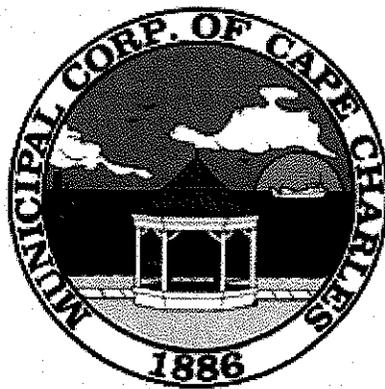
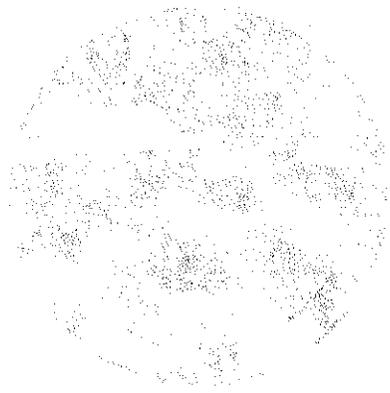


MUNICIPAL CORPORATION  
OF  
CAPE CHARLES, VIRGINIA



ANNUAL FINANCIAL REPORT  
FOR FISCAL YEAR ENDED JUNE 30, 2006

UNITED STATES DEPARTMENT OF AGRICULTURE  
BUREAU OF PLANT INDUSTRY  
WASHINGTON, D. C.



OFFICE OF THE ASSISTANT SECRETARY  
WASHINGTON, D. C.

**MUNICIPAL CORPORATION OF CAPE CHARLES, VIRGINIA**

**ANNUAL FINANCIAL REPORT**

**FISCAL YEAR ENDED JUNE 30, 2006**

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# MUNICIPAL CORPORATION OF CAPE CHARLES, VIRGINIA

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## ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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MUNICIPAL CORPORATION OF CAPE CHARLES, VIRGINIA

ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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CONFIDENTIAL - SECURITY INFORMATION

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CONFIDENTIAL - SECURITY INFORMATION

# 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, 2006, 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.

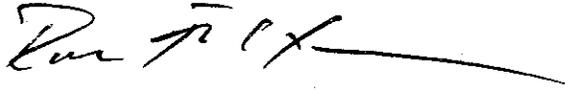
We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, 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, 2006, 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 January 31, 2007, on our consideration of the Municipal Corporation of Cape Charles, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming 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.



Richmond, Virginia  
January 31, 2007

## 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, 2006. Please read it in conjunction with the Town's basic financial statements, which follow this section.

### Financial Highlights

#### Government-wide Financial Statements

- ▶ The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$9,018,162 (net assets).

#### Fund Financial Statements

The Governmental Funds, on a current financial resource basis, reported revenues and other financing sources in excess of expenditures and other uses by \$322,967 (Exhibit 5).

- ▶ As of the close of the current fiscal year; the Town's funds reported an ending fund balance of \$1,446,504, an increase of \$322,967 in comparison with the prior year.
- ▶ The combined long-term obligations increased \$1,072,110 during the current fiscal year.

### Overview of the Financial Statements

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

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

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

---

### Overview of the Financial Statements (Continued)

#### Government-wide financial statements (Continued)

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

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

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

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

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

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

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

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

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

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

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of the Town's financial position. In the case of the Town, assets exceeded liabilities by \$9,012,044 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	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 1,715,674	\$ 1,384,891	\$ 464,486	\$ 617,459	\$ 2,180,160	\$ 2,002,350
Capital assets	3,534,442	2,270,103	6,465,829	5,942,230	10,000,271	8,212,333
<b>Total assets</b>	<b>\$ 5,250,116</b>	<b>\$ 3,654,994</b>	<b>\$ 6,930,315</b>	<b>\$ 6,559,689</b>	<b>\$ 12,180,431</b>	<b>\$ 10,214,683</b>
Current liabilities	\$ 222,494	\$ 225,335	\$ 18,491	\$ 25,111	\$ 240,985	250,446
Long-term liabilities outstanding	1,204,791	65,638	1,716,493	1,783,536	2,921,284	1,849,174
<b>Total liabilities</b>	<b>\$ 1,427,285</b>	<b>\$ 290,973</b>	<b>\$ 1,734,984</b>	<b>\$ 1,808,647</b>	<b>\$ 3,162,269</b>	<b>\$ 2,099,620</b>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	\$ 2,376,397	\$ 2,238,710	\$ 4,771,786	\$ 4,177,534	\$ 7,148,183	6,416,244
Restricted for:						
Debt service	-	-	93,836	93,060	93,836	93,060
Unrestricted	1,446,434	1,125,311	329,709	480,448	1,776,143	1,605,759
<b>Total net assets</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>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Government-wide Financial Analysis (Continued)

During the current fiscal year, the Town's net assets increased by \$903,256. 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	
	2006	2005	2006	2005	2006	2005
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 134,396	\$ 535,637	\$ 1,396,933	\$ 1,708,601	\$ 1,531,329	\$ 2,244,238
Operating grants and contributions	43,094	59,167	477,756	72,939	520,850	132,106
Capital grants and contributions	315,600	-	-	-	315,600	-
General revenues:						
General property taxes	878,050	845,327	-	-	878,050	845,327
Other local taxes	477,148	446,686	-	-	477,148	446,686
Grants and other contributions not restricted	136,630	35,550	-	-	136,630	35,550
Other general revenues	80,573	30,511	7	8,330	80,580	38,841
<b>Total revenues</b>	<b>\$ 2,065,491</b>	<b>\$ 1,952,878</b>	<b>\$ 1,874,696</b>	<b>\$ 1,789,870</b>	<b>\$ 3,940,187</b>	<b>\$ 3,742,748</b>
<b>Expenses:</b>						
General government administration						
	\$ 672,885	\$ 416,358	\$ -	\$ -	\$ 672,885	\$ 416,358
Public safety	479,513	478,635	-	-	479,513	478,635
Public works	311,465	226,675	-	-	311,465	226,675
Parks, recreation, and cultural	49,287	92,160	-	-	49,287	92,160
Community development	71,942	63,820	-	-	71,942	63,820
Interest and other fiscal charges	21,589	765	-	-	21,589	765
Enterprise funds	-	-	1,430,407	1,273,832	1,430,407	1,273,832
<b>Total expenses</b>	<b>\$ 1,606,681</b>	<b>\$ 1,278,413</b>	<b>\$ 1,430,407</b>	<b>\$ 1,273,832</b>	<b>\$ 3,037,088</b>	<b>\$ 2,552,245</b>
Change in net assets	\$ 458,810	\$ 674,465	\$ 444,289	\$ 516,038	\$ 903,099	\$ 1,190,503
Beginning of year	3,364,021	2,689,556	4,751,042	4,235,004	8,115,063	6,924,560
End of year	<u>\$ 3,822,831</u>	<u>\$ 3,364,021</u>	<u>\$ 5,195,331</u>	<u>\$ 4,751,042</u>	<u>\$ 9,018,162</u>	<u>\$ 8,115,063</u>

## 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 \$1,446,504, an increase of \$322,967 in comparison with the prior year. Of the total fund balance, \$1,001,086 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 \$329,709. Net assets increased \$444,289. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town's business-type activities.

### General Fund Budgetary Highlights

During the year, budgetary estimates exceeded actual revenues and other sources by \$2,593,109. Expenditures were less than budgetary estimates by \$3,296,249, resulting in a positive variance of \$703,140.

### Capital Asset and Debt Administration

Capital assets - The Town's investment in capital assets for its governmental operations as of June 30, 2006 amounts to \$3,534,442 (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 bonded debt outstanding of \$2,852,088. Of this amount, \$2,773,334 comprises debt backed by the full faith and credit of the Town. The remainder of the Town's debt represents amounts secured solely by specific property or specified revenue sources (i.e., capital leases and notes payable).

During the current fiscal year, the Town's total debt increased by \$1,055,999.

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 3.1 percent and compares favorably to the national average rate of 4.6 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 2007 fiscal year.

The fiscal year 2007 budget decreased by approximately 52%, primarily due to a decrease in budgeted capital project expenditures, and the tax rates remained the same as in fiscal year 2006.

### 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, 2006**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,760,506	\$ 43,718	\$ 1,804,224
Receivables (net of allowance for uncollectibles):			
Taxes receivable	48,691	-	48,691
Accounts receivable	40,336	135,814	176,150
Other receivable	25,000	-	25,000
Internal balances	(170,122)	170,122	-
Due from other governmental units	11,263	106,157	117,420
Deferred charges	-	8,675	8,675
Capital assets:			
Land	1,791,700	-	1,791,700
Buildings and improvements	545,844	1,466,043	2,011,887
Water and sewer system	-	4,765,680	4,765,680
Machinery and equipment	213,317	187,106	400,423
Construction in progress	983,581	47,000	1,030,581
Total assets	<u>\$ 5,250,116</u>	<u>\$ 6,930,315</u>	<u>\$ 12,180,431</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 197,955	\$ -	\$ 197,955
Accrued liabilities	24,539	9,533	34,072
Amounts held for others	-	8,958	8,958
Long-term liabilities:			
Due within one year	22,958	64,845	87,803
Due in more than one year	1,181,833	1,651,648	2,833,481
Total liabilities	<u>\$ 1,427,285</u>	<u>\$ 1,734,984</u>	<u>\$ 3,162,269</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 2,376,397	\$ 4,771,786	\$ 7,148,183
Restricted for:			
Debt service and bond covenants	-	93,836	93,836
Unrestricted (deficit)	1,446,434	329,709	1,776,143
Total net assets	<u>\$ 3,822,831</u>	<u>\$ 5,195,331</u>	<u>\$ 9,018,162</u>
Total Liabilities and Net Assets	<u>\$ 5,250,116</u>	<u>\$ 6,930,315</u>	<u>\$ 12,180,431</u>

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

UNITED STATES DEPARTMENT OF JUSTICE  
FEDERAL BUREAU OF INVESTIGATION  
WASHINGTON, D. C. 20535

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FROM : SAC, [illegible]

SUBJECT: [illegible]

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Municipal Corporation of Cape Charles, Virginia  
 Statement of Activities  
 For the Year Ended June 30, 2006

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-type Activities
<b>PRIMARY GOVERNMENT:</b>						
Governmental activities:						
General government administration	\$ 672,885	\$ -	\$ -	\$ -	\$ (672,885)	\$ (672,885)
Public safety	479,513	127,314	37,000	-	(315,199)	(315,199)
Public works	311,465	1,094	-	-	(310,371)	(310,371)
Parks, recreation, and cultural	49,287	2,000	5,000	-	(42,287)	(42,287)
Community development	71,942	3,988	1,094	315,600	248,740	248,740
Interest on long-term debt	21,589	-	-	-	(21,589)	(21,589)
Total government activities	\$ 1,606,681	\$ 134,396	\$ 43,094	\$ 315,600	\$ (1,113,591)	\$ (1,113,591)
Business-type activities:						
Enterprise funds	\$ 1,430,407	\$ 1,396,933	\$ 477,756	\$ -	\$ -	\$ 444,282
Total business-type activities	\$ 1,430,407	\$ 1,396,933	\$ 477,756	\$ -	\$ -	\$ 444,282
Total primary government	\$ 3,037,088	\$ 1,531,329	\$ 520,850	\$ 315,600	\$ (1,113,591)	\$ (669,309)
General revenues:						
General property taxes	\$ 878,050				\$ -	\$ 878,050
Other local taxes	477,148				-	477,148
Unrestricted revenues from use of money and property	63,432				7	63,439
Miscellaneous	17,141				-	17,141
Grants and contributions not restricted to specific programs	136,630				-	136,630
Total general revenues	\$ 1,572,401				\$ 7	\$ 1,572,408
Change in net assets	458,810				444,289	903,099
Net assets - beginning, as restated	\$ 3,364,021				\$ 4,751,042	\$ 8,115,063
Net assets - ending	\$ 3,822,831				\$ 5,195,331	\$ 9,018,162

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, 2006**

	<u>General</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,760,506
Receivables (net of allowance for uncollectibles):	
Taxes receivable	48,691
Accounts receivable	40,336
Other receivable	25,000
Due from other funds	331,098
Due from other governmental units	11,263
Total assets	<u>\$ 2,216,894</u>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Accounts payable	\$ 197,955
Accrued liabilities	24,539
Due to other funds	501,220
Deferred revenue	46,676
Total liabilities	<u>\$ 770,390</u>
Fund balances:	
Unreserved, designated for:	
Library	\$ 48,589
Capital appropriations	79,600
CDBG improvements	23,573
Deferred compensation	1,360
Community development	92,296
Contingency	200,000
Unreserved, undesignated reported in:	
General fund	1,001,086
Total fund balances	<u>\$ 1,446,504</u>
Total liabilities and fund balances	<u>\$ 2,216,894</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, 2006**

---

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 1,446,504
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,534,442
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	46,676
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(1,204,791)
Net assets of governmental activities	<u>\$ 3,822,831</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, 2006**

		<u>General</u>
<b>REVENUES</b>		
General property taxes	\$	868,158
Other local taxes		477,148
Permits, privilege fees, and regulatory licenses		120,387
Fines and forfeitures		6,927
Revenue from the use of money and property		63,432
Charges for services		7,082
Miscellaneous		17,141
Recovered costs		32,500
Intergovernmental revenues:		
Commonwealth		403,939
Federal		91,385
Total revenues	\$	<u>2,088,099</u>
<b>EXPENDITURES</b>		
Current:		
General government administration	\$	649,512
Public safety - police department		321,937
Public safety - fire department		6,158
Public safety - code enforcement		162,095
Public works		306,803
Parks, recreation, and cultural		65,316
Community development		70,747
Capital projects		1,286,862
Debt service:		
Principal retirement		8,502
Interest and other fiscal charges		22,354
Total expenditures	\$	<u>2,900,286</u>
Excess (deficiency) of revenues over (under) expenditures	\$	<u>(812,187)</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Proceeds of capital leases	\$	35,154
Proceeds of indebtedness		1,100,000
Total other financing sources (uses)	\$	<u>1,135,154</u>
Net change in fund balances	\$	322,967
Fund balances - beginning		1,123,537
Fund balances - ending	\$	<u>1,446,504</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, 2006**

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

Net change in fund balances - total governmental funds \$ 322,967

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	\$ 1,333,099	
Depreciation expense	<u>(68,760)</u>	1,264,339

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. 9,892

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		(1,126,652)
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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	\$ (12,501)	
Decrease in interest payable	<u>765</u>	(11,736)

Change in net assets of governmental activities \$ 458,810

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, 2006

	<u>Water and Sewer</u>	<u>Harbor</u>	<u>Sanitation</u>	<u>Total</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 1,465	\$ 42,253	\$ -	\$ 43,718
Accounts receivables, net of allowances for uncollectibles	121,275	-	14,539	135,814
Due from other funds	378,901	-	122,319	501,220
Due from other governmental units	47,016	59,141	-	106,157
Deferred charges	8,675	-	-	8,675
Total current assets	<u>\$ 557,332</u>	<u>\$ 101,394</u>	<u>\$ 136,858</u>	<u>\$ 795,584</u>
Noncurrent assets:				
Capital assets:				
Water and sewer system	\$ 4,765,680	\$ -	\$ -	\$ 4,765,680
Improvements other than buildings	-	1,466,043	-	1,466,043
Machinery and equipment	77,473	105,407	4,226	187,106
Construction in progress	47,000	-	-	47,000
Total capital assets	<u>\$ 4,890,153</u>	<u>\$ 1,571,450</u>	<u>\$ 4,226</u>	<u>\$ 6,465,829</u>
Total noncurrent assets	<u>\$ 4,890,153</u>	<u>\$ 1,571,450</u>	<u>\$ 4,226</u>	<u>\$ 6,465,829</u>
Total assets	<u>\$ 5,447,485</u>	<u>\$ 1,672,844</u>	<u>\$ 141,084</u>	<u>\$ 7,261,413</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accrued liabilities	\$ 7,149	\$ 2,384	\$ -	\$ 9,533
Due to other funds	-	331,098	-	331,098
Compensated absences	1,958	287	-	2,245
Amounts held for others	6,152	2,806	-	8,958
Note payable - current portion	-	20,709	-	20,709
Bonds payable - current portion	41,891	-	-	41,891
Total current liabilities	<u>\$ 57,150</u>	<u>\$ 357,284</u>	<u>\$ -</u>	<u>\$ 414,434</u>
Noncurrent liabilities:				
Bonds payable - net of current portion	\$ 1,631,443	\$ -	\$ -	\$ 1,631,443
Compensated absences	17,623	2,582	-	20,205
Total noncurrent liabilities	<u>\$ 1,649,066</u>	<u>\$ 2,582</u>	<u>\$ -</u>	<u>\$ 1,651,648</u>
Total liabilities	<u>\$ 1,706,216</u>	<u>\$ 359,866</u>	<u>\$ -</u>	<u>\$ 2,066,082</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 3,216,819	\$ 1,550,741	\$ 4,226	\$ 4,771,786
Restricted for debt service and bond covenants	93,836	-	-	93,836
Unrestricted	430,614	(237,763)	136,858	329,709
Total net assets	<u>\$ 3,741,269</u>	<u>\$ 1,312,978</u>	<u>\$ 141,084</u>	<u>\$ 5,195,331</u>

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

**Municipal Corporation of Cape Charles, Virginia**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2006**

	<u>Water and Sewer</u>	<u>Harbor</u>	<u>Sanitation</u>	<u>Total</u>
<b>OPERATING REVENUES</b>				
Charges for services:				
Water	\$ 363,490	\$ -	\$ -	\$ 363,490
Sewer	366,613	-	-	366,613
Harbor fees	-	131,123	-	131,123
Penalties	25,075	-	-	25,075
Refuse collection	-	-	147,395	147,395
Fuel sales	-	259,010	-	259,010
Tap fees	101,180	-	-	101,180
Miscellaneous	851	2,196	-	3,047
Total operating revenues	<u>\$ 857,209</u>	<u>\$ 392,329</u>	<u>\$ 147,395</u>	<u>\$ 1,396,933</u>
<b>OPERATING EXPENSES</b>				
Personal services	\$ 247,732	\$ 64,858	\$ 9,313	\$ 321,903
Fringe benefits	81,971	13,429	3,532	98,932
Contractual services	28,184	12,036	97,472	137,692
Other supplies and expenses	226,378	265,744	32,919	525,041
Depreciation and amortization	171,180	81,253	590	253,023
Total operating expenses	<u>\$ 755,445</u>	<u>\$ 437,320</u>	<u>\$ 143,826</u>	<u>\$ 1,336,591</u>
Operating income (loss)	<u>\$ 101,764</u>	<u>\$ (44,991)</u>	<u>\$ 3,569</u>	<u>\$ 60,342</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Intergovernmental revenue	\$ 177,756	\$ 300,000	\$ -	\$ 477,756
Investment earnings	7	-	-	7
Amortization of bond issuance costs	(755)	-	-	(755)
Interest and fiscal charges	(91,155)	(1,906)	-	(93,061)
Total nonoperating revenues (expenses)	<u>\$ 85,853</u>	<u>\$ 298,094</u>	<u>\$ -</u>	<u>\$ 383,947</u>
Change in net assets	<u>\$ 187,617</u>	<u>\$ 253,103</u>	<u>\$ 3,569</u>	<u>\$ 444,289</u>
Total net assets - beginning	3,553,652	1,059,875	137,515	4,751,042
Total net assets - ending	<u>\$ 3,741,269</u>	<u>\$ 1,312,978</u>	<u>\$ 141,084</u>	<u>\$ 5,195,331</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, 2006**

	<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	\$ 836,962	\$ 392,565	\$ 144,331	\$ 1,373,858
Payments for operating expenses	(265,239)	(277,780)	(130,054)	(673,073)
Payments to employees	(327,790)	(75,689)	(13,746)	(417,225)
Net cash provided (used by) operating activities	<u>\$ 243,933</u>	<u>\$ 39,096</u>	<u>\$ 531</u>	<u>\$ 283,560</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers to other funds	\$ 169,139	\$ 481,298	\$ -	\$ 650,437
Transfers from other funds	(378,901)	-	(531)	(379,432)
Intergovernmental revenue	130,740	240,859	-	371,599
Net cash provided (used) by noncapital financing activities	<u>\$ (79,022)</u>	<u>\$ 722,157</u>	<u>\$ (531)</u>	<u>\$ 642,604</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Additions to capital assets	\$ (33,103)	\$ (732,463)	\$ -	\$ (765,566)
Principal payments on bonds and capital leases	(40,653)	(30,000)	-	(70,653)
Interest payments	(91,155)	(1,906)	-	(93,061)
Net cash provided (used) by capital and related financing activities	<u>\$ (164,911)</u>	<u>\$ (764,369)</u>	<u>\$ -</u>	<u>\$ (929,280)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest and dividends received	\$ 7	\$ -	\$ -	\$ 7
Net cash provided (used) by investing activities	<u>\$ 7</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7</u>
Net increase (decrease) in cash and cash equivalents	\$ 7	\$ (3,116)	\$ -	\$ (3,109)
Cash and cash equivalents - beginning	1,458	45,369	-	46,827
Cash and cash equivalents - ending	<u>\$ 1,465</u>	<u>\$ 42,253</u>	<u>\$ -</u>	<u>\$ 43,718</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>				
Operating income (loss)	\$ 101,764	\$ (44,991)	\$ 3,569	\$ 60,342
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	\$ 171,180	\$ 81,253	\$ 590	\$ 253,023
(Increase) decrease in accounts receivable	(22,888)	-	(3,064)	(25,952)
Increase (decrease) in customer deposits	2,641	236	-	2,877
Increase (decrease) in accounts payable	(10,677)	-	337	(10,340)
Increase (decrease) compensated absence liability	1,913	2,598	(901)	3,610
Total adjustments	<u>\$ 142,169</u>	<u>\$ 84,087</u>	<u>\$ (3,038)</u>	<u>\$ 223,218</u>
Net cash provided (used) by operating activities	<u>\$ 243,933</u>	<u>\$ 39,096</u>	<u>\$ 531</u>	<u>\$ 283,560</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, 2006

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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 and fire 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 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, 2006 (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 new reporting model, governments will continue to provide budgetary comparison information in their annual reports. An important change, however, is a requirement to add the government's original budget to the current 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, 2006 (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, 2006.

*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.

**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 of primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time other 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, 2006 (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 value 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 either "due to/from other funds" (i.e. the current portions of the interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due 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 \$27,101 and \$26,888, respectively at June 30, 2006.

**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, 2006 (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 Government 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 general 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, 2006 (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 obligation 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, 2006.

**Municipal Corporation of Cape Charles, Virginia**

**Notes to Financial Statements  
As of June 30, 2006 (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, 2006 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.

**Municipal Corporation of Cape Charles Rated Debt Investments' Values**

<u>Rated Debt Investments</u>	<u>Fair Quality Ratings</u>	
	<u>AAA</u>	<u>AAAm</u>
Local Government Investment Pool	\$ -	\$ 1,400,804
First American Prime Obligations Fund	176,700	-
Total	\$ 176,700	\$ 1,400,804

**Interest Rate Risk**

**Investment Maturities (in years)**

<u>Investment Type</u>	<u>Investment Maturities (in years)</u>	
	<u>Fair Value</u>	<u>Less Than 1 Year</u>
First American Prime Obligations Fund	\$ 176,700	\$ 176,700
Total	\$ 176,700	\$ 176,700

**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, 2006 (Continued)

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

At June 30, 2006, the Town has receivables from other governments as follows:

	<u>Governmental Fund</u>	<u>Enterprise Fund</u>
Other Local Governments:		
County of Northampton	\$ 8,892	\$ -
Commonwealth of Virginia:		
DMV	999	-
Rolling stock tax	11	-
ABC profits and wine tax	1,361	-
Virginia Port Authority	-	59,141
Federal Government:		
Rural development	-	47,016
Total due from other governments	<u>\$ 11,263</u>	<u>\$ 106,157</u>

**Note 5—Inter-fund Obligations:**

	<u>Inter-fund Receivables</u>	<u>Inter-fund Payables</u>
General Fund	\$ 331,098	\$ 501,220
Water and Sewer Fund	378,901	-
Harbor Fund	-	331,098
Sanitation Fund	122,319	-
	<u>832,318</u>	<u>832,318</u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements  
As of June 30, 2006 (Continued)

**Note 6—Capital Assets:**

The following is a summary of changes in capital assets for the fiscal year ending June 30, 2006:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets not subject to depreciation:				
Construction in progress	\$ 190,655	\$ 983,581	\$ 190,655	\$ 983,581
Land and land improvements	1,791,700	-	-	1,791,700
<b>Total capital assets not subject to depreciation</b>	<b>\$ 1,982,355</b>	<b>\$ 983,581</b>	<b>\$ 190,655</b>	<b>\$ 2,775,281</b>
Capital assets subject to depreciation:				
Buildings and improvements	\$ 1,135,269	\$ 429,306	\$ -	\$ 1,564,575
Equipment	563,453	110,867	2,000	672,320
<b>Total capital assets subject to depreciation</b>	<b>\$ 1,698,722</b>	<b>\$ 540,173</b>	<b>\$ 2,000</b>	<b>\$ 2,236,895</b>
Less accumulated depreciation for:				
Buildings and improvements	\$ 1,002,635	\$ 16,096	\$ -	\$ 1,018,731
Equipment	408,339	52,664	2,000	459,003
<b>Total accumulated depreciation</b>	<b>\$ 1,410,974</b>	<b>\$ 68,760</b>	<b>\$ 2,000</b>	<b>\$ 1,477,734</b>
<b>Total capital assets subject to depreciation, net</b>	<b>\$ 287,748</b>	<b>\$ 471,413</b>	<b>\$ -</b>	<b>\$ 759,161</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 2,270,103</b>	<b>1,454,994</b>	<b>190,655</b>	<b>3,534,442</b>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements  
As of June 30, 2006 (Continued)

Note 6—Capital Assets: (Continued)

Business-Type Activities:	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
<b>Enterprise Funds:</b>				
Capital assets not subject to depreciation:				
Construction in progress	\$ 59,175	\$ 47,000	\$ 59,175	\$ 47,000
Capital assets subject to depreciation:				
Buildings and improvements	\$ 9,949,611	\$ 668,776	\$ -	\$ 10,618,387
Equipment	336,105	120,021	21,868	434,258
Total capital assets subject to depreciation	\$ 10,285,716	\$ 788,797	\$ 21,868	\$ 11,052,645
Less accumulated depreciation for:				
Buildings and improvements	\$ 4,155,402	\$ 231,263	\$ -	\$ 4,386,665
Equipment	247,259	21,760	21,868	247,151
Total accumulated depreciation	\$ 4,402,661	\$ 253,023	\$ 21,868	\$ 4,633,816
Total capital assets subject to depreciation, net	\$ 5,883,055	\$ 535,774	\$ -	\$ 6,418,829
Enterprise capital assets, net	<u>\$ 5,942,230</u>	<u>582,774</u>	<u>59,175</u>	<u>6,465,829</u>

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

Governmental activities:

General government	\$ 16,244
Public safety	21,708
Public works	12,886
Parks, recreation and cultural	17,765
Total Governmental activities	<u>\$ 68,603</u>

Business-type activities:

Water and Sewer	\$ 171,180
Harbor	81,253
Sanitation	590
Total Business-type activities	<u>\$ 253,023</u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements  
As of June 30, 2006 (Continued)

**Note 7—Long Term Obligations:**

Annual requirements to amortize long-term obligations and related interest are as follows:

	Amounts Payable at July 1, 2005	Increases	Decreases	Amounts Payable at June 30, 2006	Amounts Due Within One Year
<b>Governmental Obligations:</b>					
Incurred by Town:					
Compensated absences payable	\$ 34,245	\$ 15,926	\$ 3,425	\$ 46,746	\$ 4,675
General obligation note	-	1,100,000	-	1,100,000	-
Capital lease obligations	31,393	35,154	8,502	58,045	18,283
<b>Total incurred by Town</b>	<b>\$ 65,638</b>	<b>\$ 1,151,080</b>	<b>\$ 11,927</b>	<b>\$ 1,204,791</b>	<b>\$ 22,958</b>
<b>Total Governmental Obligations</b>	<b>\$ 65,638</b>	<b>\$ 1,151,080</b>	<b>\$ 11,927</b>	<b>\$ 1,204,791</b>	<b>\$ 22,958</b>
Incurred by Enterprise Funds:					
Compensated absences payable	\$ 18,840	\$ 5,494	\$ 1,884	\$ 22,450	\$ 2,245
Note payable	50,709	-	30,000	20,709	20,709
General obligation bonds	1,713,987	-	40,653	1,673,334	41,891
<b>Total Enterprise Obligations</b>	<b>\$ 1,783,536</b>	<b>\$ 5,494</b>	<b>\$ 72,537</b>	<b>\$ 1,716,493</b>	<b>\$ 64,845</b>
<b>Total General Obligations, Primary Government</b>	<b>\$ 1,849,174</b>	<b>\$ 1,156,574</b>	<b>\$ 84,464</b>	<b>\$ 2,921,284</b>	<b>\$ 87,803</b>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements  
As of June 30, 2006 (Continued)

Note 7—Long-Term Obligations: (Continued)

Year Ending June 30	Governmental Obligations		Enterprise Obligations			
	General Obligation Note		Note Payable		General Obligation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ -	\$ -	\$ 20,709	\$ 369	\$ 41,891	\$ 88,192
2008	-	-	-	-	43,251	85,903
2009	-	-	-	-	48,430	83,357
2010	-	-	-	-	51,182	80,459
2011	-	-	-	-	52,760	77,392
2012	-	-	-	-	58,171	74,235
2013	-	-	-	-	61,160	70,713
2014	-	-	-	-	62,991	67,007
2015	-	-	-	-	68,662	63,208
2016	-	-	-	-	71,937	59,030
2017	-	-	-	-	74,062	54,655
2018	-	-	-	-	54,624	50,173
2019	-	-	-	-	48,640	47,264
2020	-	-	-	-	51,105	44,798
2021	-	-	-	-	53,696	42,208
2022	-	-	-	-	56,418	39,486
2023	-	-	-	-	59,279	36,625
2024	-	-	-	-	62,285	33,618
2025	-	-	-	-	65,444	30,459
2026	-	-	-	-	68,764	27,139
2027	1,100,000	-	-	-	72,253	23,650
2028	-	-	-	-	75,920	19,984
2029	-	-	-	-	79,772	16,131
2030	-	-	-	-	83,822	12,082
2031	-	-	-	-	88,077	7,827
2032	-	-	-	-	92,400	3,354
2033	-	-	-	-	2,018	826
2034	-	-	-	-	2,085	759
2035	-	-	-	-	2,153	691
2036	-	-	-	-	2,224	619
2037	-	-	-	-	2,298	546
2038	-	-	-	-	2,374	470
2039	-	-	-	-	2,452	392
2040	-	-	-	-	2,533	311
2041	-	-	-	-	2,616	228
2042	-	-	-	-	2,703	141
2043	-	-	-	-	2,882	52
Total	\$ 1,100,000	\$ -	\$ 20,709	\$ 369	\$ 1,673,334	\$ 1,243,984

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements  
As of June 30, 2006 (Continued)

Note 7—Long-Term Obligations: (Continued)

	<u>Amount Outstanding</u>
<u>Details of Long-term Indebtedness:</u>	
<u>Details of General Obligation Note:</u>	
\$1,100,000 general obligation note issued January 18, 2006, entire principal and any accrued interest due on December 31, 2026, interest rate variable	\$ <u>1,100,000</u>
Capital lease obligations (see Note 7)	\$ <u>58,045</u>
Compensated Absences (payable from the General Fund)	\$ <u>46,746</u>
Total debt incurred by Town	\$ <u><u>1,204,791</u></u>
<u>Enterprise Funds:</u>	
<u>Details of general obligation bonds:</u>	
\$400,000 VRA general obligation bond issued May 1, 1989, due in varying annual installments through March 2018, interest at various rates from 7.15% to 7.50% payable semi-annually	\$ 259,583
\$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%	1,352,551
\$62,500 FHA general obligation bond issued December 30, 2003, due in monthly installments of \$237 through December 2044, interest at 3.25%	<u>61,200</u>
Total general obligation bonds payable	\$ <u>1,673,334</u>
<u>Details of notes payable:</u>	
\$125,000 bank note payable issued issued October 24, 2002, due in monthly installments of \$2,500 plus interest through March 2007, interest at 4.60%	\$ <u>20,709</u>
Compensated Absences (payable from Enterprise Funds)	\$ <u>22,450</u>
Total enterprise obligations payable	\$ <u><u>1,716,493</u></u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements  
As of June 30, 2006 (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	(22,600)
Total	<u>\$ 54,206</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2006, were as follows:

Year Ended June 30	Governmental Activities
2007	20,986
2008	20,987
2009	16,176
2010	5,721
Total minimum lease payments	\$ 63,870
Less: amount representing interest	(5,825)
Present value of minimum lease payments	<u>\$ 58,045</u>

**Note 9—Deferred Revenue:**

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Deferred revenue totaling \$46,676 is comprised of the following:

Deferred Property Tax Revenue - Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled \$46,676 at June 30, 2006.

**Municipal Corporation of Cape Charles, Virginia**

**Notes to Financial Statements  
As of June 30, 2006 (Continued)**

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***Note 10—Litigation:***

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At June 30, 2006, 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/2005AnnuRept.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, 2006 (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 2006 was 4% of annual covered payroll.

**C. Annual Pension Cost**

For fiscal 2006, the Town's annual pension cost of \$35,410 was equal to the Town's required and actual contributions. The required contributions were determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method.

	<u>Town</u>
Valuation date	June 30, 2003
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, open
Payroll growth rate	3%
Remaining amortization period	9 years
Asset valuation method	Modified market
Actuarial assumptions:	
Investment rate of return <sup>1</sup>	8.00%
Projected salary increases: <sup>1</sup>	
Non LEO Employees	4.25% to 6.10%
Cost-of-living adjustments	3.0%
<sup>1</sup> Includes inflation at 3%	

Fiscal Year Ending	Annual Pension Cost (APC) (1)	Percentage of APC Contributed	Net Pension Obligation
Town:			
June 30, 2006	\$ 35,410	100%	-
June 30, 2005	29,778	100%	-
June 30, 2004	30,981	100%	-

(1) Employer portion only

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements  
As of June 30, 2006 (Continued)

**Note 13 – Commitments and Contingent Liabilities:**

At June 30, 2006, the Town had the following construction contracts outstanding:

	<u>Project</u>	<u>Contractor</u>	<u>Balance at June 30, 2006</u>
Primary Government	Breakwater & Beach Fill Project	Coastal Design & Construction	\$ 69,356

**Note 14 – Subsequent Events:**

The Town issued a \$1,795,000 general obligation public improvement bond on July 18, 2006 to refund the \$1,100,000 general obligation note and fund additional capital projects. Adjustments to the current year financial statements deemed unnecessary.

**Note 15 – Adjustment to Beginning Net Assets:**

The following adjustments were made to beginning net assets:

Net assets as previously reported	\$ 3,357,746
Add: additional capital assets for fishing pier	<u>6,275</u>
Net assets as restated	<u><u>\$ 3,364,021</u></u>

**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, 2006**

	<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	\$ 828,000	\$ 828,000	\$ 868,158	\$ 40,158
Other local taxes	424,500	424,500	477,148	52,648
Permits, privilege fees, and regulatory licenses	456,200	456,200	120,387	(335,813)
Fines and forfeitures	-	-	6,927	6,927
Revenue from the use of money and property	-	-	63,432	63,432
Charges for services	33,400	33,400	7,082	(26,318)
Miscellaneous	11,000	11,000	17,141	6,141
Recovered costs	-	-	32,500	32,500
Intergovernmental revenues:				
Commonwealth	138,262	138,262	403,939	265,677
Federal	-	-	91,385	91,385
Total revenues	<u>\$ 1,891,362</u>	<u>\$ 1,891,362</u>	<u>\$ 2,088,099</u>	<u>\$ 196,737</u>
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 913,815	\$ 913,815	\$ 649,512	\$ 264,303
Public safety - police department	313,330	313,330	321,937	(8,607)
Public safety - fire department	6,000	6,000	6,158	(158)
Public safety - code enforcement	186,131	186,131	162,095	24,036
Public works	326,324	326,324	306,803	19,521
Parks, recreation, and cultural	97,223	97,223	65,316	31,907
Community development	178,274	178,274	70,747	107,527
Capital projects	4,065,000	4,065,000	1,286,862	2,778,138
Debt service:				
Principal retirement	8,502	8,502	8,502	-
Interest and other fiscal charges	101,936	101,936	22,354	79,582
Total expenditures	<u>\$ 6,196,535</u>	<u>\$ 6,196,535</u>	<u>\$ 2,900,286</u>	<u>\$ 3,296,249</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (4,305,173)</u>	<u>\$ (4,305,173)</u>	<u>\$ (812,187)</u>	<u>\$ 3,492,986</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of capital leases	\$ -	\$ -	\$ 35,154	\$ 35,154
Proceeds from indebtedness	3,925,000	3,925,000	1,100,000	(2,825,000)
Total other financing sources and uses	<u>\$ 3,925,000</u>	<u>\$ 3,925,000</u>	<u>\$ 1,135,154</u>	<u>\$ (2,789,846)</u>
Net change in fund balances	\$ (380,173)	\$ (380,173)	\$ 322,967	\$ 703,140
Fund balances - beginning	380,173	380,173	1,123,537	743,364
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,446,504</u>	<u>\$ 1,446,504</u>

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

**Exhibit 11**

**For the Year Ended June 30, 2006**

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded (Excess Funded) Actuarial Liability	Funded Ratio	Annual Covered Payroll	UAAL as % of Payroll
Town						
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, 2006**

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	\$ 719,000	\$ 719,000	\$ 731,652	\$ 12,652
Real and personal public service corporation taxes	-	-	4,962	4,962
Personal property taxes	99,000	99,000	103,334	4,334
Delinquent taxes	-	-	14,902	14,902
Penalties and interest	10,000	10,000	13,308	3,308
Total general property taxes	<u>\$ 828,000</u>	<u>\$ 828,000</u>	<u>\$ 868,158</u>	<u>\$ 40,158</u>
Other local taxes:				
Local sales and use taxes	\$ 40,000	\$ 40,000	\$ 43,480	\$ 3,480
Consumers' utility taxes	85,000	85,000	87,493	2,493
Business license taxes	180,000	180,000	188,563	8,563
Bank stock tax	-	-	11,378	11,378
Motor vehicle licenses	18,000	18,000	21,258	3,258
Admissions taxes	20,000	20,000	24,482	4,482
Cable television franchise license tax	-	-	9,063	9,063
Hotel and motel room taxes	5,000	5,000	8,779	3,779
Restaurant food taxes	75,000	75,000	80,738	5,738
Gas taxes	1,500	1,500	1,914	414
Total other local taxes	<u>\$ 424,500</u>	<u>\$ 424,500</u>	<u>\$ 477,148</u>	<u>\$ 52,648</u>
Permits, privilege fees, and regulatory licenses:				
Permits and other licenses	\$ 456,200	\$ 456,200	\$ 120,387	\$ (335,813)
Total permits, privilege fees, and regulatory licenses	<u>\$ 456,200</u>	<u>\$ 456,200</u>	<u>\$ 120,387</u>	<u>\$ (335,813)</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ -	\$ -	\$ 6,927	\$ 6,927
Total fines and forfeitures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,927</u>	<u>\$ 6,927</u>
Revenue from use of money and property:				
Revenue from use of money	\$ -	\$ -	\$ 63,432	\$ 63,432
Total revenue from use of money and property	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63,432</u>	<u>\$ 63,432</u>
Charges for services:				
Planning and review fees	\$ 30,900	\$ 30,900	\$ 3,988	\$ (26,912)
Housing loan repayments	-	-	1,094	1,094
Charges for library	2,500	2,500	2,000	(500)
Total charges for services	<u>\$ 33,400</u>	<u>\$ 33,400</u>	<u>\$ 7,082</u>	<u>\$ (26,318)</u>
Miscellaneous revenue:				
Miscellaneous	\$ -	\$ -	\$ 6,134	\$ 6,134
DMV fees	11,000	11,000	11,007	7
Total miscellaneous revenue	<u>\$ 11,000</u>	<u>\$ 11,000</u>	<u>\$ 17,141</u>	<u>\$ 6,141</u>
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>\$ 1,753,100</u>	<u>\$ 1,753,100</u>	<u>\$ 1,592,775</u>	<u>\$ (160,325)</u>

**Municipal Corporation of Cape Charles, Virginia**  
**Schedule of Revenues - Budget and Actual**  
**Governmental Funds**  
**For the Year Ended June 30, 2006**

<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>				
Revenue from the Commonwealth:				
Noncategorical aid:				
ABC profits	\$ 635	\$ 635	\$ 665	\$ 30
Wine taxes	665	665	697	32
Rolling stock tax	-	-	11	11
Personal property tax relief funds	30,000	30,000	43,872	13,872
Total noncategorical aid	<u>\$ 31,300</u>	<u>\$ 31,300</u>	<u>\$ 45,245</u>	<u>\$ 13,945</u>
Categorical aid:				
Litter control	\$ 106,962	\$ 106,962	\$ 1,094	\$ (105,868)
Fire programs	-	-	6,000	6,000
Breakwater grant	-	-	15,600	15,600
Fishing pier grant	-	-	300,000	300,000
Law enforcement grant	-	-	31,000	31,000
Arts grant	-	-	5,000	5,000
Total other categorical aid	<u>\$ 106,962</u>	<u>\$ 106,962</u>	<u>\$ 358,694</u>	<u>\$ 251,732</u>
Total categorical aid	<u>\$ 106,962</u>	<u>\$ 106,962</u>	<u>\$ 358,694</u>	<u>\$ 251,732</u>
Total revenue from the Commonwealth	<u>\$ 138,262</u>	<u>\$ 138,262</u>	<u>\$ 403,939</u>	<u>\$ 265,677</u>
Revenue from the federal government:				
Categorical aid:				
Gateway grant	\$ -	\$ -	\$ 3,267	\$ 3,267
Local law enforcement block grant	-	-	2,454	2,454
NOAA Coastal program	-	-	50,000	50,000
Tea-21 grant	-	-	28,530	28,530
Community development block grant	-	-	7,134	7,134
Total categorical aid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 91,385</u>	<u>\$ 91,385</u>
Total revenue from the federal government	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 91,385</u>	<u>\$ 91,385</u>
Total General Fund	<u>\$ 1,891,362</u>	<u>\$ 1,891,362</u>	<u>\$ 2,088,099</u>	<u>\$ 196,737</u>
<b>Grand Total Revenues -- Primary Government</b>	<u>\$ 1,891,362</u>	<u>\$ 1,891,362</u>	<u>\$ 2,088,099</u>	<u>\$ 196,737</u>

**Municipal Corporation of Cape Charles, Virginia**  
**Schedule of Expenditures - Budget and Actual**  
**Governmental Funds**  
**For the Year Ended June 30, 2006**

<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	\$ 677,155	\$ 677,155	\$ 617,550	\$ 59,605
Division of Motor Vehicles	36,660	36,660	31,962	4,698
Contingency	200,000	200,000	-	200,000
Total general and financial administration	<u>\$ 913,815</u>	<u>\$ 913,815</u>	<u>\$ 649,512</u>	<u>\$ 264,303</u>
Total general government administration	<u>\$ 913,815</u>	<u>\$ 913,815</u>	<u>\$ 649,512</u>	<u>\$ 264,303</u>
Public safety:				
Law enforcement and traffic control:				
Police	\$ 313,330	\$ 313,330	\$ 321,937	\$ (8,607)
Total law enforcement and traffic control	<u>\$ 313,330</u>	<u>\$ 313,330</u>	<u>\$ 321,937</u>	<u>\$ (8,607)</u>
Fire and rescue services:				
Fire department	\$ 6,000	\$ 6,000	\$ 6,158	\$ (158)
Total fire and rescue services	<u>\$ 6,000</u>	<u>\$ 6,000</u>	<u>\$ 6,158</u>	<u>\$ (158)</u>
Inspections:				
Code enforcement	\$ 186,131	\$ 186,131	\$ 162,095	\$ 24,036
Total inspections	<u>\$ 186,131</u>	<u>\$ 186,131</u>	<u>\$ 162,095</u>	<u>\$ 24,036</u>
Total public safety	<u>\$ 505,461</u>	<u>\$ 505,461</u>	<u>\$ 490,190</u>	<u>\$ 15,271</u>
Public works:				
Maintenance of general buildings and grounds:				
General properties	\$ 326,324	\$ 326,324	\$ 306,803	\$ 19,521
Total public works	<u>\$ 326,324</u>	<u>\$ 326,324</u>	<u>\$ 306,803</u>	<u>\$ 19,521</u>
Parks, recreation, and cultural:				
Library:				
Library administration	\$ 97,223	\$ 97,223	\$ 65,316	\$ 31,907
Total library	<u>\$ 97,223</u>	<u>\$ 97,223</u>	<u>\$ 65,316</u>	<u>\$ 31,907</u>
Total parks, recreation, and cultural	<u>\$ 97,223</u>	<u>\$ 97,223</u>	<u>\$ 65,316</u>	<u>\$ 31,907</u>

**Municipal Corporation of Cape Charles, Virginia**  
**Schedule of Expenditures - Budget and Actual**  
**Governmental Funds**  
**For the Year Ended June 30, 2006**

<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	\$ 78,274	\$ 78,274	\$ 70,747	\$ 7,527
Community Development	100,000	100,000	-	100,000
Total planning and community development	<u>\$ 178,274</u>	<u>\$ 178,274</u>	<u>\$ 70,747</u>	<u>\$ 107,527</u>
Total community development	<u>\$ 178,274</u>	<u>\$ 178,274</u>	<u>\$ 70,747</u>	<u>\$ 107,527</u>
Capital projects:				
Downtown parking facility	\$ 700,000	\$ 700,000	\$ -	\$ 700,000
Fishing pier	-	-	220,541	(220,541)
Library addition	300,000	300,000	-	300,000
Beach breakwaters	800,000	800,000	983,581	(183,581)
Public works capital items	30,000	30,000	59,944	(29,944)
Renovation of Municipal building	2,000,000	2,000,000	-	2,000,000
Administrative capital items	235,000	235,000	22,796	212,204
Total capital projects	<u>\$ 4,065,000</u>	<u>\$ 4,065,000</u>	<u>\$ 1,286,862</u>	<u>\$ 2,778,138</u>
Debt service:				
Principal retirement	\$ 8,502	\$ 8,502	\$ 8,502	\$ -
Interest and other fiscal charges	101,936	101,936	22,354	79,582
Total debt service	<u>\$ 110,438</u>	<u>\$ 110,438</u>	<u>\$ 30,856</u>	<u>\$ 79,582</u>
Total General Fund	<u>\$ 6,196,535</u>	<u>\$ 6,196,535</u>	<u>\$ 2,900,286</u>	<u>\$ 3,296,249</u>
Total Primary Government	<u>\$ 6,196,535</u>	<u>\$ 6,196,535</u>	<u>\$ 2,900,286</u>	<u>\$ 3,296,249</u>

**OTHER STATISTICAL INFORMATION**

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Table 1

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

Fiscal Year	General Government Administration	Public Safety (2)	Public Works	Parks, Recreation, and Cultural	Community Development	Interest on Long-Term Debt	Enterprise Funds	Total
2003-04	\$ 401,153	\$ 327,616	\$ 236,981	\$ 39,179	\$ 105,111	-	\$ 1,110,996	\$ 2,221,036
2004-05	416,358	478,635	226,675	98,435	63,820	765	1,248,707	2,533,395
2005-06	672,885	479,513	311,465	49,130	71,942	21,589	1,430,407	3,036,931

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

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

Table 2

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

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

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

Table 3

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

Fiscal Year	General Government			Parks, Recreation, and Cultural			Community Development	Debt Service	Total
	Administration	Public Safety (3)	Public Works	Recreation, and Cultural	Community Development	Debt Service			
1997	\$ 127,522	\$ 106,078	\$ 123,029	\$ 23,455	\$ 137,717	\$ -	\$ -	\$ 517,801	
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	30,856	1,613,424	

(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
1997	\$ 216,833	\$ 188,006	\$ 780	\$ 5,152	\$ 4,554	\$ 4,758	\$ 16,233	\$ -	\$ 138,318	\$ 574,634
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

(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
1997	\$ 241,861	(3)	(3)	(3)	\$ 209,601	86.66%	\$ 32,260	13.34%
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%

(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.

(3) Current and delinquent tax collections not separately available.

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	
1997	\$ 42,234,300	\$ 4,074,900	\$ 24,200	\$ 1,083,021	\$ 1,083,021	\$ 47,416,421
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

(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	
1997	\$ 0.37	\$ 2.00	\$ 0.37	\$	0.37
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

(1) Per \$100 of assessed value.

Table 8

**Municipal Corporation of Cape Charles, Virginia**  
**Computation of Legal Debt Margin**  
**At June 30, 2006**

Assessed value of real property, January 1, 2005 (1)	<u>\$ 250,454,527</u>
Debt limit: 10% of assessed value	\$ 25,045,453
Amount of debt applicable to debt limit:	
Gross debt (2)	<u>\$ 2,794,043</u>
Less: Revenue bonds and notes secured by property	<u>(20,709)</u>
Net general obligation bonds and loans	<u>\$ 2,773,334</u>
Legal debt limit	<u>\$ 22,272,119</u>

(1) Assessed value of real property, including public service corporations as of January 1, 2005.

(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
1997	1,398	\$ 47,416,421	\$ 1,901,538	4.01%	\$ 1,360
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

(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

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

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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, 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, 2006, which collectively comprise the Municipal Corporation of Cape Charles, Virginia's basic financial statements and have issued our report thereon dated January 31, 2007. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and Other Matters**

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

However, we noted certain matters that we reported to management of the Municipal Corporation of Cape Charles, Virginia, in a separate letter dated January 31, 2007.

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



Richmond, Virginia  
January 31, 2007