<u>\$ -</u>	<u>\$ 2,785,576</u>
Change in net assets	<u>\$ 2,398,487</u>	<u>\$ 286,868</u>	<u>\$ 46,521</u>	<u>\$ 2,731,876</u>
Total net assets - beginning	4,044,587	1,469,299	125,969	5,639,855
Total net assets - ending	<u>\$ 6,443,074</u>	<u>\$ 1,756,167</u>	<u>\$ 172,490</u>	<u>\$ 8,371,731</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, 2010

	<u>Water and Sewer</u>	<u>Harbor</u>	<u>Sanitation</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 1,062,229	\$ 407,669	\$ 185,739	\$ 1,655,637
Payments for operating expenses	84,998	(325,080)	(157,154)	(397,236)
Payments to employees	(494,074)	(123,346)	(2,774)	(620,194)
Net cash provided (used by) operating activities	<u>\$ 653,153</u>	<u>\$ (40,757)</u>	<u>\$ 25,811</u>	<u>\$ 638,207</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	\$ (2,083,363)	\$ (625,943)	\$ (25,811)	\$ (2,735,117)
Intergovernmental revenue	2,131,729	249,139	-	2,380,868
Net cash provided (used) by noncapital financing activities	<u>\$ 48,366</u>	<u>\$ (376,804)</u>	<u>\$ (25,811)</u>	<u>\$ (354,249)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Additions to capital assets	\$ (3,287,349)	\$ (900,289)	\$ -	\$ (4,187,638)
Principal payments on bonds and capital leases	(41,150)	(16,935)	-	(58,085)
Connection fees	311,363	-	-	311,363
Proceeds from indebtedness	4,295,180	1,373,640	-	5,668,820
Interest payments	(124,352)	(16,407)	-	(140,759)
Bond issuance costs	(35,122)	(22,752)	-	(57,874)
Net cash provided (used) by capital and related financing activities	<u>\$ 1,118,570</u>	<u>\$ 417,257</u>	<u>\$ -</u>	<u>\$ 1,535,827</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends received	\$ 931	\$ 304	\$ -	\$ 1,235
Net cash provided (used) by investing activities	<u>\$ 931</u>	<u>\$ 304</u>	<u>\$ -</u>	<u>\$ 1,235</u>
Net increase (decrease) in cash and cash equivalents	\$ 1,821,020	\$ -	\$ -	\$ 1,821,020
Cash and cash equivalents - beginning - including restricted	122,737	300	-	123,037
Cash and cash equivalents - ending - including restricted	<u>\$ 1,943,757</u>	<u>\$ 300</u>	<u>\$ -</u>	<u>\$ 1,944,057</u>
Reconciliation of operating income (loss) to net cash provided by (used) operating activities:				
Operating income (loss)	\$ 63,976	\$ (164,197)	\$ 46,521	\$ (53,700)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	\$ 192,054	\$ 125,641	\$ 590	\$ 318,285
(Increase) decrease in accounts receivable	(10,335)	(33,956)	(18,526)	(62,817)
(Increase) decrease in inventories	-	(6,295)	-	(6,295)
Increase (decrease) in customer deposits	424	150	-	574
Increase (decrease) in accounts payable	395,452	37,909	-	433,361
Increase (decrease) in accrued liabilities	7,495	724	(457)	7,762
Increase (decrease) compensated absences liability	4,087	(733)	(2,317)	1,037
Total adjustments	<u>\$ 589,177</u>	<u>\$ 123,440</u>	<u>\$ (20,710)</u>	<u>\$ 691,907</u>
Net cash provided (used) by operating activities	<u>\$ 653,153</u>	<u>\$ (40,757)</u>	<u>\$ 25,811</u>	<u>\$ 638,207</u>

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

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MUNICIPAL CORPORATION OF CAPE CHARLES, VIRGINIA

Notes to Financial Statements As of June 30, 2010

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.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2010 (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 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, 2010.

Discretely Presented Component Units. - The Town has no discretely presented component units.

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.

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, health and welfare, etc.).

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 utilities 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 all financial transactions and resources except those required to be accounted for 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 government-wide reporting purposes.

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

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Enterprise Funds consist of the Water and Sewer, Harbor, and Sanitation Funds.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2010 (Continued)

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

D. Cash and Cash Equivalents

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

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.

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.

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."

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, \$55,046, and \$18,974 respectively at June 30, 2010.

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.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2010 (Continued)

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 \$1,000 (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.

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. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

L. 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.

M. 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.

N. Prepaid Items

Prepaid expenditures in governmental funds are offset by reservation of fund balance.

Note 2—Stewardship, Compliance, and Accounting:

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

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

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2010 (Continued)

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

6. Appropriations lapse on June 30, for all town units.

Expenditures and Appropriations

Expenditures did not exceed appropriations in any fund at June 30, 2010.

Note 3—Deposits and Investments:

Deposits

All cash of the Town is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance.

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, 2010 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	\$	1,873,941
Money Market Mutual Fund		4,217,967
Total	\$	<u>6,091,908</u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2010 (Continued)

Note 3—Deposits and Investments (Continued):

Interest Rate Risk

The Town's investment policy states that the Town's investment maturities are to precede or coincide with the expected need of funds.

<u>Investment Maturities (in years)</u>		
<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>
Money Market Mutual Fund	\$ 4,217,967	\$ 4,217,967
Total	\$ <u>4,217,967</u>	\$ <u>4,217,967</u>

External Investment Pools

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

Note 4—Due to/from Other Governments:

At June 30, 2010, the Town has receivables from other governments as follows:

	<u>Governmental Fund</u>
Other Local Governments:	
County of Northampton	\$ 7,051
Commonwealth of Virginia:	
Communications tax	8,331
Rolling stock tax	6
VA DEQ Water Quality Improvement	149,095
VA Port Authority Grant	260,487
Federal Government:	
Community Development Block Grant	26,888
TEA-21 grant	70,849
VA Water Facilities Revolving Fund	<u>165,078</u>
Total due from other governments	<u>\$ 687,785</u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2010 (Continued)

Note 5—Inter-fund Obligations:

Details of the Town's interfund receivable and payables as of June 30, 2010, are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ -	\$ 3,004,908
Water and Sewer Fund	2,157,892	14,204
Harbor Fund	708,504	-
Sanitation Fund	153,043	327
Total	\$ <u>3,019,439</u>	\$ <u>3,019,439</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, 2010:

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2010</u>
Governmental Activities:				
Capital assets not subject to depreciation:				
Construction in progress	\$ 86,822	\$ 583,916	\$ -	\$ 670,738
Land and land improvements	<u>1,791,700</u>	<u>75,261</u>	<u>-</u>	<u>1,866,961</u>
Total capital assets not subject to depreciation	\$ <u>1,878,522</u>	\$ <u>659,177</u>	\$ <u>-</u>	\$ <u>2,537,699</u>
Capital assets subject to depreciation:				
Buildings and improvements	\$ 2,845,631	\$ -	\$ -	\$ 2,845,631
Machinery and equipment	<u>773,884</u>	<u>37,100</u>	<u>-</u>	<u>810,984</u>
Total capital assets subject to depreciation	\$ <u>3,619,515</u>	\$ <u>37,100</u>	\$ <u>-</u>	\$ <u>3,656,615</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 1,403,470	\$ 136,410	\$ -	\$ 1,539,880
Machinery and equipment	<u>647,177</u>	<u>55,215</u>	<u>-</u>	<u>702,392</u>
Total accumulated depreciation	\$ <u>2,050,647</u>	\$ <u>191,625</u>	\$ <u>-</u>	\$ <u>2,242,272</u>
Total capital assets subject to depreciation, net	\$ <u>1,568,868</u>	\$ <u>(154,525)</u>	\$ <u>-</u>	\$ <u>1,414,343</u>
Governmental activities capital assets, net	<u>\$ 3,447,390</u>	<u>\$ 504,652</u>	<u>\$ -</u>	<u>\$ 3,952,042</u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2010 (Continued)

Note 6—Capital Assets: (Continued)

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Business-Type Activities:				
Enterprise Funds:				
Capital assets not subject to depreciation:				
Construction in progress	\$ 2,368,446	\$ 4,181,589	\$ 324,690	\$ 6,225,345
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	4,312,535	324,690	-	4,637,225
Machinery and equipment	581,779	6,049	-	587,828
 Total capital assets subject to depreciation	 \$ 11,396,747	 \$ 330,739	 \$ -	 \$ 11,727,486
Less accumulated depreciation for:	-			
Water and sewer system	\$ 2,885,576	\$ 114,936	\$ -	\$ 3,000,512
Buildings and improvements	234,467	32,575	-	267,042
Improvements other than buildings	1,981,098	126,565	-	2,107,663
Machinery and equipment	364,118	44,209	-	408,327
Total accumulated depreciation	\$ 5,465,259	\$ 318,285	\$ -	\$ 5,783,544
 Total capital assets subject to depreciation, net	 \$ 5,931,488	 \$ 12,454	 \$ -	 \$ 5,943,942
Enterprise capital assets, net	\$ 8,299,934	4,194,043	324,690	12,169,287

Depreciation expense was charged to functions/programs/funds as follows:

Governmental activities:

General government	\$ 32,320
Public safety	14,497
Public works	19,489
Parks, recreation and cultural	125,319
Total Governmental activities	\$ 191,625

Business-type activities:

Water and Sewer	\$ 192,054
Harbor	125,641
Sanitation	590
Total Business-type activities	\$ 318,285

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2010 (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, 2010:

	Amounts Payable at July 1, 2009	Increases	Decreases	Amounts Payable at June 30, 2010	Amounts Due Within One Year
Governmental Obligations:					
Incurring by Town:					
Compensated absences payable	\$ 49,100	\$ 2,574	\$ 4,910	\$ 46,764	\$ 4,676
General obligation bonds	1,068,708	176,181	48,285	1,196,604	48,285
Capital lease obligations	5,450	16,343	5,450	16,343	5,103
Total incurred by Town	<u>\$ 1,123,258</u>	<u>\$ 195,098</u>	<u>\$ 58,645</u>	<u>\$ 1,259,711</u>	<u>\$ 58,064</u>
Total Governmental Obligations	<u>\$ 1,123,258</u>	<u>\$ 195,098</u>	<u>\$ 58,645</u>	<u>\$ 1,259,711</u>	<u>\$ 58,064</u>
Incurring by Enterprise Funds:					
Compensated absences payable	\$ 29,655	\$ 4,003	\$ 2,966	\$ 30,692	\$ 3,069
General obligation bonds	3,155,384	5,668,820	58,085	8,766,119	59,361
Total Enterprise Obligations	<u>\$ 3,185,039</u>	<u>\$ 5,672,823</u>	<u>\$ 61,051</u>	<u>\$ 8,796,811</u>	<u>\$ 62,430</u>
Total General Obligations, Primary Government	<u><u>\$ 4,308,297</u></u>	<u><u>\$ 5,867,921</u></u>	<u><u>\$ 119,696</u></u>	<u><u>\$ 10,056,522</u></u>	<u><u>\$ 120,494</u></u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2010 (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 Obligations		Enterprise Obligations	
	General Obligation Bond		General Obligation Bonds	
	Principal	Interest	Principal	Interest
2011	\$ 48,285	\$ 50,290	\$ 59,361	\$ 159,958
2012	54,723	48,720	174,578	163,697
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	-	-	1,646	13
*	-	-	4,460,000	-
Total	\$ <u>1,196,604</u>	\$ <u>507,446</u>	\$ <u>8,766,119</u>	\$ <u>2,058,556</u>

* The VML/VACo Commonwealth Loan Program Series 2009A-1 bond was not fully drawn down at June 30, 2010. Ammortization schedule not yet available.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2010 (Continued)

Note 7—Long-Term Obligations: (Continued)

Long-term obligations at June 30, 2010 are as follows:

	<u>Amount Outstanding</u>
<u>Details of Long-term Indebtedness:</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	\$ 1,020,423
\$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	<u>176,181</u>
Total general obligation debt	\$ <u>1,196,604</u>
Capital lease obligations (see Note 8)	\$ <u>16,343</u>
Compensated Absences (payable from the General Fund)	\$ <u>46,764</u>
Total debt incurred by Town	\$ <u><u>1,259,711</u></u>
<u>Enterprise Funds:</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	\$ 564,577
\$1,579,300 FHA general obligation bond issued September 3, 1992, due in monthly installments of \$7,775 through August 2032, interest at 5.0%	1,240,209
\$62,500 FHA general obligation bond issued December 30, 2003, due in monthly installments of \$237 through December 2044, interest at 3.25%	57,513
\$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%	500,000
\$10,000,000 VML/VACo Commonwealth Loan Program Series 2009A-1 (Tax Exempt) issued May 21, 2009, not fully drawn down as of June 30, 2010.	<u>4,460,000</u>
Total general obligation bonds payable	\$ <u>8,766,119</u>
Compensated Absences (payable from Enterprise Funds)	\$ <u>30,692</u>
Total enterprise obligations payable	\$ <u><u>8,796,811</u></u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2010 (Continued)

Note 8—Capital Leases:

The government has entered into lease agreements as lessee for financing the acquisition of four (4) 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	\$ 22,100
Less: accumulated depreciation	(4,420)
	<hr/>
Total	\$ 17,680

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2010, were as follows:

Year Ended June 30	Governmental Activities
2011	\$ 6,182
2012	6,182
2013	6,182
	<hr/>
Total minimum lease payments	\$ 18,546
Less: amount representing interest	(2,203)
	<hr/>
Present value of minimum lease payments	\$ 16,343

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 \$199,110 consists of the following:

Deferred Property Tax Revenue - Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled \$197,746 at June 30, 2010.

Prepaid Property Taxes - Property taxes due subsequent to June 30, 2010, but paid in advance by the tax payers totaled \$1,364 at June 30, 2010.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2010 (Continued)

Note 10—Litigation:

At June 30, 2010, 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 worker's 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 and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers, firefighters, and sheriffs) payable monthly for life in an amount equal to 1.70% of their average final compensation (AFC) for each year of credited service (1.85% for sheriffs and if the employer elects, for other employees in hazardous duty positions receiving enhanced benefits). Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits.

In addition, retirees qualify for annual cost-of-living adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5.00% per year. AFC is defined as the highest consecutive 36 months of reported compensation. Participating local law enforcement officers, firefighters, and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/Pdf/publications/2009-Annual-Report.pdf> or obtained by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2010 (Continued)

Note 12 – Defined Benefit Pension Plan: (Continued)

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. The employer has assumed the 5% member contribution. In addition, the Town is required to contribute the remaining amounts necessary to fund 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 2010 was 7.15% of annual covered payroll.

C. Annual Pension Cost

For fiscal 2010, the Town's annual pension cost of \$68,202 (which does not include the employee's share assumed by the Town of \$47,694) was equal to the Town's required and actual contributions.

Fiscal Year Ending	Annual Pension Cost (APC) (1)	Percentage of APC Contributed	Net Pension Obligation
Town:			
June 30, 2010	\$ 68,202	100%	\$ -
June 30, 2009	70,746	100%	-
June 30, 2008	59,858	100%	-

(1) Employer portion only

The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2007 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 payroll on an open basis. The remaining amortization period at June 30, 2007 was 20 years.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2010 (Continued)

Note 12 – Defined Benefit Pension Plan: (Continued)

D. Funded Status and Funding Progress

As of June 30, 2009, the most recent actuarial valuation date, the Town plan was 99.94% funded. The actuarial accrued liability for benefits was \$1,427,298, and the actuarial value of assets was \$1,426,469, resulting in an unfunded actuarial accrued liability (UAAL) of \$829. The covered payroll (annual payroll of active employees covered by the plan) was \$954,950, and ratio of the UAAL to the covered payroll was .09%.

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

Note 13 – Commitments and Contingencies:

Federal programs in which the Town participate 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, 2010:

Fund	Project	Contractor	Amount Of Contract	Contract Outstanding At June 30, 2010
Water & Sewer	Waste Water Treatment Plant	WM Schlosser Company Corp.	\$ 14,737,000	\$ 12,551,285
Harbor	New Breakwaters	Precon Marine	902,492	124,269
General	Cape Charles Trail, Phase I	Excel Paving Corp	812,230	333,520

REQUIRED SUPPLEMENTARY INFORMATION

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION:

Presented budgets were prepared in accordance with accounting principles generally accepted in the United States of America.

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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, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 1,190,850	\$ 1,190,850	\$ 1,238,835	\$ 47,985
Other local taxes	347,400	347,400	408,522	61,122
Permits, privilege fees, and regulatory licenses	83,500	83,500	50,448	(33,052)
Fines and forfeitures	9,000	9,000	10,736	1,736
Revenue from the use of money and property	21,164	21,164	5,942	(15,222)
Charges for services	2,000	2,000	4,193	2,193
Miscellaneous	8,850	8,850	2,812	(6,038)
Recovered costs	15,500	15,500	17,348	1,848
Intergovernmental revenues:				
Commonwealth	121,164	121,164	126,152	4,988
Federal	1,155,700	1,155,700	222,396	(933,304)
Total revenues	\$ 2,955,128	\$ 2,955,128	\$ 2,087,384	\$ (867,744)
EXPENDITURES				
Current:				
General government administration	\$ 1,110,503	\$ 1,110,503	\$ 503,997	\$ 606,506
Public safety - police department	312,506	312,506	317,642	(5,136)
Public safety - code enforcement	76,458	76,458	64,305	12,153
Public works	1,136,533	1,136,533	1,010,388	126,145
Parks, recreation, and cultural	133,652	133,652	119,252	14,400
Community development	90,404	90,404	75,878	14,526
Debt service:				
Principal retirement	48,285	48,285	53,735	(5,450)
Interest and other fiscal charges	46,787	46,787	47,088	(301)
Total expenditures	\$ 2,955,128	\$ 2,955,128	\$ 2,192,285	\$ 762,843
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ (104,901)	\$ (104,901)
OTHER FINANCING SOURCES (USES)				
Issuance of general obligation bonds	\$ -	\$ -	\$ 176,181	\$ 176,181
Issuance of capital leases	-	-	16,343	16,343
Total other financing sources and uses	\$ -	\$ -	\$ 192,524	\$ 192,524
Net change in fund balances	\$ -	\$ -	\$ 87,623	\$ 87,623
Fund balances - beginning	-	-	1,366,220	1,366,220
Fund balances - ending	\$ -	\$ -	\$ 1,453,843	\$ 1,453,843

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

Exhibit 11

For the Year Ended June 30, 2010

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						
6/30/2009	\$ 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%
6/30/2001	517,536	470,524	(47,012)	109.99%	523,593	-8.98%
6/30/2000	426,666	391,976	(34,690)	108.85%	441,784	-7.85%

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
 Governmental Funds
 For the Year Ended June 30, 2010

Schedule 1
 Page 1 of 2

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 1,030,850	\$ 1,030,850	\$ 1,075,151	\$ 44,301
Personal property taxes	125,000	125,000	124,484	(516)
Machinery and tools taxes	15,000	15,000	18,218	3,218
Penalties and interest	20,000	20,000	20,982	982
Total general property taxes	<u>\$ 1,190,850</u>	<u>\$ 1,190,850</u>	<u>\$ 1,238,835</u>	<u>\$ 47,985</u>
Other local taxes:				
Local sales and use taxes	\$ 37,000	\$ 37,000	\$ 34,812	\$ (2,188)
Consumers' utility taxes	46,000	46,000	45,383	(617)
Cable television franchise license tax	-	-	30,748	30,748
Business license taxes	61,000	61,000	83,126	22,126
Motor vehicle licenses	17,400	17,400	20,789	3,389
Admissions taxes	25,000	25,000	21,999	(3,001)
Short term rental tax	3,000	3,000	4,134	1,134
Hotel and motel room taxes	18,000	18,000	12,887	(5,113)
Restaurant food taxes	140,000	140,000	154,644	14,644
Total other local taxes	<u>\$ 347,400</u>	<u>\$ 347,400</u>	<u>\$ 408,522</u>	<u>\$ 61,122</u>
Permits, privilege fees, and regulatory licenses:				
Permits and other licenses	\$ 83,500	\$ 83,500	\$ 50,448	\$ (33,052)
Total permits, privilege fees, and regulatory licenses	<u>\$ 83,500</u>	<u>\$ 83,500</u>	<u>\$ 50,448</u>	<u>\$ (33,052)</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 9,000	\$ 9,000	\$ 10,736	\$ 1,736
Total fines and forfeitures	<u>\$ 9,000</u>	<u>\$ 9,000</u>	<u>\$ 10,736</u>	<u>\$ 1,736</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 21,164	\$ 21,164	\$ 5,617	\$ (15,547)
Revenue from use of property	-	-	325	325
Total revenue from use of money and property	<u>\$ 21,164</u>	<u>\$ 21,164</u>	<u>\$ 5,942</u>	<u>\$ (15,222)</u>
Charges for services:				
Charges for tax review fees	\$ 1,000	\$ 1,000	\$ 1,905	\$ 905
Charges for library	1,000	1,000	2,288	1,288
Total charges for services	<u>\$ 2,000</u>	<u>\$ 2,000</u>	<u>\$ 4,193</u>	<u>\$ 2,193</u>
Miscellaneous revenue:				
Miscellaneous	\$ 8,850	\$ 8,850	\$ 2,812	\$ (6,038)
Total miscellaneous revenue	<u>\$ 8,850</u>	<u>\$ 8,850</u>	<u>\$ 2,812</u>	<u>\$ (6,038)</u>

Municipal Corporation of Cape Charles, Virginia
 Schedule of Revenues - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2010

<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	-	-	35	35
County contribution for tourism	-	-	1,813	1,813
Total recovered costs	<u>\$ 15,500</u>	<u>\$ 15,500</u>	<u>\$ 17,348</u>	<u>\$ 1,848</u>
Total revenue from local sources	<u>\$ 1,678,264</u>	<u>\$ 1,678,264</u>	<u>\$ 1,738,836</u>	<u>\$ 60,572</u>
Revenue from the Commonwealth:				
Noncategorical aid:				
Communications tax	\$ 42,000	\$ 42,000	\$ 49,360	\$ 7,360
Rolling stock tax	8	8	6	(2)
Personal property tax relief funds	35,424	35,424	35,424	-
Total noncategorical aid	<u>\$ 77,432</u>	<u>\$ 77,432</u>	<u>\$ 84,790</u>	<u>\$ 7,358</u>
Categorical aid:				
Litter control	\$ 1,000	\$ 1,000	\$ -	\$ (1,000)
Fire programs	8,000	8,000	8,000	-
Arts grant	2,500	2,500	2,500	-
Law enforcement grant HB 599	31,732	31,732	29,465	(2,267)
VML safety grant	500	500	-	(500)
Local law enforcement block grant	-	-	1,397	1,397
Total categorical aid	<u>\$ 43,732</u>	<u>\$ 43,732</u>	<u>\$ 41,362</u>	<u>\$ (2,370)</u>
Total revenue from the Commonwealth	<u>\$ 121,164</u>	<u>\$ 121,164</u>	<u>\$ 126,152</u>	<u>\$ 4,988</u>
Revenue from the federal government:				
Categorical aid:				
Tea-21 grant	\$ 666,300	\$ 666,300	\$ 183,108	\$ (483,192)
Community development block grant	489,400	489,400	39,288	(450,112)
Total categorical aid	<u>\$ 1,155,700</u>	<u>\$ 1,155,700</u>	<u>\$ 222,396</u>	<u>\$ (933,304)</u>
Total revenue from the federal government	<u>\$ 1,155,700</u>	<u>\$ 1,155,700</u>	<u>\$ 222,396</u>	<u>\$ (933,304)</u>
Total General Fund	<u>\$ 2,955,128</u>	<u>\$ 2,955,128</u>	<u>\$ 2,087,384</u>	<u>\$ (867,744)</u>

Municipal Corporation of Cape Charles, Virginia
 Schedule of Expenditures - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2010

Schedule 2
 Page 1 of 2

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
General government administration:				
Legislative:				
Town Council	\$ 5,783	\$ 5,783	\$ 5,697	\$ 86
Total general government administration	<u>\$ 5,783</u>	<u>\$ 5,783</u>	<u>\$ 5,697</u>	<u>\$ 86</u>
General and financial administration:				
Town Clerk	\$ 81,249	\$ 81,249	\$ 75,824	\$ 5,425
Town Manager	872,198	872,198	291,232	580,966
Finance	151,273	151,273	131,244	20,029
Total general and financial administration	<u>\$ 1,104,720</u>	<u>\$ 1,104,720</u>	<u>\$ 498,300</u>	<u>\$ 606,420</u>
Total general government administration	<u>\$ 1,110,503</u>	<u>\$ 1,110,503</u>	<u>\$ 503,997</u>	<u>\$ 606,506</u>
Public safety:				
Law enforcement and traffic control:				
Police	\$ 312,506	\$ 312,506	\$ 317,642	\$ (5,136)
Total law enforcement and traffic control	<u>\$ 312,506</u>	<u>\$ 312,506</u>	<u>\$ 317,642</u>	<u>\$ (5,136)</u>
Inspections:				
Code enforcement	\$ 76,458	\$ 76,458	\$ 64,305	\$ 12,153
Total inspections	<u>\$ 76,458</u>	<u>\$ 76,458</u>	<u>\$ 64,305</u>	<u>\$ 12,153</u>
Total public safety	<u>\$ 388,964</u>	<u>\$ 388,964</u>	<u>\$ 381,947</u>	<u>\$ 7,017</u>
Public works:				
Maintenance of general buildings and grounds:				
General properties	\$ 1,136,533	\$ 1,136,533	\$ 1,010,388	\$ 126,145
Total public works	<u>\$ 1,136,533</u>	<u>\$ 1,136,533</u>	<u>\$ 1,010,388</u>	<u>\$ 126,145</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Community center	\$ 56,811	\$ 56,811	\$ 43,896	\$ 12,915
Total parks and recreation	<u>\$ 56,811</u>	<u>\$ 56,811</u>	<u>\$ 43,896</u>	<u>\$ 12,915</u>
Library:				
Library administration	\$ 76,841	\$ 76,841	\$ 75,356	\$ 1,485
Total library	<u>\$ 76,841</u>	<u>\$ 76,841</u>	<u>\$ 75,356</u>	<u>\$ 1,485</u>
Total parks, recreation, and cultural	<u>\$ 133,652</u>	<u>\$ 133,652</u>	<u>\$ 119,252</u>	<u>\$ 14,400</u>

Municipal Corporation of Cape Charles, Virginia
 Schedule of Expenditures - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2010

<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	\$ 90,404	\$ 90,404	\$ 75,878	\$ 14,526
Total planning and community development	<u>\$ 90,404</u>	<u>\$ 90,404</u>	<u>\$ 75,878</u>	<u>\$ 14,526</u>
Total community development	<u>\$ 90,404</u>	<u>\$ 90,404</u>	<u>\$ 75,878</u>	<u>\$ 14,526</u>
Debt service:				
Principal retirement	\$ 48,285	\$ 48,285	\$ 53,735	\$ (5,450)
Interest and other fiscal charges	46,787	46,787	47,088	(301)
Total debt service	<u>\$ 95,072</u>	<u>\$ 95,072</u>	<u>\$ 100,823</u>	<u>\$ (5,751)</u>
Total General Fund	<u>\$ 2,955,128</u>	<u>\$ 2,955,128</u>	<u>\$ 2,192,285</u>	<u>\$ 762,843</u>

OTHER STATISTICAL SECTION

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Table 1

**Municipal Corporation of Cape Charles, Virginia
Government-Wide Expenses by Function
Last Seven 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	\$	39,179	\$	105,111	\$	1,110,996	\$	2,221,036
2004-05		416,358		478,635		98,435		63,820		1,248,707		2,533,395
2005-06		672,885		479,513		49,130		71,942		1,430,407		3,036,931
2006-07		716,874		645,866		184,678		117,189		1,745,095		3,901,394
2007-08		423,662		467,252		179,575		100,263		1,916,132		3,696,027
2008-09		476,972		456,135		213,545		91,330		1,753,277		3,415,845
2009-10		540,006		370,756		228,404		72,755		1,993,329		3,608,197

(1) Information has only been available for seven 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 Seven 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		

(1) Information has only been available for seven 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
2001	\$ 259,396	\$ 244,662	\$ 153,134	\$ 21,255	\$ 83,847	\$ -	762,294
2002	440,474	207,128	110,228	33,497	262,733	-	1,054,060
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

(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
2001	\$ 254,423	\$ 215,978	\$ 38,256	\$ 4,268	\$ 20,395	\$ 382	\$ 86,430	\$ -	\$ 227,169	\$ 847,301
2002	313,729	166,394	84,482	2,544	11,807	438	24,613	-	179,535	783,542
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

(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
2001	\$ 335,333	\$ 282,130	84.13%	\$ 2,271	\$ 284,401	84.81%	\$ 76,034	22.67%
2002	367,207	298,683	81.34%	27,268	325,951	88.76%	67,876	18.48%
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%

(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)	
2001	\$ 54,343,800	\$ 7,626,200	\$ 59,920	\$ 1,234,419	\$	63,264,339
2002	71,771,400	6,612,100	15,620	1,558,338		79,957,458
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

(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	Estate
2001	\$ 0.37	\$ 2.00	\$ 0.37	\$	0.37
2002	0.37	2.00	0.37		0.37
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

(1) Per \$100 of assessed value.

Table 8

Municipal Corporation of Cape Charles, Virginia
Computation of Legal Debt Margin
At June 30, 2010

Assessed value of real property, January 1, 2009 (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>\$ 9,962,723</u>
Less: Revenue bonds and notes secured by property	<u>-</u>
Net general obligation bonds and loans	<u>\$ 9,962,723</u>
Legal debt limit	<u>\$ 51,374,977</u>

(1) Assessed value of real property, including public service corporations as of January 1, 2009.

(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
2001	1,134	\$ 63,264,339	\$ 1,788,499	2.83%	\$ 1,577
2002	1,134	79,957,458	1,758,152	2.20%	1,550
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	1,134	626,123,100	9,962,723	1.59%	8,785

(1) Bureau of Census

(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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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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, 2010, which collectively comprise the Municipal Corporation of Cape Charles, Virginia's basic financial statements and have issued our report thereon dated March 17, 2011. 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

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 opinions 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 (2010-01 and 2010-02).

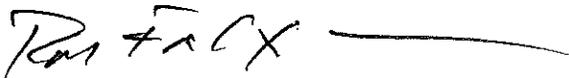
Compliance and Other Matters

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 other matters involving the internal control and its operation that we have reported to management of the Municipal Corporation of Cape Charles, Virginia, in a separate letter dated March 17, 2011.

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.



Richmond, Virginia
March 17, 2011

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

***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
Independent Auditor's Report***

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, 2010. 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, 2010.

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 our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.



Richmond, Virginia
March 17, 2011

Municipal Corporation of Cape Charles, Virginia
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

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 (ISTEA)	20.205	unknown	<u>\$ 183,108</u>
Total Department of Transportation			<u>\$ 183,108</u>
Environmental Protection Agency: Pass Through Payments: Department of Environmental Quality: ARRA - Capitalization grants for clean water state revolving funds	66.458	51503-90301	<u>\$ 1,248,036</u>
Total Environmental Protection Agency			<u>\$ 1,248,036</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>\$ 39,288</u>
Total Department of Housing and Urban Development			<u>\$ 39,288</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,470,432</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, 2010

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, 2010. 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	\$ 222,396
Proprietary Fund:	
Water and Sewer Fund	1,248,036
Total primary government	\$ <u>1,470,432</u>
Total federal expenditures per basic financial statements	\$ <u>1,470,432</u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards	\$ <u><u>1,470,432</u></u>

Municipal Corporation of Cape Charles, Virginia
 Schedule of Findings and Questioned Costs
 For the year ended June 30, 2010

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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.458	ARRA -Capitalization Grants for Clean Water State Revolving Funds

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, 2010

Section II-Financial Statement Findings

2010-01

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.
Effect:	Audited financial statements, including related footnotes, may contain an undetected material misstatement.
Cause:	Inadequate internal controls over financial statement reporting.
Recommendation:	During FY10, the Town made several of the year-end accrual audit entries. However, the auditors still had to propose material entries to record depreciation expense, post additional current year governmental fund receivables, taxes receivable and the debt transactions from the US Bank accounts. The client should continue to implement posting all year-end accrual entries prior to the audit field work.
Management's Response:	The Town plans additional corrective action for FY11.

2010-02

Bank Balances

Condition:	The Town's operating bank account has not been reconciled since June 30, 2008.
Criteria:	Internal controls should be in place that provide assurance that general ledger bank balances reflect all accounting transactions.
Effect:	Bank balances may contain an undetected material misstatement.
Cause:	The Town's operating bank account has not been reconciled since June 30, 2008.
Recommendation:	Bank balances should be reconciled promptly and correctly at the end of each month. We recommend that a responsible party not included in the bank reconciliation process, review and sign off on the monthly reconciliation by initialing and dating.
Management's Response:	The Town plans corrective action for FY11.

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, 2010

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, 2009.

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