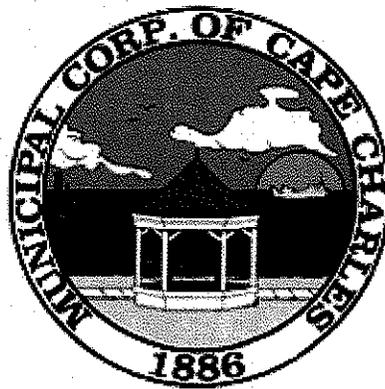


MUNICIPAL CORPORATION  
OF  
CAPE CHARLES, VIRGINIA



ANNUAL FINANCIAL REPORT

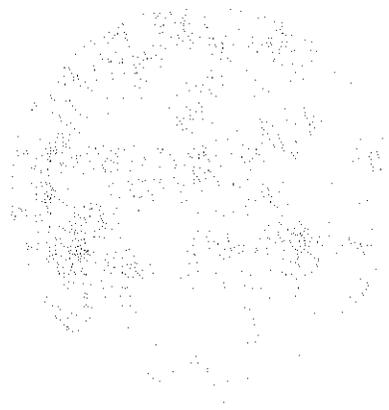
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FOR FISCAL YEAR ENDED JUNE 30, 2007

REPUBLIC OF INDONESIA

NO

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**MUNICIPAL CORPORATION OF CAPE CHARLES, VIRGINIA**

**ANNUAL FINANCIAL REPORT**

**FISCAL YEAR ENDED JUNE 30, 2007**

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# MUNICIPAL CORPORATION OF CAPE CHARLES, VIRGINIA

## ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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MUNICIPAL CORPORATION OF CAPE CHARLES, VIRGINIA

ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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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, 2007, 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 an opinion 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 opinion.

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, 2007, 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 May 20, 2008, 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 an opinion on the financial statements that collectively comprise the Municipal Corporation of Cape Charles, Virginia, basic financial statements. The introductory section 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 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.

*Ren Fox*

Richmond, Virginia  
May 20, 2008

## 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, 2007. 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 \$8,707,309 (net assets).

#### Fund Financial Statements

The Governmental Funds, on a current financial resource basis, reported revenues and other financing sources in deficit of expenditures and other uses by \$202,490 (Exhibit 5).

< As of the close of the current fiscal year; the Town's funds reported an ending fund balance of \$1,244,014, a decrease of \$202,490 in comparison with the prior year.

< The combined long-term obligations increased \$376,831 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 \$8,707,309 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	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 1,399,087	\$ 1,715,674	\$ 884,453	\$ 464,486	\$ 2,283,540	\$ 2,180,160
Capital assets	3,512,206	3,534,442	6,357,564	6,465,829	9,869,770	10,000,271
<b>Total assets</b>	<b>\$ 4,911,293</b>	<b>\$ 5,250,116</b>	<b>\$ 7,242,017</b>	<b>\$ 6,930,315</b>	<b>\$ 12,153,310</b>	<b>\$ 12,180,431</b>
Current liabilities	\$ 112,672	\$ 222,494	\$ 35,214	\$ 18,491	\$ 147,886	240,985
Long-term liabilities outstanding	1,247,482	1,204,791	2,050,633	1,716,493	3,298,115	2,921,284
<b>Total liabilities</b>	<b>\$ 1,360,154</b>	<b>\$ 1,427,285</b>	<b>\$ 2,085,847</b>	<b>\$ 1,734,984</b>	<b>\$ 3,446,001</b>	<b>\$ 3,162,269</b>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	\$ 2,307,398	\$ 2,376,397	\$ 4,331,233	\$ 4,771,786	\$ 6,638,631	7,148,183
Restricted for:						
Debt service				93,836		93,836
Unrestricted	1,243,741	1,446,434	824,937	329,709	2,068,678	1,776,143
<b>Total net assets</b>	<b>\$ 3,551,139</b>	<b>\$ 3,822,831</b>	<b>\$ 5,156,170</b>	<b>\$ 5,195,331</b>	<b>\$ 8,707,309</b>	<b>9,018,162</b>

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Government-wide Financial Analysis (Continued)**

During the current fiscal year, the Town's net assets decreased by \$310,853. 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	
	2007	2006	2007	2006	2007	2006
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 107,791	\$ 134,396	\$ 1,586,420	\$ 1,396,933	\$ 1,694,211	\$ 1,531,329
Operating grants and contributions	159,796	43,094	-	477,756	159,796	520,850
Capital grants and contributions	-	315,600	119,511	-	119,511	315,600
<b>General revenues:</b>						
General property taxes	1,047,903	878,050	-	-	1,047,903	878,050
Other local taxes	375,147	477,148	-	-	375,147	477,148
Grants and other contributions not restricted	61,558	136,630	-	-	61,558	136,630
Other general revenues	132,412	80,573	3	7	132,415	80,580
<b>Total revenues</b>	<b>\$ 1,884,607</b>	<b>\$ 2,065,491</b>	<b>\$ 1,705,934</b>	<b>\$ 1,874,696</b>	<b>\$ 3,590,541</b>	<b>\$ 3,940,187</b>
<b>Expenses:</b>						
<b>General government</b>						
administration	\$ 716,874	\$ 672,885	\$ -	\$ -	\$ 716,874	\$ 672,885
Public safety	645,866	479,513	-	-	645,866	479,513
Public works	378,102	311,465	-	-	378,102	311,465
Parks, recreation, and cultural	184,678	49,287	-	-	184,678	49,287
Community development	117,189	71,942	-	-	117,189	71,942
Interest and other fiscal charges	113,590	21,589	-	-	113,590	21,589
Enterprise funds	-	-	1,745,095	1,430,407	1,745,095	1,430,407
<b>Total expenses</b>	<b>\$ 2,156,299</b>	<b>\$ 1,606,681</b>	<b>\$ 1,745,095</b>	<b>\$ 1,430,407</b>	<b>\$ 3,901,394</b>	<b>\$ 3,037,088</b>
<b>Change in net assets</b>	<b>\$ (271,692)</b>	<b>\$ 458,810</b>	<b>\$ (39,161)</b>	<b>\$ 444,289</b>	<b>\$ (310,853)</b>	<b>\$ 903,099</b>
<b>Beginning of year</b>	<b>3,822,831</b>	<b>3,364,021</b>	<b>5,195,331</b>	<b>4,751,042</b>	<b>9,018,162</b>	<b>8,115,063</b>
<b>End of year</b>	<b>\$ 3,551,139</b>	<b>\$ 3,822,831</b>	<b>\$ 5,156,170</b>	<b>\$ 5,195,331</b>	<b>\$ 8,707,309</b>	<b>\$ 9,018,162</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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### 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 \$1,244,014, a decrease of \$202,490 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 \$824,937. Net assets decreased \$39,161. 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, actual revenues and other sources exceeded budgetary estimates by \$691,878. Actual expenditures and other uses were more than budgetary estimates by \$894,368, resulting in a negative variance of \$202,490.

### Capital Asset and Debt Administration

Capital assets - The Town's investment in capital assets for its governmental operations as of June 30, 2007 amounts to \$3,512,206 (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 \$3,231,139. Of this amount, \$3,181,952 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 \$379,051.

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 the Town compares favorably to the state's average unemployment rate of 3.2 percent and compares favorably to the national average rate of 4.5 percent.
- < Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the Town's budget for the 2008 fiscal year.

The fiscal year 2008 budget decreased by approximately 1.5%, and the tax rates remained the same as in fiscal year 2007.

### 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, 2007**

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,961,134	\$ 62,880	\$ 2,024,014
Receivables (net of allowance for uncollectibles):			
Taxes receivable	68,608	-	68,608
Accounts receivable	12,547	134,850	147,397
Other receivable	24,270	-	24,270
Internal balances	(686,723)	686,723	-
Due from other governmental units	19,251	-	19,251
Capital assets:			
Land	1,791,700	-	1,791,700
Buildings and improvements	1,497,181	2,305,781	3,802,962
Water and sewer system	-	3,677,411	3,677,411
Machinery and equipment	223,325	229,375	452,700
Construction in progress	-	144,997	144,997
Total assets	<u>\$ 4,911,293</u>	<u>\$ 7,242,017</u>	<u>\$ 12,153,310</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 12,451	\$ 4,576	\$ 17,027
Accrued liabilities	70,123	13,103	83,226
Accrued interest payable	21,225	11,743	32,968
Unearned revenue	8,873	-	8,873
Amounts held for others	-	5,792	5,792
Long-term liabilities:			
Due within one year	64,767	53,690	118,457
Due in more than one year	1,182,715	1,996,943	3,179,658
Total liabilities	<u>\$ 1,360,154</u>	<u>\$ 2,085,847</u>	<u>\$ 3,446,001</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 2,307,398	\$ 4,331,233	\$ 6,638,631
Unrestricted (deficit)	1,243,741	824,937	2,068,678
Total net assets	<u>\$ 3,551,139</u>	<u>\$ 5,156,170</u>	<u>\$ 8,707,309</u>
 Total Liabilities and Net Assets	 <u>\$ 4,911,293</u>	 <u>\$ 7,242,017</u>	 <u>\$ 12,153,310</u>

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

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Municipal Corporation of Cape Charles, Virginia  
 Statement of Activities  
 For the Year Ended June 30, 2007

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-type Activities	
<b>PRIMARY GOVERNMENT:</b>						
Governmental activities:						
General government administration	\$ 716,874	\$ -	\$ -	\$ (716,874)	\$ -	\$ (716,874)
Public safety	645,866	100,958	44,109	(500,799)	-	(500,799)
Public works	378,102	-	-	(378,102)	-	(378,102)
Parks, recreation, and cultural	184,678	1,363	34,400	(148,915)	-	(148,915)
Community development	117,189	5,470	81,287	(30,432)	-	(30,432)
Interest on long-term debt	113,590	-	-	(113,590)	-	(113,590)
Total government activities	\$ 2,156,299	\$ 107,791	\$ 159,796	\$ (1,888,712)	\$ -	\$ (1,888,712)
Business-type activities:						
Enterprise funds	\$ 1,745,095	\$ 1,586,420	\$ -	\$ -	\$ (39,164)	\$ (39,164)
Total business-type activities	\$ 1,745,095	\$ 1,586,420	\$ -	\$ -	\$ (39,164)	\$ (39,164)
Total primary government	\$ 3,901,394	\$ 1,694,211	\$ 159,796	\$ (1,888,712)	\$ (39,164)	\$ (1,927,876)

General revenues:						
General property taxes	\$ 1,047,903	\$ -	\$ -	\$ -	\$ -	\$ 1,047,903
Other local taxes	375,147	-	-	-	-	375,147
Unrestricted revenues from use of money and property	108,842	3	-	3	-	108,845
Miscellaneous	23,570	-	-	-	-	23,570
Grants and contributions not restricted to specific programs	61,558	-	-	-	-	61,558
Total general revenues	\$ 1,617,020	\$ 3	\$ 3	\$ 3	\$ -	\$ 1,617,023
Change in net assets	(271,692)	(39,161)	-	(39,161)	-	(310,853)
Net assets - beginning	\$ 3,822,831	\$ 5,195,331	\$ -	\$ 5,195,331	\$ -	\$ 9,018,162
Net assets - ending	\$ 3,551,139	\$ 5,156,170	\$ -	\$ 5,156,170	\$ -	\$ 8,707,309

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

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*FUND FINANCIAL STATEMENTS*

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**Municipal Corporation of Cape Charles, Virginia**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2007**

	<u>General</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,961,134
Receivables (net of allowance for uncollectibles):	
Taxes receivable	68,608
Accounts receivable	12,547
Other receivable	24,270
Due from other governmental units	19,251
Total assets	<u>\$ 2,085,810</u>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Accounts payable	\$ 12,451
Accrued liabilities	70,123
Due to other funds	686,723
Deferred revenue	72,499
Total liabilities	<u>\$ 841,796</u>
Fund balances:	
Unreserved, undesignated reported in:	
General fund	\$ 1,244,014
Total fund balances	<u>\$ 1,244,014</u>
Total liabilities and fund balances	<u>\$ 2,085,810</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, 2007**

---

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 1,244,014
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,512,206
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	63,626
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(1,268,707)
Net assets of governmental activities	<u>\$ 3,551,139</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, 2007**

	<u>General</u>
<b>REVENUES</b>	
General property taxes	\$ 1,030,953
Other local taxes	375,147
Permits, privilege fees, and regulatory licenses	94,615
Fines and forfeitures	6,343
Revenue from the use of money and property	108,842
Charges for services	6,833
Miscellaneous	23,570
Recovered costs	32,500
Intergovernmental revenues:	
Commonwealth	142,383
Federal	78,971
Total revenues	<u>\$ 1,900,157</u>
<b>EXPENDITURES</b>	
Current:	
General government administration	\$ 697,049
Public safety - police department	284,778
Public safety - fire department contribution	145,158
Public safety - fire department pass thru	8,000
Public safety - code enforcement	187,245
Public works	307,665
Parks, recreation, and cultural	76,495
Community development	118,384
Capital projects	232,271
Debt service:	
Principal retirement	8,858
Interest and other fiscal charges	92,365
Total expenditures	<u>\$ 2,158,268</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (258,111)</u>
<b>OTHER FINANCING SOURCES (USES)</b>	
Proceeds of indebtedness	1,155,621
Current refunding of debt	(1,100,000)
Total other financing sources (uses)	<u>\$ 55,621</u>
Net change in fund balances	\$ (202,490)
Fund balances - beginning	1,446,504
Fund balances - ending	<u>\$ 1,244,014</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, 2007**

---

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

Net change in fund balances - total governmental funds \$ (202,490)

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	\$ 163,329	
Depreciation expense	<u>(185,565)</u>	(22,236)

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. 16,950

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:

Increase in capital leases		(46,763)
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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	\$ 4,072	
Decrease in interest payable	<u>(21,225)</u>	(17,153)

Change in net assets of governmental activities		<u>\$ (271,692)</u>
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The notes to the financial statements are an integral part of this statement.

Municipal Corporation of Cape Charles, Virginia  
 Statement of Net Assets  
 Proprietary Funds  
 June 30, 2007

	Water and Sewer	Harbor	Sanitation	Total
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 1,467	\$ 61,413	\$ -	\$ 62,880
Accounts receivables, net of allowances for uncollectibles	134,850	-	-	134,850
Due from other funds	320,356	238,865	127,502	686,723
Total current assets	<u>\$ 456,673</u>	<u>\$ 300,278</u>	<u>\$ 127,502</u>	<u>\$ 884,453</u>
Noncurrent assets:				
Capital assets:				
Water and sewer system	\$ 3,091,056	\$ 586,355	\$ -	\$ 3,677,411
Improvements other than buildings	1,501,493	804,288	-	2,305,781
Machinery and equipment	118,840	106,899	3,636	229,375
Construction in progress	144,997	-	-	144,997
Total capital assets	<u>\$ 4,856,386</u>	<u>\$ 1,497,542</u>	<u>\$ 3,636</u>	<u>\$ 6,357,564</u>
Total noncurrent assets	<u>\$ 4,856,386</u>	<u>\$ 1,497,542</u>	<u>\$ 3,636</u>	<u>\$ 6,357,564</u>
Total assets	<u>\$ 5,313,059</u>	<u>\$ 1,797,820</u>	<u>\$ 131,138</u>	<u>\$ 7,242,017</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 3,343	\$ 1,233	\$ -	\$ 4,576
Accrued liabilities	9,687	2,592	824	13,103
Compensated absences	2,004	207	220	2,431
Interest payable	4,299	7,444	-	11,743
Customer deposits payable	5,792	-	-	5,792
Bonds payable - current portion	36,582	14,677	-	51,259
Total current liabilities	<u>\$ 61,707</u>	<u>\$ 26,153</u>	<u>\$ 1,044</u>	<u>\$ 88,904</u>
Noncurrent liabilities:				
Bonds payable - net of current portion	\$ 1,584,438	\$ 390,634	\$ -	\$ 1,975,072
Compensated absences	18,036	1,858	1,977	21,871
Total noncurrent liabilities	<u>\$ 1,602,474</u>	<u>\$ 392,492</u>	<u>\$ 1,977</u>	<u>\$ 1,996,943</u>
Total liabilities	<u>\$ 1,664,181</u>	<u>\$ 418,645</u>	<u>\$ 3,021</u>	<u>\$ 2,085,847</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 3,235,366	\$ 1,092,231	\$ 3,636	\$ 4,331,233
Unrestricted	413,512	286,944	124,481	824,937
Total net assets	<u>\$ 3,648,878</u>	<u>\$ 1,379,175</u>	<u>\$ 128,117</u>	<u>\$ 5,156,170</u>

*Detail*  
*Cost less Accum Depre?*

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, 2007**

	<u>Water and Sewer</u>	<u>Harbor</u>	<u>Sanitation</u>	<u>Total</u>
<b>OPERATING REVENUES</b>				
Charges for services:				
Water	\$ 368,805	\$ -	\$ -	\$ 368,805
Sewer	367,579	-	-	367,579
Harbor fees	-	152,345	-	152,345
Penalties	38,215	-	-	38,215
Refuse collection	-	-	151,154	151,154
Fuel sales	-	338,431	-	338,431
Miscellaneous	165	4,097	-	4,262
Total operating revenues	<u>\$ 774,764</u>	<u>\$ 494,873</u>	<u>\$ 151,154</u>	<u>\$ 1,420,791</u>
<b>OPERATING EXPENSES</b>				
Personnel services	\$ 248,847	\$ 64,446	\$ 24,624	\$ 337,917
Fringe benefits	92,359	18,348	8,554	119,261
Contractual services	22,921	9,454	121,963	154,338
Other supplies and expenses	404,018	350,589	8,391	762,998
Depreciation and amortization	180,969	83,088	589	264,646
Total operating expenses	<u>\$ 949,114</u>	<u>\$ 525,925</u>	<u>\$ 164,121</u>	<u>\$ 1,639,160</u>
Operating income (loss)	<u>\$ (174,350)</u>	<u>\$ (31,052)</u>	<u>\$ (12,967)</u>	<u>\$ (218,369)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Intergovernmental revenue	\$ 4,511	\$ 115,000	\$ -	\$ 119,511
Investment earnings	3	-	-	3
Amortization of bond issuance costs	(8,675)	-	-	(8,675)
Connection fees	165,629	-	-	165,629
Interest and fiscal charges	(79,509)	(17,751)	-	(97,260)
Total nonoperating revenues (expenses)	<u>\$ 81,959</u>	<u>\$ 97,249</u>	<u>\$ -</u>	<u>\$ 179,208</u>
Change in net assets	<u>\$ (92,391)</u>	<u>\$ 66,197</u>	<u>\$ (12,967)</u>	<u>\$ (39,161)</u>
Total net assets - beginning	3,741,269	1,312,978	141,084	5,195,331
Total net assets - ending	<u>\$ 3,648,878</u>	<u>\$ 1,379,175</u>	<u>\$ 128,117</u>	<u>\$ 5,156,170</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, 2007**

	<u>Water and Sewer</u>	<u>Harbor</u>	<u>Sanitation</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 761,189	\$ 494,873	\$ 165,693	\$ 1,421,755
Payments for operating expenses	(421,418)	(361,408)	(129,530)	(912,356)
Payments to employees	(340,747)	(83,598)	(30,981)	(455,326)
Net cash provided (used by) operating activities	<u>\$ (976)</u>	<u>\$ 49,867</u>	<u>\$ 5,182</u>	<u>\$ 54,073</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers to other funds	\$ -	\$ (569,963)	\$ (5,182)	\$ (575,145)
Transfers from other funds	58,545	-	-	58,545
Intergovernmental revenue	51,527	174,141	-	225,668
Net cash provided (used) by noncapital financing activities	<u>\$ 110,072</u>	<u>\$ (395,822)</u>	<u>\$ (5,182)</u>	<u>\$ (290,932)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Additions to capital assets	\$ (147,201)	\$ (9,180)	\$ -	\$ (156,381)
Principal payments on bonds and capital leases	(286,383)	(20,709)	-	(307,092)
Connection fees	165,629	-	-	165,629
Proceeds from indebtedness	234,068	405,311	-	639,379
Interest payments	(75,210)	(10,307)	-	(85,517)
Net cash provided (used) by capital and related financing activities	<u>\$ (109,097)</u>	<u>\$ 365,115</u>	<u>\$ -</u>	<u>\$ 256,018</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest and dividends received	\$ 3	\$ -	\$ -	\$ 3
Net cash provided (used) by investing activities	<u>\$ 3</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3</u>
Net increase (decrease) in cash and cash equivalents	\$ 2	\$ 19,160	\$ -	\$ 19,162
Cash and cash equivalents - beginning	1,465	42,253	-	43,718
Cash and cash equivalents - ending	<u>\$ 1,467</u>	<u>\$ 61,413</u>	<u>\$ -</u>	<u>\$ 62,880</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>				
Operating income (loss)	\$ (174,350)	\$ (31,052)	\$ (12,967)	\$ (218,369)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	\$ 180,969	\$ 83,088	\$ 589	\$ 264,646
(Increase) decrease in accounts receivable	(13,575)	-	14,539	964
Increase (decrease) in customer deposits	(360)	(2,806)	-	(3,166)
Increase (decrease) in accounts payable	5,881	1,441	824	8,146
Increase (decrease) compensated absence liability	459	(804)	2,197	1,852
Total adjustments	<u>\$ 173,374</u>	<u>\$ 80,919</u>	<u>\$ 18,149</u>	<u>\$ 272,442</u>
Net cash provided (used) by operating activities	<u>\$ (976)</u>	<u>\$ 49,867</u>	<u>\$ 5,182</u>	<u>\$ 54,073</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, 2007

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## **Note 1—Summary of Significant Accounting Policies:**

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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.

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 Changes in Net Assets) 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, 2007 (Continued)

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

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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 is 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, even though the latter are excluded from the government-wide financial statements. 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, 2007 (Continued)

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

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**B. Individual Component Unit Disclosures**

*Blended Component Unit.* The Town has no blended component units at June 30, 2007.

*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 reflect 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.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

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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 Town reports the General Fund as a major governmental fund.

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, 2007 (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 \$0 respectively at June 30, 2007.

Real and Personal Property Tax Data:

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

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

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

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements  
As of June 30, 2007 (Continued)

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

G. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the Town as land, buildings, and equipment with an initial individual cost of more than \$1,000 (with the exception of land values) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded 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.

**Municipal Corporation of Cape Charles, Virginia**

**Notes to Financial Statements  
As of June 30, 2007 (Continued)**

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

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**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.

***Note 2—Stewardship, Compliance, and Accounting:***

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

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

**Expenditures and Appropriations**

Expenditures did not exceed appropriations in any fund at June 30, 2007.

**Municipal Corporation of Cape Charles, Virginia**

**Notes to Financial Statements  
As of June 30, 2007 (Continued)**

**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 (a multiple financial institution collateral pool), Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and Loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. Deposits covered by the Act are considered insured since the Treasury Board is authorized to make additional assessments.

**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, 2007 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>\$ 1,862,353</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, 2007 (Continued)

**Note 4—Due to/from Other Governments:**

At June 30, 2007, the Town has receivables from other governments as follows:

	<u>Governmental Fund</u>
Other Local Governments:	
County of Northampton	\$ 8,763
Commonwealth of Virginia:	
DMV	927
Rolling stock tax	5
ABC profits and wine tax	1,362
Communications tax	8,194
Total due from other governments	\$ <u>19,251</u>

**Note 5—Inter-fund Obligations:**

Details of the Town's interfund receivable and payables as of June 30, 2007, are as follows:

	<u>Inter-fund Receivables</u>	<u>Inter-fund Payables</u>
General Fund	\$ -	\$ 686,723
Water and Sewer Fund	320,356	-
Harbor Fund	238,865	-
Sanitation Fund	127,502	-
Total	\$ <u>686,723</u>	\$ <u>686,723</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, 2007 (Continued)

**Note 6—Capital Assets:**

The following is a summary of changes in capital assets for the fiscal year ending June 30, 2007:

Governmental Activities:	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Capital assets not subject to depreciation:				
Construction in progress	\$ 983,581	\$ 70,993	\$ 1,054,574	\$ -
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>\$ 2,775,281</u>	<u>\$ 70,993</u>	<u>\$ 1,054,574</u>	<u>\$ 1,791,700</u>
Capital assets subject to depreciation:				
Buildings and improvements	\$ 1,564,575	\$ 1,073,854	\$ -	\$ 2,638,429
Machinery and equipment	<u>672,320</u>	<u>73,056</u>	<u>-</u>	<u>745,376</u>
Total capital assets subject to depreciation	<u>\$ 2,236,895</u>	<u>\$ 1,146,910</u>	<u>\$ -</u>	<u>\$ 3,383,805</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 1,018,731	\$ 122,517	\$ -	\$ 1,141,248
Machinery and equipment	<u>459,003</u>	<u>63,048</u>	<u>-</u>	<u>522,051</u>
Total accumulated depreciation	<u>\$ 1,477,734</u>	<u>\$ 185,565</u>	<u>\$ -</u>	<u>\$ 1,663,299</u>
Total capital assets subject to depreciation, net	<u>\$ 759,161</u>	<u>\$ 961,345</u>	<u>\$ -</u>	<u>\$ 1,720,506</u>
Governmental activities capital assets, net	<u>\$ 3,534,442</u>	<u>\$ 1,032,338</u>	<u>\$ 1,054,574</u>	<u>\$ 3,512,206</u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements  
As of June 30, 2007 (Continued)

Note 6—Capital Assets: (Continued)

Business-Type Activities:	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
<b>Enterprise Funds:</b>				
Capital assets not subject to depreciation:				
Construction in progress	\$ 47,000	\$ 97,997	\$ -	\$ 144,997
Capital assets subject to depreciation:				
Buildings and improvements	\$ 10,601,118	\$ -	\$ -	\$ 10,601,118
Machinery and equipment	451,527	58,384	-	509,911
<b>Total capital assets subject to depreciation</b>	<b>\$ 11,052,645</b>	<b>\$ 58,384</b>	<b>\$ -</b>	<b>\$ 11,111,029</b>
Less accumulated depreciation for:				
Buildings and improvements	\$ 4,386,665	\$ 231,261	\$ -	\$ 4,617,926
Machinery and equipment	247,151	33,385	-	280,536
<b>Total accumulated depreciation</b>	<b>\$ 4,633,816</b>	<b>\$ 264,646</b>	<b>\$ -</b>	<b>\$ 4,898,462</b>
<b>Total capital assets subject to depreciation, net</b>	<b>\$ 6,418,829</b>	<b>\$ (206,262)</b>	<b>\$ -</b>	<b>\$ 6,212,567</b>
<b>Enterprise capital assets, net</b>	<b>\$ 6,465,829</b>	<b>(108,265)</b>	<b>-</b>	<b>6,357,564</b>

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

Governmental activities:

General government	\$ 24,504
Public safety	21,278
Public works	16,403
Parks, recreation and cultural	123,380
<b>Total Governmental activities</b>	<b>\$ 185,565</b>

Business-type activities:

Water and Sewer	\$ 180,969
Harbor	83,088
Sanitation	589
<b>Total Business-type activities</b>	<b>\$ 264,646</b>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements  
As of June 30, 2007 (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, 2007:

	Amounts Payable at July 1, 2006	Increases	Decreases	Amounts Payable at June 30, 2007	Amounts Due Within One Year
<b>Governmental Obligations:</b>					
Incurred by Town:					
Compensated absences payable	\$ 46,746	\$ -	\$ 4,072	\$ 42,674	\$ 4,267
General obligation bonds	1,100,000	1,155,621	1,100,000	1,155,621	41,847
Capital lease obligations	58,045	-	8,858	49,187	18,653
Total incurred by Town	<u>\$ 1,204,791</u>	<u>\$ 1,155,621</u>	<u>\$ 1,112,930</u>	<u>\$ 1,247,482</u>	<u>\$ 64,767</u>
Total Governmental Obligations	<u>\$ 1,204,791</u>	<u>\$ 1,155,621</u>	<u>\$ 1,112,930</u>	<u>\$ 1,247,482</u>	<u>\$ 64,767</u>
Incurred by Enterprise Funds:					
Compensated absences payable	\$ 22,450	\$ 1,852	\$ -	\$ 24,302	\$ 2,431
Note payable	20,709	-	20,709	-	-
General obligation bonds	1,673,334	639,380	286,383	2,026,331	51,259
Total Enterprise Obligations	<u>\$ 1,716,493</u>	<u>\$ 641,232</u>	<u>\$ 307,092</u>	<u>\$ 2,050,633</u>	<u>\$ 53,690</u>
Total General Obligations, Primary Government	<u><u>\$ 2,921,284</u></u>	<u><u>\$ 1,796,853</u></u>	<u><u>\$ 1,420,022</u></u>	<u><u>\$ 3,298,115</u></u>	<u><u>\$ 118,457</u></u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements  
As of June 30, 2007 (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
2008	\$ 41,847	\$ 50,176	\$ 51,259	\$ 95,560
2009	45,066	48,567	54,464	93,245
2010	48,285	46,787	57,742	90,765
2011	48,285	44,886	59,315	88,138
2012	54,723	42,826	64,530	85,345
2013	54,723	40,637	66,267	82,398
2014	57,942	38,347	69,874	79,304
2015	57,942	35,935	71,792	76,053
2016	61,161	33,419	75,590	72,643
2017	64,380	30,735	79,490	69,039
2018	67,599	27,864	83,498	65,224
2019	51,504	25,218	76,934	61,419
2020	51,504	22,900	79,394	57,676
2021	54,723	20,373	83,760	53,693
2022	57,942	17,701	88,258	49,496
2023	61,161	14,991	92,895	45,142
2024	64,380	12,103	97,678	40,544
2025	67,599	8,933	102,613	35,634
2026	70,818	5,472	107,709	30,404
2027	74,037	1,851	112,974	24,917
2028	-	-	75,673	20,231
2029	-	-	79,522	16,382
2030	-	-	83,567	12,337
2031	-	-	87,819	8,085
2032	-	-	98,122	3,616
2033	-	-	2,055	789
2034	-	-	2,122	722
2035	-	-	2,191	653
2036	-	-	2,262	582
2037	-	-	2,335	508
2038	-	-	2,411	433
2039	-	-	2,490	354
2040	-	-	2,570	274
2041	-	-	2,654	190
2042	-	-	2,740	104
2043	-	-	1,762	20
Total	\$ 1,155,621	\$ 569,721	\$ 2,026,331	\$ 1,361,919

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements  
As of June 30, 2007 (Continued)

Note 7—Long-Term Obligations: (Continued)

Long-term obligations at June 30, 2007 are as follows:

	<u>Amount Outstanding</u>
<u>Details of Long-term Indebtedness:</u>	
<u>Details of General Obligation bonds:</u>	
\$1,795,000 2006B revenue bonds issued July 1, 2006, due in various annual installments through August 2026, interest at various rates from 3.65% to 5.00%, loan split between general government and enterprise funds	\$ 1,155,621
Capital lease obligations (see Note 8)	\$ 49,187
Compensated Absences (payable from the General Fund)	\$ 42,674
Total debt incurred by Town	<u>\$ 1,247,482</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	\$ 639,379
\$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%	1,326,532
\$62,500 FHA general obligation bond issued December 30, 2003, due in monthly installments of \$237 through December 2044, interest at 3.25%	60,420
Total general obligation bonds payable	<u>\$ 2,026,331</u>
Compensated Absences (payable from Enterprise Funds)	\$ 24,302
Total enterprise obligations payable	<u>\$ 2,050,633</u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements  
As of June 30, 2007 (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	(37,964)
	\$ 38,842
Total	\$ 38,842

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2007, were as follows:

Year Ended June 30	Governmental Activities
2008	20,985
2009	16,177
2010	11,172
2011	5,721
	\$ 54,055
Total minimum lease payments	\$ 54,055
Less: amount representing interest	(4,868)
	\$ 49,187
Present value of minimum lease payments	\$ 49,187

**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 \$72,499 of the following:

Deferred Property Tax Revenue - Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled \$63,626 at June 30, 2007.

Prepaid Property Taxes - Property taxes due subsequent to June 30, 2007 but paid in advance by the tax payers totaled \$8,873 at June 30, 2007.

**Municipal Corporation of Cape Charles, Virginia**

**Notes to Financial Statements  
As of June 30, 2007 (Continued)**

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***Note 10—Litigation:***

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At June 30, 2007, there were no matters of litigation involving the Town or which would materially affect the Town's financial position should any court decisions on pending matters not be favorable to the Town.

***Note 11—Risk Management:***

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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:***

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**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 with 5 years of service for participating law enforcement officers and firefighters) and at age 50 with 30 years of service for participating employees (age 50 with 25 years of service for participating law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service. 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% per year. AFC is defined as the highest consecutive 36 months of reported compensation.

Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/pdf/2006AnnuRept.pdf> or obtained by writing to the System at P.O. Box 2500, Richmond, VA 23218-2500.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements  
As of June 30, 2007 (Continued)

Note 12 –Defined Benefit Pension Plan: (Continued)

**B. Funding Policy**

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their reported compensation 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 statute and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2007 was 6.66% of annual covered payroll.

**C. Annual Pension Cost**

For fiscal 2007, the Town's annual pension cost of \$61,446 (which does not include the employee's share assumed by the Town of \$46,130) was equal to the Town's required and actual contributions. The required contributions were determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method.

	<u>Town</u>
Valuation date	June 30, 2005
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, open
Payroll growth rate	3%
Remaining amortization period	21 years
Asset valuation method	Modified market
Actuarial assumptions:	
Investment rate of return <sup>1</sup>	7.50%
Projected salary increases: <sup>1</sup>	
Non LEO Employees	3.50% to 5.73%
LEO Employees	3.50% to 4.71%
Cost-of-living adjustments	2.50%
<sup>1</sup> Includes inflation at 2.50%	

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC) (1)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
Town:			
June 30, 2007	\$ 61,446	100%	-
June 30, 2006	35,410	100%	-
June 30, 2005	29,778	100%	-

(1) Employer portion only

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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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
General property taxes	\$ 928,702	\$ 928,702	\$ 1,030,953	\$ 102,251
Other local taxes	459,650	459,650	375,147	(84,503)
Permits, privilege fees, and regulatory licenses	200,000	200,000	94,615	(105,385)
Fines and forfeitures	5,000	5,000	6,343	1,343
Revenue from the use of money and property	40,000	40,000	108,842	68,842
Charges for services	2,000	2,000	6,833	4,833
Miscellaneous	17,238	17,238	23,570	6,332
Recovered costs	-	-	32,500	32,500
Intergovernmental revenues:				
Commonwealth	79,362	79,362	142,383	63,021
Federal	-	-	78,971	78,971
Total revenues	<u>\$ 1,731,952</u>	<u>\$ 1,731,952</u>	<u>\$ 1,900,157</u>	<u>\$ 168,205</u>
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 704,187	\$ 704,187	\$ 697,049	\$ 7,138
Public safety - police department	304,923	304,923	284,778	20,145
Public safety - fire department contribution	-	-	145,158	(145,158)
Public safety - fire department pass thru	-	-	8,000	(8,000)
Public safety - code enforcement	207,095	207,095	187,245	19,850
Public works	329,489	329,489	307,665	21,824
Parks, recreation, and cultural	88,388	88,388	76,495	11,893
Community development	116,797	116,797	118,384	(1,587)
Capital projects	502,500	502,500	232,271	270,229
Debt service:				
Principal retirement	44,495	44,495	8,858	35,637
Interest and other fiscal charges	66,026	66,026	92,365	(26,339)
Total expenditures	<u>\$ 2,363,900</u>	<u>\$ 2,363,900</u>	<u>\$ 2,158,268</u>	<u>\$ 205,632</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (631,948)</u>	<u>\$ (631,948)</u>	<u>\$ (258,111)</u>	<u>\$ 373,837</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 631,948	\$ 631,948	\$ -	\$ (631,948)
Proceeds from indebtedness	-	-	1,155,621	1,155,621
Current refunding of debt	-	-	(1,100,000)	(1,100,000)
Total other financing sources and uses	<u>\$ 631,948</u>	<u>\$ 631,948</u>	<u>\$ 55,621</u>	<u>\$ (576,327)</u>
Net change in fund balances	\$ -	\$ -	\$ (202,490)	\$ (202,490)
Fund balances - beginning	-	-	1,446,504	1,446,504
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,244,014</u>	<u>\$ 1,244,014</u>

Municipal Corporation of Cape Charles, Virginia

Exhibit 11

Schedule of Pension Funding Progress

For the Year Ended June 30, 2007

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						
6/30/2006	\$ 906,574	\$ 861,257	(45,317)	105.26%	\$ 913,935	-4.96%
6/30/2005	789,745	905,643	115,898	87.20%	749,574	15.46%
6/30/2004	713,927	750,693	36,766	95.10%	644,674	5.70%
6/30/2003	642,114	567,357	(74,757)	113.18%	362,452	-20.63%
6/30/2002	577,063	593,758	16,695	97.19%	509,221	3.28%
6/30/2001	517,536	470,524	(47,012)	109.99%	523,593	-8.98%
6/30/2000	426,666	391,976	(34,690)	108.85%	441,784	-7.85%

*OTHER SUPPLEMENTARY INFORMATION*

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*SUPPORTING SCHEDULES*

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**Municipal Corporation of Cape Charles, Virginia**  
**Schedule of Revenues - Budget and Actual**  
**Governmental Funds**  
**For the Year Ended June 30, 2007**

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>
<b>General Fund:</b>				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 839,395	\$ 839,395	\$ 854,386	\$ 14,991
Real and personal public service corporation taxes	-	-	3,550	3,550
Personal property taxes	84,307	84,307	154,466	70,159
Delinquent taxes	-	-	9,353	9,353
Penalties and interest	5,000	5,000	9,198	4,198
Total general property taxes	<u>\$ 928,702</u>	<u>\$ 928,702</u>	<u>\$ 1,030,953</u>	<u>\$ 102,251</u>
Other local taxes:				
Local sales and use taxes	\$ 42,500	\$ 42,500	\$ 41,301	\$ (1,199)
Consumers' utility taxes	85,000	85,000	67,911	(17,089)
Business license taxes	210,000	210,000	84,605	(125,395)
Bank stock tax	-	-	9,710	9,710
Motor vehicle licenses	20,000	20,000	21,021	1,021
Admissions taxes	25,000	25,000	25,154	154
Cable television franchise license tax	-	-	8,579	8,579
Hotel and motel room taxes	10,000	10,000	10,756	756
Restaurant food taxes	67,150	67,150	106,110	38,960
Total other local taxes	<u>\$ 459,650</u>	<u>\$ 459,650</u>	<u>\$ 375,147</u>	<u>\$ (84,503)</u>
Permits, privilege fees, and regulatory licenses:				
Permits and other licenses	\$ 200,000	\$ 200,000	\$ 94,615	\$ (105,385)
Total permits, privilege fees, and regulatory licenses	<u>\$ 200,000</u>	<u>\$ 200,000</u>	<u>\$ 94,615</u>	<u>\$ (105,385)</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 5,000	\$ 5,000	\$ 6,343	\$ 1,343
Total fines and forfeitures	<u>\$ 5,000</u>	<u>\$ 5,000</u>	<u>\$ 6,343</u>	<u>\$ 1,343</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 40,000	\$ 40,000	\$ 108,842	\$ 68,842
Total revenue from use of money and property	<u>\$ 40,000</u>	<u>\$ 40,000</u>	<u>\$ 108,842</u>	<u>\$ 68,842</u>
Charges for services:				
Planning and review fees	\$ -	\$ -	\$ 5,470	\$ 5,470
Grass cutting fees	-	-	6	6
Charges for beach rental items	-	-	385	385
Charges for library	2,000	2,000	972	(1,028)
Total charges for services	<u>\$ 2,000</u>	<u>\$ 2,000</u>	<u>\$ 6,833</u>	<u>\$ 4,833</u>
Miscellaneous revenue:				
Miscellaneous	\$ 6,238	\$ 6,238	\$ 8,503	\$ 2,265
Historical Society contribution	-	-	5,382	5,382
DMV fees	11,000	11,000	9,685	(1,315)
Total miscellaneous revenue	<u>\$ 17,238</u>	<u>\$ 17,238</u>	<u>\$ 23,570</u>	<u>\$ 6,332</u>

**Municipal Corporation of Cape Charles, Virginia**  
**Schedule of Revenues - Budget and Actual**  
**Governmental Funds**  
**For the Year Ended June 30, 2007**

<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>
<b>General Fund: (Continued)</b>				
Recovered costs:				
County contribution for DMV office	\$ -	\$ -	\$ 17,000	\$ 17,000
County contribution for Library	-	-	15,500	15,500
Total recovered costs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,500</u>	<u>\$ 32,500</u>
Total revenue from local sources	<u>\$ 1,652,590</u>	<u>\$ 1,652,590</u>	<u>\$ 1,678,803</u>	<u>\$ 26,213</u>
Revenue from the Commonwealth:				
Noncategorical aid:				
ABC profits	\$ 1,362	\$ 1,362	\$ 665	\$ (697)
Wine taxes	-	-	697	697
Communications tax	-	-	23,198	23,198
Rolling stock tax	-	-	5	5
Personal property tax relief funds	35,000	35,000	36,993	1,993
Total noncategorical aid	<u>\$ 36,362</u>	<u>\$ 36,362</u>	<u>\$ 61,558</u>	<u>\$ 25,196</u>
Categorical aid:				
Litter control	\$ -	\$ -	\$ 884	\$ 884
Fire programs	6,000	6,000	8,000	2,000
Breakwater grant	-	-	34,400	34,400
Arts grant	5,000	5,000	-	(5,000)
Law enforcement grant HB 599	32,000	32,000	33,252	1,252
Ernesto recovery	-	-	1,432	1,432
Local law enforcement block grant	-	-	2,857	2,857
Total other categorical aid	<u>\$ 43,000</u>	<u>\$ 43,000</u>	<u>\$ 80,825</u>	<u>\$ 37,825</u>
Total categorical aid	<u>\$ 43,000</u>	<u>\$ 43,000</u>	<u>\$ 80,825</u>	<u>\$ 37,825</u>
Total revenue from the Commonwealth	<u>\$ 79,362</u>	<u>\$ 79,362</u>	<u>\$ 142,383</u>	<u>\$ 63,021</u>
Revenue from the federal government:				
Categorical aid:				
Tea-21 grant	\$ -	\$ -	\$ 51,226	\$ 51,226
Ernesto recovery	-	-	5,879	5,879
Community development block grant	-	-	21,866	21,866
Total categorical aid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 78,971</u>	<u>\$ 78,971</u>
Total revenue from the federal government	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 78,971</u>	<u>\$ 78,971</u>
Total General Fund	<u>\$ 1,731,952</u>	<u>\$ 1,731,952</u>	<u>\$ 1,900,157</u>	<u>\$ 168,205</u>
<b>Grand Total Revenues -- Primary Government</b>	<u><b>\$ 1,731,952</b></u>	<u><b>\$ 1,731,952</b></u>	<u><b>\$ 1,900,157</b></u>	<u><b>\$ 168,205</b></u>

Municipal Corporation of Cape Charles, Virginia  
 Schedule of Expenditures - Budget and Actual  
 Governmental Funds

Schedule 2  
 Page 1 of 2

For the Year Ended June 30, 2007

<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>
<b>General Fund:</b>				
General government administration:				
General and financial administration:				
Town Manager and financial administration	\$ 567,326	\$ 567,326	\$ 664,480	\$ (97,154)
Division of Motor Vehicles	36,861	36,861	32,569	4,292
Contingency	100,000	100,000	-	100,000
Total general and financial administration	<u>\$ 704,187</u>	<u>\$ 704,187</u>	<u>\$ 697,049</u>	<u>\$ 7,138</u>
Total general government administration	<u>\$ 704,187</u>	<u>\$ 704,187</u>	<u>\$ 697,049</u>	<u>\$ 7,138</u>
Public safety:				
Law enforcement and traffic control:				
Police	\$ 304,923	\$ 304,923	\$ 284,778	\$ 20,145
Total law enforcement and traffic control	<u>\$ 304,923</u>	<u>\$ 304,923</u>	<u>\$ 284,778</u>	<u>\$ 20,145</u>
Fire and rescue services:				
Fire department contribution	\$ -	\$ -	\$ 145,158	\$ (145,158)
Fire department pass-thru	-	-	8,000	(8,000)
Total fire and rescue services	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 153,158</u>	<u>\$ (153,158)</u>
Inspections:				
Code enforcement	\$ 207,095	\$ 207,095	\$ 187,245	\$ 19,850
Total inspections	<u>\$ 207,095</u>	<u>\$ 207,095</u>	<u>\$ 187,245</u>	<u>\$ 19,850</u>
Total public safety	<u>\$ 512,018</u>	<u>\$ 512,018</u>	<u>\$ 625,181</u>	<u>\$ (113,163)</u>
Public works:				
Maintenance of general buildings and grounds:				
General properties	\$ 329,489	\$ 329,489	\$ 307,665	\$ 21,824
Total public works	<u>\$ 329,489</u>	<u>\$ 329,489</u>	<u>\$ 307,665</u>	<u>\$ 21,824</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Community center	\$ 15,405	\$ 15,405	\$ 6,790	\$ 8,615
Total parks and recreation	<u>\$ 15,405</u>	<u>\$ 15,405</u>	<u>\$ 6,790</u>	<u>\$ 8,615</u>
Library:				
Library administration	\$ 72,983	\$ 72,983	\$ 69,705	\$ 3,278
Total library	<u>\$ 72,983</u>	<u>\$ 72,983</u>	<u>\$ 69,705</u>	<u>\$ 3,278</u>
Total parks, recreation, and cultural	<u>\$ 88,388</u>	<u>\$ 88,388</u>	<u>\$ 76,495</u>	<u>\$ 11,893</u>

**Municipal Corporation of Cape Charles, Virginia**  
**Schedule of Expenditures - Budget and Actual**  
**Governmental Funds**  
**For the Year Ended June 30, 2007**

<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>
<b>General Fund:(Continued)</b>				
Community development:				
Planning and community development:				
Planning	\$ 113,203	\$ 113,203	\$ 118,384	\$ (5,181)
Community Development	3,594	3,594	-	3,594
Total planning and community development	<u>\$ 116,797</u>	<u>\$ 116,797</u>	<u>\$ 118,384</u>	<u>\$ (1,587)</u>
Total community development	<u>\$ 116,797</u>	<u>\$ 116,797</u>	<u>\$ 118,384</u>	<u>\$ (1,587)</u>
Capital projects:				
Financial accounting software	\$ 60,000	\$ 60,000	\$ 44,936	\$ 15,064
Energy efficiency at Municipal building	40,000	40,000	12,500	27,500
Copier purchase	-	-	8,912	(8,912)
Beach breakwaters	-	-	70,993	(70,993)
Public works capital items	180,000	180,000	78,577	101,423
Parks and recreation	97,500	97,500	-	97,500
Administrative capital items	125,000	125,000	16,353	108,647
Total capital projects	<u>\$ 502,500</u>	<u>\$ 502,500</u>	<u>\$ 232,271</u>	<u>\$ 270,229</u>
Debt service:				
Principal retirement	\$ 44,495	\$ 44,495	\$ 8,858	\$ 35,637
Bond issuance costs	-	-	59,717	(59,717)
Interest and other fiscal charges	66,026	66,026	32,648	33,378
Total debt service	<u>\$ 110,521</u>	<u>\$ 110,521</u>	<u>\$ 101,223</u>	<u>\$ 9,298</u>
Total General Fund	<u>\$ 2,363,900</u>	<u>\$ 2,363,900</u>	<u>\$ 2,158,268</u>	<u>\$ 205,632</u>
Total Primary Government	<u>\$ 2,363,900</u>	<u>\$ 2,363,900</u>	<u>\$ 2,158,268</u>	<u>\$ 205,632</u>

*OTHER STATISTICAL INFORMATION*

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Table 1

Municipal Corporation of Cape Charles, Virginia  
 Government-Wide Expenses by Function  
 Last Four 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

(1) Information has only been available for four 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 Four Fiscal Years (1)

Fiscal Year	PROGRAM REVENUES				GENERAL REVENUES						Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Miscellaneous	Grants and Contributions Not Restricted to Specific Programs		
2003-04	\$ 1,372,436	\$ 102,215	\$ -	\$ -	\$ 598,294	\$ 423,368	\$ 1,910	\$ -	\$ -	\$ -	\$ 2,498,223
2004-05	2,244,238	132,106	-	-	845,327	446,686	22,335	16,506	35,550	3,742,748	
2005-06	1,531,329	520,850	315,600	878,058	63,439	477,148	108,845	17,141	136,630	3,940,195	
2006-07	1,694,211	159,796	119,511	1,047,903	375,147	23,570	61,558	23,570	61,558	3,590,541	

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

Table 3

Municipal Corporation of Cape Charles, Virginia  
 General Governmental Expenditures by Function (1,2)  
 Last Ten Fiscal Years

Fiscal Year	General Government Administration	Public Safety (3)	Public Works	Parks, Recreation, and Cultural	Community Development	Debt Service	Total
1998	\$ 206,300	\$ 186,727	\$ 101,781	\$ 19,601	\$ 3,414	\$ -	517,823
1999	233,162	264,109	109,578	17,019	1,830	-	625,698
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

(1) Includes General Fund.

(2) Excludes Capital projects expenditures.

(3) 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
1998	\$ 225,333	\$ 179,200	\$ 2,235	\$ 8,679	\$ 9,184	\$ 316	\$ 16,114	\$ -	\$ 132,517	\$ 573,578
1999	229,276	198,785	8,607	6,512	12,483	13,417	15,345	-	69,365	553,790
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

(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
	Levy (1,2)	\$					to Tax Levy	to Tax Levy		
1998	\$ 239,852	\$	228,267	95.17%	\$ 10,639	238,906	99.61%	\$	33,206	13.84%
1999	254,938		245,665	96.36%	10,599	256,264	100.52%		31,808	12.48%
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%

(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	
1998	\$ 42,208,400	\$ 3,976,700	\$ 24,200	\$ 1,060,996	\$ 1,060,996	47,270,296
1999	42,128,300	4,730,300	24,200	1,180,424	1,180,424	48,063,224
2000	53,887,900	4,370,400	21,000	1,287,793	1,287,793	59,567,093
2001	54,343,800	7,626,200	59,920	1,234,419	1,234,419	63,264,339
2002	71,771,400	6,612,100	15,620	1,558,338	1,558,338	79,957,458
2003	80,469,500	7,320,330	15,620	1,815,657	1,815,657	89,621,107
2004	101,456,900	7,663,100	18,120	1,267,559	1,267,559	110,405,679
2005	214,842,500	9,501,400	15,120	1,734,202	1,734,202	226,093,222
2006	248,804,897	9,970,700	27,920	1,649,630	1,649,630	260,453,147
2007	281,671,100	12,756,100	34,320	1,180,071	1,180,071	295,641,591

(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	Real Estate
1998	\$ 0.37	\$ 2.00	\$ 0.37	\$	0.37
1999	0.37	2.00	0.37		0.37
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

(1) Per \$100 of assessed value.

Table 8

**Municipal Corporation of Cape Charles, Virginia**  
**Computation of Legal Debt Margin**  
**At June 30, 2007**

Assessed value of real property, January 1, 2006 (1)	\$ 282,851,171
Debt limit: 10% of assessed value	\$ 28,285,117
Amount of debt applicable to debt limit:	
Gross debt (2)	\$ 3,181,952
Less: Revenue bonds and notes secured by property	-
Net general obligation bonds and loans	\$ 3,181,952
Legal debt limit	\$ 25,103,165

(1) Assessed value of real property, including public service corporations as of January 1, 2006.

(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
1998	1,398	\$ 47,270,296	\$ 1,873,497	3.96%	\$ 1,340
1999	1,398	48,063,224	1,846,152	3.84%	1,321
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

(1) Bureau of Census

(2) From Table 6

(3) Includes all long-term general obligation bonded debt, bonded anticipation notes, and literary fund loans.

Excludes revenue bonds, landfill closure/post-closure care liability, capital leases, and compensated absences.

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*COMPLIANCE SECTION*

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# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

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

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Municipal Corporation of Cape Charles, Virginia, as of and for the year ended June 30, 2007, which collectively comprise the Municipal Corporation of Cape Charles, Virginia's basic financial statements and have issued our report thereon dated May 20, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *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 an opinion on the effectiveness of the Municipal Corporation of Cape Charles, Virginia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipal Corporation of Cape Charles, Virginia's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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 deficiency described below to be a significant deficiency in internal control over reporting.

The Municipal Corporation of Cape Charles, Virginia currently does not have an accounting system in place that allows for the preparation of year-end fund financial statements that are materially correct. The current accounting system does not allow for the proper posting of transactions between funds. In addition, all year-end adjustments to the general ledger were not made at June 30, 2007.

Material auditor proposed adjustments were made to correct the posting of accounts payable, governmental receivables and fixed assets. The Municipal Corporation of Cape Charles, Virginia has purchased a new accounting system for FY08 that should allow for a reconciliation between the audited financial statements and the year-end general ledger for each fund.

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 deficiency referenced above to be a material weakness.

**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*.

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



Richmond, Virginia  
May 20, 2008