

*Municipal Corporation
of Cape Charles*

FINANCIAL REPORT

JUNE 30, 2004

 **WITT MARES**
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

To the 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, Inc. as of and for the year ended June 30, 2004, which collectively comprise the Municipal Corporation of Cape Charles basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 Town, as of June 30, 2004, 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.

As described in Note 1, the Town has implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board Statement NO. 34, *Basic Financial Statements – and Management's Discussion and Analysis—for State and Local Governments*, as of June 30, 2004.

The Management's Discussion and Analysis and other required supplementary information on pages 3 through 5 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2005, on our consideration of the Town's internal control over financial reporting and 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 read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Municipal Corporation of Cape Charles's basic financial statements. The schedule of funding progress and combining and individual fund statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The supplementary information, such as the statistical tables, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Witt Mares, P.C.

Newport News, Virginia
July 17, 2005



MUNICIPAL CORPORATION OF CAPE CHARLES
Management Discussion and Analysis (MD&A)
Year Ended June 30, 2004

The Management's Discussion and Analysis, also known as the MD&A, offers readers an overview of the Municipal Corporation of Cape Charles financial position for year ending June 30, 2004 from management's stand point. This overview should be considered in conjunction with the letter of transmittal, financial statements and notes to the financial statements. This is the first year the Town has complied with the new financial reporting of Government Accounting Standards Board (GASB) Statement No. 34. Because of this new financial reporting requirement, prior year comparison of information is not available. The most significant difference included in the new statements is the inclusion of depreciable capital assets in the governmental activities. In the past, all capital expenditures related to governmental activities were expensed when incurred. Although net assets have increased substantially this year, a significant portion of the increase is due to the capitalization of capital outlays from earlier years.

Financial Highlights

- Real estate tax revenue increased 59%. Forty-six percent revenue increase was attributed to a 27% increase in the rate, the remaining 54%r from the growth in assessed valuation from the new Bay Creek community.
- Personal property taxes increased 22% reflecting the rising average value of personal vehicles.
- Business license taxes rose 269% due to a combination of increased business activity particularly by the construction industry and an amnesty program designed to enforce the license requirement for three prior years. The amnesty program waived interest and penalties for prior year unpaid amounts.
- Building permits and associated planning fees increased 45% reflecting the increased pace of construction and renovation.
- Tourist related taxes (occupancy, meals, and admission) increased 43% as resort related activities have attracted more visitors.
- A water and sewer rate increase of 46% increased water and sewer revenue 47% making major progress toward the fiscal goal of a self supporting utility department. Future growth in accounts served should achieve this goal.



- Total cash available at year-end increased \$391,845, an increase of 168%.
- The Town issued long-term debt obligation of \$62,500 on December 30, 2003 as the Town match for a grant for miscellaneous sewer improvements. These funds were used to purchase an effluent flow meter and to replace underground fuel storage tanks. An additional \$187,300 has been pledged by the USDA to fund this project targeted to be completed by 2005.

Overview of Financial Position

It is management's opinion that the Municipal Corporation of Cape Charles is in good financial position as of June 30, 2004. The governmental fund had a favorable variance to budget of \$185,502. Increased revenues of \$370,868 were partially offset by increased expenditures of \$185,366 over budget for the year. While the operating expenses for the water and sewer fund including depreciation were covered by service revenues, the Town fell short of covering 100% of the interest expense with service fees. This should be corrected with the expected growth in the number of users. The Town continues to maintain its outstanding bond issues for water and sewer improvements with \$130,990 including interest paid toward the debt during the year. An additional \$33,117 principal and interest was paid on an outstanding line of credit for the harbor proprietary fund. The harbor fund did show a net profit for the year of \$46,887.

The real estate tax rate for Fiscal Year 2004's budget increased from \$0.37/100 to \$0.47/100 to allow the Town to step up service levels as the rising level of activity would dictate. The Town's financial position has been significantly improved by the increasing level of private investment within the community. The historical part of the Town is surrounded by a Planned Unit Development of approximately 1800 acres. The developer is investing many millions of dollars in infrastructure and amenities that are being completed according to plan. When finished, the Bay Creek Resort and Club will consist of at least 2300 new dwelling units, 2 PGA golf courses, a world class marina, hotel and spa, and numerous shops, restaurants, and other amenities. As these facilities are delivered, other investors are being motivated to renovate a significant portion of the residential and commercial structures in the historic part of the Town and undertake additional construction. The Town's economic revitalization will require continual public investment.



This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and then show the Town's accountability for the monies it receives. If you have any questions about this report or need additional financial information, contact the Municipal Corporation of Cape Charles, 2 Plum Street, Cape Charles, VA.



GOVERNMENT-WIDE FINANCIAL STATEMENTS



MUNICIPAL CORPORATION OF CAPE CHARLES

Statement of Net Assets

June 30, 2004

	Primary Government		Total
	Governmental Activity	Business-type Activities	
ASSETS			
Cash	\$ 625,765	\$ 15,229	\$ 640,994
Taxes receivable (net of allowance for uncollectible accounts)	49,347	-	49,347
Accounts receivable	971	94,932	95,903
Internal balances	24,213	(24,213)	-
Deferred bond issuance cost	-	10,185	10,185
Capital assets (net of accumulated depreciation)	332,898	5,948,514	6,281,412
Capital assets (not being depreciated)	1,791,700	107,415	1,899,115
 Total assets	 <u>\$ 2,824,894</u>	 <u>\$ 6,152,062</u>	 <u>\$ 8,976,956</u>
 LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	\$ 65,389	\$ 72,812	\$ 138,201
Accrued liabilities	37,022	112,218	149,240
Line of credit	-	80,709	80,709
General obligation bonds payable	-	1,751,686	1,751,686
Compensated absences	-	15,387	15,387
 Total liabilities	 <u>102,411</u>	 <u>2,032,812</u>	 <u>2,135,223</u>
 NET ASSETS			
Restricted	-	7,157,319	7,157,319
Unrestricted	2,722,483	(3,038,069)	(315,586)
 Total net assets	 <u>2,722,483</u>	 <u>4,119,250</u>	 <u>6,841,733</u>
 Total liabilities and net assets	 <u>\$ 2,824,894</u>	 <u>\$ 6,152,062</u>	 <u>\$ 8,976,956</u>

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



MUNICIPAL CORPORATION OF CAPE CHARLES
Statement of Activities
Year Ended June 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activity	Primary Government Business-type		Total
					Governmental	Business-type	
PRIMARY GOVERNMENT ACTIVITIES							
Governmental activity							
General government administration	\$ 401,153	\$ 22,856	\$ 65,472	\$ (312,825)	\$ -	\$ -	\$ (312,825)
Public safety	327,616	277,282	-	(50,334)	-	-	(50,334)
Public works	236,981	-	-	(236,981)	-	-	(236,981)
Parks, recreation and culture	39,179	3,311	-	(35,868)	-	-	(35,868)
Community development	105,111	-	-	(105,111)	-	-	(105,111)
Total governmental activity	<u>1,110,040</u>	<u>303,449</u>	<u>65,472</u>	<u>(741,119)</u>	<u>-</u>	<u>-</u>	<u>(741,119)</u>
Business-type activity							
Water and sewer	710,300	618,640	36,743	-	(54,917)	-	(54,917)
Garbage collection and disposal	105,562	108,326	-	-	2,764	-	2,764
Docking and berthing facilities	295,134	342,021	-	-	46,887	-	46,887
Total business-type activity	<u>1,110,996</u>	<u>1,068,987</u>	<u>36,743</u>	<u>-</u>	<u>(5,266)</u>	<u>-</u>	<u>(5,266)</u>
Total primary government activities	<u>\$ 2,221,036</u>	<u>\$ 1,372,436</u>	<u>\$ 102,215</u>	<u>(741,119)</u>	<u>(5,266)</u>	<u>-</u>	<u>(746,385)</u>
General revenues							
Real property taxes				480,487	-	-	480,487
Personal property taxes				117,807	-	-	117,807
Public service corporation taxes				23,158	-	-	23,158
Local sales and use taxes				32,170	-	-	32,170
Consumer utility taxes				60,735	-	-	60,735
Business license taxes				239,624	-	-	239,624
Other local taxes				67,681	-	-	67,681
Investment earnings				1,910	-	-	1,910
Total general revenues				<u>1,023,572</u>	<u>-</u>	<u>-</u>	<u>1,023,572</u>
Changes in net assets				282,453	(5,266)	-	277,187
NET ASSETS							
Beginning				2,440,030	4,124,516	-	6,564,546
Ending				<u>\$ 2,722,483</u>	<u>\$ 4,119,250</u>	<u>\$ -</u>	<u>\$ 6,841,733</u>

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

FUND FINANCIAL STATEMENTS



MUNICIPAL CORPORATION OF CAPE CHARLES

Balance Sheet

Governmental Fund

June 30, 2004

ASSETS

Cash	\$	625,765
Taxes receivable (net of allowance for uncollectible accounts)		49,347
Accounts receivable		971
Due from other funds		<u>24,213</u>
Total assets	\$	<u>700,296</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$	65,389
Accrued liabilities		<u>12,266</u>
Total liabilities		<u>77,655</u>

FUND BALANCE

Undesignated		<u>622,641</u>
Total liabilities and fund balance	\$	<u>700,296</u>

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



MUNICIPAL CORPORATION OF CAPE CHARLES

Reconciliation of Total Governmental Fund Balance

to Net Assets of Governmental Activities

June 30, 2004

Total governmental fund balance \$ 622,641

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

Capital assets used in the governmental activity are not financial resources, and therefore, are not reported in the fund. 2,124,598

Vacation pay, not due and payable in the current period, is not reported in the fund. (24,756)

Net assets of governmental activity \$ 2,722,483

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



MUNICIPAL CORPORATION OF CAPE CHARLES
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Governmental Fund
Year Ended June 30, 2004

	Budget	Actual	Favorable (Unfavorable)
REVENUES			
General property taxes	\$ 555,853	\$ 585,149	\$ 29,296
Other local taxes	196,650	399,313	202,663
Permits, privilege fees and regulatory licenses	155,500	288,044	132,544
Fines and forfeitures	1,000	3,181	2,181
Revenue from use of money and property	-	1,910	1,910
Charges for services	5,250	7,620	2,370
Miscellaneous revenue	22,610	3,176	(19,434)
Intergovernmental revenue	84,762	104,100	19,338
	<u>1,021,625</u>	<u>1,392,493</u>	<u>370,868</u>
EXPENDITURES			
General government administration	390,555	407,426	(16,871)
Public safety	244,583	338,000	(93,417)
Public works and maintenance of buildings and grounds	159,335	237,965	(78,630)
Parks, recreation and culture	87,053	81,679	5,374
Community development	98,000	99,822	(1,822)
	<u>979,526</u>	<u>1,164,892</u>	<u>(185,366)</u>
Total expenditures	<u>979,526</u>	<u>1,164,892</u>	<u>(185,366)</u>
Change in fund balance	<u>\$ 42,099</u>	<u>227,601</u>	<u>\$ 185,502</u>
FUND BALANCE			
Beginning		<u>395,040</u>	
Ending		<u>\$ 622,641</u>	

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



MUNICIPAL CORPORATION OF CAPE CHARLES
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balance of Governmental Fund
to the Statement of Activities
Year Ended June 30, 2004

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

Net change in fund balances - total governmental funds	\$	227,601
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 capital outlays exceeded depreciation in the current period.		59,455
The long-term portion of vacation pay does not require the use of current financial resources and, therefore, is not reported in expenditures in the governmental fund.		<u>(4,603)</u>
Change in net assets of governmental activity	\$	<u>282,453</u>

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



MUNICIPAL CORPORATION OF CAPE CHARLES

Combined Statement of Net Assets

Proprietary Funds

June 30, 2004

ASSETS	Water and Sewer	Docking and Berthing Facilities	Garbage Collection and Disposal	Total
CURRENT ASSETS				
Cash	\$ 1,354	\$ 13,875	\$ -	\$ 15,229
Accounts receivable, net	71,802	-	23,130	94,932
Due from other funds	-	161,865	125,286	287,151
Deferred bond issuance cost	10,185	-	-	10,185
Total current assets	83,341	175,740	148,416	407,497
PROPERTY, PLANT AND EQUIPMENT, NET	5,117,757	932,767	5,405	6,055,929
Total assets	\$ 5,201,098	\$ 1,108,507	\$ 153,821	\$ 6,463,426
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 70,338	\$ 2,474	\$ -	\$ 72,812
Accrued liabilities	93,661	17,234	1,323	112,218
Line of credit	-	80,709	-	80,709
Due to other funds	311,364	-	-	311,364
Compensated absences	12,528	-	2,859	15,387
Total current liabilities	487,891	100,417	4,182	592,490
LONG-TERM LIABILITIES				
General obligation bonds payable	1,751,686	-	-	1,751,686
Total liabilities	2,239,577	100,417	4,182	2,344,176
NET ASSETS				
Contributed capital	5,355,651	1,793,572	8,096	7,157,319
Retained earnings (deficit)	(2,394,130)	(785,482)	141,543	(3,038,069)
Total net assets	2,961,521	1,008,090	149,639	4,119,250
Total liabilities and net assets	\$ 5,201,098	\$ 1,108,507	\$ 153,821	\$ 6,463,426

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



MUNICIPAL CORPORATION OF CAPE CHARLES
 Combined Statement of Revenues, Expenses and Changes in Retained Earnings
 Proprietary Funds
 Year Ended June 30, 2004

	Water and Sewer	Docking and Berthing Facilities	Garbage Collection and Disposal	Total
OPERATING REVENUES				
Charges for services	\$ 635,973	\$ 342,021	\$ 108,326	\$ 1,086,320
Tap fees	19,410	-	-	19,410
Total operating revenues	<u>655,383</u>	<u>342,021</u>	<u>108,326</u>	<u>1,105,730</u>
OPERATING EXPENSES				
Personnel services	235,506	42,228	10,701	288,435
Fringe benefits	57,184	8,917	1,399	67,500
Depreciation	157,763	42,827	491	201,081
Amortization	755	-	-	755
Maintenance	57,336	1,806	816	59,958
Supplies	5,074	1,776	-	6,850
Electricity	52,411	8,830	1,319	62,560
Equipment rental	-	2,246	-	2,246
Fuel	2,611	178,632	-	181,243
Telephone	4,447	509	-	4,956
Office expense	5,828	1,122	423	7,373
Uniforms	6,984	-	-	6,984
Miscellaneous	14,468	3,124	-	17,592
Professional fees	12,179	-	-	12,179
Landfill expense	-	-	90,413	90,413
Total operating expenses	<u>612,546</u>	<u>292,017</u>	<u>105,562</u>	<u>1,010,125</u>
Operating income	42,837	50,004	2,764	95,605
NONOPERATING EXPENSE				
Interest expense	<u>97,754</u>	<u>3,117</u>	<u>-</u>	<u>100,871</u>
Net income (loss)	(54,917)	46,887	2,764	(5,266)
RETAINED EARNINGS (DEFICIT)				
Beginning	<u>(2,339,213)</u>	<u>(832,369)</u>	<u>138,779</u>	<u>(3,032,803)</u>
Ending	<u>\$ (2,394,130)</u>	<u>\$ (785,482)</u>	<u>\$ 141,543</u>	<u>\$ (3,038,069)</u>

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



MUNICIPAL CORPORATION OF CAPE CHARLES
Statement of Revenues, Expenses and Change in Retained Earnings
Proprietary Funds - Budget and Actual
Year Ended June 30, 2004

	Budget	Actual	Favorable (Unfavorable)
OPERATING REVENUES			
Charges for services	\$ 782,630	\$ 1,086,320	\$ 303,690
Tap fees	8,750	19,410	10,660
Total operating revenues	791,380	1,105,730	314,350
OPERATING EXPENSES			
Personnel services	249,502	288,435	(38,933)
Fringe benefits	53,767	67,500	(13,733)
Depreciation	-	201,081	(201,081)
Amortization	-	755	(755)
Maintenance	97,310	59,958	37,352
Supplies	5,600	6,850	(1,250)
Electricity	56,200	62,560	(6,360)
Equipment rental	2,300	2,246	54
Fuel	83,250	181,243	(97,993)
Telephone	3,450	4,956	(1,506)
Office expense	7,300	7,373	(73)
Uniforms	6,000	6,984	(984)
Miscellaneous	46,050	17,592	28,458
Professional fees	3,150	12,179	(9,029)
Landfill expense	85,300	90,413	(5,113)
Total operating expenses	699,179	1,010,125	(310,946)
Operating income (loss)	92,201	95,605	3,404
NONOPERATING EXPENSE			
Interest expense	134,300	100,871	33,429
Net income (loss)	\$ (42,099)	(5,266)	\$ 36,833
RETAINED EARNINGS (DEFICIT)			
Beginning		(3,032,803)	
Ending		\$ (3,038,069)	

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



MUNICIPAL CORPORATION OF CAPE CHARLES

Combined Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2004

	Water and Sewer	Docking and Berthing Facilities	Garbage Collection and Disposal	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customer and users	\$ 616,456	\$ 342,022	\$ 95,128	\$ 1,053,606
Tap fees	19,410	-	-	19,410
Payments to employees	(290,775)	(81,146)	(12,100)	(384,021)
Payments to suppliers	(57,182)	(189,390)	(82,512)	(329,084)
Net cash provided by operating activities	287,909	71,486	516	359,911
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Advances to (from) other funds	(58,151)	(54,694)	4,601	(108,244)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from bonds	62,500	-	-	62,500
Payments on bonds	(33,236)	-	-	(33,236)
Interest paid on general obligation bonds	(97,754)	(3,117)	779	(100,092)
Net cash provided by financing activities	(68,490)	(3,117)	779	(70,828)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(161,264)	-	(5,896)	(167,160)
Net increase in cash	4	13,675	-	13,679
CASH				
Beginning	1,350	200	-	1,550
Ending	\$ 1,354	\$ 13,875	\$ -	\$ 15,229

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



MUNICIPAL CORPORATION OF CAPE CHARLES

Combined Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2004

(Concluded)

	Water and Sewer	Docking and Berthing Facilities	Garbage Collection and Disposal	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income	\$ 42,837	\$ 50,004	\$ 2,764	\$ 95,605
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	157,763	42,827	491	201,081
Amortization	755	-	-	755
Changes in assets and liabilities:				
Accounts receivable	(19,517)	-	(13,198)	(32,715)
Other assets	6,755	-	7,719	14,474
Accounts payable	13,230	(5,709)	-	7,521
Accrued liabilities	90,550	14,364	660	105,574
Accrued interest payable	(6,379)	-	-	(6,379)
Compensated absences	1,915	(30,000)	2,080	(26,005)
 Net cash provided by operating activities	 <u>\$ 287,909</u>	 <u>\$ 71,486</u>	 <u>\$ 516</u>	 <u>\$ 359,911</u>

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



MUNICIPAL CORPORATION OF CAPE CHARLES
Notes to Financial Statements
June 30, 2004

NOTE 1. SUMMARY OF ACCOUNTING POLICIES AND PROCEDURES

Reporting Entity

The Municipal Corporation of Cape Charles is governed by an elected mayor and six-member council. The accompanying financial statements present the government and the entities for which the government is considered to be financially accountable.

Government-wide and Fund Financial Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charge 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 the governmental fund and proprietary funds. The major individual governmental fund and individual proprietary funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Preparation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

(Continued)



MUNICIPAL CORPORATION OF CAPE CHARLES

Notes to Financial Statements

June 30, 2004

NOTE 1. SUMMARY OF ACCOUNTING POLICIES AND PROCEDURES (Continued)

Property taxes, sales and use taxes, other local taxes 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. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports only one major Governmental Fund – the General Fund. The General Fund is the government's primary operating fund and accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The government reports one Proprietary Fund – the Enterprise Funds. The Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the Town is that the cost of providing services to the general public be financed or recovered through user charges. The Enterprise Funds consist of Water and Sewer, Docking and Berthing Facilities and Garbage Collection and Disposal Funds.

The Town's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The Proprietary Fund applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The Town implemented the financial reporting requirements of Government Auditing Standards Board Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* for fiscal year ended June 30, 2004.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions and (3) capital grants and contributions including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

The Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with each of its principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services and installation fees. Operating expenses for the Proprietary Fund include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

(Continued)

MUNICIPAL CORPORATION OF CAPE CHARLES
Notes to Financial Statements
June 30, 2004

NOTE 1. SUMMARY OF ACCOUNTING POLICIES AND PROCEDURES (Continued)

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, and then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Fund Balances

Deposits

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between governmental and business-type activities are reported in the government-wide financial statements as "internal balances".

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 billings amounted to 71,396 at June 30, 2004.

Real and personal property taxes, levied January 1, are billed annually and are due December 5 of each year. Tax rates for bills due December 5, 2004 were \$.47 per \$100 assessed value for real estate, \$2.00 per \$100 assessed value for personal property and \$.47 per \$100 assessed value for mobile homes.

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.

(Continued)



MUNICIPAL CORPORATION OF CAPE CHARLES

Notes to Financial Statements

June 30, 2004

NOTE 1. SUMMARY OF ACCOUNTING POLICIES AND PROCEDURES (Concluded)

Capital Assets

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated market value at the date of donation.

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

Capital assets are depreciated using the straight-line method over the following estimated lives:

Buildings	40 years
Improvements other than buildings	20 years
Equipment	3 – 10 years
Water/Sewer system	15 – 50 years
Docks	50 years

Compensated Absences

Permanent full-time and permanent part-time employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with Town. All vacation pay, current and long-term, is accrued when incurred in the government-wide and proprietary fund financial statements.

Long-term Obligations

In the government-wide financial statements, bond repayment obligations are reported as liabilities in the applicable governmental activities, business-type activity or proprietary fund type statement of net assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



MUNICIPAL CORPORATION OF CAPE CHARLES

Notes to Financial Statements

June 30, 2004

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures and Change in Fund Balance and the Government-wide Statement of Activities

The reconciliation of the statement of revenues, expenditures and change in fund balance reconciles the *change in fund balance – total governmental fund* and *change in net assets of governmental activity* as reported in the government-wide statement of activities. One element of that reconciliation explains, “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense.”

The details of this difference are as follows:

Capital outlays	\$ 62,180
Depreciation expense	<u>(2,625)</u>
Net adjustment to increase net <i>change in fund balance – total governmental fund</i> to arrive at <i>change in net assets of governmental fund</i>	<u>\$ 59,455</u>

Another element of that reconciliation states, “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 details of the difference is as follows:

Compensated absences represent the <i>net change in fund Balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental funds</i>	<u>\$ (4,603)</u>
--	-------------------

NOTE 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Formal budgetary integration is employed as a management control device during the year for the Governmental and Proprietary Funds. Annual operating budgets are adopted by ordinances and resolutions passed by the Town Council for those funds. The Town does not integrate the use of encumbrance accounting in any of its funds.

(Continued)



MUNICIPAL CORPORATION OF CAPE CHARLES

Notes to Financial Statements

June 30, 2004

NOTE 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)

Excess of Expenditures Over Budget for Governmental Fund

As per NCGAI 6, paragraph 4, the following are being disclosed:

	Budget	Actual	Overexpended
General government administration	\$ 390,555	\$ 407,426	\$ 16,871
Public safety	244,583	338,000	93,417
Public works	159,335	237,965	78,630
Community development	98,000	99,822	1,822

NOTE 4. CASH AND CASH EQUIVALENTS

At year-end, the carrying value of the Town's deposits with banks was \$640,994 and the bank balance was \$799,918. Of the bank balance, all was covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act.

Under the Act, banks holding public deposits in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks. There were no uninsured or uncollateralized amounts at June 30, 2004.

NOTE 5. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at year-end are as follows:

	Receivable	Payable
Governmental Fund	\$ 24,213	\$ -
Proprietary Fund	-	(24,213)
	\$ 24,213	\$ (24,213)



MUNICIPAL CORPORATION OF CAPE CHARLES
Notes to Financial Statements
June 30, 2004

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

Governmental activities:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Land	\$ 1,791,700	\$ -	\$ -	\$ 1,791,700
Buildings	1,000,562	-	-	1,000,562
Improvements other than buildings	169,117	-	-	169,117
Equipment	<u>408,535</u>	<u>62,181</u>	-	<u>470,716</u>
	3,369,914	62,181	-	3,432,095
Less accumulated depreciation	<u>1,342,251</u>	<u>2,726</u>	-	<u>1,369,678</u>
	<u>\$ 2,027,663</u>	<u>\$ 34,754</u>	<u>\$ -</u>	<u>\$ 2,124,598</u>

Business-type activities:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Water/Sewer system	\$ 7,826,468	\$ 53,849	\$ -	\$ 7,880,317
Equipment	59,630	5,896	-	65,526
Docks	2,195,893	-	-	2,195,893
Work in process	-	<u>107,415</u>	-	<u>107,415</u>
	10,081,991	167,160	-	10,249,151
Less accumulated depreciation	<u>3,992,141</u>	<u>201,081</u>	-	<u>4,193,222</u>
	<u>\$ 6,089,850</u>	<u>\$ (33,921)</u>	<u>\$ -</u>	<u>\$ 6,055,929</u>



MUNICIPAL CORPORATION OF CAPE CHARLES
Notes to Financial Statements
June 30, 2004

NOTE 7. LONG-TERM DEBT OBLIGATIONS

Business-type activities:

\$400,000 General Obligation Bond issued to Virginia Resources Authority, payable in varying monthly installments, including interest from 6.8% to 7.5%, beginning May 1, 1989	\$ 288,333
\$1,579,300 General Obligation Bond to Farmers Home Administration for financing of water system improvements, payable in monthly installments, including interest at 5%, beginning September 3, 1992	1,400,853
\$62,500 General Obligation Bond to Farmers Home Administration for financing of water system improvements, payable in monthly installments, including interest at 3.25%, beginning December 30, 2004	<u>62,500</u>
General obligation bonds	<u>\$ 1,751,686</u>

Annual debt service requirements to maturity for general obligation bonds for fiscal years ended June 30 are as follows:

	Principal	Interest
2005	\$ 34,034	\$ 94,165
2006	40,665	90,968
2007	41,963	88,564
2008	43,327	86,090
2009	44,760	83,543
2010 - 2014	282,983	371,318
2015 - 2019	329,795	275,796
2020 - 2024	283,585	195,861
2025 - 2029	363,199	116,247
2030 - 2034	264,279	24,088
2035 - 2039	11,268	2,878
2040 - 2044	<u>11,828</u>	<u>903</u>
	<u>\$ 1,751,686</u>	<u>\$ 1,430,412</u>



MUNICIPAL CORPORATION OF CAPE CHARLES
Notes to Financial Statements
June 30, 2004

NOTE 8. SURETY BONDS OF PRINCIPAL OFFICIALS

The Town maintained the following surety bond coverage as of June 30, 2004:

Virginia Municipal Liability Pool	\$ 1,000,000
Public Officials Board	100,000

NOTE 9. LITIGATION

The Town, after reviewing with counsel all actions and proceedings against it, considers that aggregate liability or loss, if any, resulting therefrom will not be material.

NOTE 10. RETIREMENT PLAN

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 (VRS)

Plan Description

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 and at age 50 with 30 years of service for participating employers 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. 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 our website at <http://www.varetire.org/Pdf/2003AnnuRept.pdf> or obtained by writing to the System at P.O. Box 2500, Richmond, VA 23218-2500.



MUNICIPAL CORPORATION OF CAPE CHARLES
Notes to Financial Statements
June 30, 2004

NOTE 10. RETIREMENT PLAN (Concluded)

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. The Town is required to contribute the remaining amounts necessary to fund its 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 year ended June 30, 2004 was 6.00% of annual covered payroll.

Annual Pension Cost

For the fiscal year ended June 30, 2004, the Town's annual pension cost of \$30,981 was equal to the Town's required and actual contribution. The required contribution was determined as part of the June 30, 2001 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8.00% investment rate of return, (b) projected salary increases ranging from 4.25% to 6.10% per year, and (c) 3.00% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of the Town's plan assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period.



MUNICIPAL CORPORATION OF CAPE CHARLES

Required Supplemental Information

Schedule of Funding Progress

June 30, 2004

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial		Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAAL as of Percentage of Covered Payroll
		Accrued Liability (AAL)	Accrued				
2004	\$ 713,927	\$	750,693	\$ 36,766	95.10%	\$ 644,674	5.70%
2003	642,114		567,357	(74,757)	113.18%	362,452	-20.63%
2002	577,063		593,758	16,695	97.19%	509,221	3.28%
2001	517,536		470,524	(47,012)	109.99%	523,593	-8.98%
2000	426,666		391,976	(34,690)	108.85%	441,784	-7.85%



MUNICIPAL CORPORATION OF CAPE CHARLES
Statement of Revenues, Expenses and Change in Fund Balance
Budget and Actual
General Fund
Year Ended June 30, 2004

REVENUES	Budget	Actual	Favorable (Unfavorable)
REVENUE FROM LOCAL SOURCES			
General property taxes			
Real property taxes	\$ 460,600	\$ 476,848	\$ 16,248
Personal property taxes	70,000	81,504	11,504
Public service corporation taxes - real and personal property	23,253	23,158	(95)
Penalties and interest	2,000	3,639	1,639
Total general property taxes	<u>555,853</u>	<u>585,149</u>	<u>29,296</u>
Other local taxes			
Local sales and use taxes	35,000	32,170	(2,830)
Consumer utility taxes	49,000	60,735	11,735
Business license taxes	60,000	239,624	179,624
Motor vehicle licenses	15,300	17,768	2,468
Transient and occupancy taxes	5,000	11,299	6,299
Meals tax	17,350	23,411	6,061
Admissions tax	15,000	14,306	(694)
Total other local taxes	<u>196,650</u>	<u>399,313</u>	<u>202,663</u>
Permits, privilege fees and regulatory licenses			
Building and other permits	155,500	288,044	132,544
Fines and forfeitures			
Court fines and forfeitures	1,000	3,181	2,181
Revenue from use of money and property			
Revenue from use of money	-	1,910	1,910
Charges for services			
Planning and review fees	5,000	7,620	2,620
Grass cutting fees	250	-	(250)
Total charges for services	<u>5,250</u>	<u>7,620</u>	<u>2,370</u>
Miscellaneous revenue			
Gas tax refunds	1,500	889	(611)
DMV fees	7,200	10,429	3,229
Library revenue	2,000	2,991	991
Miscellaneous	11,910	(11,133)	(23,043)
Total miscellaneous revenue	<u>22,610</u>	<u>3,176</u>	<u>(19,434)</u>
Total revenue from local sources	<u>936,863</u>	<u>1,288,393</u>	<u>351,530</u>

(Continued)



MUNICIPAL CORPORATION OF CAPE CHARLES
Statement of Revenues, Expenses and Change in Fund Balance
Budget and Actual
General Fund
Year Ended June 30, 2004

	Budget	Actual	Favorable (Unfavorable)
REVENUE FROM THE COMMONWEALTH			
Noncategorical aid			
ABC profits	\$ -	\$ 2,325	\$ 2,325
Property tax relief	30,000	36,303	6,303
Total noncategorical aid	30,000	38,628	8,628
Categorical aid			
Grant revenue	54,762	59,266	4,504
Total revenue from the Commonwealth	84,762	97,894	13,132
REVENUE FROM THE FEDERAL GOVERNMENT			
Categorical aid			
Law enforcement block grant	-	5,223	5,223
Selective enforcement	-	983	983
Total revenue from the Federal Government	-	6,206	6,206
Total intergovernmental revenue	84,762	104,100	19,338
Total revenues	1,021,625	1,392,493	370,868

(Continued)



MUNICIPAL CORPORATION OF CAPE CHARLES
Statement of Revenues, Expenses and Change in Fund Balance
Budget and Actual
General Fund
Year Ended June 30, 2004

EXPENSES	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
GENERAL GOVERNMENT ADMINISTRATION			
Personnel	\$ 221,403	\$ 207,857	\$ 13,546
Professional services	58,025	75,033	(17,008)
Training	4,400	5,512	(1,112)
Travel	2,300	1,347	953
Advertising	4,000	3,433	567
Telephone	4,770	6,004	(1,234)
Electricity	6,600	6,849	(249)
Heating	2,200	471	1,729
Supplies	10,750	12,597	(1,847)
Fidelity bonds and insurance	22,103	12,878	9,225
Dues and subscriptions	2,000	1,740	260
Employees fringe benefits	29,604	24,446	5,158
Maintenance	3,500	18,671	(15,171)
Miscellaneous	9,300	30,588	(21,288)
Capital outlay	9,600	-	9,600
	<u>390,555</u>	<u>407,426</u>	<u>(16,871)</u>
PUBLIC SAFETY			
Law enforcement and traffic control			
Police department	238,433	331,842	(93,409)
Fire and rescue services			
Fire department	6,150	6,158	(8)
	<u>244,583</u>	<u>338,000</u>	<u>(93,417)</u>
PUBLIC WORKS			
Salaries and wages	59,510	41,399	18,111
Professional services	-	6,476	(6,476)
Equipment maintenance and operation	21,402	73,570	(52,168)
Insurance	1,731	2,416	(685)
Employee fringe benefits	14,912	10,301	4,611
Advertising	-	3,740	(3,740)
Telephone	800	653	147
Uniforms	500	1,181	(681)
	<u>98,855</u>	<u>139,736</u>	<u>(40,881)</u>

(Continued)



MUNICIPAL CORPORATION OF CAPE CHARLES
Statement of Revenues, Expenses and Change in Fund Balance
Budget and Actual
General Fund
Year Ended June 30, 2004

(Concluded)

	Budget	Actual	Favorable (Unfavorable)
MAINTENANCE OF BUILDINGS AND GROUNDS			
Supplies	\$ 900	\$ 22,142	\$ (21,242)
Groundskeeping services	34,780	48,120	(13,340)
Electricity	24,500	27,038	(2,538)
Miscellaneous	300	929	(629)
Total maintenance of buildings and grounds	60,480	98,229	(37,749)
Total public works and maintenance of buildings and grounds	159,335	237,965	(78,630)
PARKS, RECREATIONAL AND CULTURE			
Parks and recreation			
Recreation centers and playgrounds	41,454	30,753	10,701
Library			
Library administration	45,599	50,926	(5,327)
Total parks, recreational and culture	87,053	81,679	5,374
COMMUNITY DEVELOPMENT			
Planning and community development:			
Community development	98,000	99,822	(1,822)
Total expenses	979,526	1,164,892	(185,366)
Change in fund balance	\$ 42,099	227,601	\$ 185,502
FUND BALANCE			
Beginning		395,040	
Ending		\$ 622,641	



MUNICIPAL CORPORATION OF CAPE CHARLES

Computation of Legal Debt Margin

June 30, 2004

Assessed value of real estate subject to taxation	<u>\$ 110,405,679</u>
Debt limit: 10 percent of assessed value	\$ 11,040,568
Total amount of debt applicable to debt limit	<u>1,751,686</u>
Legal debt margin	<u>\$ 9,288,882</u>



STATISTICAL SECTION



MUNICIPAL CORPORATION OF CAPE CHARLES

Government-wide Revenues by Source

First Fiscal Year

	<u>2004</u>
Charges for services	\$ 303,449
Grants and contributions	65,472
General revenues	
Real and personal property taxes	598,294
Other local taxes	423,368
Investment earnings	<u>1,910</u>
 Total revenues	 <u>\$ 1,392,493</u>

Government-wide Expenditures by Function

First Fiscal Year

	<u>2004</u>
General government administration	\$ 401,153
Public safety	327,616
Public works	236,981
Parks, recreation and culture	39,179
Community development	<u>105,111</u>
 Total expenditures	 <u>\$ 1,110,040</u>



MUNICIPAL CORPORATION OF CAPE CHARLES

General Governmental Revenues by Source

Last Ten Fiscal Years

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees and Regulatory Licenses		Fines and Forfeitures	Revenue from Use of Money and Property	Charges for Services	Miscellaneous Revenue	Inter-Governmental	Total
			Licenses	Other						
2004	\$ 585,149	\$ 399,313	\$ 288,044	\$ 3,181	\$ 1,910	\$ 7,620	\$ 3,176	\$ 104,100	\$ 1,392,493	
2003	393,908	209,514	189,042	1,571	3,932	480	44,888	192,476	1,035,811	
2002	313,729	166,394	84,482	2,544	11,807	438	24,613	179,535	783,542	
2001	254,423	215,978	38,256	4,268	20,395	382	86,430	227,169	847,301	
2000	254,699	209,822	32,148	6,090	10,983	1,290	33,041	404,268	952,341	
1999	229,276	198,785	8,607	6,512	12,483	13,417	15,345	69,365	553,790	
1998	225,333	179,200	2,235	8,679	9,184	316	16,114	132,517	573,578	
1997	216,833	188,006	780	5,152	4,554	4,758	16,233	138,318	574,634	
1996	206,724	160,519	940	3,324	11,470	5,204	17,296	106,449	511,926	
1995	190,766	193,131	990	5,876	13,037	382	100,835	98,713	603,730	

General Governmental Expenditures by Function

Last Ten Fiscal Years

Fiscal Year	General Government Administration	Public Safety	Public Works	Parks, Recreation and Culture		Community Development	Total
				Recreation and Culture	Community Development		
2004	\$ 407,426	\$ 338,000	\$ 237,965	\$ 81,679	\$ 99,822	\$ 1,164,892	
2003	299,977	217,251	177,633	74,990	196,978	966,829	
2002	440,474	207,128	110,228	33,497	262,733	1,054,060	
2001	259,396	244,662	153,134	21,255	83,847	762,294	
2000	287,988	255,573	116,077	22,456	85,889	767,983	
1999	233,162	264,109	109,578	17,019	1,830	625,698	
1998	206,300	186,727	101,781	19,601	3,414	517,823	
1997	127,522	106,078	123,029	23,455	137,717	517,801	
1996	233,176	124,051	127,389	52,335	16,693	553,644	
1995	137,045	183,894	106,936	72,826	8,766	509,467	

MUNICIPAL CORPORATION OF CAPE CHARLES

Property Tax Levies and Collections

Last Ten Fiscal Years

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy		Outstanding Delinquent Taxes		Percent of Delinquent Taxes to Tax Levy
						Tax Collections	to Tax Levy	Delinquent Taxes	Levy	
2004	\$ 594,654	\$ 545,309	91.70%	\$ 34,563	\$ 579,872	97.51%	\$	83,908	14.11%	
2003	405,108	370,125	91.36%	14,027	384,152	94.83%		71,396	17.62%	
2002	367,207	298,683	81.34%	27,268	325,951	88.76%		67,876	18.48%	
2001	335,333	282,130	84.13%	2,271	284,401	84.81%		76,034	22.67%	
2000	279,791	246,431	88.08%	5,541	251,972	90.06%		31,800	11.37%	
1999	254,938	245,665	96.36%	10,599	251,972	98.84%		31,808	12.48%	
1998	239,852	228,267	95.17%	10,639	238,906	99.61%		33,206	13.84%	
1997	241,861	(1)	(1)	(1)	209,601	86.66%		32,260	13.34%	
1996	232,707	(1)	(1)	(1)	227,004	97.55%		39,174	16.83%	
1995	199,545	186,393	93.41%	2,654	189,050	94.74%		33,471	16.77%	

NOTE: (1) Current and delinquent collections not available

MUNICIPAL CORPORATION OF CAPE CHARLES

Assessed Value of Taxable Property

Last Ten Fiscal Years

Fiscal Year	Real Estate	Personal	Mobile Homes	Public Service	Total
		Property		Real Estate	
2004	\$ 101,456,900	\$ 7,663,100	\$ 18,120	\$ 1,267,559	\$ 110,405,679
2003	80,469,500	7,320,330	15,620	1,815,657	89,621,107
2002	71,771,400	6,612,100	15,620	1,558,338	79,957,458
2001	54,343,800	7,626,200	59,920	1,234,419	63,264,339
2000	53,887,900	4,370,400	21,000	1,287,793	59,567,093
1999	42,128,300	4,730,300	24,200	1,180,424	48,063,224
1998	42,208,400	3,976,700	24,200	1,060,996	47,270,296
1997	42,234,300	4,074,900	24,200	1,083,021	47,416,421
1996	42,049,500	3,647,500	21,500	1,106,512	46,825,012
1995	42,527,100	2,696,200	-	1,147,500	46,370,800

Property Tax Rates (1)

Last Ten Fiscal Years

Fiscal Year	Real Estate	Personal	Mobile Homes	Public Service
		Property		Real Estate
2004	\$ 0.47	\$ 2.00	\$ 0.47	\$ 0.47
2003	0.37	2.00	0.37	0.37
2002	0.37	2.00	0.37	0.37
2001	0.37	2.00	0.37	0.37
2000	0.37	2.00	0.37	0.37
1999	0.37	2.00	0.37	0.37
1998	0.37	2.00	0.37	0.37
1997	0.37	2.00	0.37	0.37
1996	0.37	2.00	0.37	0.37
1995	0.35	2.00	-	0.35

NOTE: (1) Per \$100 of assessed value



MUNICIPAL CORPORATION OF CAPE CHARLES

Ratio of Net General Obligation Bonded Debt to
Assessed Value and Net General Obligation Bonded Debt Per Capita
Last Ten Fiscal Years

Fiscal Year	Population	Assessed Value	Gross Bonded		Less: Debt Service Monies Available		Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value		Net Bonded Debt Per Capita
			Debt	Debt	Service Monies Available	Net Bonded Debt		Bonded Debt to Assessed Value	Debt Per Capita	
2004	1,134	\$ 110,405,679	\$ 1,751,686	\$ -	-	\$ 1,751,686	1.59%	\$ 1,545		
2003	1,134	89,621,107	1,722,422	-	-	1,722,422	1.92%	1,519		
2002	1,134	79,957,458	1,758,152	-	-	1,758,152	2.20%	1,550		
2001	1,134	63,264,339	1,788,499	-	-	1,788,499	2.83%	1,577		
2000	1,134	59,567,093	1,817,856	-	-	1,817,856	3.05%	1,603		
1999	1,398	48,063,224	1,846,152	-	-	1,846,152	3.84%	1,321		
1998	1,398	47,270,296	1,873,497	-	-	1,873,497	3.96%	1,340		
1997	1,398	47,416,421	1,901,538	-	-	1,901,538	4.01%	1,360		
1996	1,398	46,825,012	1,922,340	-	-	1,922,340	4.11%	1,375		
1995	1,398	46,370,800	1,944,099	-	-	1,944,099	4.19%	1,391		

MUNICIPAL CORPORATION OF CAPE CHARLES

Revenue Bond Coverage

Water and Sewer Bonds

Last Five Fiscal Years

Fiscal Year	Gross Revenues	Operating Expenses (1)	Net Revenue Available for		Debt Service Requirements		Coverage
			Debt Service	Principal	Interest	Total	
2004	\$ 655,383	\$ 454,783	\$ 200,600	\$ 33,236	\$ 97,754	\$ 130,990	153.14%
2003	455,078	362,209	92,869	35,730	90,332	126,062	73.67%
2002	363,895	309,043	54,852	30,347	96,849	127,196	43.12%
2001	366,430	288,298	78,132	29,357	98,635	127,992	61.04%
2000	375,618	251,801	123,817	28,296	100,422	128,718	96.19%

NOTE: (1) Total operating expenses exclusive of depreciation

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Council
Municipal Corporation of Cape Charles
Cape Charles, Virginia

We have audited the financial statements of the Municipal Corporation of Cape Charles (the Town), as of and for the year ended June 30, 2004, and have issued our report thereon dated July 17, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Town'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 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. However, we noted other matters involving internal control over financial reporting that we have reported to management of the Town in a separate letter dated July 17, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Council, management, others within the organization 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.

Witt Mares, PLLC

Newport News, Virginia
July 17, 2005

