

MUNICIPAL CORPORATION  
OF  
CAPE CHARLES, VIRGINIA



ANNUAL FINANCIAL REPORT

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FOR FISCAL YEAR ENDED JUNE 30, 2015



MUNICIPAL CORPORATION OF CAPE CHARLES, VIRGINIA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2015

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MUNICIPAL CORPORATION OF CAPE CHARLES, VIRGINIA

ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2015

TABLE OF CONTENTS

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	<u>Page</u>
Independent Auditors' Report	1-3
Management's Discussion and Analysis	4-9
<b><u>Basic Financial Statements</u></b>	
<b>Government-wide Financial Statements:</b>	
Exhibit 1 Statement of Net Position	10
Exhibit 2 Statement of Activities	11
<b>Fund Financial Statements:</b>	
Exhibit 3 Balance Sheet–Governmental Fund	12
Exhibit 4 Reconciliation of the Balance Sheet of Governmental Fund to the Statement of Net Position	13
Exhibit 5 Statement of Revenues, Expenditures, and Changes in Fund Balance–Governmental Fund	14
Exhibit 6 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities	15
Exhibit 7 Statement of Net Position–Proprietary Funds	16
Exhibit 8 Statement of Revenues, Expenses, and Changes in Net Position–Proprietary Funds	17
Exhibit 9 Statement of Cash Flows–Proprietary Funds	18
Notes to Financial Statements	19-58

MUNICIPAL CORPORATION OF CAPE CHARLES, VIRGINIA

ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2015

TABLE OF CONTENTS (CONTINUED)

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	<u>Page</u>
<u>Required Supplementary Information:</u>	
Exhibit 10 Schedule of Revenues, Expenditures, and Changes in Fund Balance–Budget and Actual–General Fund	59
Exhibit 11 Schedule of Components of and Changes in Net Pension Liability (Asset) and Related Ratios	60
Exhibit 12 Schedule of Employer Contributions	61
Exhibit 13 Notes to Required Supplementary Information	62
<u>Other Supplementary Information:</u>	
Supporting Schedules:	
Schedule 1 Schedule of Revenues–Budget and Actual–General Fund	63-64
Schedule 2 Schedule of Expenditures–Budget and Actual–General Fund	65-66
<u>Other Statistical Information:</u>	
Table 1 Government-wide Expenses by Function–Last Ten Fiscal Years	67
Table 2 Government-wide Revenues–Last Ten Fiscal Years	68
Table 3 General Governmental Expenditures by Function–Last Ten Fiscal Years	69
Table 4 General Governmental Revenues by Source–Last Ten Fiscal Years	70
Table 5 Property Tax Levies and Collections–Last Ten Fiscal Years	71
Table 6 Assessed Value of Taxable Property–Last Ten Fiscal Years	72
Table 7 Property Tax Rates–Last Ten Fiscal Years	73
Table 8 Computation of Legal Debt Margin	74
Table 9 Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita–Last Ten Fiscal Years	75
<u>Compliance Section:</u>	
Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	76-77
Schedule of Findings and Responses	78

# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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## Independent Auditors' Report

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To the Honorable Members of the Municipal Corp. Council  
Municipal Corporation of Cape Charles  
Cape Charles, Virginia

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Municipal Corporation of Cape Charles, Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Municipal Corporation's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Municipal Corporation of Cape Charles, Virginia, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Change in Accounting Principle*

As described in Note 1 to the financial statements, in 2015, the Municipal Corp. adopted new accounting guidance, GASB Statement Nos. 68, *Accounting and Financial Reporting for Pensions, - an Amendment of GASB Statement No. 27* and 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB No. 68*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension funding on pages 4-9, 59, and 60-62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Municipal Corporation of Cape Charles, Virginia's basic financial statements. The supporting schedules and other statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supporting schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supporting schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The other statistical information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2016, on our consideration of 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipal Corporation of Cape Charles, Virginia's internal control over financial reporting and compliance.

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

Richmond, Virginia  
May 26, 2016

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

As management of Municipal Corporation of Cape Charles, Virginia (the "Town") 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, 2015. Please read it in conjunction with the Town's basic financial statements, which follow this section.

### Financial Highlights

#### Government-wide Financial Statements

< The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$25,135,103 (net position).

#### Fund Financial Statements

The General Fund, on a current financial resources basis, reported revenues and other financing sources in excess of expenditures and other uses by \$304,451 (Exhibit 5).

< As of the close of the current fiscal year, the Town's general fund reported an ending fund balance of \$2,545,781, an increase of \$304,451 in comparison with the prior year.

< The combined long-term obligations decreased \$473,538 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 required and 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)

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### Overview of the Financial Statements (Continued)

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

The statement of net position presents information on all of the Town's assets and deferred outflows and liabilities and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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, 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 following 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.

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

**Overview of the Financial Statements (Continued)**

**Other information** - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information for budgetary comparison schedules and the schedule of pension funding progress. Other supplementary information consists of detailed budgetary schedules and statistical information.

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of the Town's financial position. In the case of the Town, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$25,135,102 at the close of the most recent fiscal year. The following table summarizes the Town's Statement of Net Position:

Municipal Corporation of Cape Charles, Virginia's Net Position						
	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 2,887,377	\$ 2,549,313	\$ 636,812	\$ 578,551	\$ 3,524,189	\$ 3,127,864
Capital assets	3,919,088	4,062,535	28,117,432	28,848,239	32,036,520	32,910,774
<b>Total assets</b>	<b>\$ 6,806,465</b>	<b>\$ 6,611,848</b>	<b>\$ 28,754,244</b>	<b>\$ 29,426,790</b>	<b>\$ 35,560,709</b>	<b>\$ 36,038,638</b>
Deferred Outflows of resources:						
Pension contributions subsequent to measurement date	\$ 34,542	\$ -	\$ 23,288	\$ -	\$ 57,830	\$ -
<b>Total deferred outflows of resources</b>	<b>\$ 34,542</b>	<b>\$ -</b>	<b>\$ 23,288</b>	<b>\$ -</b>	<b>\$ 57,830</b>	<b>\$ -</b>
Current liabilities	\$ 126,073	\$ 131,838	\$ 480,577	\$ 499,910	\$ 606,650	\$ 631,748
Long-term liabilities outstanding	1,312,815	1,377,798	8,417,701	8,826,256	9,730,516	10,204,054
<b>Total liabilities</b>	<b>\$ 1,438,888</b>	<b>\$ 1,509,636</b>	<b>\$ 8,898,278</b>	<b>\$ 9,326,166</b>	<b>\$ 10,337,166</b>	<b>\$ 10,835,802</b>
Deferred Inflows of resources:						
Items related to measurement of net pension liability (asset)	\$ 87,367	\$ -	\$ 58,904	\$ -	\$ 146,271	\$ -
<b>Total deferred inflows of resources</b>	<b>\$ 87,367</b>	<b>\$ -</b>	<b>\$ 58,904</b>	<b>\$ -</b>	<b>\$ 146,271</b>	<b>\$ -</b>
Net position:						
Net investment in capital assets	\$ 3,626,183	\$ 3,697,627	\$ 19,733,229	\$ 20,055,013	\$ 23,359,412	\$ 23,752,640
Restricted:						
Debt covenants	-	-	257,584	257,582	257,584	257,582
Unrestricted	1,688,569	1,404,585	(170,463)	(211,971)	1,518,106	1,192,614
<b>Total net position</b>	<b>\$ 5,314,752</b>	<b>\$ 5,102,212</b>	<b>\$ 19,820,350</b>	<b>\$ 20,100,624</b>	<b>\$ 25,135,102</b>	<b>\$ 25,202,836</b>

Because prior year information related to pensions was not available, the 2014 numbers have not been restated to reflect GASB 68 calculations.

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

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

During the current fiscal year, the Town's net position decreased by \$92,338. The following table summarizes the Town's Statement of Activities:

Municipal Corporation of Cape Charles, Virginia's Changes in Net Position

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 98,719	\$ 77,698	\$ 2,476,897	\$ 2,493,870	\$ 2,575,616	\$ 2,571,568
Operating grants and contributions	46,049	45,009	-	-	46,049	45,009
Capital grants and contributions	116,255	119,759	15,000	49,400	131,255	169,159
General revenues:						
General property taxes	1,250,336	1,286,747	-	-	1,250,336	1,286,747
Other local taxes	584,799	511,211	-	-	584,799	511,211
Grants and other contributions not restricted	82,429	82,852	-	-	82,429	82,852
Other general revenues	17,520	19,764	137,047	30,522	154,567	50,286
<b>Total revenues</b>	<b>\$ 2,196,107</b>	<b>\$ 2,143,040</b>	<b>\$ 2,628,944</b>	<b>\$ 2,573,792</b>	<b>\$ 4,825,051</b>	<b>\$ 4,716,832</b>
Expenses:						
General government						
administration	\$ 702,411	\$ 693,614	\$ -	\$ -	\$ 702,411	\$ 693,614
Public safety	423,254	409,347	-	-	423,254	409,347
Public works	483,605	768,491	-	-	483,605	768,491
Parks, recreation, and cultural	284,537	342,274	-	-	284,537	342,274
Community development	53,261	63,438	-	-	53,261	63,438
Interest and other fiscal charges	51,195	55,992	-	-	51,195	55,992
Enterprise funds	-	-	2,919,126	2,976,017	2,919,126	2,976,017
<b>Total expenses</b>	<b>\$ 1,998,263</b>	<b>\$ 2,333,156</b>	<b>\$ 2,919,126</b>	<b>\$ 2,976,017</b>	<b>\$ 4,917,389</b>	<b>\$ 5,309,173</b>
<b>Change in net position</b>	<b>\$ 197,844</b>	<b>\$ (190,116)</b>	<b>\$ (290,182)</b>	<b>\$ (402,225)</b>	<b>\$ (92,338)</b>	<b>\$ (592,341)</b>
Beginning of year, as restated	5,116,908	5,292,328	20,110,532	20,502,849	25,227,440	25,795,177
End of year	<u>\$ 5,314,752</u>	<u>\$ 5,102,212</u>	<u>\$ 19,820,350</u>	<u>\$ 20,100,624</u>	<u>\$ 25,135,102</u>	<u>\$ 25,202,836</u>

Because prior year information related to pensions was not available, the 2014 numbers have not been restated to reflect GASB 68 calculations. Therefore, beginning net position for 2015 as displayed above does not agree to ending net position for 2014.

## 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, unassigned 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 \$2,545,781, an increase of \$304,451 in comparison with the prior year. \$1,584,649 of June 30, 2015 fund balance was unassigned.

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 position at the end of the year amounted to (\$170,462). Total net position decreased \$290,181. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town's business-type activities.

### General Fund Budgetary Highlights

During the year, actual revenues and other sources were less than budgetary estimates by \$1,414,440. Actual expenditures and other uses were less than budgetary estimates by \$1,718,267, resulting in a positive variance of \$303,827.

### Capital Asset and Debt Administration

Capital assets - The Town's investment in capital assets for its governmental activities and business type activities as of June 30, 2015 amounts to \$3,919,088 and \$28,117,432, respectively (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 Note 6 of this report.

Long-term debt - At the end of the current fiscal year, the Town had total debt outstanding of \$9,638,239. Of this amount, \$9,611,950 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 outstanding decreased by \$480,046.

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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### Next Year's Budgets and Rates

The fiscal year 2016 budget decreased by approximately 20%. All tax rates remained the same as in fiscal year 2015.

### 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 Position  
June 30, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,327,164	\$ 332,529	\$ 1,659,693
Receivables (net of allowance for uncollectibles):			
Taxes receivable	147,959	-	147,959
Accounts receivable	56,794	236,303	293,097
Other receivable	-	5,000	5,000
Interest receivable	-	-	-
Internal balances	270,365	(270,365)	-
Due from other governmental units	16,837	-	16,837
Inventories	-	9,976	9,976
Prepaid items	9,550	-	9,550
Net pension asset	97,576	65,785	163,361
Restricted assets:			
Cash and cash equivalents - bond requirements	-	257,584	257,584
Cash and cash equivalents - unspent bond proceeds	961,132	-	961,132
Capital assets (net of accumulated depreciation):			
Land and land improvements	2,114,692	-	2,114,692
Buildings and improvements	855,484	325,753	1,181,237
Improvements other than buildings	-	7,006,216	7,006,216
Water and sewer system	-	20,557,676	20,557,676
Machinery and equipment	76,247	219,442	295,689
Infrastructure	819,926	-	819,926
Construction in progress	52,739	8,345	61,084
Total assets	<u>\$ 6,806,465</u>	<u>\$ 28,754,244</u>	<u>\$ 35,560,709</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension contributions subsequent to measurement date	\$ 34,542	\$ 23,288	\$ 57,830
Total deferred outflows of resources	<u>\$ 34,542</u>	<u>\$ 23,288</u>	<u>\$ 57,830</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 49,372	\$ 112,244	\$ 161,616
Accrued liabilities	55,685	245,379	301,064
Accrued interest payable	21,016	57,824	78,840
Unearned revenue	-	36,751	36,751
Amounts held for others	-	28,379	28,379
Long-term liabilities:			
Due within one year	87,357	427,000	514,357
Due in more than one year	1,225,458	7,990,701	9,216,159
Total liabilities	<u>\$ 1,438,888</u>	<u>\$ 8,898,278</u>	<u>\$ 10,337,166</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Items related to measurement of net pension liability (asset)	\$ 87,367	\$ 58,904	\$ 146,271
Total deferred inflows of resources	<u>\$ 87,367</u>	<u>\$ 58,904</u>	<u>\$ 146,271</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 3,626,184	\$ 19,733,229	\$ 23,359,413
Restricted:			
Debt service and bond covenants	-	257,584	257,584
Unrestricted	1,688,568	(170,463)	1,518,105
Total net position	<u>\$ 5,314,752</u>	<u>\$ 19,820,350</u>	<u>\$ 25,135,102</u>

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

Municipal Corporation of Cape Charles, Virginia  
 Statement of Activities  
 For the Year Ended June 30, 2015

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions		Governmental Activities	Business-type Activities	Total
			Operating Grants and Contributions	Capital Grants and Contributions			
<b>PRIMARY GOVERNMENT:</b>							
Governmental activities:							
General government administration	\$ 702,411	\$ 177	\$ -	\$ -	\$ (702,234)	\$ -	\$ (702,234)
Public safety	423,254	96,215	39,990	-	(287,049)	-	(287,049)
Public works	483,605	-	1,059	116,255	(366,291)	-	(366,291)
Parks, recreation, and cultural	284,537	2,327	5,000	-	(277,210)	-	(277,210)
Community development	53,261	-	-	-	(53,261)	-	(53,261)
Interest on long-term debt	51,195	-	-	-	(51,195)	-	(51,195)
Total governmental activities	\$ 1,998,263	\$ 98,719	\$ 46,049	\$ 116,255	\$ (1,737,240)	\$ -	\$ (1,737,240)
Business-type activities:							
Water and Sewer	\$ 1,682,840	\$ 1,496,643	\$ 15,000	\$ -	\$ -	\$ (171,197)	\$ (171,197)
Harbor	1,065,951	802,272	-	-	-	(263,679)	(263,679)
Sanitation	170,335	177,982	-	-	-	7,647	7,647
Total business-type activities	\$ 2,919,126	\$ 2,476,897	\$ 15,000	\$ -	\$ -	\$ (427,229)	\$ (427,229)
Total primary government	\$ 4,917,389	\$ 2,575,616	\$ 61,049	\$ 116,255	\$ (1,737,240)	\$ (427,229)	\$ (2,164,469)
General revenues:							
General property taxes					\$ 1,250,336	\$ -	\$ 1,250,336
Restaurant food taxes					273,800	-	273,800
Business license taxes					94,516	-	94,516
Other local taxes					216,483	-	216,483
Unrestricted revenues from use of money and property					13,762	200	13,962
Miscellaneous					3,758	136,847	140,605
Grants and contributions not restricted to specific programs					82,429	-	82,429
Total general revenues					\$ 1,935,084	\$ 137,047	\$ 2,072,131
Change in net position					197,844	(290,182)	(92,338)
Net position - beginning, as restated					\$ 5,116,908	\$ 20,110,532	\$ 25,227,440
Net position - ending					\$ 5,314,752	\$ 19,820,350	\$ 25,135,102

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

*FUND FINANCIAL STATEMENTS*

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Municipal Corporation of Cape Charles, Virginia  
 Balance Sheet  
 Governmental Fund  
 June 30, 2015

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	<u>General</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,327,164
Receivables:	
Taxes receivable	147,959
Accounts receivable	56,794
Due from other funds	567,617
Due from other governmental units	16,837
Prepaid items	9,550
Restricted assets:	
Cash and cash equivalents - unspent bond proceeds	961,132
Total assets	<u>\$ 3,087,053</u>
<b>LIABILITIES</b>	
Accounts payable	\$ 49,372
Accrued liabilities	55,685
Due to other funds	297,252
Total liabilities	<u>\$ 402,309</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable revenue - property taxes	<u>\$ 138,963</u>
<b>FUND BALANCE</b>	
Restricted:	
Unspent bond proceeds	\$ 961,132
Unassigned	1,584,649
Total fund balance	<u>\$ 2,545,781</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 3,087,053</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 Fund  
 to the Statement of Net Position  
 June 30, 2015

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

Total fund balance per Exhibit 3 - Balance Sheet - Governmental Fund \$ 2,545,781

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Capital assets	\$ 7,282,055	
Accumulated depreciation	<u>(3,362,967)</u>	3,919,088

The net pension asset is not an available resource and, therefore, is not reported in the funds. 97,576

Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue.

Unavailable property taxes	\$ 138,963	
Items related to measurement of net pension liability (asset)	<u>(87,367)</u>	51,596

Pension contributions subsequent to the measurement date will be a reduction to/increase in the net pension liability/asset in the next fiscal year and, therefore, are not reported in the funds. 34,542

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. The following is a summary of items supporting this adjustment:

General obligation bonds	\$ (1,227,747)	
Capital leases	(15,100)	
Notes payable	(11,189)	
Compensated absences	(58,779)	
Accrued interest payable	<u>(21,016)</u>	(1,333,831)

Net position of governmental activities \$ 5,314,752

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 Balance  
Governmental Fund  
For the Year Ended June 30, 2015

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		<u>General</u>
<b>REVENUES</b>		
General property taxes	\$	1,308,036
Other local taxes		584,799
Permits, privilege fees, and regulatory licenses		79,022
Fines and forfeitures		17,193
Revenue from the use of money and property		13,762
Charges for services		2,504
Miscellaneous		3,758
Recovered costs		24,368
Intergovernmental:		
Commonwealth		126,584
Federal		118,149
Total revenues	\$	<u>2,278,175</u>
<b>EXPENDITURES</b>		
Current:		
General government administration	\$	710,293
Public safety - police department		342,582
Public safety - code enforcement		73,995
Public works		488,941
Parks, recreation, and cultural		170,270
Community development		57,293
Capital projects		8,631
Debt service:		
Principal retirement		86,123
Interest and other fiscal charges		50,696
Total expenditures	\$	<u>1,988,824</u>
Excess (deficiency) of revenues over (under) expenditures	\$	<u>289,351</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Issuance of capital lease	\$	15,100
Total other financing sources (uses)	\$	<u>15,100</u>
Net change in fund balance	\$	304,451
Fund balance - beginning		2,241,330
Fund balance - ending	\$	<u><u>2,545,781</u></u>

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

Municipal Corporation of Cape Charles, Virginia  
 Reconciliation of the Statement of Revenues,  
 Expenditures, and Changes in Fund Balance of Governmental Fund  
 to the Statement of Activities  
 For the Year Ended June 30, 2015

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

Net change in fund balance - total governmental fund \$ 304,451

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 depreciation expense exceeded the capital outlays in the current period.

Capital outlays	\$ 97,869	
Depreciation expense	<u>(241,316)</u>	(143,447)

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 unavailable taxes.

Increase(decrease) in unavailable property taxes	\$ (57,700)	
Increase (decrease) in deferred inflows of resources related to the measurement of the net pension liability/asset	<u>(87,367)</u>	(145,067)

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 position. A summary of items supporting this adjustment is as follows:

Principal retirement on general obligation bonds	\$ 73,150	
Principal retirement on capital leases	6,031	
Principal retirement on notes payable	6,942	
Issuance of capital lease	<u>(15,100)</u>	71,023

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) decrease in compensated absences	\$ (6,039)	
Decrease (increase) in net pension liability/asset	140,073	
Decrease (increase) in deferred outflows of resources related to pension payments subsequent to the measurement date	(22,651)	
(Increase) decrease in accrued interest payable	<u>(499)</u>	110,884

Change in net position of governmental activities		<u><u>\$ 197,844</u></u>
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The notes to the financial statements are an integral part of this statement.

Municipal Corporation of Cape Charles, Virginia  
Statement of Net Position  
Proprietary Funds  
June 30, 2015

	Water and Sewer	Harbor	Sanitation	Total
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 332,029	\$ 500	\$ -	\$ 332,529
Accounts receivables, net of allowance for uncollectibles	183,752	31,246	21,305	236,303
Due from other funds	37,255	53,146	260,086	350,487
Other receivables	5,000	-	-	5,000
Inventories	-	9,976	-	9,976
Total current assets	<u>\$ 558,036</u>	<u>\$ 94,868</u>	<u>\$ 281,391</u>	<u>\$ 934,295</u>
Noncurrent assets:				
Net pension asset	\$ 52,798	\$ 12,987	\$ -	\$ 65,785
Restricted assets:				
Cash and cash equivalents - bond requirements	\$ 257,584	\$ -	\$ -	\$ 257,584
Total restricted assets	<u>\$ 257,584</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 257,584</u>
Capital assets (net of accumulated depreciation):				
Water and sewer system	\$ 20,557,676	\$ -	\$ -	\$ 20,557,676
Buildings and improvements	-	325,753	-	325,753
Improvements other than buildings	3,487,928	3,518,288	-	7,006,216
Machinery and equipment	155,979	63,463	-	219,442
Construction in progress	8,345	-	-	8,345
Total capital assets	<u>\$ 24,209,928</u>	<u>\$ 3,907,504</u>	<u>\$ -</u>	<u>\$ 28,117,432</u>
Total noncurrent assets	<u>\$ 24,520,310</u>	<u>\$ 3,920,491</u>	<u>\$ -</u>	<u>\$ 28,440,801</u>
Total assets	<u>\$ 25,078,346</u>	<u>\$ 4,015,359</u>	<u>\$ 281,391</u>	<u>\$ 29,375,096</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension contributions subsequent to measurement date	\$ 18,691	\$ 4,597	\$ -	\$ 23,288
Total deferred outflows of resources	<u>\$ 18,691</u>	<u>\$ 4,597</u>	<u>\$ -</u>	<u>\$ 23,288</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 37,480	\$ 60,085	\$ 14,679	\$ 112,244
Accrued liabilities	239,758	5,621	-	245,379
Due to other funds	53,075	567,617	160	620,852
Interest payable	31,918	25,906	-	57,824
Unearned revenue	-	36,751	-	36,751
Customer deposits payable	28,079	300	-	28,379
Bonds payable - current portion	287,199	136,451	-	423,650
Compensated absences - current portion	2,643	707	-	3,350
Total current liabilities	<u>\$ 680,152</u>	<u>\$ 833,438</u>	<u>\$ 14,839</u>	<u>\$ 1,528,429</u>
Noncurrent liabilities:				
Bonds payable - net of current portion	\$ 6,838,827	\$ 1,121,726	\$ -	\$ 7,960,553
Compensated absences - net of current portion	23,782	6,366	-	30,148
Total noncurrent liabilities	<u>\$ 6,862,609</u>	<u>\$ 1,128,092</u>	<u>\$ -</u>	<u>\$ 7,990,701</u>
Total liabilities	<u>\$ 7,542,761</u>	<u>\$ 1,961,530</u>	<u>\$ 14,839</u>	<u>\$ 9,519,130</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Items related to measurement of net pension asset	\$ 47,275	\$ 11,629	\$ -	\$ 58,904
Total deferred inflows of resources	<u>\$ 47,275</u>	<u>\$ 11,629</u>	<u>\$ -</u>	<u>\$ 58,904</u>
<b>NET POSITION</b>				
Net investment in capital assets	\$ 17,083,902	\$ 2,649,327	\$ -	\$ 19,733,229
Restricted for debt service and bond covenants	257,584	-	-	257,584
Unrestricted	165,515	(602,530)	266,552	(170,463)
Total net position	<u>\$ 17,507,001</u>	<u>\$ 2,046,797</u>	<u>\$ 266,552</u>	<u>\$ 19,820,350</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 Net Position  
Proprietary Funds  
For the Year Ended June 30, 2015

	<u>Water and Sewer</u>	<u>Harbor</u>	<u>Sanitation</u>	<u>Total</u>
<b>OPERATING REVENUES</b>				
Charges for services:				
Water	\$ 492,342	\$ -	\$ -	\$ 492,342
Sewer	970,555	-	-	970,555
Septic	900	-	-	900
Harbor fees	-	270,231	-	270,231
Penalties	32,846	-	-	32,846
Refuse collection	-	-	177,982	177,982
Fuel and oil sales	-	479,402	-	479,402
Events	-	52,639	-	52,639
Miscellaneous	1,669	17,853	-	19,522
Total operating revenues	<u>\$ 1,498,312</u>	<u>\$ 820,125</u>	<u>\$ 177,982</u>	<u>\$ 2,496,419</u>
<b>OPERATING EXPENSES</b>				
Personnel services	\$ 375,131	\$ 147,820	\$ -	\$ 522,951
Fringe benefits	104,642	36,491	-	141,133
Contractual services	88,702	17,717	169,451	275,870
Other supplies and expenses	376,478	607,427	884	984,789
Depreciation	642,817	199,236	-	842,053
Total operating expenses	<u>\$ 1,587,770</u>	<u>\$ 1,008,691</u>	<u>\$ 170,335</u>	<u>\$ 2,766,796</u>
Operating income (loss)	<u>\$ (89,458)</u>	<u>\$ (188,566)</u>	<u>\$ 7,647</u>	<u>\$ (270,377)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Intergovernmental	\$ 15,000	\$ -	\$ -	\$ 15,000
Investment income	200	-	-	200
Connection fees	16,625	-	-	16,625
Facility fees	100,700	-	-	100,700
Interest and fiscal charges	(95,070)	(57,260)	-	(152,330)
Total nonoperating revenues (expenses)	<u>\$ 37,455</u>	<u>\$ (57,260)</u>	<u>\$ -</u>	<u>\$ (19,805)</u>
Change in net position	<u>\$ (52,003)</u>	<u>\$ (245,826)</u>	<u>\$ 7,647</u>	<u>\$ (290,182)</u>
Total net position - beginning, as restated	17,559,004	2,292,623	258,905	20,110,532
Total net position - ending	<u>\$ 17,507,001</u>	<u>\$ 2,046,797</u>	<u>\$ 266,552</u>	<u>\$ 19,820,350</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, 2015

	Water and <u>Sewer</u>	<u>Harbor</u>	<u>Sanitation</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 1,497,472	\$ 868,768	\$ 177,275	\$ 2,543,515
Payments for operating expenses	(449,565)	(554,739)	(177,275)	(1,181,579)
Payments to employees	(494,821)	(189,056)	-	(683,877)
Net cash provided by (used for) operating activities	<u>\$ 553,086</u>	<u>\$ 124,973</u>	<u>\$ -</u>	<u>\$ 678,059</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchase of capital assets	\$ (111,246)	\$ -	\$ -	\$ (111,246)
Principal payments on bonds	(341,310)	(67,713)	-	(409,023)
Connection fees	16,625	-	-	16,625
Facility fees	100,700	-	-	100,700
Capital grants	15,000	-	-	15,000
Interest payments	(95,070)	(57,260)	-	(152,330)
Net cash provided by (used for) capital and related financing activities	<u>\$ (415,301)</u>	<u>\$ (124,973)</u>	<u>\$ -</u>	<u>\$ (540,274)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest and dividends received	\$ 200	\$ -	\$ -	\$ 200
Net cash provided by (used for) investing activities	<u>\$ 200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 200</u>
Net increase (decrease) in cash and cash equivalents	\$ 137,985	\$ -	\$ -	\$ 137,985
Cash and cash equivalents - beginning - including restricted	451,628	500	-	452,128
Cash and cash equivalents - ending - including restricted	<u>\$ 589,613</u>	<u>\$ 500</u>	<u>\$ -</u>	<u>\$ 590,113</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>				
Operating income (loss)	\$ (89,458)	\$ (188,566)	\$ 7,647	\$ (270,377)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	\$ 642,817	\$ 199,236	\$ -	\$ 842,053
(Increase) decrease in accounts receivable	8,260	13,492	(707)	21,045
(Increase) decrease in deferred outflows of resources	12,256	3,015	-	15,271
Increase (decrease) in deferred inflows of resources	47,275	11,629	-	58,904
(Increase) decrease in net pension asset	(75,793)	(18,643)	-	(94,436)
(Increase) decrease in due from other funds	52,989	(6,443)	(7,047)	39,499
Increase (decrease) in due to other funds	6,559	66,146	(29)	72,676
(Increase) decrease in inventories	-	12,289	-	12,289
Increase (decrease) in customer deposits	(9,100)	(1,600)	-	(10,700)
Increase (decrease) in accounts payable	(44,015)	11,312	1,080	(31,623)
Increase (decrease) in unearned revenue	-	36,751	-	36,751
Increase (decrease) in interest payable	(1,369)	7,394	-	6,025
Increase (decrease) in accrued liabilities	1,451	(20,293)	(944)	(19,786)
Increase (decrease) in compensated absences	1,214	(746)	-	468
Increase (decrease) in due to other funds	<u>\$ 642,544</u>	<u>\$ 313,539</u>	<u>\$ (7,647)</u>	<u>\$ 948,436</u>
Net cash provided by (used for) operating activities	<u>\$ 553,086</u>	<u>\$ 124,973</u>	<u>\$ -</u>	<u>\$ 678,059</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, 2015

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*Note 1 – Summary of Significant Accounting Policies:*

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The Municipal Corporation of Cape Charles, Virginia (the "Municipal Corp.") is governed by an elected mayor and a six member Council. The Municipal Corp. provides a full range of services for its citizens. These services include police protection, sanitation services, and utilities.

The financial statements of Municipal Corporation of Cape Charles, Virginia have been prepared in conformity with the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board and the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia. The more significant of the Municipal Corp.'s accounting policies are described below.

Financial Statement Presentation - The Municipal Corp.'s financial report is prepared in accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

Management's Discussion and Analysis - GASB Statement No. 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "Management's Discussion and Analysis" (MD&A).

Government-wide and Fund Financial Statements

Government-wide Financial Statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and general obligation debt).

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Statement of Net Position - The Statement of Net Position is designed to display financial position of the primary government (governmental and business-type activities). Governments will report all capital assets in the government-wide Statement of Net Position and will report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net position of a government will be broken down into three categories - 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

*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 are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Budgetary Comparison Schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. Many governments revise their original budgets over the course of the year for a variety of reasons. Under the GASB 34 reporting model, governments provide budgetary comparison information in their annual reports, including a requirement to report the government's original budget with the comparison of final budget and actual results.

A. Financial Reporting Entity

The basic criterion for determining whether a governmental department, agency, institution, commission, public authority, or other governmental organization should be included in a primary governmental unit's reporting entity for the basic financial statements is financial accountability. Financial accountability includes the appointment of a voting majority of the organization's governing body and the ability of the primary government to impose its will on the organization or if there is a financial benefit/burden relationship. In addition, an organization which is fiscally dependent on the primary government should be included in its reporting entity. These financial statements present the Municipal Corporation of Cape Charles (the primary government). Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government.

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

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**B. Individual Component Unit Disclosures**

*Blended Component Units.* The Municipal Corp. has no blended component units at June 30, 2015.

*Discretely Presented Component Units.* - The Municipal Corp. has no discretely presented component units at June 30, 2015.

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

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) which are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, etc.) or a business-type activity.

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 unavailable revenues. Sales and utility taxes, which are collected by the state or utility and subsequently remitted to the Municipal Corp., are recognized as revenues and receivables upon collection by the state or utility, which is generally within two months preceding receipt by the Municipal Corp..

Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when cash is received by the government.

In the fund financial statements, financial transactions and accounts of the Municipal Corp. are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

1. Governmental Funds

Governmental Funds are those through which most governmental functions typically are financed.

The General Fund is the primary operating fund of the Municipal Corp. This fund is used to account for and report all financial resources except those required to be accounted for and reported 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 reporting purposes.

2. Proprietary Funds

Proprietary Funds account for operations that are financed in a manner similar to those found in private business enterprises. The 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 account for the financing of services to the general public where all or most of the operating expenses involved are recorded in the form of charges to users of such services. Enterprise Funds consist of the Water and Sewer, Harbor, and Sanitation Funds.

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

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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 Municipal Corp.

E. Investments

Investments are reported at fair value which approximates market; no investments are valued at cost. Investments maturing in three months or less of the date acquired are reported in the accompanying financial statements as cash and cash equivalents.

State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements.

F. Prepaid Items

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

G. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “due to/from other funds” (i.e. the current portions of the interfund loans). All other outstanding balances between funds are reported as “advances to/from other funds” (i.e. the noncurrent portion of interfund loans).

All trade and property tax receivables are shown net of an allowance for uncollectibles. The Municipal Corp. calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance for uncollectible utility billing and harbor billing amounted to approximately \$106,495, and \$71,811, respectively, at June 30, 2015.

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

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

G. Receivables and Payables (continued)

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

H. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Municipal Corp. as land, buildings, and equipment with an initial individual cost of more than \$5,000 (with the exception of land values) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized for the fiscal year ended June 30, 2015.

Property, plant and equipment of the Municipal Corp. are depreciated using the straight-line method over the following estimated useful lives.

Assets	Years
Buildings and improvements	20-40
Furniture, vehicles and office equipment	3-10
Water/sewer system	15-50
Docks	50

I. 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 Position. In accordance with the provisions of Governmental Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as “terminal leave” prior to retirement.

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

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J. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

K. Net Position

Net position is the difference between a) assets and deferred outflows of resources and b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

L. Net Position Flow Assumption

Sometimes the Municipal Corp. will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Municipal Corp.'s policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

M. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Corp.'s Retirement Plan and the additions to/deductions from the Municipal Corp.'s Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

N. Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities or business-type activities statement of net position. 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 during the current period. The face amount of debt issued and premiums on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

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

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O. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of items for resale. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

P. Fund Equity

The Municipal Corp. reports fund balance in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (Corp.us of a permanent fund);
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund. Governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When fund balance resources are available for a specific purpose in more than one classification, it is the Municipal Corp.'s policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

Municipal Corp. Council establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by Municipal Corp. Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).



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

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**Q. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Municipal Corp. has one item that qualifies for reporting in this category. It is comprised of contributions to the pension plan made during the current year and subsequent to the net pension asset or liability next fiscal year. For more detailed information on these items, reference the pension note.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Municipal Corp. has two types of items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30, and amount prepaid on next year's taxes and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, amounts prepaid on next year's taxes are reported as inflows of resources. In addition, certain items related to the measurement of the net pension liability (asset) are reported as deferred inflows of resources. These include the differences between expected and actual experience, change in assumptions, the net difference between projected and actual earnings on pension plan investments and the changes in proportion and differences between employer contributions and proportionate share of contributions. For more detailed information on these items, reference the pension note.

**R. Adoption of Accounting Principles**

*Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68:*

The Municipal Corp. implemented the financial reporting provisions of the above Statements for the fiscal year ended June 30, 2015. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and required supplementary information requirements about pensions are also addressed. The requirements will improve financial reporting by improving accounting and financial reporting by state and local governments for pensions. The implementation of these Statements resulted in a restatement of net position, reference Note 14.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements  
As of June 30, 2015 (Continued)

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

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The following procedures are used by the Municipal Corp. in establishing the budgetary data reflected in the financial statements:

1. Prior to June 1<sup>st</sup>, the Mayor submits to the Municipal Corp. 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 Municipal Corp. Council or Municipal Corp. Manager.
5. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
6. Appropriations lapse on June 30, for all Municipal Corp. units.

Expenditures and Appropriations

Expenditures did not exceed appropriations in any funds for the fiscal year ended June 30, 2015.

*Note 3 – Deposits and Investments:*

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Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”) Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments

Statutes authorize the Municipal Corp. 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).

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements  
As of June 30, 2015 (Continued)

*Note 3 – Deposits and Investments: (Continued)*

Credit Risk of Debt Securities

The Municipal Corp.'s rated debt investments as of June 30, 2015 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale. The Municipal Corp.'s investment policy has an emphasis on high credit quality and known marketability. The Municipal Corp.'s policy seeks to maximize the rate of return on investments while maintaining a low level of risk.

<u>Rated Debt Investments</u>	<u>Fair Quality Rating</u>
	<u>AAAm</u>
Local Government Investment Pool	\$ 407,228
Virginia State Non-Arbitrage Program	961,132
Money Market Mutual Fund	<u>257,584</u>
Total	<u><u>\$ 1,625,944</u></u>

External Investment Pools

The State Non-Arbitrage Pool (SNAP) is an open-end management investment company registered with the Securities and Exchange Commission. The fair value of the positions in the Local Government Investment Pool (LGIP) and SNAP are the same as the value of the pool shares. As LGIP is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. LGIP maintains a policy to operate in a manner consistent with SEC Rule 2a-7.

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

At June 30, 2015, the Municipal Corp. has receivables from other governments as follows:

	<u>Governmental Activities</u>
Other Local Governments:	
County of Northampton	\$ 9,121
Commonwealth of Virginia:	
Communications tax	<u>7,716</u>
Total due from other governments	<u><u>\$ 16,837</u></u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements  
As of June 30, 2015 (Continued)

*Note 5 – Interfund Obligations:*

Details of the Municipal Corp.’s interfund receivable and payables as of June 30, 2015, are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 567,617	\$ 297,252
Water and Sewer Fund	37,255	53,075
Harbor Fund	53,146	567,617
Sanitation Fund	<u>260,086</u>	<u>160</u>
 Total	 <u>\$ 918,104</u>	 <u>\$ 918,104</u>

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

*Note 6 – Capital Assets:*

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2015:

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</u>
Governmental Activities:				
Capital assets not subject to depreciation:				
Construction in progress	\$ 37,408	\$ 23,631	\$ 8,300	\$ 52,739
Land and land improvements	<u>2,114,692</u>	<u>-</u>	<u>-</u>	<u>2,114,692</u>
Total capital assets not subject to depreciation	\$ <u>2,152,100</u>	\$ <u>23,631</u>	\$ <u>8,300</u>	\$ <u>2,167,431</u>
Capital assets subject to depreciation:				
Buildings and improvements	\$ 3,116,900	\$ -	\$ -	\$ 3,116,900
Machinery and equipment	990,940	8,848	-	999,788
Infrastructure	<u>924,246</u>	<u>73,690</u>	<u>-</u>	<u>997,936</u>
Total capital assets subject to depreciation	\$ <u>5,032,086</u>	\$ <u>82,538</u>	\$ <u>-</u>	\$ <u>5,114,624</u>
Accumulated depreciation:				
Buildings and improvements	\$ 2,111,274	\$ 150,142	\$ -	\$ 2,261,416
Machinery and equipment	869,337	54,204	-	923,541
Infrastructure	<u>141,040</u>	<u>36,970</u>	<u>-</u>	<u>178,010</u>
Total accumulated depreciation	\$ <u>3,121,651</u>	\$ <u>241,316</u>	\$ <u>-</u>	\$ <u>3,362,967</u>
Total capital assets subject to depreciation, net	\$ <u>1,910,435</u>	\$ <u>(158,778)</u>	\$ <u>-</u>	\$ <u>1,751,657</u>
Governmental activities capital assets, net	\$ <u>4,062,535</u>	\$ <u>(135,147)</u>	\$ <u>8,300</u>	\$ <u>3,919,088</u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements  
As of June 30, 2015 (Continued)

*Note 6 – Capital Assets: (Continued)*

Business-type Activities:	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Capital assets not subject to depreciation:				
Construction in progress	\$ 23,345	\$ 21,650	\$ 36,650	\$ 8,345
Capital assets subject to depreciation:				
Water and sewer system	\$ 25,297,091	\$ -	\$ -	\$ 25,297,091
Buildings and improvements	755,670	-	-	755,670
Improvements other than buildings	10,139,479	64,028	-	10,203,507
Machinery and equipment	723,810	62,218	-	786,028
 Total capital assets subject to depreciation	 \$ 36,916,050	 \$ 126,246	 \$ -	 \$ 37,042,296
Accumulated depreciation:				
Water and sewer system	\$ 4,235,231	\$ 504,184	\$ -	\$ 4,739,415
Buildings and improvements	397,342	32,575	-	429,917
Improvements other than buildings	2,923,587	273,704	-	3,197,291
Machinery and equipment	534,996	31,590	-	566,586
Total accumulated depreciation	\$ 8,091,156	\$ 842,053	\$ -	\$ 8,933,209
 Total capital assets subject to depreciation, net	 \$ 28,824,894	 \$ (715,807)	 \$ -	 \$ 28,109,087
Business-type activities capital assets, net	\$ 28,848,239	\$ (694,157)	\$ 36,650	\$ 28,117,432

Depreciation expense was charged to functions/programs as follows:

Governmental activities:

General government administration	\$ 22,876
Public safety	33,672
Public works	25,023
Parks, recreation and cultural	159,745
 Total governmental activities	 \$ 241,316

Business-type activities:

Water and Sewer	\$ 642,817
Harbor	199,236
 Total business-type activities	 \$ 842,053

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements  
As of June 30, 2015 (Continued)

*Note 7 – Long-term Obligations:*

The following is a summary of long-term obligation transactions of the Municipal Corp. for the year ended June 30, 2015:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2015</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Governmental activities:					
Compensated absences	\$ 52,739	\$ 11,313	\$ 5,274	\$ 58,778	\$ 5,879
General obligation bonds	1,300,897	-	73,150	1,227,747	71,523
Capital leases	6,031	15,100	6,031	15,100	2,788
Notes payable	<u>18,131</u>	<u>-</u>	<u>6,942</u>	<u>11,189</u>	<u>7,167</u>
Total obligations from governmental activities	<u>\$ 1,377,798</u>	<u>\$ 26,413</u>	<u>\$ 91,397</u>	<u>\$ 1,312,814</u>	<u>\$ 87,357</u>
Business-type activities:					
Compensated absences	\$ 33,030	\$ 799	\$ 331	\$ 33,498	\$ 3,350
General obligation bonds	<u>8,793,226</u>	<u>-</u>	<u>409,023</u>	<u>8,384,203</u>	<u>423,650</u>
Total obligations from business-type activities	<u>\$ 8,826,256</u>	<u>\$ 799</u>	<u>\$ 409,354</u>	<u>\$ 8,417,701</u>	<u>\$ 427,000</u>
Total long-term obligations	<u>\$ 10,204,054</u>	<u>\$ 27,212</u>	<u>\$ 500,751</u>	<u>\$ 9,730,515</u>	<u>\$ 514,357</u>

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Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements  
As of June 30, 2015 (Continued)

*Note 7 – Long-term Obligations: (Continued)*

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

Year Ending June 30	Governmental Activities Obligations				Business-type Activities Obligations	
	General Obligation Bonds		Notes Payable		General Obligation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 71,523	\$ 47,449	\$ 7,167	\$ 320	\$ 423,650	\$ 136,405
2017	78,573	44,491	3,238	86	425,600	130,578
2018	80,813	41,228	784	3	463,361	124,132
2019	73,823	38,202	-	-	475,350	117,440
2020	74,553	35,263	-	-	482,621	110,375
2021	77,874	32,093	-	-	490,300	102,989
2022	81,508	28,726	-	-	497,666	94,808
2023	85,142	25,307	-	-	506,031	86,426
2024	89,618	21,696	-	-	512,556	77,738
2025	93,566	17,769	-	-	521,607	68,766
2026	98,143	13,528	-	-	532,031	59,407
2027	101,250	9,046	-	-	542,923	49,226
2028	42,701	6,329	-	-	541,472	39,685
2029	45,000	5,047	-	-	552,173	30,072
2030	45,739	3,700	-	-	560,435	20,126
2031	21,038	2,330	-	-	377,135	9,913
2032	21,666	1,772	-	-	380,507	6,310
2033	22,294	1,198	-	-	48,706	2,618
2034	22,923	608	-	-	50,079	1,327
Total	\$ <u>1,227,747</u>	\$ <u>375,782</u>	\$ <u>11,189</u>	\$ <u>409</u>	\$ <u>8,384,203</u>	\$ <u>1,268,341</u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements  
As of June 30, 2015 (Continued)

*Note 7 – Long-term Obligations: (Continued)*

Long-term obligations at June 30, 2015 are as follows:

	<u>Amount Outstanding</u>
<u>Details of Long-term Indebtedness:</u>	
<u>Governmental Activities:</u>	
Details of General Obligation bonds:	
\$1,795,000 general obligation bond issued July 1, 2006, due in various annual installments through August 2026, interest at various rates from 3.65% to 5.00%, loan split between general government and enterprise funds	\$ 746,809
\$2,120,000 recovery act general obligation bond issued March 2, 2010, due in various annual installments through February 15, 2030, interest at various rates from 3.518% to 6.567%, loan split between general government and enterprise funds	166,624
\$1,019,000 public improvement general obligation bond issued December 18, 2013, due in various annual installments through March 1, 2034, interest at 2.65%, loan split between general government and enterprise funds	<u>314,314</u>
Total general obligation debt	<u>\$ 1,227,747</u>
Details of Notes Payable:	
\$15,750 Rural Development note issued September 19, 2012, due in monthly installments of \$277 through September, 2017, interest at 3.375%	\$ 7,157
\$11,745 Rural Development note issued April 23, 2013, due in annual installments of \$4,163 through April, 2016, interest at 3.125%	<u>4,032</u>
Total notes payable	<u>\$ 11,189</u>
Capital lease obligations (see Note 8)	<u>\$ 15,100</u>
Compensated Absences (payable from the General Fund)	<u>\$ 58,778</u>
Total governmental activities obligations payable	<u><u>\$ 1,312,814</u></u>



Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements  
As of June 30, 2015 (Continued)

*Note 7 – Long-term Obligations: (Continued)*

Long-term obligations at June 30, 2015 are as follows: (continued)

	<u>Amount Outstanding</u>
<u>Business-type Activities:</u>	
Details of General Obligation Bonds:	
\$1,795,000 general obligation bond issued July 1, 2006, due in various annual installments through August 2026, interest at various rates from 3.65% to 5.00%, loan split between general government and enterprise funds	\$ 413,192
\$2,120,000 recovery act general obligation bond issued March 2, 2010, due in various annual installments through February 15, 2030, interest at various rates from 3.518% to 6.567%, loan split between general government and enterprise funds	1,838,376
\$500,000 recovery act general obligation bond issued March 2, 2010, due in various annual installments through February 15, 2017, interest at various rates from 2.00% to 4.00%	170,000
\$5,151,627 VRA Water Facilities Revolving Fund general obligation bond issued November 30, 2010, due in semi-annual installments of \$128,791 through May, 2032, interest at 0%	4,099,949
\$1,019,000 public improvement general obligation bond issued December 18, 2013, due in various annual installments through March 1, 2034, interest at 2.65%, loan split between general government and enterprise funds	686,686
\$1,201,000 refunding general obligation bond issued December 18, 2013, due in various annual installments through March 1, 2032, interest at 2.65%	<u>1,176,000</u>
Total general obligation bonds	<u>\$ 8,384,203</u>
Compensated Absences (payable from Enterprise Funds)	<u>\$ 33,498</u>
Total business-type activities obligations	<u><u>\$ 8,417,701</u></u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements  
As of June 30, 2015 (Continued)

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*Note 8 – Capital Leases:*

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The government has entered into a lease agreement as lessee for financing the acquisition of a police truck. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Equipment	\$ 25,326
Less: accumulated depreciation	(5,065)
	<hr/>
Total	\$ 20,261
	<hr/> <hr/>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2015, were as follows:

Year Ended June 30	Governmental Activities
2016	\$ 3,392
2017	3,392
2018	3,392
2019	3,392
2020	3,391
	<hr/>
Total minimum lease payments	\$ 16,959
Less: amount representing interest	(1,859)
	<hr/>
Present value of minimum lease payments	\$ 15,100
	<hr/> <hr/>

*Note 9 – Unavailable Revenue:*

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Unavailable 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. Unavailable revenue totaling \$138,963 consists of the following:

Unavailable Tax Revenue - Unavailable revenue representing uncollected tax billings not available for funding of current expenditures totaled \$138,963 at June 30, 2015.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements  
As of June 30, 2015 (Continued)

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*Note 10 – Litigation:*

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At June 30, 2015, there were no matters of litigation involving the Municipal Corp. or which would materially affect the Municipal Corp.'s financial position should any court decisions on pending matters not be favorable to the Municipal Corp.

*Note 11 – Risk Management:*

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The Municipal Corp. 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 Municipal Corp. participates with other localities in a public entity risk pool for their coverage of workers' compensation, public officials' liability and all other risks of loss. The Municipal Corp. 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.

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**Note 12 – Pension Plan:**

**Plan Description**

All full-time, salaried permanent employees of the Municipal Corp. are automatically covered by VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees - Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

<b>RETIREMENT PLAN PROVISIONS</b>		
<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p><b>About Plan 1</b> Plan 1 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p><b>About Plan 2</b> Plan 2 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p><b>About the Hybrid Retirement Plan</b> The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see “Eligible Members”)</p> <ul style="list-style-type: none"> <li>• The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.</li> <li>• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.</li> </ul>

**Note 12 – Pension Plan: (Continued)**

**Plan Description (Continued)**

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
		<ul style="list-style-type: none"> <li>• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.</li> </ul>
<p><b>Eligible Members</b> Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan’s effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p><b>Eligible Members</b> Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan’s effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p><b>Eligible Members</b> Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>• Political subdivision employees*</li> <li>• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan’s effective date for opt-in members was July 1, 2014.</li> </ul> <p><b>*Non-Eligible Members</b> Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.</li> </ul>

**Note 12 – Pension Plan: (Continued)**

**Plan Description (Continued)**

<b>RETIREMENT PLAN PROVISIONS (CONTINUED)</b>		
<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p><b>Hybrid Opt-In Election (Cont.)</b> Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p><b>Hybrid Opt-In Election (Cont.)</b> Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p><b>*Non-Eligible Members (Cont.)</b> Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p><b>Retirement Contributions</b> Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p><b>Retirement Contributions</b> Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.</p>	<p><b>Retirement Contributions</b> A member’s retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee’s creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

**Note 12 – Pension Plan: (Continued)**

**Plan Description (Continued)**

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Creditable Service</b> Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member’s total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p><b>Creditable Service</b> Same as Plan 1.</p>	<p><b>Creditable Service</b> <u><b>Defined Benefit Component:</b></u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member’s total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u><b>Defined Contributions Component:</b></u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

**Note 12 – Pension Plan: (Continued)**

**Plan Description (Continued)**

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Vesting</b> Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p><b>Vesting</b> Same as Plan 1.</p>	<p><b>Vesting</b> <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p>



**Note 12 – Pension Plan: (Continued)**

**Plan Description (Continued)**

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Vesting (Cont.)</p>	<p>Vesting (Cont.)</p>	<p>Vesting (Cont.) <u>Defined Contributions Component: (Cont.)</u> Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distribution is not required by law until age 70½.</p>
<p><b>Calculating the Benefit</b> The Basic Benefit is calculated based on a formula using the member’s average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p>	<p><b>Calculating the Benefit</b> See definition under Plan 1.</p>	<p><b>Calculating the Benefit</b> <u>Defined Benefit Component:</u> See definition under Plan 1</p>

**Note 12 – Pension Plan: (Continued)**

**Plan Description (Continued)**

<b>RETIREMENT PLAN PROVISIONS (CONTINUED)</b>		
<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p><b>Calculating the Benefit (Cont.)</b> An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p><b>Calculating the Benefit (Cont.)</b></p>	<p><b>Calculating the Benefit (Cont.)</b> <u><b>Defined Contribution Component:</b></u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p><b>Average Final Compensation</b> A member’s average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> A member’s average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p><b>Service Retirement Multiplier</b> VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p> <p><b>Sheriffs and regional jail superintendents:</b> The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p><b>Political subdivision hazardous duty employees:</b> The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p>	<p><b>Service Retirement Multiplier</b> VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p> <p><b>Sheriffs and regional jail superintendents:</b> Same as Plan 1.</p> <p><b>Political subdivision hazardous duty employees:</b> Same as Plan 1.</p>	<p><b>Service Retirement Multiplier</b> <u><b>Defined Benefit Component:</b></u> VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p><b>Sheriffs and regional jail superintendents:</b> Not applicable.</p> <p><b>Political subdivision hazardous duty employees:</b> Not applicable.</p> <p><u><b>Defined Contribution Component:</b></u> Not applicable.</p>

**Note 12 – Pension Plan: (Continued)**

**Plan Description (Continued)**

<b>RETIREMENT PLAN PROVISIONS (CONTINUED)</b>		
<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p>

**Note 12 – Pension Plan: (Continued)**

**Plan Description (Continued)**

<b>RETIREMENT PLAN PROVISIONS (CONTINUED)</b>		
<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p><b>Earliest Reduced Retirement Eligibility (Cont.)</b></p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p><b>Earliest Reduced Retirement Eligibility (Cont.)</b></p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p><b>Earliest Reduced Retirement Eligibility (Cont.)</b></p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p>

**Note 12 – Pension Plan: (Continued)**

**Plan Description (Continued)**

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> <li>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li> <li>• The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.</li> <li>• The member dies in service and the member’s survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.</li> </ul>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

**Note 12 – Pension Plan: (Continued)**

**Plan Description (Continued)**

<b>RETIREMENT PLAN PROVISIONS (CONTINUED)</b>		
<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p><b>Disability Coverage</b> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p><b>Disability Coverage</b> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p><b>Disability Coverage</b> Employees of political subdivisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>
<p><b>Purchase of Prior Service</b> Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p><b>Purchase of Prior Service</b> Same as Plan 1.</p>	<p><b>Purchase of Prior Service</b> <u><b>Defined Benefit Component:</b></u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> <li>• Hybrid Retirement Plan members are ineligible for ported service.</li> <li>• The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.</li> <li>• Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.</li> </ul> <p><u><b>Defined Contribution Component:</b></u> Not applicable.</p>

**Note 12 – Pension Plan: (Continued)**

**Plan Description (Continued)**

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2014-annual-report.pdf> or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

**Employees Covered by Benefit Terms**

As of the June 30, 2013 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	14
Inactive members:	
Vested inactive members	5
Non-vested inactive members	16
Inactive members active elsewhere in VRS	<u>13</u>
Total inactive members	48
Active members	<u>24</u>
Total covered employees	<u><u>72</u></u>

**Contributions**

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Municipal Corp.’s contractually required contribution rate for the year ended June 30, 2015 was 5.17% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Municipal Corp. were \$57,830 and \$95,762 for the years ended June 30, 2015 and June 30, 2014, respectively.

**Note 12 – Pension Plan: (Continued)**

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**Net Pension Liability**

The Municipal Corp.'s net pension liability (asset) was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

**Actuarial Assumptions - General Employees**

The total pension liability for General Employees in the Municipal Corp.'s Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: 14% of deaths are assumed to be service related

**Largest 10 - Non-LEOS:**

**Pre-Retirement:**

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

**Post-Retirement:**

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

**Post-Disablement:**

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

**All Others (Non 10 Largest) - Non-LEOS:**

**Pre-Retirement:**

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

**Post-Retirement:**

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

**Post-Disablement:**

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement



**Note 12 – Pension Plan: (Continued)**

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**Actuarial Assumptions - General Employees (Continued)**

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

**Actuarial Assumptions - Public Safety Employees**

The total pension liability for Public Safety employees in the Municipal Corp.'s Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Inflation	2.5%
Salary increases, including inflation	3.5% - 4.75%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

**Note 12 – Pension Plan: (Continued)**

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**Actuarial Assumptions - Public Safety Employees (Continued)**

Mortality rates: 60% of deaths are assumed to be service related

Largest 10 - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

All Others (Non 10 Largest) - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) - LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

**Note 12 – Pension Plan: (Continued)****Long-Term Expected Rate of Return**

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
		Inflation	2.50%
		*Expected arithmetic nominal return	8.33%

\* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

**Note 12 – Pension Plan: (Continued)****Discount Rate**

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Municipal Corp. Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

**Changes in Net Pension Liability (Asset)**

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2013	\$ 2,125,326	\$ 2,054,178	\$ 71,148
Changes for the year:			
Service cost	\$ 96,808	\$ -	\$ 96,808
Interest	145,759	-	145,759
Contributions - employer	-	95,752	(95,752)
Contributions - employee	-	54,200	(54,200)
Net investment income	-	328,807	(328,807)
Benefit payments, including refunds of employee contributions	(86,097)	(86,097)	-
Administrative expenses	-	(1,701)	1,701
Other changes	-	18	(18)
Net changes	\$ 156,470	\$ 390,979	\$ (234,509)
Balances at June 30, 2014	\$ 2,281,796	\$ 2,445,157	\$ (163,361)

**Note 12 – Pension Plan: (Continued)**

**Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate**

The following presents the net pension liability (asset) of the Municipal Corp. using the discount rate of 7.00%, as well as what the Municipal Corp.’s net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	(6.00%)	(7.00%)	(8.00%)
Town			
Net Pension Liability (Asset)	173,730	(163,361)	(438,317)

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended June 30, 2015, the Municipal Corp. recognized pension expense of \$7,514. At June 30, 2015, the Municipal Corp. reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 146,271
Employer contributions subsequent to the measurement date	57,830	-
Total	\$ 57,830	\$ 146,271

**Note 12 – Pension Plan: (Continued)**

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***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)***

\$57,830 reported as deferred outflows of resources related to pensions resulting from the Municipal Corp.’s contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30</u>	
2016	\$ (36,568)
2017	(36,568)
2018	(36,568)
2019	(36,567)
Thereafter	-

**Note 13 – Upcoming Pronouncements:**

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Statement No. 72, *Fair Value Measurement and Application*, amends the definitions of fair value used throughout GASB literature to be consistent with the definition and principles provided in FASB Accounting Standards Codification Topic 820, *Fair Value Measurement*. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. No formal study or estimate of the impact of this standard has been performed.

Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68 and amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. No formal study or estimate of the impact of this standard has been performed.

*Note 13 – Upcoming Pronouncements: (Continued)*

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Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. No formal study or estimate of the impact of this standard has been performed.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for fiscal years beginning after June 15, 2017. No formal study or estimate of the impact of this standard has been performed.

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, objective is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. No formal study or estimate of the impact of this standard has been performed.

Statement No. 77, *Tax Abatement Disclosures*, will increase the disclosure of tax abatement agreements to disclose information about the agreements. The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. No formal study or estimate of the impact of this standard has been performed.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements  
As of June 30, 2015 (Continued)

*Note 14 – Restatement of Beginning Net Position:*

The following adjustments were made to beginning net position:

	Primary Government		
	Governmental	Business-type	
	Activities	Water and Sewer	Harbor
Net position as previously reported	\$ 5,102,212	\$ 17,551,052	\$ 2,290,667
Implementation of GASB 68:			
Deferred outflows of resources	57,193	30,947	7,612
Net pension liability/asset	(42,497)	(22,995)	(5,656)
Totals as restated	<u>\$ 5,116,908</u>	<u>\$ 17,559,004</u>	<u>\$ 2,292,623</u>



*REQUIRED SUPPLEMENTARY INFORMATION*

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Municipal Corporation of Cape Charles, Virginia  
General Fund  
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
General property taxes	\$ 1,319,356	\$ 1,319,356	\$ 1,308,036	\$ (11,320)
Other local taxes	543,200	543,200	584,799	41,599
Permits, privilege fees, and regulatory licenses	62,500	62,500	79,022	16,522
Fines and forfeitures	16,300	16,300	17,193	893
Revenue from the use of money and property	16,300	16,300	13,762	(2,538)
Charges for services	2,180	2,180	2,504	324
Miscellaneous	13,383	13,383	3,758	(9,625)
Recovered costs	22,078	22,078	24,368	2,290
Intergovernmental:				
Commonwealth	119,324	119,324	126,584	7,260
Federal	1,265,994	1,265,994	118,149	(1,147,845)
Total revenues	<u>\$ 3,380,615</u>	<u>\$ 3,380,615</u>	<u>\$ 2,278,175</u>	<u>\$ (1,102,440)</u>
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 842,824	\$ 748,887	\$ 710,293	\$ 38,594
Public safety - police department	358,673	363,224	342,582	20,642
Public safety - code enforcement	78,706	78,667	73,995	4,672
Public works	423,096	508,233	488,941	19,292
Parks, recreation, and cultural	177,234	179,348	170,270	9,078
Community development	66,601	68,151	57,293	10,858
Capital projects	1,620,000	1,620,000	8,631	1,611,369
Debt service:				
Principal retirement	84,145	84,145	86,123	(1,978)
Interest and other fiscal charges	56,436	56,436	50,696	5,740
Total expenditures	<u>\$ 3,707,715</u>	<u>\$ 3,707,091</u>	<u>\$ 1,988,824</u>	<u>\$ 1,718,267</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (327,100)</u>	<u>\$ (326,476)</u>	<u>\$ 289,351</u>	<u>\$ 615,827</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of general obligation bonds	\$ 314,000	\$ 314,000	\$ -	\$ (314,000)
Issuance of capital lease	13,100	13,100	15,100	2,000
Total other financing sources (uses)	<u>\$ 327,100</u>	<u>\$ 327,100</u>	<u>\$ 15,100</u>	<u>\$ (312,000)</u>
Net change in fund balance	\$ -	\$ 624	\$ 304,451	\$ 303,827
Fund balance - beginning	-	(624)	2,241,330	2,241,954
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,545,781</u>	<u>\$ 2,545,781</u>

Municipal Corporation of Cape Charles, Virginia  
 Schedule of Components of and Changes in Net Pension Liability (Asset) and Related Ratios  
 Primary Government  
 For the Year Ended June 30, 2015

	2014
Total pension liability	
Service cost	\$ 96,808
Interest	145,759
Benefit payments, including refunds of employee contributions	(86,097)
Net change in total pension liability	\$ 156,470
Total pension liability - beginning	2,125,326
Total pension liability - ending (a)	\$ 2,281,796
Plan fiduciary net position	
Contributions - employer	\$ 95,752
Contributions - employee	54,200
Net investment income	328,807
Benefit payments, including refunds of employee contributions	(86,097)
Administrative expense	(1,701)
Other	18
Net change in plan fiduciary net position	\$ 390,979
Plan fiduciary net position - beginning	2,054,178
Plan fiduciary net position - ending (b)	\$ 2,445,157
Municipal Corporation's net pension liability (asset) - ending (a) - (b)	\$ (163,361)
Plan fiduciary net position as a percentage of the total pension liability	107.16%
Covered-employee payroll	\$ 1,085,627
Municipal Corporation's net pension liability (asset) as a percentage of covered-employee payroll	-15.05%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

Municipal Corporation of Cape Charles, Virginia

Schedule of Employer Contributions  
For the Year Ended June 30, 2015

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
Primary Government					
2015	\$ 57,830	\$ 57,830	-	\$ 1,118,571	5.17%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

Notes to Required Supplementary Information  
For the Year Ended June 30, 2015

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Changes of benefit terms - There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013 and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) - LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

Component Unit School Board - Professional Employees

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates withdrawals for 3 through 9 years of service
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

*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  
General Fund  
For the Year Ended June 30, 2015

<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	\$ 1,158,856	\$ 1,158,856	\$ 1,073,882	\$ (84,974)
Personal property taxes	90,000	90,000	91,339	1,339
Machinery and tools taxes	30,500	30,500	27,128	(3,372)
Penalties and interest	40,000	40,000	115,687	75,687
Total general property taxes	\$ 1,319,356	\$ 1,319,356	\$ 1,308,036	\$ (11,320)
Other local taxes:				
Local sales and use taxes	\$ 50,000	\$ 50,000	\$ 39,793	\$ (10,207)
Consumers' utility taxes	46,000	46,000	47,941	1,941
Business license taxes	90,000	90,000	94,516	4,516
Motor vehicle licenses	25,000	25,000	26,508	1,508
Admissions taxes	23,000	23,000	19,231	(3,769)
Short term rental tax	5,500	5,500	5,047	(453)
Hotel and motel room taxes	68,700	68,700	77,963	9,263
Restaurant food taxes	235,000	235,000	273,800	38,800
Total other local taxes	\$ 543,200	\$ 543,200	\$ 584,799	\$ 41,599
Permits, privilege fees, and regulatory licenses:				
Permits and other licenses	\$ 62,500	\$ 62,500	\$ 79,022	\$ 16,522
Total permits, privilege fees, and regulatory licenses	\$ 62,500	\$ 62,500	\$ 79,022	\$ 16,522
Fines and forfeitures:				
Court fines and forfeitures	\$ 16,300	\$ 16,300	\$ 17,193	\$ 893
Total fines and forfeitures	\$ 16,300	\$ 16,300	\$ 17,193	\$ 893
Revenue from use of money and property:				
Revenue from use of money	\$ 1,500	\$ 1,500	\$ 2,018	\$ 518
Revenue from use of property	14,800	14,800	11,744	(3,056)
Total revenue from use of money and property	\$ 16,300	\$ 16,300	\$ 13,762	\$ (2,538)
Charges for services:				
Charges for special events	\$ -	\$ -	\$ 29	\$ 29
Charges for parks and recreation	350	350	980	630
Charges for copies	900	900	148	(752)
Charges for library	930	930	1,347	417
Total charges for services	\$ 2,180	\$ 2,180	\$ 2,504	\$ 324
Miscellaneous:				
Miscellaneous	\$ 13,383	\$ 13,383	\$ 3,758	\$ (9,625)
Total miscellaneous	\$ 13,383	\$ 13,383	\$ 3,758	\$ (9,625)

Municipal Corporation of Cape Charles, Virginia  
Schedule of Revenues - Budget and Actual  
General Fund  
For the Year Ended June 30, 2015

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Revenues from local sources: (Continued)				
Recovered costs:				
County contribution for Library	\$ 20,000	\$ 20,000	\$ 20,000	\$ -
Other recovered costs	2,078	2,078	4,368	2,290
Total recovered costs	\$ 22,078	\$ 22,078	\$ 24,368	\$ 2,290
Total revenue from local sources	\$ 1,995,297	\$ 1,995,297	\$ 2,033,442	\$ 38,145
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Communications tax	\$ 40,000	\$ 40,000	\$ 47,005	\$ 7,005
Rolling stock tax	4	4	-	(4)
Personal property tax relief funds	35,424	35,424	35,424	-
Total noncategorical aid	\$ 75,428	\$ 75,428	\$ 82,429	\$ 7,001
Categorical aid:				
Fire programs	\$ 9,800	\$ 9,800	\$ 10,000	\$ 200
Arts grant	5,000	5,000	5,000	-
Law enforcement grant HB 599	28,096	28,096	28,096	-
Litter control	1,000	1,000	1,059	59
Total categorical aid	\$ 43,896	\$ 43,896	\$ 44,155	\$ 259
Total revenue from the Commonwealth	\$ 119,324	\$ 119,324	\$ 126,584	\$ 7,260
Revenue from the federal government:				
Categorical aid:				
TEA-21 grant	\$ 1,256,000	\$ 1,256,000	\$ 5,191	\$ (1,250,809)
JAG grant	1,894	1,894	1,894	-
Rural Development grant	8,100	8,100	8,100	-
Disaster recovery grant	-	-	102,964	102,964
Total categorical aid	\$ 1,265,994	\$ 1,265,994	\$ 118,149	\$ (1,147,845)
Total revenue from the federal government	\$ 1,265,994	\$ 1,265,994	\$ 118,149	\$ (1,147,845)
Total General Fund	\$ 3,380,615	\$ 3,380,615	\$ 2,278,175	\$ (1,102,440)

Municipal Corporation of Cape Charles, Virginia  
Schedule of Expenditures - Budget and Actual  
General Fund  
For the Year Ended June 30, 2015

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
General government administration:				
Legislative:				
Town Council	\$ 37,392	\$ 37,392	\$ 35,759	\$ 1,633
Total legislative	\$ 37,392	\$ 37,392	\$ 35,759	\$ 1,633
General and financial administration:				
Town Clerk	\$ 132,268	\$ 133,997	\$ 128,607	\$ 5,390
Town Manager	467,355	362,270	331,476	30,794
Finance	205,809	215,228	214,451	777
Total general and financial administration	\$ 805,432	\$ 711,495	\$ 674,534	\$ 36,961
Total general government administration	\$ 842,824	\$ 748,887	\$ 710,293	\$ 38,594
Public safety:				
Law enforcement and traffic control:				
Police	\$ 358,673	\$ 363,224	\$ 342,582	\$ 20,642
Total law enforcement and traffic control	\$ 358,673	\$ 363,224	\$ 342,582	\$ 20,642
Inspections:				
Code enforcement	\$ 78,706	\$ 78,667	\$ 73,995	\$ 4,672
Total inspections	\$ 78,706	\$ 78,667	\$ 73,995	\$ 4,672
Total public safety	\$ 437,379	\$ 441,891	\$ 416,577	\$ 25,314
Public works:				
Maintenance of general buildings and grounds:				
General properties	\$ 423,096	\$ 508,233	\$ 488,941	\$ 19,292
Total public works	\$ 423,096	\$ 508,233	\$ 488,941	\$ 19,292
Parks, recreation, and cultural:				
Parks and recreation:				
Parks and recreation	\$ 58,802	\$ 59,238	\$ 59,441	\$ (203)
Total parks and recreation	\$ 58,802	\$ 59,238	\$ 59,441	\$ (203)
Library:				
Library administration	\$ 118,432	\$ 120,110	\$ 110,829	\$ 9,281
Total library	\$ 118,432	\$ 120,110	\$ 110,829	\$ 9,281
Total parks, recreation, and cultural	\$ 177,234	\$ 179,348	\$ 170,270	\$ 9,078

Municipal Corporation of Cape Charles, Virginia  
 Schedule of Expenditures - Budget and Actual  
 General Fund  
 For the Year Ended June 30, 2015

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:(Continued)				
Community development:				
Planning and community development:				
Planning	\$ 66,601	\$ 68,151	\$ 57,293	\$ 10,858
Total planning and community development	<u>\$ 66,601</u>	<u>\$ 68,151</u>	<u>\$ 57,293</u>	<u>\$ 10,858</u>
Total community development	<u>\$ 66,601</u>	<u>\$ 68,151</u>	<u>\$ 57,293</u>	<u>\$ 10,858</u>
Capital projects:				
Strawberry Street plaza	\$ 50,000	\$ 50,000	\$ -	\$ 50,000
Multi-use trail	1,570,000	1,570,000	8,631	1,561,369
Total capital projects	<u>\$ 1,620,000</u>	<u>\$ 1,620,000</u>	<u>\$ 8,631</u>	<u>\$ 1,611,369</u>
Debt service:				
Principal retirement	\$ 84,145	\$ 84,145	\$ 86,123	\$ (1,978)
Interest and other fiscal charges	56,436	56,436	50,696	5,740
Total debt service	<u>\$ 140,581</u>	<u>\$ 140,581</u>	<u>\$ 136,819</u>	<u>\$ 3,762</u>
Total General Fund	<u>\$ 3,707,715</u>	<u>\$ 3,707,091</u>	<u>\$ 1,988,824</u>	<u>\$ 1,718,267</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

Fiscal Year	General Government Administration	Public Safety	Public Works	Parks, Recreation, and Cultural	Community Development	Interest on Long-term Debt	Enterprise Funds	Total
2006	\$ 672,885	\$ 479,513	\$ 311,465	\$ 49,130	\$ 71,942	\$ 21,589	\$ 1,430,407	\$ 3,036,931
2007	716,874	645,866	378,102	184,678	117,189	113,590	1,745,095	3,901,394
2008	423,662	467,252	557,261	179,575	100,263	51,882	1,916,132	3,696,027
2009	476,972	456,135	374,459	213,545	91,330	50,127	1,753,277	3,415,845
2010	540,006	370,756	355,205	228,404	72,755	47,742	1,993,329	3,608,197
2011	771,867	412,351	736,974	134,290	81,885	64,131	1,984,209	4,185,707
2012	770,193	422,784	447,869	227,507	72,660	51,332	2,326,252	4,318,597
2013	688,965	418,308	411,438	298,615	80,967	52,426	3,033,294	4,984,013
2014	693,614	409,347	768,491	342,274	63,438	55,992	2,976,017	5,309,173
2015	702,411	423,254	483,605	284,537	53,261	51,195	2,919,126	4,917,389

Table 2

Municipal Corporation of Cape Charles, Virginia  
 Government-wide Revenues  
 Last Ten Fiscal Years

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	
2006	\$ 1,531,329	\$ 520,850	\$ 315,600	\$ 878,058	\$ 477,148	\$ 63,439	\$ 17,141	\$ 136,630	\$ 3,940,195	
2007	1,694,211	159,796	119,511	1,047,903	375,147	108,845	23,570	61,558	3,590,541	
2008	1,840,747	91,488	244,190	1,092,242	474,193	76,620	3,735	35,422	3,858,637	
2009	1,515,454	107,202	728,590	1,128,747	415,231	19,310	31,741	35,430	3,981,705	
2010	1,766,997	41,362	3,228,486	1,309,491	408,522	7,177	19,072	84,790	6,865,897	
2011	1,913,141	53,789	10,629,514	1,175,993	434,391	7,462	91,285	84,549	14,390,124	
2012	2,256,933	67,227	2,783,872	1,301,439	455,148	3,231	25,692	83,544	6,977,086	
2013	2,454,574	42,299	762,834	1,325,691	429,122	11,663	41,470	83,668	5,151,321	
2014	2,571,568	45,009	169,159	1,286,747	511,211	8,307	41,979	82,852	4,716,832	
2015	2,575,616	61,049	116,255	1,250,336	584,799	13,962	140,605	82,429	4,825,051	

Table 3

Municipal Corporation of Cape Charles, Virginia  
 General Governmental Expenditures by Function (1,3)  
 Last Ten Fiscal Years

Fiscal Year	General Government Administration	Public Safety	Public Works	Parks, Recreation, and Cultural			Community Development	Debt Service	Total
				Public Works	Recreation, and Cultural	Community Development			
2006	\$ 649,512	\$ 490,190	\$ 306,803	\$ 65,316	\$ 70,747	\$ 30,856	\$ 1,613,424		
2007	697,049	625,181	307,665	76,495	118,384	101,223	1,925,997		
2008	596,869	447,301	542,103	107,922	98,134	113,018	1,905,347		
2009	515,891	441,025	358,766	102,885	89,316	120,982	1,628,865		
2010	503,997	381,947	1,010,388	119,252	75,878	100,823	2,192,285		
2011	741,412	397,501	767,847	133,369	90,925	117,546	2,248,600		
2012	804,556	426,190	523,896	140,580	78,201	116,088	2,089,511		
2013	661,441	441,814	535,873	160,303	85,620	127,012	2,012,063		
2014	671,028	406,252	430,871	203,466	60,299	132,236	1,904,152		
2015	710,293	416,577	488,941	170,270	57,293	136,819	1,980,193		

(1) Includes General Fund.

(2) Does not include capital project expenditures.

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
2006	\$ 868,158	\$ 477,148	\$ 120,387	\$ 6,927	\$ 63,432	\$ 7,082	\$ 17,141	\$ 32,500	\$ 495,324	\$ 2,088,099
2007	1,030,953	375,147	94,615	6,343	108,842	6,833	23,570	32,500	221,354	1,900,157
2008	1,083,243	474,193	83,529	22,935	76,616	3,425	3,735	15,500	126,910	1,890,086
2009	1,074,282	415,231	53,441	10,469	19,310	3,726	31,741	15,500	142,632	1,766,332
2010	1,238,835	408,522	50,448	10,736	5,942	4,193	2,812	17,348	348,548	2,087,384
2011	1,239,811	434,391	47,391	23,051	6,552	3,223	16,048	24,540	878,774	2,673,781
2012	1,227,729	455,148	40,821	13,020	3,057	2,007	5,780	64,074	561,861	2,373,497
2013	1,225,360	429,122	70,886	12,603	11,483	4,032	27,941	20,000	263,194	2,064,621
2014	1,398,054	511,211	60,905	14,458	8,148	2,335	11,616	20,000	247,620	2,274,347
2015	1,308,036	584,799	79,022	17,193	13,762	2,504	3,758	24,368	244,733	2,278,175

(1) Includes General Fund.

Table 5

Municipal Corporation of Cape Charles, Virginia  
Property Tax Levies and Collections  
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy (1)	Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1)	Total Tax Collections	Percent of		Percent of	
						Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (1)	Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes to Tax Levy
2006	\$ 914,102	\$ 883,820	96.69%	\$ 14,902	\$ 898,722	98.32%	\$ 75,791	8.29%	
2007	1,090,686	1,049,395	96.21%	9,353	1,058,748	97.07%	63,626	5.83%	
2008	1,134,614	1,079,654	95.16%	21,808	1,101,462	97.08%	72,624	6.40%	
2009	1,148,978	1,052,270	91.58%	24,657	1,076,927	93.73%	125,916	10.96%	
2010	1,305,225	1,233,336	94.49%	19,941	1,253,277	96.02%	197,746	15.15%	
2011	1,306,596	1,211,634	92.73%	10,123	1,221,757	93.51%	133,928	10.25%	
2012	1,334,098	1,194,242	89.52%	43,357	1,237,599	92.77%	198,183	14.86%	
2013	1,346,641	1,168,065	86.74%	59,536	1,227,601	91.16%	263,301	19.55%	
2014	1,331,614	1,188,974	89.29%	147,910	1,336,884	100.40%	196,662	14.77%	
2015	1,274,119	1,192,349	93.58%	91,392	1,283,741	100.76%	147,959	11.61%	

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

Table 6

Municipal Corporation of Cape Charles, Virginia  
Assessed Value of Taxable Property  
Last Ten Fiscal Years

Fiscal Year	Real Estate (1)	Personal Property	Mobile Homes	Public Utility		Total
				Real Estate (2)	Real Estate (2)	
2006	\$ 248,804,897	\$ 9,970,700	\$ 27,920	\$ 1,649,630	\$ 1,649,630	\$ 260,453,147
2007	281,671,100	12,756,100	34,320	1,180,071	1,180,071	295,641,591
2008	309,377,451	12,581,000	34,300	1,086,411	1,086,411	323,079,162
2009	578,730,450	13,332,827	17,500	2,303,243	2,303,243	594,384,020
2010	610,324,249	12,728,600	17,500	3,052,751	3,052,751	626,123,100
2011	618,341,300	12,162,400	17,000	3,678,477	3,678,477	634,199,177
2012	622,094,327	14,489,100	17,000	3,940,015	3,940,015	640,540,442
2013	623,140,200	15,296,652	17,000	3,688,742	3,688,742	642,142,594
2014	409,929,500	14,324,494	15,800	3,688,742	3,688,742	427,958,536
2015	404,822,056	11,393,551	8,300	3,631,182	3,631,182	419,855,089

(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	
2006	\$ 0.3008	\$ 2.00	\$ 0.3008	\$	0.3008
2007	0.3008	2.00	0.3008		0.3008
2008	0.3008	2.00	0.3008		0.3008
2009	0.1628	2.00	0.1628		0.1628
2010	0.1828	2.00	0.1828		0.1828
2011	0.1828	2.00	0.1828		0.1828
2012	0.1828	2.00	0.1828		0.1828
2013	0.1828	2.00	0.1828		0.1828
2014	0.2759	2.00	0.2759		0.2759
2015	0.2759	2.00	0.2759		0.2759

(1) Per \$100 of assessed value.

Table 8

Municipal Corporation of Cape Charles, Virginia  
 Computation of Legal Debt Margin  
 At June 30, 2015

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Assessed value of real property, January 1, 2015 (1)	\$ 408,453,238
	<u>408,453,238</u>
Debt limit: 10% of assessed value	\$ 40,845,324
Amount of debt applicable to debt limit:	
Gross debt (2)	\$ 9,623,139
	<u>9,623,139</u>
Less: Revenue bonds and notes secured by property	(11,189)
	<u>(11,189)</u>
Net general obligation bonds and loans	\$ 9,611,950
	<u>9,611,950</u>
Legal debt limit	\$ 31,233,374
	<u>31,233,374</u>

(1) Assessed value of real property, including public service corporations as of January 1, 2015

(2) Includes bonded debt and long-term notes payable.



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)	Less:		Net Bonded Debt (4)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
				Debt Service Monies Available	Debt Payable from Enterprise Revenues (4)			
2006	1,134	\$ 260,453,147	\$ 2,773,334	\$ -	\$ 1,673,334	\$ 1,100,000	0.42%	\$ 970
2007	1,134	295,641,591	3,181,952	-	2,026,331	1,155,621	0.39%	1,019
2008	1,134	323,079,162	3,088,603	-	1,974,829	1,113,774	0.34%	982
2009	1,134	594,384,020	4,224,092	-	3,155,384	1,068,708	0.18%	942
2010	1,009	626,123,100	9,962,723	-	8,766,119	1,196,604	0.19%	1,186
2011	1,009	634,199,177	10,703,649	-	9,554,330	1,149,319	0.18%	1,139
2012	1,009	640,540,442	9,092,562	-	7,998,966	1,093,596	0.17%	1,084
2013	1,009	642,142,594	9,417,364	-	8,378,491	1,038,873	0.16%	1,030
2014	1,009	427,958,536	10,094,123	-	8,793,226	1,300,897	0.30%	1,289
2015	1,009	419,855,089	9,611,950	-	8,384,203	1,227,747	0.29%	1,217

(1) United States Census Bureau, Census 2000 and Census 2010.

(2) From Table 6.

(3) Includes all long-term general obligation bonded debt. Excludes capital leases and compensated absences.

(4) Includes general obligation debt payable from enterprise revenues.

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*COMPLIANCE SECTION*

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# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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## Independent Auditors' 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 Municipal Corp. Council  
Municipal Corporation of Cape Charles  
Cape Charles, Virginia

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, and each major fund of Municipal Corporation of Cape Charles, Virginia as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Municipal Corporation of Cape Charles, Virginia's basic financial statements, and have issued our report thereon dated May 26, 2016.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Municipal Corporation of Cape Charles, Virginia's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Municipal Corporation of Cape Charles, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of Municipal Corporation of Cape Charles, Virginia's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness, 2015-001.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Municipal Corporation of Cape Charles, Virginia's financial statements are free from 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*.

### Municipal Corporation of Cape Charles, Virginia's Response to Findings

Municipal Corporation of Cape Charles, Virginia's response to the findings identified in our audit is described in the accompany schedule of findings and responses. Municipal Corporation of Cape Charles, Virginia's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Richmond, Virginia  
May 26, 2016

Municipal Corporation of Cape Charles, Virginia  
 Schedule of Findings and Responses  
 For the year ended June 30, 2015

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Section I-Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	<i>unmodified</i>	
Internal control over financial reporting:		
Material weakness(es) identified?	<u>    ✓    </u> yes	<u>          </u> no
Significant deficiency(ies) identified?	<u>          </u> yes	<u>    ✓    </u> none reported
Noncompliance material to financial statements noted?	<u>          </u> yes	<u>    ✓    </u> no

Section II-Financial Statement Findings

2015-001

Financial Reporting

**Condition:** Inadequate internal controls over financial statement reporting.

**Criteria:** Internal controls should be in place that provides assurance that audited financial statements reconcile to the Municipal Corp.'s internal documents.

**Context:** Through review of balance sheet accounts at June 30, 2015, it was noted that some but not all year-end entries had not been prepared and posted to the Municipal Corp.'s general ledger.

**Effect:** There is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Municipal Corp.'s internal controls over financial reporting.

**Cause:** Procedures have not been implemented to provide the necessary internal controls over financial reporting.

**Recommendation:** Procedures should be implemented for the posting of all year-end entries to convert general ledger accounts to the reporting basis of the individual funds. This would include making entries to post current year general fund receivables, current year proprietary fund interest payable, reverse prior year general fund receivables, and reverse prior year proprietary fund salaries, compensated absence payables and interest payable. Improvement by staff of the Municipal Corp. was noted in FY15 as compared to previous fiscal years in the number of year end entries required.

**Management's Response:** The Municipal Corp. is considering corrective action for FY16.