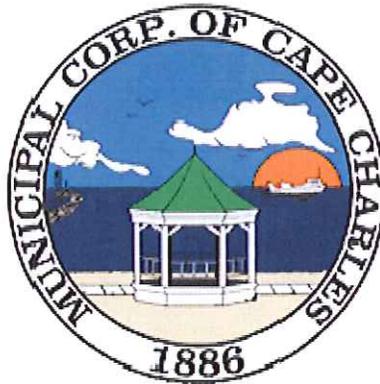


MUNICIPAL CORPORATION
OF
CAPE CHARLES, VIRGINIA



ANNUAL FINANCIAL REPORT

FOR FISCAL YEAR ENDED JUNE 30, 2009

MUNICIPAL CORPORATION OF CAPE CHARLES, VIRGINIA

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2009

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MUNICIPAL CORPORATION OF CAPE CHARLES, VIRGINIA

ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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MUNICIPAL CORPORATION OF CAPE CHARLES, VIRGINIA

ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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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, 2009, which collectively comprise the Town'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, 2009, 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 19, 2010, 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 important for 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, basic financial statements. The introductory section, 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 introductory section, supporting schedules, and other statistical information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

Richmond, Virginia
March 19, 2010

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, 2009. 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 \$9,437,413 (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 \$137,467 (Exhibit 5).

- ▶ As of the close of the current fiscal year; the Town's funds reported an ending fund balance of \$1,366,220, an increase of \$137,467 in comparison with the prior year.
- ▶ The combined long-term obligations increased \$1,114,297 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components:

1. Government-wide financial statements,
2. Fund financial statements, and
3. Notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Overview of the Financial Statements (Continued)

Government-wide financial statements (Continued)

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

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, police protection, 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 \$9,437,413 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	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 1,557,012	\$ 1,401,322	\$ 567,926	\$ 566,588	\$ 2,124,938	\$ 1,967,910
Capital assets	3,447,390	3,563,759	8,299,934	6,857,398	11,747,324	10,421,157
Total assets	\$ 5,004,402	\$ 4,965,081	\$ 8,867,860	\$ 7,423,986	\$ 13,872,262	\$ 12,389,067
Current liabilities	\$ 83,586	\$ 120,533	\$ 42,966	\$ 204,615	\$ 126,552	325,148
Long-term liabilities outstanding	1,123,258	1,189,719	3,185,039	2,004,281	4,308,297	3,194,000
Total liabilities	\$ 1,206,844	\$ 1,310,252	\$ 3,228,005	\$ 2,208,896	\$ 4,434,849	\$ 3,519,148
Net assets:						
Invested in capital assets, net of related debt	\$ 2,373,232	\$ 2,419,451	\$ 5,144,550	\$ 4,882,569	\$ 7,517,782	7,302,020
Restricted for:						
Debt service	-	-	95,904	-	95,904	-
Unrestricted	1,424,326	1,235,378	399,401	332,521	1,823,727	1,567,899
Total net assets	\$ 3,797,558	\$ 3,654,829	\$ 5,639,855	\$ 5,215,090	\$ 9,437,413	8,869,919

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Analysis (Continued)

During the current fiscal year, the Town's net assets increased by \$567,494. 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	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	\$ 67,636	\$ 109,889	\$ 1,447,818	\$ 1,730,858	\$ 1,515,454	\$ 1,840,747
Operating grants and contributions	107,202	91,488	-	-	107,202	91,488
Capital grants and contributions	-	-	728,590	244,190	728,590	244,190
General revenues:						
General property taxes	1,128,747	1,092,242	-	-	1,128,747	1,092,242
Other local taxes	415,231	474,193	-	-	415,231	474,193
Grants and other contributions not restricted	35,430	35,422	-	-	35,430	35,422
Other general revenues	51,051	80,351	1,633	4	52,684	80,355
Total revenues	\$ 1,805,297	\$ 1,883,585	\$ 2,178,041	\$ 1,975,052	\$ 3,983,338	\$ 3,858,637
Expenses:						
General government						
administration	\$ 476,972	\$ 423,662	\$ -	\$ -	\$ 476,972	\$ 423,662
Public safety	456,135	467,252	-	-	456,135	467,252
Public works	374,459	557,261	-	-	374,459	557,261
Parks, recreation, and cultural	213,545	179,575	-	-	213,545	179,575
Community development	91,330	100,263	-	-	91,330	100,263
Interest and other fiscal charges	50,127	51,882	-	-	50,127	51,882
Enterprise funds	-	-	1,753,276	1,916,132	1,753,276	1,916,132
Total expenses	\$ 1,662,568	\$ 1,779,895	\$ 1,753,276	\$ 1,916,132	\$ 3,415,844	\$ 3,696,027
Change in net assets	\$ 142,729	\$ 103,690	\$ 424,765	\$ 58,920	\$ 567,494	\$ 162,610
Beginning of year	3,654,829	3,551,139	5,215,090	5,156,170	8,869,919	8,707,309
End of year	<u>\$ 3,797,558</u>	<u>\$ 3,654,829</u>	<u>\$ 5,639,855</u>	<u>\$ 5,215,090</u>	<u>\$ 9,437,413</u>	<u>\$ 8,869,919</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 \$1,366,220, an increase of \$137,467 in comparison with the prior year, all of which 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 \$399,401. Total net assets increased \$424,765. 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 in deficit of actual revenues and other sources by \$440,016. Actual expenditures and other uses were less than budgetary estimates by \$629,113, resulting in a positive variance of \$189,097.

Capital Asset and Debt Administration

Capital assets - The Town's investment in capital assets for its governmental operations as of June 30, 2009 amounts to \$3,447,390 (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 \$4,229,542. Of this amount, \$4,224,092 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 \$1,110,405.

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 7.8 percent at June 30, 2009, in comparison to the state's average unemployment rate of 7.3 percent.

All of these factors were considered in preparing the Town's budget for the 2010 fiscal year.

The fiscal year 2010 budget increased by approximately 10%. All of tax rates remained the same as in fiscal year 2009 with the exception of the real estate tax, which increased by \$0.02 per \$100.

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, 2009

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,493,031	\$ 27,133	\$ 1,520,164
Receivables (net of allowance for uncollectibles):			
Taxes receivable	139,416	-	139,416
Accounts receivable	7,732	150,751	158,483
Other receivable	45,471	4,000	49,471
Internal balances	(149,141)	149,141	-
Due from other governmental units	20,013	131,211	151,224
Inventories	-	9,786	9,786
Prepaid expenses	490	-	490
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents -bond requirements	-	95,904	95,904
Capital assets:			
Land	1,791,700	-	1,791,700
Buildings and improvements	1,442,161	2,852,642	4,294,803
Water and sewer system	-	2,861,185	2,861,185
Machinery and equipment	126,707	217,661	344,368
Construction in progress	86,822	2,368,446	2,455,268
Total assets	<u>\$ 5,004,402</u>	<u>\$ 8,867,860</u>	<u>\$ 13,872,262</u>
LIABILITIES			
Accounts payable	\$ 36,757	\$ 6,127	\$ 42,884
Accrued liabilities	26,945	20,711	47,656
Accrued interest payable	19,884	11,002	30,886
Amounts held for others	-	5,126	5,126
Long-term liabilities:			
Due within one year	53,195	60,720	113,915
Due in more than one year	1,070,063	3,124,319	4,194,382
Total liabilities	<u>\$ 1,206,844</u>	<u>\$ 3,228,005</u>	<u>\$ 4,434,849</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 2,373,232	\$ 5,144,550	\$ 7,517,782
Restricted for:			
Debt service and bond covenants	-	95,904	95,904
Unrestricted (deficit)	1,424,326	399,401	1,823,727
Total net assets	<u>\$ 3,797,558</u>	<u>\$ 5,639,855</u>	<u>\$ 9,437,413</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, 2009

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-type Activities
PRIMARY GOVERNMENT:						
Governmental activities:						
General government administration	\$ 476,972	\$ -	\$ -	\$ -	\$ (476,972)	\$ (476,972)
Public safety	456,135	63,910	41,866	-	(350,359)	(350,359)
Public works	374,459	-	-	-	(374,459)	(374,459)
Parks, recreation, and cultural	213,545	1,836	2,500	-	(209,209)	(209,209)
Community development	91,330	1,890	62,836	-	(26,604)	(26,604)
Interest on long-term debt	50,127	-	-	-	(50,127)	(50,127)
Total governmental activities	\$ 1,662,568	\$ 67,636	\$ 107,202	\$ -	\$ (1,487,730)	\$ (1,487,730)
Business-type activities:						
Enterprise funds	\$ 1,753,276	\$ 1,447,818	\$ -	\$ 728,590	\$ -	\$ 423,132
Total business-type activities	\$ 1,753,276	\$ 1,447,818	\$ -	\$ 728,590	\$ -	\$ 423,132
Total primary government	\$ 3,415,844	\$ 1,515,454	\$ 107,202	\$ 728,590	\$ (1,487,730)	\$ (1,064,598)
General revenues:						
General property taxes	\$ 1,128,747	\$ -	\$ -	\$ -	\$ 1,128,747	\$ 1,128,747
Restaurant food taxes	141,384	-	-	-	141,384	141,384
Business license taxes	68,987	-	-	-	68,987	68,987
Other local taxes	204,860	-	-	-	204,860	204,860
Unrestricted revenues from use of money and property	19,310	-	-	-	1,633	20,943
Miscellaneous	31,741	-	-	-	31,741	31,741
Grants and contributions not restricted to specific programs	35,430	-	-	-	35,430	35,430
Total general revenues	\$ 1,630,459	\$ 1,633	\$ 1,633	\$ 1,633	\$ 1,632,092	\$ 1,632,092
Change in net assets	142,729	-	-	-	424,765	567,494
Net assets - beginning	\$ 3,654,829	\$ 5,215,090	\$ 5,215,090	\$ 5,215,090	\$ 8,869,919	\$ 8,869,919
Net assets - ending	\$ 3,797,558	\$ 5,639,855	\$ 5,639,855	\$ 5,639,855	\$ 9,437,413	\$ 9,437,413

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, 2009**

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 1,493,031
Receivables (net of allowance for uncollectibles):	
Taxes receivable	139,416
Accounts receivable	7,732
Other receivable	45,471
Due from other governmental units	20,013
Prepaid items	490
Total assets	<u>\$ 1,706,153</u>
 LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 36,757
Accrued liabilities	26,945
Due to other funds	149,141
Deferred revenue	127,090
Total liabilities	<u>\$ 339,933</u>
 Fund balances:	
Reserved for:	
Prepaid Items	\$ 490
Unreserved, undesignated reported in:	
General fund	1,365,730
Total fund balances	<u>\$ 1,366,220</u>
Total liabilities and fund balances	<u>\$ 1,706,153</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, 2009

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds		\$ 1,366,220
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		3,447,390
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.		127,090
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	\$(1,068,708)	
Capital lease obligations	(5,450)	
Compensated absences	(49,100)	
Accrued interest payable	<u>(19,884)</u>	(1,143,142)
Net assets of governmental activities		<u>\$ 3,797,558</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, 2009

		<u>General</u>
REVENUES		
General property taxes	\$	1,074,282
Other local taxes		415,231
Permits, privilege fees, and regulatory licenses		53,441
Fines and forfeitures		10,469
Revenue from the use of money and property		19,310
Charges for services		3,726
Miscellaneous		31,741
Recovered costs		15,500
Intergovernmental revenues:		
Commonwealth		80,852
Federal		61,780
Total revenues	\$	<u>1,766,332</u>
EXPENDITURES		
Current:		
General government administration	\$	515,891
Public safety - police department		322,399
Public safety - code enforcement		118,626
Public works		358,766
Parks, recreation, and cultural		102,885
Community development		89,316
Debt service:		
Principal retirement		70,150
Interest and other fiscal charges		50,832
Total expenditures	\$	<u>1,628,865</u>
Excess (deficiency) of revenues over (under) expenditures	\$	<u>137,467</u>
Net change in fund balances	\$	137,467
Fund balances - beginning		1,228,753
Fund balances - ending	\$	<u><u>1,366,220</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, 2009**

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

Net change in fund balances - total governmental funds		\$ 137,467
--	--	------------

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

Capital outlay	\$ 77,084	
Depreciation expense	<u>(193,453)</u>	(116,369)

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.		54,465
---	--	--------

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

Principal retirement on general obligation bonds	\$ 45,066	
Principal retirement on capital lease obligations	<u>25,084</u>	70,150

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds. The following is a summary of items supporting this adjustment:

Increase in accrued leave	\$ (3,689)	
Decrease in interest payable	<u>705</u>	(2,984)

Change in net assets of governmental activities		<u>\$ 142,729</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, 2009

	<u>Water and Sewer</u>	<u>Harbor</u>	<u>Sanitation</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 26,833	\$ 300	\$ -	\$ 27,133
Accounts receivables, net of allowance for uncollectibles	127,782	22,969	-	150,751
Due from other funds	140	82,561	127,232	209,933
Due from other governmental units	121,586	9,625	-	131,211
Other receivables	4,000	-	-	4,000
Inventories	-	9,786	-	9,786
Total current assets	<u>\$ 280,341</u>	<u>\$ 125,241</u>	<u>\$ 127,232</u>	<u>\$ 532,814</u>
Noncurrent assets:				
Restricted current assets:				
Cash and cash equivalents - bond requirements	\$ 95,904	\$ -	\$ -	\$ 95,904
Total restricted current assets	<u>\$ 95,904</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 95,904</u>
Capital assets:				
Water and sewer system	\$ 2,861,185	\$ -	\$ -	\$ 2,861,185
Buildings and improvements	-	521,204	-	521,204
Improvements other than buildings	1,552,602	778,836	-	2,331,438
Machinery and equipment	101,706	113,498	2,457	217,661
Construction in progress	2,043,756	324,690	-	2,368,446
Total capital assets	<u>\$ 6,559,249</u>	<u>\$ 1,738,228</u>	<u>\$ 2,457</u>	<u>\$ 8,299,934</u>
Total noncurrent assets	<u>\$ 6,655,153</u>	<u>\$ 1,738,228</u>	<u>\$ 2,457</u>	<u>\$ 8,395,838</u>
Total assets	<u>\$ 6,935,494</u>	<u>\$ 1,863,469</u>	<u>\$ 129,689</u>	<u>\$ 8,928,652</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 6,127	\$ -	\$ -	\$ 6,127
Accrued liabilities	15,917	3,718	1,076	20,711
Due to other funds	60,465	-	327	60,792
Interest payable	4,028	6,974	-	11,002
Customer deposits payable	2,426	2,700	-	5,126
Bonds payable - current portion	40,819	16,935	-	57,754
Compensated absences - current portion	2,139	595	232	2,966
Total current liabilities	<u>\$ 131,921</u>	<u>\$ 30,922</u>	<u>\$ 1,635</u>	<u>\$ 164,478</u>
Noncurrent liabilities:				
Bonds payable - net of current portion	\$ 2,739,737	\$ 357,893	\$ -	\$ 3,097,630
Compensated absences - net of current portion	19,249	5,355	2,085	26,689
Total noncurrent liabilities	<u>\$ 2,758,986</u>	<u>\$ 363,248</u>	<u>\$ 2,085</u>	<u>\$ 3,124,319</u>
Total liabilities	<u>\$ 2,890,907</u>	<u>\$ 394,170</u>	<u>\$ 3,720</u>	<u>\$ 3,288,797</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 3,778,693	\$ 1,363,400	\$ 2,457	\$ 5,144,550
Restricted for debt service and bond covenants	95,904	-	-	95,904
Unrestricted	169,990	105,899	123,512	399,401
Total net assets	<u>\$ 4,044,587</u>	<u>\$ 1,469,299</u>	<u>\$ 125,969</u>	<u>\$ 5,639,855</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, 2009

	<u>Water and Sewer</u>	<u>Harbor</u>	<u>Sanitation</u>	<u>Total</u>
OPERATING REVENUES				
Charges for services:				
Water	\$ 410,499	\$ -	\$ -	\$ 410,499
Sewer	462,761	-	-	462,761
Harbor fees	-	105,371	-	105,371
Penalties	36,221	1,300	-	37,521
Refuse collection	-	-	171,015	171,015
Fuel sales	-	202,683	-	202,683
Miscellaneous	179	27,648	-	27,827
Total operating revenues	<u>\$ 909,660</u>	<u>\$ 337,002</u>	<u>\$ 171,015</u>	<u>\$ 1,417,677</u>
OPERATING EXPENSES				
Personnel services	\$ 365,769	\$ 110,799	\$ 23,427	\$ 499,995
Fringe benefits	151,360	35,081	12,413	198,854
Contractual services	88,625	2,690	141,145	232,460
Other supplies and expenses	235,466	201,822	3,334	440,622
Depreciation	190,756	93,172	589	284,517
Total operating expenses	<u>\$ 1,031,976</u>	<u>\$ 443,564</u>	<u>\$ 180,908</u>	<u>\$ 1,656,448</u>
Operating income (loss)	<u>\$ (122,316)</u>	<u>\$ (106,562)</u>	<u>\$ (9,893)</u>	<u>\$ (238,771)</u>
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental revenue	\$ 628,296	\$ 100,294	\$ -	\$ 728,590
Investment earnings	1,633	-	-	1,633
Connection fees	30,141	-	-	30,141
Interest and fiscal charges	(80,041)	(16,787)	-	(96,828)
Total nonoperating revenues (expenses)	<u>\$ 580,029</u>	<u>\$ 83,507</u>	<u>\$ -</u>	<u>\$ 663,536</u>
Change in net assets	<u>\$ 457,713</u>	<u>\$ (23,055)</u>	<u>\$ (9,893)</u>	<u>\$ 424,765</u>
Total net assets - beginning	3,586,874	1,492,354	135,862	5,215,090
Total net assets - ending	<u>\$ 4,044,587</u>	<u>\$ 1,469,299</u>	<u>\$ 125,969</u>	<u>\$ 5,639,855</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, 2009

	<u>Water and Sewer</u>	<u>Harbor</u>	<u>Sanitation</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 913,949	\$ 316,480	\$ 171,015	\$ 1,401,444
Payments for operating expenses	(480,169)	(217,265)	(144,587)	(842,021)
Payments to employees	(518,274)	(144,584)	(35,788)	(698,646)
Net cash provided (used by) operating activities	<u>\$ (84,494)</u>	<u>\$ (45,369)</u>	<u>\$ (9,360)</u>	<u>\$ (139,223)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	\$ 128,363	\$ 42,504	\$ 9,360	\$ 180,227
Intergovernmental revenue	506,710	90,669	-	597,379
Net cash provided (used) by noncapital financing activities	<u>\$ 635,073</u>	<u>\$ 133,173</u>	<u>\$ 9,360</u>	<u>\$ 777,606</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Additions to capital assets	\$ (1,672,089)	\$ (54,964)	\$ -	\$ (1,727,053)
Principal payments on bonds and capital leases	(38,639)	(15,806)	-	(54,445)
Connection fees	30,141	-	-	30,141
Proceeds from indebtedness	1,235,000	-	-	1,235,000
Interest payments	(80,183)	(17,034)	-	(97,217)
Net cash provided (used) by capital and related financing activities	<u>\$ (525,770)</u>	<u>\$ (87,804)</u>	<u>\$ -</u>	<u>\$ (613,574)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends received	\$ 1,633	\$ -	\$ -	\$ 1,633
Net cash provided (used) by investing activities	<u>\$ 1,633</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,633</u>
Net increase (decrease) in cash and cash equivalents	\$ 26,442	\$ -	\$ -	\$ 26,442
Cash and cash equivalents - beginning - including restricted	96,295	300	-	96,595
Cash and cash equivalents - ending - including restricted	<u>\$ 122,737</u>	<u>\$ 300</u>	<u>\$ -</u>	<u>\$ 123,037</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (122,316)	\$ (106,562)	\$ (9,893)	\$ (238,771)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	\$ 190,756	\$ 93,172	\$ 589	\$ 284,517
(Increase) decrease in accounts receivable	8,496	(22,622)	-	(14,126)
(Increase) decrease in inventories	-	(9,786)	-	(9,786)
Increase (decrease) in customer deposits	(4,207)	2,100	-	(2,107)
Increase (decrease) in accounts payable	(156,078)	(2,967)	(108)	(159,153)
Increase (decrease) compensated absence liability	(1,145)	1,296	52	203
Total adjustments	<u>\$ 37,822</u>	<u>\$ 61,193</u>	<u>\$ 533</u>	<u>\$ 99,548</u>
Net cash provided (used) by operating activities	<u>\$ (84,494)</u>	<u>\$ (45,369)</u>	<u>\$ (9,360)</u>	<u>\$ (139,223)</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, 2009

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 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, 2009 (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.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2009 (Continued)

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

B. Individual Component Unit Disclosures

Blended Component Unit. The Town has no blended component units at June 30, 2009.

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 provided 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.

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 - 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, 2009 (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 government 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 are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are 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 and utility billing amounted to approximately \$0 and \$42,250 respectively at June 30, 2009.

Real and Personal Property Tax Data:

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

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

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

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

G. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the Town as land, buildings, and equipment with an initial individual cost of more than \$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 as 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 assets lives 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>
Building 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 received sick pay benefits.

I. Retirement Plan

Retirement plan contributions are actuarially determined and consist of current service costs and amortization of prior service cost 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 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.

Notes to Financial Statements
As of June 30, 2009 (Continued)

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 is 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, 2009 (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, 2009.

Note 3—Deposits and Investments:

Deposits

All cash of the primary government 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, 2009 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>Municipal Corporation of Cape Charles Rated Debt Investments' Values</u>	
<u>Rate Debt Investments</u>	<u>Fair Quality Ratings</u>
	<u>AAAm</u>
Local Government Investment Pool	<u>\$ 1,360,700</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.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2009 (Continued)

Note 4—Due to/from Other Governments:

At June 30, 2009, the Town has receivables from other governments as follows:

	<u>Governmental Fund</u>
Other Local Governments:	
County of Northampton	\$ 6,673
Commonwealth of Virginia:	
Communications tax	7,134
Rolling stock tax	6
VA DEQ Water Quality Improvement	121,586
VA Port Authority Grant	9,625
Federal Government:	
Community Development Block Grant	<u>6,200</u>
Total due from other governments	<u>\$ 151,224</u>

Note 5—Inter-fund Obligations:

Details of the Town's interfund receivable and payables as of June 30, 2009, are as follows:

	<u>Inter-fund Receivables</u>	<u>Inter-fund Payables</u>
General Fund	\$ -	\$ 149,141
Water and Sewer Fund	140	60,465
Harbor Fund	82,561	-
Sanitation Fund	<u>127,232</u>	<u>327</u>
Total	<u>\$ 209,933</u>	<u>\$ 209,933</u>

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

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2009 (Continued)

Note 6—Capital Assets:

The following is a summary of changes in capital assets for the fiscal year ending June 30, 2009:

Governmental Activities:	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2009</u>
Capital assets not subject to depreciation:				
Construction in progress	\$ 92,881	\$ 33,992	\$ 40,051	\$ 86,822
Land and land improvements	<u>1,791,700</u>	<u>-</u>	<u>-</u>	<u>1,791,700</u>
Total capital assets not subject to depreciation	<u>\$ 1,884,581</u>	<u>\$ 33,992</u>	<u>\$ 40,051</u>	<u>\$ 1,878,522</u>
Capital assets subject to depreciation:				
Buildings and improvements	\$ 2,774,977	\$ 70,654	\$ -	\$ 2,845,631
Machinery and equipment	<u>761,395</u>	<u>12,489</u>	<u>-</u>	<u>773,884</u>
Total capital assets subject to depreciation	<u>\$ 3,536,372</u>	<u>\$ 83,143</u>	<u>\$ -</u>	<u>\$ 3,619,515</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 1,270,593	\$ 132,877	\$ -	\$ 1,403,470
Machinery and equipment	<u>586,601</u>	<u>60,576</u>	<u>-</u>	<u>647,177</u>
Total accumulated depreciation	<u>\$ 1,857,194</u>	<u>\$ 193,453</u>	<u>\$ -</u>	<u>\$ 2,050,647</u>
Total capital assets subject to depreciation, net	<u>\$ 1,679,178</u>	<u>\$ (110,310)</u>	<u>\$ -</u>	<u>\$ 1,568,868</u>
Governmental activities capital assets, net	<u><u>\$ 3,563,759</u></u>	<u><u>\$ (76,318)</u></u>	<u><u>\$ 40,051</u></u>	<u><u>\$ 3,447,390</u></u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2009 (Continued)

Note 6—Capital Assets: (Continued)

Business-Type Activities:	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2009</u>
Enterprise Funds:				
Capital assets not subject to depreciation:				
Construction in progress	\$ 676,696	\$ 1,691,750	\$ -	\$ 2,368,446
Capital assets subject to depreciation:				
Buildings and improvements	\$ 10,814,968	\$ -	\$ -	\$ 10,814,968
Machinery and equipment	546,475	35,304	-	581,779
 Total capital assets subject to depreciation	 \$ 11,361,443	 \$ 35,304	 \$ -	 \$ 11,396,747
Less accumulated depreciation for:				
Buildings and improvements	-	\$ 241,607	\$ -	\$ 5,101,141
Machinery and equipment	321,207	42,911	-	364,118
Total accumulated depreciation	\$ 5,180,741	\$ 284,518	\$ -	\$ 5,465,259
 Total capital assets subject to depreciation, net	 \$ 6,180,702	 \$ (249,214)	 \$ -	 \$ 5,931,488
Enterprise capital assets, net	\$ 6,857,398	1,442,536	-	8,299,934

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

Governmental activities:

General government	\$ 33,629
Public safety	17,808
Public works	16,697
Parks, recreation and cultural	125,319
 Total Governmental activities	 \$ 193,453

Business-type activities:

Water and Sewer	\$ 190,756
Harbor	93,172
Sanitation	589
 Total Business-type activities	 \$ 284,517

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2009 (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, 2009:

	Amounts Payable at July 1, 2008	Increases	Decreases	Amounts Payable at June 30, 2009	Amounts Due Within One Year
Governmental Obligations:					
Incurred by Town:					
Compensated absences payable	\$ 45,411	\$ 8,230	\$ 4,541	\$ 49,100	\$ 4,910
General obligation bonds	1,113,774	-	45,066	1,068,708	48,285
Capital lease obligations	30,534	-	25,084	5,450	-
Total incurred by Town	<u>\$ 1,189,719</u>	<u>\$ 8,230</u>	<u>\$ 74,691</u>	<u>\$ 1,123,258</u>	<u>\$ 53,195</u>
Total Governmental Obligations	<u>\$ 1,189,719</u>	<u>\$ 8,230</u>	<u>\$ 74,691</u>	<u>\$ 1,123,258</u>	<u>\$ 53,195</u>
Incurred by Enterprise Funds:					
Compensated absences payable	\$ 29,452	\$ 3,148	\$ 2,945	\$ 29,655	\$ 2,966
General obligation bonds	1,974,829	1,235,000	54,445	3,155,384	57,754
Total Enterprise Obligations	<u>\$ 2,004,281</u>	<u>\$ 1,238,148</u>	<u>\$ 57,390</u>	<u>\$ 3,185,039</u>	<u>\$ 60,720</u>
Total General Obligations, Primary Government	<u>\$ 3,194,000</u>	<u>\$ 1,246,378</u>	<u>\$ 132,081</u>	<u>\$ 4,308,297</u>	<u>\$ 113,915</u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2009 (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
2010	\$ 48,285	\$ 46,787	\$ 57,754	\$ 90,752
2011	48,285	44,886	59,328	88,125
2012	54,723	42,825	64,544	85,331
2013	54,723	40,637	66,282	82,383
2014	57,942	38,347	69,890	79,288
2015	57,942	35,935	71,809	76,036
2016	61,161	33,419	75,608	72,625
2017	64,380	30,735	79,509	69,020
2018	67,599	27,864	83,519	65,203
2019	51,504	25,218	76,955	61,398
2020	51,504	22,900	79,417	57,653
2021	54,723	20,373	83,784	53,669
2022	57,942	17,701	88,284	49,471
2023	61,161	14,991	92,922	45,115
2024	64,380	12,103	97,706	40,515
2025	67,599	8,933	102,643	35,604
2026	70,818	5,472	107,741	30,372
2027	74,037	1,851	113,008	24,883
2028	-	-	75,709	20,195
2029	-	-	79,560	16,344
2030	-	-	83,607	12,297
2031	-	-	87,861	8,043
2032	-	-	97,095	3,572
2033	-	-	2,047	797
2034	-	-	2,113	731
2035	-	-	2,182	662
2036	-	-	2,253	591
2037	-	-	2,326	518
2038	-	-	2,401	443
2039	-	-	2,479	365
2040	-	-	2,560	284
2041	-	-	2,643	201
2042	-	-	2,729	115
2043	-	-	2,116	28
*	-	-	1,235,000	-
Total	\$ <u>1,068,708</u>	\$ <u>470,977</u>	\$ <u>3,155,384</u>	\$ <u>1,172,629</u>

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

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2009 (Continued)

Note 7—Long-Term Obligations: (Continued)

Long-term obligations at June 30, 2009 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	\$ <u>1,068,708</u>
Capital lease obligations (see Note 8)	\$ <u>5,450</u>
Compensated Absences (payable from the General Fund)	\$ <u>49,100</u>
Total debt incurred by Town	\$ <u><u>1,123,258</u></u>
 Enterprise Funds:	
<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	\$ 591,292
\$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%	1,270,430
\$62,500 FHA general obligation bond issued December 30, 2003, due in monthly installments of \$237 through December 2044, interest at 3.25%	58,662
\$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, 2009.	<u>1,235,000</u>
Total general obligation bonds payable	\$ <u>3,155,384</u>
Compensated Absences (payable from Enterprise Funds)	\$ <u>29,655</u>
Total enterprise obligations payable	\$ <u><u>3,185,039</u></u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2009 (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	\$ 76,806
Less: accumulated depreciation	(68,685)
Total	<u>\$ 8,121</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2009, were as follows:

Year Ended June 30	Governmental Activities
2010	\$ -
2011	5,721
Total minimum lease payments	\$ 5,721
Less: amount representing interest	(271)
Present value of minimum lease payments	<u>\$ 5,450</u>

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 \$127,090 of the following:

Deferred Property Tax Revenue - Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled \$125,916 at June 30, 2009.

Prepaid Property Taxes - Property taxes due subsequent to June 30, 2009 but paid in advance by the tax payers totaled \$1,174 at June 30, 2009.

Note 10—Litigation:

At June 30, 2009, 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.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2009 (Continued)

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:

Primary Government:

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 and firefighters) or at age 50 with at least 30 years of service if elected by the employer (age 50 with 25 years of service for participating 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 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 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/2008AnnuRept.pdf> or obtained by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500.

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 2009 was 7.15% of annual covered payroll.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2009 (Continued)

Note 12 – Defined Benefit Pension Plan: (Continued)

C. Annual Pension Cost

For fiscal 2009, the Town's annual pension cost of \$70,746 (which does not include the employee's share assumed by the Town of \$44,938) was equal to the Town's required and actual contributions.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC) (1)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
Town:			
June 30, 2009	\$ 70,746	100%	-
June 30, 2008	59,858	100%	-
June 30, 2007	61,446	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.

D. Funded Status and Funding Progress

As of June 30, 2008, the most recent actuarial valuation date, the Town plan was 99.71% funded. The actuarial accrued liability for benefits was \$1,286,226, and the actuarial value of assets was \$1,282,550, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,676. The covered payroll (annual payroll of active employees covered by the plan) was \$1,009,307, and ratio of the UAAL to the covered payroll was .36%.

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 for benefits.

Note 13 – Commitments

The Town had a construction contract outstanding at June 30, 2009 in the Water and Sewer Fund related to the WWTP upgrade and expansion design services. The contractor was Stearns and Wheeler. The total contract amount was \$1,725,000 and the contract outstanding at year-end was \$245,000.

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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, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 1,159,836	\$ 1,159,836	\$ 1,074,282	\$ (85,554)
Other local taxes	434,482	434,482	415,231	(19,251)
Permits, privilege fees, and regulatory licenses	108,289	108,289	53,441	(54,848)
Fines and forfeitures	11,000	11,000	10,469	(531)
Revenue from the use of money and property	37,063	37,063	19,310	(17,753)
Charges for services	4,500	4,500	3,726	(774)
Miscellaneous	6,500	6,500	31,741	25,241
Recovered costs	15,500	15,500	15,500	-
Intergovernmental revenues:				
Commonwealth	96,178	96,178	80,852	(15,326)
Federal	333,000	333,000	61,780	(271,220)
Total revenues	\$ 2,206,348	\$ 2,206,348	\$ 1,766,332	\$ (440,016)
EXPENDITURES				
Current:				
General government administration	\$ 655,412	\$ 655,412	\$ 515,891	\$ 139,521
Public safety - police department	319,957	319,957	322,399	(2,442)
Public safety - code enforcement	155,764	155,764	118,626	37,138
Public works	795,604	795,604	358,766	436,838
Parks, recreation, and cultural	108,997	108,997	102,885	6,112
Community development	99,806	99,806	89,316	10,490
Debt service:				
Principal retirement	67,181	67,181	70,150	(2,969)
Interest and other fiscal charges	55,257	55,257	50,832	4,425
Total expenditures	\$ 2,257,978	\$ 2,257,978	\$ 1,628,865	\$ 629,113
Excess (deficiency) of revenues over (under) expenditures	\$ (51,630)	\$ (51,630)	\$ 137,467	\$ 189,097
Net change in fund balances	\$ (51,630)	\$ (51,630)	\$ 137,467	\$ 189,097
Fund balances - beginning	-	-	1,228,753	1,228,753
Fund balances - ending	\$ (51,630)	\$ (51,630)	\$ 1,366,220	\$ 1,417,850

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

Exhibit 11

For the Year Ended June 30, 2009

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						
6/30/2008	\$ 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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Municipal Corporation of Cape Charles, Virginia
 Schedule of Revenues - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2009

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	\$ 983,836	\$ 983,836	\$ 919,993	\$ (63,843)
Personal property taxes	160,000	160,000	101,808	(58,192)
Machinery and tools taxes	-	-	19,702	19,702
Penalties and interest	16,000	16,000	32,779	16,779
Total general property taxes	<u>\$ 1,159,836</u>	<u>\$ 1,159,836</u>	<u>\$ 1,074,282</u>	<u>\$ (85,554)</u>
Other local taxes:				
Local sales and use taxes	\$ 44,000	\$ 44,000	\$ 36,746	\$ (7,254)
Consumers' utility taxes	48,000	48,000	45,011	(2,989)
Communications tax	43,200	43,200	49,153	5,953
Cable television franchise license tax	12,000	12,000	13,000	1,000
Business license taxes	88,000	88,000	68,987	(19,013)
Motor vehicle licenses	20,000	20,000	20,315	315
Admissions taxes	28,000	28,000	22,250	(5,750)
Short term rental tax	2,282	2,282	3,843	1,561
Hotel and motel room taxes	18,000	18,000	14,542	(3,458)
Restaurant food taxes	131,000	131,000	141,384	10,384
Total other local taxes	<u>\$ 434,482</u>	<u>\$ 434,482</u>	<u>\$ 415,231</u>	<u>\$ (19,251)</u>
Permits, privilege fees, and regulatory licenses:				
Permits and other licenses	\$ 108,289	\$ 108,289	\$ 53,441	\$ (54,848)
Total permits, privilege fees, and regulatory licenses:	<u>\$ 108,289</u>	<u>\$ 108,289</u>	<u>\$ 53,441</u>	<u>\$ (54,848)</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 11,000	\$ 11,000	\$ 10,469	\$ (531)
Total fines and forfeitures	<u>\$ 11,000</u>	<u>\$ 11,000</u>	<u>\$ 10,469</u>	<u>\$ (531)</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 37,063	\$ 37,063	\$ 19,310	\$ (17,753)
Total revenue from use of money and property	<u>\$ 37,063</u>	<u>\$ 37,063</u>	<u>\$ 19,310</u>	<u>\$ (17,753)</u>
Charges for services:				
Charges for tax review fees	\$ 2,500	\$ 2,500	\$ 1,890	\$ (610)
Charges for library	2,000	2,000	1,836	(164)
Total charges for services	<u>\$ 4,500</u>	<u>\$ 4,500</u>	<u>\$ 3,726</u>	<u>\$ (774)</u>
Miscellaneous revenue:				
Miscellaneous	\$ 6,500	\$ 6,500	\$ 31,741	\$ 25,241
Total miscellaneous revenue	<u>\$ 6,500</u>	<u>\$ 6,500</u>	<u>\$ 31,741</u>	<u>\$ 25,241</u>

Municipal Corporation of Cape Charles, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2009

Schedule 1
Page 2 of 2

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Recovered costs:				
County contribution for Library	\$ 15,500	\$ 15,500	\$ 15,500	\$ -
Total recovered costs	<u>\$ 15,500</u>	<u>\$ 15,500</u>	<u>\$ 15,500</u>	<u>\$ -</u>
 Total revenue from local sources	 <u>\$ 1,777,170</u>	 <u>\$ 1,777,170</u>	 <u>\$ 1,623,700</u>	 <u>\$ (153,470)</u>
Revenue from the Commonwealth:				
Noncategorical aid:				
ABC profits	\$ 665	\$ 665	\$ -	\$ (665)
Wine taxes	697	697	-	(697)
Rolling stock tax	11	11	6	(5)
Personal property tax relief funds	36,000	36,000	35,424	(576)
Total noncategorical aid	<u>\$ 37,373</u>	<u>\$ 37,373</u>	<u>\$ 35,430</u>	<u>\$ (1,943)</u>
Categorical aid:				
Litter control	\$ 1,000	\$ 1,000	\$ 1,056	\$ 56
Fire programs	8,000	8,000	8,000	-
Arts grant	2,500	2,500	2,500	-
Law enforcement grant HB 599	33,405	33,405	32,150	(1,255)
VML safety grant	1,000	1,000	-	(1,000)
Local law enforcement block grant	12,900	12,900	1,716	(11,184)
Total other categorical aid	<u>\$ 58,805</u>	<u>\$ 58,805</u>	<u>\$ 45,422</u>	<u>\$ (13,383)</u>
 Total categorical aid	 <u>\$ 58,805</u>	 <u>\$ 58,805</u>	 <u>\$ 45,422</u>	 <u>\$ (13,383)</u>
 Total revenue from the Commonwealth	 <u>\$ 96,178</u>	 <u>\$ 96,178</u>	 <u>\$ 80,852</u>	 <u>\$ (15,326)</u>
Revenue from the federal government:				
Categorical aid:				
Tea-21 grant	\$ 333,000	\$ 333,000	\$ 44,530	\$ (288,470)
Community development block grant	-	-	17,250	17,250
Total other categorical aid	<u>\$ 333,000</u>	<u>\$ 333,000</u>	<u>\$ 61,780</u>	<u>\$ (271,220)</u>
 Total categorical aid	 <u>\$ 333,000</u>	 <u>\$ 333,000</u>	 <u>\$ 61,780</u>	 <u>\$ (271,220)</u>
 Total revenue from the federal government	 <u>\$ 333,000</u>	 <u>\$ 333,000</u>	 <u>\$ 61,780</u>	 <u>\$ (271,220)</u>
 Total General Fund	 <u>\$ 2,206,348</u>	 <u>\$ 2,206,348</u>	 <u>\$ 1,766,332</u>	 <u>\$ (440,016)</u>
 Grand Total Revenues -- Primary Government	 <u>\$ 2,206,348</u>	 <u>\$ 2,206,348</u>	 <u>\$ 1,766,332</u>	 <u>\$ (440,016)</u>

Municipal Corporation of Cape Charles, Virginia
 Schedule of Expenditures - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2009

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	\$ 6,948	\$ 6,948	\$ 6,739	\$ 209
Total general government administration	<u>\$ 6,948</u>	<u>\$ 6,948</u>	<u>\$ 6,739</u>	<u>\$ 209</u>
General and financial administration:				
Town Clerk	\$ 86,258	\$ 86,258	\$ 69,365	\$ 16,893
Town Manager	319,093	319,093	268,546	50,547
Finance	193,113	193,113	171,241	21,872
Contingency	50,000	50,000	-	50,000
Total general and financial administration	<u>\$ 648,464</u>	<u>\$ 648,464</u>	<u>\$ 509,152</u>	<u>\$ 139,312</u>
Total general government administration	<u>\$ 655,412</u>	<u>\$ 655,412</u>	<u>\$ 515,891</u>	<u>\$ 139,521</u>
Public safety:				
Law enforcement and traffic control:				
Police	\$ 319,957	\$ 319,957	\$ 322,399	\$ (2,442)
Total law enforcement and traffic control	<u>\$ 319,957</u>	<u>\$ 319,957</u>	<u>\$ 322,399</u>	<u>\$ (2,442)</u>
Inspections:				
Code enforcement	\$ 155,764	\$ 155,764	\$ 118,626	\$ 37,138
Total inspections	<u>\$ 155,764</u>	<u>\$ 155,764</u>	<u>\$ 118,626</u>	<u>\$ 37,138</u>
Total public safety	<u>\$ 475,721</u>	<u>\$ 475,721</u>	<u>\$ 441,025</u>	<u>\$ 34,696</u>
Public works:				
Maintenance of general buildings and grounds:				
General properties	\$ 795,604	\$ 795,604	\$ 358,766	\$ 436,838
Total public works	<u>\$ 795,604</u>	<u>\$ 795,604</u>	<u>\$ 358,766</u>	<u>\$ 436,838</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Community center	\$ 28,876	\$ 28,876	\$ 28,651	\$ 225
Total parks and recreation	<u>\$ 28,876</u>	<u>\$ 28,876</u>	<u>\$ 28,651</u>	<u>\$ 225</u>
Library:				
Library administration	\$ 80,121	\$ 80,121	\$ 74,234	\$ 5,887
Total library	<u>\$ 80,121</u>	<u>\$ 80,121</u>	<u>\$ 74,234</u>	<u>\$ 5,887</u>
Total parks, recreation, and cultural	<u>\$ 108,997</u>	<u>\$ 108,997</u>	<u>\$ 102,885</u>	<u>\$ 6,112</u>

Municipal Corporation of Cape Charles, Virginia
 Schedule of Expenditures - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2009

<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	\$ 99,806	\$ 99,806	\$ 89,316	\$ 10,490
Total planning and community development	<u>\$ 99,806</u>	<u>\$ 99,806</u>	<u>\$ 89,316</u>	<u>\$ 10,490</u>
Total community development	<u>\$ 99,806</u>	<u>\$ 99,806</u>	<u>\$ 89,316</u>	<u>\$ 10,490</u>
Debt service:				
Principal retirement	\$ 67,181	\$ 67,181	\$ 70,150	\$ (2,969)
Interest and other fiscal charges	55,257	55,257	50,832	4,425
Total debt service	<u>\$ 122,438</u>	<u>\$ 122,438</u>	<u>\$ 120,982</u>	<u>\$ 1,456</u>
Total General Fund	<u>\$ 2,257,978</u>	<u>\$ 2,257,978</u>	<u>\$ 1,628,865</u>	<u>\$ 629,113</u>
Total Primary Government	<u>\$ 2,257,978</u>	<u>\$ 2,257,978</u>	<u>\$ 1,628,865</u>	<u>\$ 629,113</u>

OTHER STATISTICAL INFORMATION

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Table 1

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

Fiscal Year	General Government Administration	Public Safety (2)	Public Works	Parks, Recreation, and Cultural	Community Development	Interest on Long-Term Debt	Enterprise Funds	Total
2003-04	\$ 401,153	\$ 327,616	\$ 236,981	\$ 39,179	\$ 105,111	\$ -	\$ 1,110,996	\$ 2,221,036
2004-05	416,358	478,635	226,675	98,435	63,820	765	1,248,707	2,533,395
2005-06	672,885	479,513	311,465	49,130	71,942	21,589	1,430,407	3,036,931
2006-07	716,874	645,866	378,102	184,678	117,189	113,590	1,745,095	3,901,394
2007-08	423,662	467,252	557,261	179,575	100,263	51,882	1,916,132	3,696,027
2008-09	476,972	456,135	374,459	213,545	91,330	50,127	1,753,277	3,415,845

(1) Information has only been available for six 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 Six 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	520,860	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

(1) Information has only been available for six 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					
2000	\$	287,988	\$	255,573	\$	116,077	\$	22,456	\$	85,889	\$	-	\$	767,983
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

(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
2000	\$ 254,699	\$ 209,822	\$ 32,148	\$ 6,090	\$ 10,983	\$ 1,290	\$ 33,041	\$ -	\$ 404,268	\$ 952,341
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	1,063,243	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

(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 (1,2)	Current Tax Collections (1,2)	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
2000	\$ 279,791	\$ 246,431	88.08%	\$ 5,541	\$ 251,972	90.06%	\$ 31,800	11.37%
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	1,012,402	92.82%	9,353	1,021,755	93.68%	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%

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

(2) Tax levy and collections include the Commonwealth's personal property tax relief revenues beginning in fiscal year 2000.

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	Real Estate	
2000	\$ 53,887,900	\$ 4,370,400	\$ 21,000	\$ 1,287,793	\$	59,567,093
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

(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	
2000	\$	0.37	\$	2.00	\$	0.37	\$	0.37
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

(1) Per \$100 of assessed value.

Table 8

**Municipal Corporation of Cape Charles, Virginia
Computation of Legal Debt Margin
At June 30, 2009**

Assessed value of real property, January 1, 2008 (1)	<u>\$ 310,463,862</u>
Debt limit: 10% of assessed value	\$ 31,046,386
Amount of debt applicable to debt limit:	
Gross debt (2)	<u>\$ 4,224,092</u>
Less: Revenue bonds and notes secured by property	<u>-</u>
Net general obligation bonds and loans	<u>\$ 4,224,092</u>
Legal debt limit	<u><u>\$ 26,822,294</u></u>

(1) Assessed value of real property, including public service corporations as of January 1, 2008.

(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
2000	1,134	\$ 59,567,093	\$ 1,817,856	3.05%	\$ 1,603
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

(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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**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, 2009, which collectively comprise the Municipal Corporation of Cape Charles, Virginia's basic financial statements and have issued our report thereon dated March 19, 2010. 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 opinion 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Municipal Corporation of Cape Charles, Virginia's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Municipal Corporation of Cape Charles, Virginia's financial statements that is more than inconsequential will not be prevented or detected by the Municipal Corporation of Cape Charles, Virginia's internal control. We consider the deficiencies (2009-01 and 2009-02) described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Municipal Corporation of Cape Charles, Virginia's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies referenced above to be material weaknesses.

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 19, 2010.

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

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

Richmond, Virginia
March 19, 2010

Municipal Corporation of Cape Charles, Virginia
 Schedule of Findings and Responses
 For the year ended June 30, 2009

Section I-Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:	<u>unqualified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	<u> ✓ </u> yes	<u> </u> no
Significant deficiencies identified that are not considered to be material weakness(es)?	<u> </u> yes	<u> ✓ </u> none reported
Noncompliance material to financial statements noted?	<u> </u> yes	<u> ✓ </u> no

Section II-Financial Statement Findings

2009-01

Financial Reporting

Condition:	Inadequate internal controls over financial statement reporting.
Criteria:	Internal controls should be in place that provides assurance that audited financial statements reconcile to the Town's internal documents.
Effect:	Audited financial statements, including related footnotes, may contain an undetected material misstatement.
Recommendation:	The Town used new accounting software for FY08 that allowed for integration of all funds through the general ledger. The new software was a great improvement over the software used in prior years. However, for FY09, the auditor still proposed entries to reverse prior year accounts receivable and accounts payable, reverse prior year accrued payroll and accrued leave, post current year governmental fund receivables, post current year accrued payroll and accrued leave, record capital asset additions and post current year depreciation. Procedures should be implemented providing for client posting of all year-end accrual entries prior to audit field work.
Management's Response:	The Town plans additional corrective action for FY10.

2009-02

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.
- 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 FY10.