

MUNICIPAL CORPORATION
OF
CAPE CHARLES, VIRGINIA



ANNUAL FINANCIAL REPORT

FOR FISCAL YEAR ENDED JUNE 30, 2017

MUNICIPAL CORPORATION OF CAPE CHARLES, VIRGINIA

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ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2017

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ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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, 2017, 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. 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, 2017, 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.

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, and 59-62 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.

Supplementary and 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 statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The supporting schedules and the schedule of expenditures of federal awards 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 other supplementary information and the schedule of expenditures of federal awards 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2018, 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
June 29, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

As management of 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, 2017. 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 \$27,137,410 (net position).

Fund Financial Statements

The General Fund, on a current financial resources basis, reported revenues and other financing sources in deficit of expenditures and other uses by \$328,926 (Exhibit 5).

< As of the close of the current fiscal year, the Town's general fund reported an ending fund balance of \$3,093,173, a decrease of \$328,926 in comparison with the prior year.

< The combined long-term obligations decreased \$375,775 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)

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 schedules related to pension funding. 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 \$27,137,410 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	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 3,674,135	\$ 3,813,635	\$ 595,810	\$ 556,801	\$ 4,269,945	\$ 4,370,436
Capital assets	4,977,995	3,897,912	27,539,725	28,162,140	32,517,720	32,060,052
Total assets	\$ 8,652,130	\$ 7,711,547	\$ 28,135,535	\$ 28,718,941	\$ 36,787,665	\$ 36,430,488
Deferred outflows of resources:						
Pension contributions subsequent to measurement date	\$ 36,753	\$ 39,986	\$ 19,747	\$ 21,484	\$ 56,500	\$ 61,470
Items related to measurement of net pension liability (asset)	48,530	5,322	34,307	14,692	82,837	20,014
Total deferred outflows of resources	\$ 85,283	\$ 45,308	\$ 54,054	\$ 36,176	\$ 139,337	\$ 81,484
Current liabilities	\$ 374,039	\$ 159,221	\$ 415,178	\$ 409,814	\$ 789,217	\$ 569,035
Long-term liabilities outstanding	1,210,186	1,256,260	7,671,423	8,001,124	8,881,609	9,257,384
Total liabilities	\$ 1,584,225	\$ 1,415,481	\$ 8,086,601	\$ 8,410,938	\$ 9,670,826	\$ 9,826,419
Deferred inflows of resources:						
Deferred revenue - prepaid taxes	\$ 9,393	\$ -	\$ -	\$ -	\$ 9,393	\$ -
Items related to measurement of net pension liability (asset)	70,640	41,449	38,733	33,057	109,373	74,506
Total deferred inflows of resources	\$ 80,033	\$ 41,449	\$ 38,733	\$ 33,057	\$ 118,766	\$ 74,506
Net position:						
Net investment in capital assets	\$ 4,701,047	\$ 3,554,658	\$ 19,909,217	\$ 20,201,588	\$ 24,610,264	\$ 23,756,246
Restricted:						
Debt covenants	-	-	257,740	257,582	257,740	257,582
Unrestricted	2,372,108	2,745,267	(102,702)	(148,048)	2,269,406	2,597,219
Total net position	\$ 7,073,155	\$ 6,299,925	\$ 20,064,255	\$ 20,311,122	\$ 27,137,410	\$ 26,611,047

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Analysis (Continued)

During the current fiscal year, the Town's net position increased by \$526,383. 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	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 74,939	\$ 112,537	\$ 2,328,116	\$ 2,403,797	\$ 2,403,055	\$ 2,516,334
Operating grants and contributions	51,970	84,851	33,782	-	85,752	84,851
Capital grants and contributions	880,798	133,728	-	726,061	880,798	859,789
General revenues:						
General property taxes	1,262,771	1,352,474	-	-	1,262,771	1,352,474
Other local taxes	704,156	657,466	-	-	704,156	657,466
Grants and other contributions not restricted	100,420	81,037	-	-	100,420	81,037
Other general revenues	112,833	692,030	106,077	205,840	218,910	897,870
Total revenues	\$ 3,187,887	\$ 3,114,123	\$ 2,467,975	\$ 3,335,698	\$ 5,655,862	\$ 6,449,821
Expenses:						
General government						
administration	\$ 780,254	\$ 779,857	\$ -	\$ -	\$ 780,254	\$ 779,857
Public safety	529,272	459,190	-	-	529,272	459,190
Public works	462,247	439,968	-	-	462,247	439,968
Parks, recreation, and cultural	500,987	324,326	-	-	500,987	324,326
Community development	103,487	70,414	-	-	103,487	70,414
Interest and other fiscal charges	38,410	55,195	-	-	38,410	55,195
Enterprise funds	-	-	2,714,842	2,844,926	2,714,842	2,844,926
Total expenses	\$ 2,414,657	\$ 2,128,950	\$ 2,714,842	\$ 2,844,926	\$ 5,129,499	\$ 4,973,876
Change in net position	\$ 773,230	\$ 985,173	\$ (246,867)	\$ 490,772	\$ 526,363	\$ 1,475,945
Beginning of year	6,299,925	5,314,752	20,311,122	19,820,350	26,611,047	25,135,102
End of year	\$ 7,073,155	\$ 6,299,925	\$ 20,064,255	\$ 20,311,122	\$ 27,137,410	\$ 26,611,047

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Analysis of the Town's Funds

As noted earlier, the Town used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the Town's financing requirements. In particular, 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 \$3,093,173, a decrease of \$328,926 in comparison with the prior year. \$2,229,701 of June 30, 2017 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 (\$102,702). Total net position decreased \$246,867.

General Fund Budgetary Highlights

During the year, actual revenues and other sources were less than budgetary estimates by \$15,596. Actual expenditures and other uses were less than budgetary estimates by \$203,160, resulting in a positive variance of \$187,564.

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, 2017 amounts to \$4,977,995 and \$27,539,725, 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 \$8,768,135. Of this amount, \$8,242,601 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 (notes payable).

During the current fiscal year, the Town's total debt outstanding decreased by \$390,280.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Next Year's Budgets and Rates

The fiscal year 2018 budget decreased by approximately 10%. Tax rates remained the same as in fiscal year 2017.

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, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,228,141	\$ 273,799	\$ 2,501,940
Receivables (net of allowance for uncollectibles):			
Taxes receivable	171,505	-	171,505
Accounts receivable	93,855	248,566	342,421
Internal balances	234,955	(234,955)	-
Due from other governmental units	16,436	-	16,436
Inventories	-	15,321	15,321
Prepaid items	2,793	-	2,793
Net pension asset	65,771	35,339	101,110
Restricted assets:			
Cash and cash equivalents - bond requirements	-	257,740	257,740
Cash and cash equivalents - unspent bond proceeds	860,679	-	860,679
Capital assets (net of accumulated depreciation):			
Land and land improvements	2,165,460	-	2,165,460
Buildings and improvements	761,861	260,603	1,022,464
Improvements other than buildings	-	4,007,612	4,007,612
Water and sewer system	-	23,054,357	23,054,357
Machinery and equipment	225,012	208,808	433,820
Infrastructure	672,296	-	672,296
Construction in progress	1,153,366	8,345	1,161,711
Total assets	<u>\$ 8,652,130</u>	<u>\$ 28,135,535</u>	<u>\$ 36,787,665</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension contributions subsequent to measurement date	\$ 36,753	\$ 19,747	\$ 56,500
Differences between expected and actual experience	3,040	1,615	4,655
Proportional change in net pension asset	-	7,670	7,670
Net difference between projected and actual earnings on plan investments	45,490	25,022	70,512
Total deferred outflows of resources	<u>\$ 85,283</u>	<u>\$ 54,054</u>	<u>\$ 139,337</u>
LIABILITIES			
Accounts payable	\$ 50,321	\$ 89,934	\$ 140,255
Accrued liabilities	67,037	34,372	101,409
Reconciled overdraft payable	193,394	-	193,394
Customers' deposits	49,561	-	49,561
Accrued interest payable	13,726	47,346	61,072
Unearned revenue	-	231,081	231,081
Amounts held for others	-	12,445	12,445
Long-term liabilities:			
Due within one year	126,768	468,322	595,090
Due in more than one year	1,083,418	7,203,101	8,286,519
Total liabilities	<u>\$ 1,584,225</u>	<u>\$ 8,086,601</u>	<u>\$ 9,670,826</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue - property taxes	\$ 9,393	\$ -	\$ 9,393
Differences between expected and actual experience	66,416	35,287	101,703
Proportional change in net pension asset	4,224	3,446	7,670
Total deferred inflows of resources	<u>\$ 80,033</u>	<u>\$ 38,733</u>	<u>\$ 118,766</u>
NET POSITION			
Net investment in capital assets	\$ 4,458,092	\$ 19,909,217	\$ 24,367,309
Restricted:			
Debt service and bond covenants	-	257,740	257,740
Unrestricted	2,615,063	(102,702)	2,512,361
Total net position	<u>\$ 7,073,155</u>	<u>\$ 20,064,255</u>	<u>\$ 27,137,410</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, 2017

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities		Total
						Governmental Activities	Business-type Activities	
PRIMARY GOVERNMENT:								
Governmental activities:								
General government administration	\$ 780,254	\$ 1,110	\$ -	\$ -	\$ (779,144)	\$ -	\$ -	\$ (779,144)
Public safety	529,272	67,869	39,970	-	(421,433)	-	-	(421,433)
Public works	462,247	-	-	880,798	418,551	-	-	418,551
Parks, recreation, and cultural	500,987	5,960	5,000	-	(490,027)	-	-	(490,027)
Community development	103,487	-	7,000	-	(96,487)	-	-	(96,487)
Interest on long-term debt	38,410	-	-	-	(38,410)	-	-	(38,410)
Total governmental activities	\$ 2,414,657	\$ 74,939	\$ 51,970	\$ 880,798	\$ (1,406,950)	\$ -	\$ -	\$ (1,406,950)
Business-type activities:								
Water and Sewer	\$ 1,666,670	\$ 1,588,445	\$ -	\$ -	\$ -	\$ -	\$ (78,225)	\$ (78,225)
Harbor	875,091	556,492	33,782	-	-	-	(284,817)	(284,817)
Sanitation	173,081	183,179	-	-	-	-	10,098	10,098
Total business-type activities	\$ 2,714,842	\$ 2,328,116	\$ 33,782	\$ -	\$ -	\$ (352,944)	\$ (352,944)	\$ (352,944)
Total primary government	\$ 5,129,499	\$ 2,403,055	\$ 85,752	\$ 880,798	\$ (1,406,950)	\$ (352,944)	\$ (352,944)	\$ (1,759,894)
General revenues:								
General property taxes					\$ 1,262,771	\$ -	\$ -	\$ 1,262,771
Restaurant food taxes					353,202	-	-	353,202
Business license taxes					111,390	-	-	111,390
Other local taxes					239,564	-	-	239,564
Unrestricted revenues from use of money and property					38,138	1,182	-	39,320
Miscellaneous					5,695	104,895	-	110,590
Grants and contributions not restricted to specific programs					100,420	-	-	100,420
Gain on disposal of capital assets					69,000	-	-	69,000
Total general revenues					\$ 2,180,180	\$ 106,077	\$ 106,077	\$ 2,286,257
Change in net position					773,230	(246,867)	-	526,363
Net position - beginning					\$ 6,299,925	\$ 20,311,122	\$ 20,311,122	\$ 26,611,047
Net position - ending					\$ 7,073,155	\$ 20,064,255	\$ 20,064,255	\$ 27,137,410

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, 2017

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 2,228,141
Receivables:	
Taxes receivable	171,505
Accounts receivable	93,855
Due from other funds	947,171
Due from other governmental units	16,436
Prepaid items	2,793
Restricted assets:	
Cash and cash equivalents - unspent bond proceeds	860,679
Total assets	<u>\$ 4,320,580</u>
LIABILITIES	
Accounts payable	\$ 50,321
Accrued liabilities	67,037
Contracts payable	193,394
Retainage payable	49,561
Due to other funds	712,216
Total liabilities	<u>\$ 1,072,529</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	<u>\$ 154,878</u>
FUND BALANCE	
Restricted:	
Prepaid items	\$ 2,793
Unspent bond proceeds	860,679
Unassigned	2,229,701
Total fund balance	<u>\$ 3,093,173</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 4,320,580</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, 2017

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

Total fund balance per Exhibit 3 - Balance Sheet - Governmental Fund		\$ 3,093,173
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Capital assets	\$ 8,756,991	
Accumulated depreciation	<u>(3,778,996)</u>	4,977,995

The net pension asset is not an available resource and, therefore, is not reported in the funds.		65,771
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue.

Unavailable property taxes	\$ 145,485	
Items related to measurement of net pension liability (asset)	<u>48,530</u>	194,015

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.		36,753
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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	\$ (1,012,093)	
Notes payable	(125,534)	
Items related to measurement of net pension liability (asset)	(70,640)	
Compensated absences	(72,559)	
Accrued interest payable	<u>(13,726)</u>	(1,294,552)

Net position of governmental activities		<u>\$ 7,073,155</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 Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
For the Year Ended June 30, 2017

		<u>General</u>
REVENUES		
General property taxes	\$	1,306,460
Other local taxes		704,156
Permits, privilege fees, and regulatory licenses		62,835
Fines and forfeitures		5,034
Revenue from the use of money and property		38,138
Charges for services		7,070
Miscellaneous		5,695
Recovered costs		22,426
Intergovernmental:		
Commonwealth		130,920
Federal		902,268
Total revenues	\$	<u>3,185,002</u>
EXPENDITURES		
Current:		
General government administration	\$	804,763
Public safety - police department		419,771
Public safety - code enforcement		112,644
Public works		493,580
Parks, recreation, and cultural		211,061
Community development		103,770
Capital projects		1,330,982
Debt service:		
Principal retirement		1,013,887
Bond issuance costs		7,472
Interest and other fiscal charges		38,649
Total expenditures	\$	<u>4,536,579</u>
Excess (deficiency) of revenues over (under) expenditures	\$	<u>(1,351,577)</u>
OTHER FINANCING SOURCES (USES)		
Issuance of general obligation bonds	\$	858,851
Issuance of notes payable		94,800
Sale of capital assets		69,000
Total other financing sources (uses)	\$	<u>1,022,651</u>
Net change in fund balance	\$	(328,926)
Fund balance - beginning		3,422,099
Fund balance - ending	\$	<u><u>3,093,173</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, 2017

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

Net change in fund balance - total governmental fund \$ (328,926)

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

Capital outlays	\$ 1,246,363	
Depreciation expense	<u>(166,280)</u>	1,080,083

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	\$ (43,689)	
Increase (decrease) in items related to measurement of the net pension asset	<u>16,299</u>	(27,390)

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	\$ 1,002,982	
Principal retirement on notes payable	10,905	
Issuance of notes payable	(94,800)	
Issuance of general obligation bonds	<u>(858,851)</u>	60,236

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	\$ (14,162)	
Decrease (increase) in net pension asset	1,193	
(Decrease) increase in deferred outflows of resources related to pension payments subsequent to the measurement date	(3,233)	
(Decrease) increase in other deferred outflows of resources related to net pension asset	(2,282)	
(Increase) decrease in accrued interest payable	<u>7,711</u>	(10,773)

Change in net position of governmental activities	<u><u>\$ 773,230</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, 2017

	Water and Sewer	Harbor	Sanitation	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 340,763	\$ (69,357)	\$ 2,393	\$ 273,799
Accounts receivable, net of allowance for uncollectibles	198,048	26,388	24,130	248,566
Due from other funds	436,333	60,532	276,060	772,925
Inventories	-	15,321	-	15,321
Total current assets	<u>\$ 975,144</u>	<u>\$ 32,884</u>	<u>\$ 302,583</u>	<u>\$ 1,310,611</u>
Noncurrent assets:				
Net pension asset	\$ 22,913	\$ 12,426	\$ -	\$ 35,339
Restricted assets:				
Cash and cash equivalents - bond requirements	\$ 257,740	\$ -	\$ -	\$ 257,740
Total restricted assets	<u>\$ 257,740</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 257,740</u>
Capital assets (net of accumulated depreciation):				
Water and sewer system	\$ 23,054,357	\$ -	\$ -	\$ 23,054,357
Buildings and improvements	-	260,603	-	260,603
Improvements other than buildings	-	4,007,612	-	4,007,612
Machinery and equipment	152,712	56,096	-	208,808
Construction in progress	8,345	-	-	8,345
Total capital assets	<u>\$ 23,215,414</u>	<u>\$ 4,324,311</u>	<u>\$ -</u>	<u>\$ 27,539,725</u>
Total noncurrent assets	<u>\$ 23,496,067</u>	<u>\$ 4,336,737</u>	<u>\$ -</u>	<u>\$ 27,832,804</u>
Total assets	<u>\$ 24,471,211</u>	<u>\$ 4,369,621</u>	<u>\$ 302,583</u>	<u>\$ 29,143,415</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension contributions subsequent to measurement date	\$ 12,804	\$ 6,943	\$ -	\$ 19,747
Difference between expected and actual experience	\$ 1,033	\$ 582	\$ -	\$ 1,615
Proportional change in net pension asset	7,670	-	-	7,670
Net difference between projected and actual earnings on plan investments	13,061	11,961	-	25,022
Total deferred outflows of resources	<u>\$ 34,568</u>	<u>\$ 19,486</u>	<u>\$ -</u>	<u>\$ 54,054</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 20,826	\$ 54,302	\$ 14,806	\$ 89,934
Accrued liabilities	13,901	20,471	-	34,372
Due to other funds	60,549	947,171	160	1,007,880
Interest payable	34,156	13,190	-	47,346
Unearned revenue	231,081	-	-	231,081
Customer deposits payable	12,167	278	-	12,445
Bonds payable - current portion	386,525	77,705	-	464,230
Compensated absences - current portion	3,258	834	-	4,092
Total current liabilities	<u>\$ 762,463</u>	<u>\$ 1,113,951</u>	<u>\$ 14,966</u>	<u>\$ 1,891,380</u>
Noncurrent liabilities:				
Bonds payable - net of current portion	\$ 6,223,688	\$ 942,590	\$ -	\$ 7,166,278
Compensated absences - net of current portion	29,324	7,499	-	36,823
Total noncurrent liabilities	<u>\$ 6,253,012</u>	<u>\$ 950,089</u>	<u>\$ -</u>	<u>\$ 7,203,101</u>
Total liabilities	<u>\$ 7,015,475</u>	<u>\$ 2,064,040</u>	<u>\$ 14,966</u>	<u>\$ 9,094,481</u>
DEFERRED INFLOWS OF RESOURCES				
Differences between expected and actual experience	\$ 22,577	\$ 12,710	\$ -	\$ 35,287
Proportional change in net pension asset	-	3,446	-	3,446
Total deferred inflows of resources	<u>\$ 22,577</u>	<u>\$ 16,156</u>	<u>\$ -</u>	<u>\$ 38,733</u>
NET POSITION				
Net investment in capital assets	\$ 16,605,201	\$ 3,304,016	\$ -	\$ 19,909,217
Restricted for debt service and bond covenants	257,740	-	-	257,740
Unrestricted	604,786	(995,105)	287,617	(102,702)
Total net position	<u>\$ 17,467,727</u>	<u>\$ 2,308,911</u>	<u>\$ 287,617</u>	<u>\$ 20,064,255</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, 2017

	<u>Water and Sewer</u>	<u>Harbor</u>	<u>Sanitation</u>	<u>Total</u>
OPERATING REVENUES				
Charges for services:				
Water	\$ 521,795	\$ -	\$ -	\$ 521,795
Sewer	1,037,180	-	-	1,037,180
Harbor fees	-	225,365	-	225,365
Penalties	25,905	-	-	25,905
Refuse collection	-	-	183,179	183,179
Fuel and oil sales	-	331,127	-	331,127
Other revenues	3,565	-	-	3,565
Miscellaneous	-	30,295	-	30,295
Total operating revenues	\$ 1,588,445	\$ 586,787	\$ 183,179	\$ 2,358,411
OPERATING EXPENSES				
Personnel services	\$ 371,132	\$ 147,899	\$ -	\$ 519,031
Fringe benefits	106,460	31,528	-	137,988
Contractual services	104,023	30,291	169,503	303,817
Other supplies and expenses	332,147	403,877	3,578	739,602
Depreciation	651,605	222,837	-	874,442
Total operating expenses	\$ 1,565,367	\$ 836,432	\$ 173,081	\$ 2,574,880
Operating income (loss)	\$ 23,078	\$ (249,645)	\$ 10,098	\$ (216,469)
NONOPERATING REVENUES (EXPENSES)				
Interest income	\$ 1,182.00	\$ -	\$ -	\$ 1,182.00
Connection fees	11,000	-	-	11,000
Facility fees	63,600	-	-	63,600
Bond issuance costs	(20,506)	(1,820)	-	(22,326)
Interest and fiscal charges	(80,797)	(36,839)	-	(117,636)
Total nonoperating revenues (expenses)	\$ (25,521)	\$ (38,659)	\$ -	\$ (64,180)
Income (loss) before contributions	\$ (2,443)	\$ (288,304)	\$ 10,098	\$ (280,649)
Capital contributions and construction grants:				
Commonwealth	-	17,718	-	17,718
Federal	-	16,064	-	16,064
Change in net position	\$ (2,443)	\$ (254,522)	\$ 10,098	\$ (246,867)
Total net position - beginning	17,470,170	2,563,433	277,519	20,311,122
Total net position - ending	\$ 17,467,727	\$ 2,308,911	\$ 287,617	\$ 20,064,255

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, 2017

	Water and <u>Sewer</u>	<u>Harbor</u>	<u>Sanitation</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 1,535,444	\$ 574,050	\$ 177,316	\$ 2,286,810
Payments for operating expenses	(544,287)	(342,780)	(174,923)	(1,061,990)
Payments to employees	(490,335)	(179,183)	-	(669,518)
Net cash provided by (used for) operating activities	<u>\$ 500,822</u>	<u>\$ 52,087</u>	<u>\$ 2,393</u>	<u>\$ 555,302</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
ACTIVITIES				
Purchase of capital assets	\$ (240,026)	\$ (12,000)	\$ -	\$ (252,026)
Principal payments on bonds	(2,309,930)	(322,263)	-	(2,632,193)
Connection fees	11,000	-	-	11,000
Facility fees	63,600	-	-	63,600
Capital grants	-	-	-	-
Proceeds from indebtedness	2,081,317	220,832	-	2,302,149
Interest payments	(80,797)	(36,839)	-	(117,636)
Increase/(decrease) in interest payable	1,798	(3,636)	-	(1,838)
Bond issuance costs	(20,506)	(1,820)	-	(22,326)
Net cash provided by (used for) capital and related financing activities	<u>\$ (493,544)</u>	<u>\$ (155,726)</u>	<u>\$ -</u>	<u>\$ (649,270)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends received	\$ 1,182	\$ -	\$ -	\$ 1,182
Net cash provided by (used for) investing activities	<u>\$ 1,182</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,182</u>
Net increase (decrease) in cash and cash equivalents	\$ 8,460	\$ (103,639)	\$ 2,393	\$ (92,786)
Cash and cash equivalents - beginning - including restricted	590,043	500	-	590,543
Cash and cash equivalents - ending - including restricted	<u>\$ 598,503</u>	<u>\$ (103,139)</u>	<u>\$ 2,393</u>	<u>\$ 497,757</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 23,078	\$ (249,645)	\$ 10,098	\$ (216,469)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	\$ 651,605	\$ 222,837	\$ -	\$ 874,442
(Increase) decrease in accounts receivable	(42,548)	(7,701)	(5,863)	(56,112)
(Increase) decrease in deferred outflows of resources	(6,951)	(10,927)	-	(17,878)
Increase (decrease) in deferred inflows of resources	(2,221)	7,897	-	5,676
(Increase) decrease in net pension asset	(415)	(225)	-	(640)
(Increase) decrease in intergovernmental receivables	5,000	-	-	5,000
(Increase) decrease in due from other funds	(120,615)	(1,564)	(2,482)	(124,661)
Increase (decrease) in due to other funds	1,564	79,870	-	81,434
(Increase) decrease in inventories	-	(3,034)	-	(3,034)
Increase (decrease) in customer deposits	(15,453)	28	-	(15,425)
Increase (decrease) in accounts payable	8,314	3,389	640	12,343
Increase (decrease) in unearned revenue	-	(5,064)	-	(5,064)
Increase (decrease) in accrued liabilities	2,620	12,727	-	15,347
Increase (decrease) in compensated absences	(3,156)	3,499	-	343
Increase (decrease) in due to other funds	<u>\$ 477,744</u>	<u>\$ 301,732</u>	<u>\$ (7,705)</u>	<u>\$ 771,771</u>
Net cash provided by (used for) operating activities	<u>\$ 500,822</u>	<u>\$ 52,087</u>	<u>\$ 2,393</u>	<u>\$ 555,302</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, 2017

Note 1 – Summary of Significant Accounting Policies:

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 (GASB). 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)

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 Corp. 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)

B. Individual Component Unit Disclosures

Blended Component Units. The Municipal Corp. has no blended component units at June 30, 2017.

Discretely Presented Component Units. - The Municipal Corp. has no discretely presented component units at June 30, 2017.

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)

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)

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

The money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity at time of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposits (CDs)) and external investment pools are measured at amortized cost. All other investments are reported at fair value.

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 \$66,834, and \$47,864, respectively, at June 30, 2017. The allowance for uncollectible property taxes was \$25,000 at June 30, 2017.

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, and infrastructure 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 acquisition 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, 2017.

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

<u>Assets</u>	<u>Years</u>
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.

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

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)

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 (Corpus 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)

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 certain items related to the measurement of the net pension asset. These include the differences between expected and actual experience, change in assumptions, the net difference between projected and actual earnings on net pension plan investments and contributions to the pension plan made during the current year and subsequent to the net pension asset measurement date, which will be recognized as a reduction of the net pension asset next fiscal year. For more detailed information on this item, 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 the pension items, reference the pension note.

Note 2 – Stewardship, Compliance, and Accounting:

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

1. Prior to June 1st, the Town Manager 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.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 2 – Stewardship, Compliance, and Accounting: (Continued)

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, 2017.

Note 3 – Deposits and Investments:

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).

Credit Risk of Debt Securities

The Municipal Corp.’s rated debt investments as of June 30, 2017 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	\$ 411,629
Virginia State Non-Arbitrage Program	860,679
Money Market Mutual Fund	259,721
Total	<u>\$ 1,532,029</u>

Note 3 – Deposits and Investments: (Continued)

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Municipal Corp. categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The Municipal Corp. maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources.

Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1. Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at a measurement date
- Level 2. Directly or indirectly observable inputs for the asset or liability other than quoted prices
- Level 3. Unobservable inputs that are supported by little or no market activity for the asset or liability

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk.

(If there has been a change in valuation technique that has a significant effect on the result (e.g., changing from an expected cash flow technique or the use of an additional valuation technique), document that specific change, and the reason(s) for making it.)

The Municipal Corp. has the following recurring fair value measurements as of June 30, 2017:

Investment type	Balance June 30, 2017	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market mutual fund:				
U.S. Government Obligations	\$ 259,721	\$ 259,721	\$ -	\$ -
	<u>\$ 259,721</u>	<u>\$ 259,721</u>	<u>\$ -</u>	<u>\$ -</u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 3 – Deposits and Investments: (Continued)

External Investment Pools

The State Non-Arbitrage Pool (SNAP) is an open-end management investment company registered with the Securities and Exchange Commission. In May 2017, the Board voted to convert the SNAP fund to an LGIP structure, which would be managed in conformance with GASB 79. On October 3, 2017, the Prime Series became a government money market fund and the name was changed to Government Select Series. The Government Select Series has a policy of investing at least 99.5% of its assets in cash, U.S. government securities (including securities issued or guaranteed by the U. S. government or its agencies or instrumentalities) and/or repurchase agreements that are collateralized fully.

The value of the positions in the external investment pools (Local Government Investment Pool and State Non-Arbitrage Pool) is 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 and SNAP are amortized cost basis portfolios under the provisions of GASB Statement No. 79. There are no withdrawal limitations or restrictions imposed on participants.

Note 4 – Due to/from Other Governments:

At June 30, 2017, the Municipal Corp. has receivables from other governments as follows:

	<u>Governmental Activities</u>
Other Local Governments:	
County of Northampton	\$ 9,122
Commonwealth of Virginia:	
Communications tax	<u>7,314</u>
Total due from other governments	<u><u>\$ 16,436</u></u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 5 – Interfund Obligations:

Details of the Municipal Corp.'s interfund receivables and payables as of June 30, 2017, are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 947,171	\$ 712,216
Water and Sewer Fund	436,333	60,549
Harbor Fund	60,532	947,171
Sanitation Fund	276,060	160
Total	<u>\$ 1,720,096</u>	<u>\$ 1,720,096</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.

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Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 6 – Capital Assets:

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2017:

Governmental Activities:	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>
Capital assets not subject to depreciation:				
Construction in progress	\$ 144,568	\$ 1,063,867	\$ 55,069	\$ 1,153,366
Land and land improvements	<u>2,114,692</u>	<u>50,768</u>	<u>-</u>	<u>2,165,460</u>
Total capital assets not subject to depreciation	\$ <u>2,259,260</u>	\$ <u>1,114,635</u>	\$ <u>55,069</u>	\$ <u>3,318,826</u>
Capital assets subject to depreciation:				
Buildings and improvements	\$ 3,200,058	\$ 33,484	\$ -	\$ 3,233,542
Machinery and equipment	1,127,064	153,313	-	1,280,377
Infrastructure	<u>924,246</u>	<u>-</u>	<u>-</u>	<u>924,246</u>
Total capital assets subject to depreciation	\$ <u>5,251,368</u>	\$ <u>186,797</u>	\$ <u>-</u>	\$ <u>5,438,165</u>
Accumulated depreciation:				
Buildings and improvements	\$ 2,418,440	\$ 53,241	\$ -	\$ 2,471,681
Machinery and equipment	979,296	76,069	-	1,055,365
Infrastructure	<u>214,980</u>	<u>36,970</u>	<u>-</u>	<u>251,950</u>
Total accumulated depreciation	\$ <u>3,612,716</u>	\$ <u>166,280</u>	\$ <u>-</u>	\$ <u>3,778,996</u>
Total capital assets subject to depreciation, net	\$ <u>1,638,652</u>	\$ <u>20,517</u>	\$ <u>-</u>	\$ <u>1,659,169</u>
Governmental activities capital assets, net	<u>\$ 3,897,912</u>	<u>\$ 1,135,152</u>	<u>\$ 55,069</u>	<u>\$ 4,977,995</u>

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Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 6 – Capital Assets: (Continued)

Business-type Activities:	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets not subject to depreciation:				
Construction in progress	\$ 8,345	\$ -	\$ -	\$ 8,345
Capital assets subject to depreciation:				
Water and sewer system	\$ 29,909,219	\$ 200,423	\$ -	\$ 30,109,642
Buildings and improvements	755,670	-	-	755,670
Improvements other than buildings	6,496,401	-	-	6,496,401
Machinery and equipment	792,828	51,603	-	844,431
 Total capital assets subject to depreciation	 \$ 37,954,118	 \$ 252,026	 \$ -	 \$ 38,206,144
Accumulated depreciation:				
Water and sewer system	\$ 6,429,231	\$ 626,054	\$ -	\$ 7,055,285
Buildings and improvements	462,492	32,575	-	495,067
Improvements other than buildings	2,309,411	179,378	-	2,488,789
Machinery and equipment	599,189	36,434	-	635,623
 Total accumulated depreciation	 \$ 9,800,323	 \$ 874,441	 \$ -	 \$ 10,674,764
 Total capital assets subject to depreciation, net	 \$ 28,153,795	 \$ (622,415)	 \$ -	 \$ 27,531,380
Business-type activities capital assets, net	<u>\$ 28,162,140</u>	<u>\$ (622,415)</u>	<u>\$ -</u>	<u>\$ 27,539,725</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:

General government administration	\$ 43,530
Public safety	36,815
Public works	25,314
Parks, recreation and cultural	60,621
 Total governmental activities	 \$ 166,280

Business-type activities:

Water and Sewer	\$ 651,604
Harbor	222,837
 Total business-type activities	 \$ 874,441

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2017 (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, 2017:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Governmental activities:					
Compensated absences	\$ 58,397	\$ 14,162	\$ -	\$ 72,559	\$ 7,256
General obligation bonds	1,156,224	858,851	1,002,982	1,012,093	92,943
Notes payable	<u>41,639</u>	<u>94,800</u>	<u>10,905</u>	<u>125,534</u>	<u>26,569</u>
Total obligations from governmental activities	<u>\$ 1,256,260</u>	<u>\$ 967,813</u>	<u>\$ 1,013,887</u>	<u>\$ 1,210,186</u>	<u>\$ 126,768</u>
Business-type activities:					
Compensated absences	\$ 40,572	\$ 343	\$ -	\$ 40,915	\$ 4,092
General obligation bonds	<u>7,960,552</u>	<u>2,302,149</u>	<u>2,632,193</u>	<u>7,630,508</u>	<u>464,230</u>
Total obligations from business-type activities	<u>\$ 8,001,124</u>	<u>\$ 2,302,492</u>	<u>\$ 2,632,193</u>	<u>\$ 7,671,423</u>	<u>\$ 468,322</u>
Total long-term obligations	<u>\$ 9,257,384</u>	<u>\$ 3,270,305</u>	<u>\$ 3,646,080</u>	<u>\$ 8,881,609</u>	<u>\$ 595,090</u>

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Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2017 (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
2018	\$ 92,943	\$ 23,511	\$ 26,569	\$ 3,868	\$ 464,230	\$ 115,178
2019	78,711	21,623	26,591	3,052	481,463	109,364
2020	78,797	19,846	27,415	2,215	488,376	102,985
2021	80,605	18,042	24,880	1,352	494,568	96,399
2022	83,057	16,140	20,079	604	501,116	89,093
2023	85,614	14,180	-	-	508,559	81,587
2024	88,071	12,161	-	-	514,103	73,860
2025	90,089	10,095	-	-	522,085	66,000
2026	91,673	7,986	-	-	531,500	57,910
2027	93,687	5,787	-	-	540,487	49,066
2028	32,397	4,249	-	-	552,777	40,288
2029	33,652	3,268	-	-	564,521	30,609
2030	34,392	2,251	-	-	571,782	20,580
2031	16,485	1,210	-	-	381,688	10,315
2032	16,905	798	-	-	385,268	6,802
2033	7,455	375	-	-	63,545	3,200
2034	7,560	189	-	-	64,440	1,611
Total	\$ <u>1,012,093</u>	\$ <u>161,711</u>	\$ <u>125,534</u>	\$ <u>11,091</u>	\$ <u>7,630,508</u>	\$ <u>954,847</u>

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Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 7 – Long-term Obligations: (Continued)

Long-term obligations at June 30, 2017 are as follows:

	<u>Amount Outstanding</u>
<u>Details of Long-term Indebtedness:</u>	
<u>Governmental Activities:</u>	
Details of General Obligation Bonds:	
\$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	\$ 161,223
\$978,000 general obligation refunding bond issued September 1, 2016, due in various annual installments through August 1, 2026, interest at 2.10%, loan split between general government and enterprise funds	629,635
\$2,183,000 general obligation refunding bond issued September 1, 2016, due in various annual installments through February 1, 2034, interest at 2.50%, loan split between general government and enterprise funds	<u>221,235</u>
Total general obligation bonds	<u>\$ 1,012,093</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%	\$ 790
\$15,100 Rural Development note issued November 11, 2014, due in annual installments of \$3,392 through November, 2019, interest at 4.00%	9,402
\$25,300 Rural Development note issued December 29, 2015, due in annual installments of \$5,564 through December, 2020, interest at 3.25%	20,542
\$76,000 Rural Development note issued May 22, 2017, due in annual installments of \$16,537 through May, 2022, interest at 2.875%	76,000
\$18,800 Rural Development note issued May 22, 2017, due in annual installments of \$4,150 through May, 2022, interest at 3.375%	<u>18,800</u>
Total notes payable	<u>\$ 125,534</u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 7 – Long-term Obligations: (Continued)

Long-term obligations at June 30, 2017 are as follows: (continued)

	<u>Amount Outstanding</u>
Compensated Absences (payable from the General Fund)	\$ <u>72,559</u>
Total governmental activities obligations payable	\$ <u><u>1,210,186</u></u>
<u>Business-type Activities:</u>	
Details of General Obligation Bonds:	
\$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	\$ 1,778,777
\$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%	3,617,602
\$978,000 general obligation refunding bond issued September 1, 2016, due in various annual installments through August 1, 2026, interest at 2.10%, loan split between general government and enterprise funds	348,364
\$2,183,000 general obligation refunding bond issued September 1, 2016, due in various annual installments through February 1, 2034, interest at 2.50%, loan split between general government and enterprise funds	<u>1,885,765</u>
Total general obligation bonds	\$ <u>7,630,508</u>
Compensated Absences (payable from Enterprise Funds)	\$ <u>40,915</u>
Total business-type activities obligations	\$ <u><u>7,671,423</u></u>

Note 8 – Unavailable Revenue:

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 \$154,878 consists of the following:

Unavailable Tax Revenue - Unavailable revenue representing uncollected tax billings not available for funding of current expenditures totaled \$154,878 at June 30, 2017.

Note 9 – Litigation:

At June 30, 2017, 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 10 – Risk Management:

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 11 – Pension Plan:

Plan Description

All full-time, salaried permanent employees of the Municipal Corp. are automatically covered by a VRS Retirement Plan upon employment. This is an agent multiple-employer plan 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 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:

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 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>About Plan 2 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>About the Hybrid Retirement Plan 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"> • The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. • 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.

Note 11 – Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 (Cont.)</p>	<p>About Plan 2 (Cont.)</p>	<p>About the Hybrid Retirement Plan (Cont.)</p> <ul style="list-style-type: none"> • 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.
<p>Eligible Members 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>Hybrid Opt-In Election 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>Eligible Members 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>Hybrid Opt-In Election 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>Eligible Members 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"> • Political subdivision employees* • 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. <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

Note 11 – Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Hybrid Opt-In Election (Cont.) 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>Hybrid Opt-In Election (Cont.) 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>*Non-Eligible Members (Cont.) 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>Retirement Contributions 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 are paying the full 5% as of 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>Retirement Contributions 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 are paying the full 5% as of July 1, 2016.</p>	<p>Retirement Contributions 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 11 – Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Creditable Service 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>Creditable Service Same as Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</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>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

Note 11 – Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Vesting 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>Vesting Same as Plan 1.</p>	<p>Vesting <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> <p>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. After two years, a member is 50% vested and may withdraw 50% of employer contributions.</p>

Note 11 – 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:</u> (Cont.)</p> <ul style="list-style-type: none"> • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit 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>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>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1.</p> <p><u>Defined Contribution Component:</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>Average Final Compensation A member’s average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member’s average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>

Note 11 – Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Service Retirement Multiplier 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>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p>Political subdivision hazardous duty employees: 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>Service Retirement Multiplier 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>Sheriffs and regional jail superintendents: Same as Plan 1.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Service Retirement Multiplier <u>Defined Benefit Component:</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>Sheriffs and regional jail superintendents: Not applicable.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p>
<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>

Note 11 – Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<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>Political subdivisions hazardous duty employees: 50 with at least five 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>Political subdivisions hazardous duty employees: Same as Plan 1.</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> <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>

Note 11 – 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 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><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"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. 	<p>Cost-of-Living Adjustment (COLA) in Retirement 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><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <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> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

Note 11 – 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: (Cont.)</u></p> <ul style="list-style-type: none"> • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • 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. • 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. 	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates: (Cont.)</u> Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates: (Cont.)</u> Same as Plan 1 and Plan 2.</p>
<p>Disability Coverage 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>Disability Coverage 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>Disability Coverage 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>

Note 11 – Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Disability Coverage</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p>Disability Coverage</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p>Disability Coverage</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>Purchase of Prior Service</p> <p>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>Purchase of Prior Service</p> <p>Same as Plan 1.</p>	<p>Purchase of Prior Service</p> <p><u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • 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. <p><u>Defined Contribution Component:</u> Not applicable.</p>

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Note 11 – Pension Plan: (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2015 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	17
Inactive members:	
Vested inactive members	7
Non-vested inactive members	14
Inactive members active elsewhere in VRS	<u>11</u>
Total inactive members	32
Active members	<u>31</u>
Total covered employees	<u><u>80</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, 2017 was 4.49% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

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 \$56,500 and \$61,470 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Liability (Asset)

The Municipal Corp.’s net pension liability (asset) was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Note 11 – Pension Plan: (Continued)

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, 2015, 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, 2016.

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 11 – Pension Plan: (Continued)

Actuarial Assumptions - General Employees (Continued)

The actuarial assumptions used in the June 30, 2015 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, 2015, 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, 2016.

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 11 – Pension Plan: (Continued)

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, 2015 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 11 – 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	<u>100.00%</u>		<u>5.83%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>8.33%</u>

* 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%.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
As of June 30, 2017 (Continued)

Note 11 – 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, 2015	\$ 2,503,390	\$ 2,602,666	\$ (99,276)
Changes for the year:			
Service cost	\$ 131,962	\$ -	\$ 131,962
Interest	171,863	-	171,863
Differences between expected and actual experience	(145,730)	-	(145,730)
Contributions - employer	-	57,508	(57,508)
Contributions - employee	-	56,761	(56,761)
Net investment income	-	47,286	(47,286)
Benefit payments, including refunds			
Refunds of employee contributions	(96,412)	(96,412)	-
Administrative expenses	-	(1,606)	1,606
Other changes	-	(20)	20
Net changes	\$ 61,683	\$ 63,517	\$ (1,834)
Balances at June 30, 2016	\$ 2,565,073	\$ 2,666,183	\$ (101,110)

Note 11 – 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		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Town			
Net Pension Liability (Asset)	\$ 259,225	\$ (101,110)	\$ (396,002)

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

For the year ended June 30, 2017, the Municipal Corp. recognized pension expense of \$27,718. At June 30, 2017, 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
Differences between expected and actual experience	\$ 4,655	\$ 101,703
Net difference between projected and actual earnings on pension plan investments	70,512	-
Proportional change in net pension asset	7,670	7,670
Employer contributions subsequent to the measurement date	56,500	-
Total	\$ 139,337	\$ 109,373

Note 11 – Pension Plan: (Continued)

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

\$56,500 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 fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	
2018	\$ (38,217)
2019	(40,613)
2020	25,201
2021	27,093
Thereafter	-

Note 12 – Upcoming Pronouncements:

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.

Statement No. 81, *Irrevocable Split-Interest Agreements*, improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Note 12 – Upcoming Pronouncements: (Continued)

Statement No. 84, Fiduciary Activities, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 86, Certain Debt Extinguishment Issues, improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

Statement No. 87, Leases, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

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, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
General property taxes	\$ 1,321,277	\$ 1,321,277	\$ 1,306,460	\$ (14,817)
Other local taxes	706,930	706,930	704,156	(2,774)
Permits, privilege fees, and regulatory licenses	89,741	88,741	62,835	(25,906)
Fines and forfeitures	11,800	10,800	5,034	(5,766)
Revenue from the use of money and property	27,300	27,300	38,138	10,838
Charges for services	5,125	7,125	7,070	(55)
Miscellaneous	1,500	1,500	5,695	4,195
Recovered costs	20,000	20,000	22,426	2,426
Intergovernmental:				
Commonwealth	147,925	132,925	130,920	(2,005)
Federal	1,026,050	1,041,050	902,268	(138,782)
Total revenues	<u>\$ 3,357,648</u>	<u>\$ 3,357,648</u>	<u>\$ 3,185,002</u>	<u>\$ (172,646)</u>
EXPENDITURES				
Current:				
General government administration	\$ 882,886	\$ 919,634	\$ 804,763	\$ 114,871
Public safety - police department	440,641	442,641	419,771	22,870
Public safety - code enforcement	113,618	113,818	112,644	1,174
Public works	437,352	499,904	493,580	6,324
Parks, recreation, and cultural	213,036	212,349	211,061	1,288
Community development	78,545	76,422	103,770	(27,348)
Capital projects	1,356,000	1,356,000	1,330,982	25,018
Debt service:				
Principal retirement	109,570	968,421	1,013,887	(45,466)
Bond issuance costs	-	-	7,472	(7,472)
Interest and other fiscal charges	91,888	91,888	38,649	53,239
Total expenditures	<u>\$ 3,723,536</u>	<u>\$ 4,681,077</u>	<u>\$ 4,536,579</u>	<u>\$ 144,498</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (365,888)</u>	<u>\$ (1,323,429)</u>	<u>\$ (1,351,577)</u>	<u>\$ (28,148)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ (58,662)	\$ (58,662)	\$ -	\$ 58,662
Issuance of general obligation bonds	-	858,851	858,851	-
Issuance of notes payable	6,750	6,750	94,800	88,050
Sale of land	-	-	69,000	69,000
Total other financing sources (uses)	<u>\$ (51,912)</u>	<u>\$ 806,939</u>	<u>\$ 1,022,651</u>	<u>\$ 215,712</u>
Net change in fund balance	\$ (417,800)	\$ (516,490)	\$ (328,926)	\$ 187,564
Fund balance - beginning	417,800	516,490	3,422,099	2,905,609
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,093,173</u>	<u>\$ 3,093,173</u>

Municipal Corporation of Cape Charles, Virginia
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
For the Years Ended June 30, 2015 through 2017

	2016	2015	2014
Total pension liability			
Service cost	\$ 131,962	\$ 117,294	\$ 96,808
Interest	171,863	157,456	145,759
Differences between expected and actual experience	(145,730)	11,707	-
Benefit payments, including refunds of employee contributions	(96,412)	(64,863)	(86,097)
Net change in total pension liability	\$ 61,683	\$ 221,594	\$ 156,470
Total pension liability - beginning	2,503,390	2,281,796	2,125,326
Total pension liability - ending (a)	<u>\$ 2,565,073</u>	<u>\$ 2,503,390</u>	<u>\$ 2,281,796</u>
Plan fiduciary net position			
Contributions - employer	\$ 57,508	\$ 55,321	\$ 95,752
Contributions - employee	56,761	54,670	54,200
Net investment income	47,286	113,899	328,807
Benefit payments, including refunds of employee contributions	(96,412)	(64,863)	(86,097)
Administrative expense	(1,606)	(1,494)	(1,701)
Other	(20)	(24)	18
Net change in plan fiduciary net position	\$ 63,517	\$ 157,509	\$ 390,979
Plan fiduciary net position - beginning	2,602,666	2,445,157	2,054,178
Plan fiduciary net position - ending (b)	<u>\$ 2,666,183</u>	<u>\$ 2,602,666</u>	<u>\$ 2,445,157</u>
Municipal Corporation's net pension liability (asset) - ending (a) - (b)	\$ (101,110)	\$ (99,276)	\$ (163,361)
Plan fiduciary net position as a percentage of the total pension liability	103.94%	103.97%	107.16%
Covered payroll	\$ 1,188,982	\$ 1,118,571	\$ 1,085,627
Municipal Corporation's net pension liability (asset) as a percentage of covered payroll	-8.50%	-8.88%	-15.05%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

Municipal Corporation of Cape Charles, Virginia

Schedule of Employer Contributions
For the Years Ended June 30, 2008 through 2017

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Employee Payroll (5)
2017	\$ 56,500	\$ 56,500	\$ -	\$ 1,258,379	4.49%
2016	61,470	61,470	-	1,188,982	5.17%
2015	57,830	57,830	-	1,118,571	5.17%
2014	95,427	95,427	-	1,085,627	8.79%
2013	91,628	91,628	-	1,042,407	8.79%
2012	72,814	72,814	-	1,018,382	7.15%
2011	72,668	72,668	-	1,016,338	7.15%
2010	68,202	68,202	-	953,877	7.15%
2009	70,746	70,746	-	989,449	7.15%
2008	59,821	59,821	-	898,212	6.66%

Current year contributions are from Municipal Corporation records and prior year contributions are from the VRS actuarial valuation performed each year.

Municipal Corporation of Cape Charles, Virginia

Notes to Required Supplementary Information
For the Year Ended June 30, 2017

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 is not material.

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

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, 2017

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 1,155,777	\$ 1,155,777	\$ 1,148,165	\$ (7,612)
Personal property taxes	118,000	118,000	118,776	776
Machinery and tools taxes	27,500	27,500	24,352	(3,148)
Penalties and interest	20,000	20,000	15,167	(4,833)
Total general property taxes	\$ 1,321,277	\$ 1,321,277	\$ 1,306,460	\$ (14,817)
Other local taxes:				
Local sales and use taxes	\$ 85,000	\$ 85,000	\$ 43,028	\$ (41,972)
Consumers' utility taxes	49,680	49,680	50,016	336
Business license taxes	115,000	115,000	111,390	(3,610)
Motor vehicle licenses	26,200	26,200	28,128	1,928
Admissions taxes	20,000	20,000	20,717	717
Short term rental tax	6,050	6,050	5,425	(625)
Hotel and motel room taxes	90,000	90,000	92,250	2,250
Restaurant food taxes	315,000	315,000	353,202	38,202
Total other local taxes	\$ 706,930	\$ 706,930	\$ 704,156	\$ (2,774)
Permits, privilege fees, and regulatory licenses:				
Permits and other licenses	\$ 89,741	\$ 88,741	\$ 62,835	\$ (25,906)
Total permits, privilege fees, and regulatory licenses	\$ 89,741	\$ 88,741	\$ 62,835	\$ (25,906)
Fines and forfeitures:				
Court fines and forfeitures	\$ 11,800	\$ 10,800	\$ 5,034	\$ (5,766)
Total fines and forfeitures	\$ 11,800	\$ 10,800	\$ 5,034	\$ (5,766)
Revenue from use of money and property:				
Revenue from use of money	\$ 3,600	\$ 3,600	\$ 15,155	\$ 11,555
Revenue from use of property	23,700	23,700	22,983	(717)
Total revenue from use of money and property	\$ 27,300	\$ 27,300	\$ 38,138	\$ 10,838
Charges for services:				
Charges for parks and recreation	\$ 525	\$ 525	\$ 4,012	\$ 3,487
Charges for code enforcement	1,300	3,300	-	(3,300)
Credit card fees	2,000	2,000	1,110	(890)
Charges for library	1,300	1,300	1,948	648
Total charges for services	\$ 5,125	\$ 7,125	\$ 7,070	\$ (55)
Miscellaneous:				
Miscellaneous	\$ 1,500	\$ 1,500	\$ 5,695	\$ 4,195
Total miscellaneous	\$ 1,500	\$ 1,500	\$ 5,695	\$ 4,195

Municipal Corporation of Cape Charles, Virginia
 Schedule of Revenues - Budget and Actual
 General Fund
 For the Year Ended June 30, 2017

<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	-	-	2,426	2,426
Total recovered costs	<u>\$ 20,000</u>	<u>\$ 20,000</u>	<u>\$ 22,426</u>	<u>\$ 2,426</u>
 Total revenue from local sources	 <u>\$ 2,183,673</u>	 <u>\$ 2,183,673</u>	 <u>\$ 2,151,814</u>	 <u>\$ (31,859)</u>
 Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Communications tax	\$ 52,500	\$ 52,500	\$ 44,492	\$ (8,008)
Rolling stock tax	-	-	4	4
Personal property tax relief funds	35,424	35,424	35,424	-
Total noncategorical aid	<u>\$ 87,924</u>	<u>\$ 87,924</u>	<u>\$ 79,920</u>	<u>\$ (8,004)</u>
 Categorical aid:				
Fire programs	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Arts grant	5,000	5,000	5,000	-
Tourism grant	-	-	7,000	7,000
VDOT Sidewalk Grant	15,000	-	-	-
Law enforcement grant HB 599	29,001	29,001	29,000	(1)
Litter control	1,000	1,000	-	(1,000)
Total other categorical aid	<u>\$ 60,001</u>	<u>\$ 45,001</u>	<u>\$ 51,000</u>	<u>\$ 5,999</u>
Total categorical aid	<u>\$ 60,001</u>	<u>\$ 45,001</u>	<u>\$ 51,000</u>	<u>\$ 5,999</u>
Total revenue from the Commonwealth	<u>\$ 147,925</u>	<u>\$ 132,925</u>	<u>\$ 130,920</u>	<u>\$ (2,005)</u>
 Revenue from the federal government:				
Categorical aid:				
TEA-21 grant	\$ 1,004,800	\$ 1,019,800	\$ 830,698	\$ (189,102)
JAG grant	1,000	1,000	970	(30)
Historic Preservation Grant	-	-	20,500	20,500
Rural Development grant	20,250	20,250	50,100	29,850
Total categorical aid	<u>\$ 1,026,050</u>	<u>\$ 1,041,050</u>	<u>\$ 902,268</u>	<u>\$ (138,782)</u>
Total revenue from the federal government	<u>\$ 1,026,050</u>	<u>\$ 1,041,050</u>	<u>\$ 902,268</u>	<u>\$ (138,782)</u>
Total General Fund	<u>\$ 3,357,648</u>	<u>\$ 3,357,648</u>	<u>\$ 3,185,002</u>	<u>\$ (172,646)</u>

Municipal Corporation of Cape Charles, Virginia
Schedule of Expenditures - Budget and Actual
General Fund
For the Year Ended June 30, 2017

<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	\$ 20,606	\$ 22,856	\$ 30,488	\$ (7,632)
Total legislative	<u>\$ 20,606</u>	<u>\$ 22,856</u>	<u>\$ 30,488</u>	<u>\$ (7,632)</u>
General and financial administration:				
Town Clerk	\$ 138,675	\$ 139,099	\$ 131,347	\$ 7,752
Town Manager	495,096	490,301	377,598	112,703
Finance	228,509	267,378	265,330	2,048
Total general and financial administration	<u>\$ 862,280</u>	<u>\$ 896,778</u>	<u>\$ 774,275</u>	<u>\$ 122,503</u>
Total general government administration	<u>\$ 882,886</u>	<u>\$ 919,634</u>	<u>\$ 804,763</u>	<u>\$ 114,871</u>
Public safety:				
Law enforcement and traffic control:				
Police	\$ 440,641	\$ 442,641	\$ 419,771	\$ 22,870
Total law enforcement and traffic control	<u>\$ 440,641</u>	<u>\$ 442,641</u>	<u>\$ 419,771</u>	<u>\$ 22,870</u>
Inspections:				
Code enforcement	\$ 113,618	\$ 113,818	\$ 112,644	\$ 1,174
Total inspections	<u>\$ 113,618</u>	<u>\$ 113,818</u>	<u>\$ 112,644</u>	<u>\$ 1,174</u>
Total public safety	<u>\$ 554,259</u>	<u>\$ 556,459</u>	<u>\$ 532,415</u>	<u>\$ 24,044</u>
Public works:				
Maintenance of general buildings and grounds:				
General properties	\$ 437,352	\$ 499,904	\$ 493,580	\$ 6,324
Total public works	<u>\$ 437,352</u>	<u>\$ 499,904</u>	<u>\$ 493,580</u>	<u>\$ 6,324</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Parks and recreation	\$ 81,078	\$ 80,391	\$ 75,614	\$ 4,777
Total parks and recreation	<u>\$ 81,078</u>	<u>\$ 80,391</u>	<u>\$ 75,614</u>	<u>\$ 4,777</u>
Library:				
Library administration	\$ 131,958	\$ 131,958	\$ 135,447	\$ (3,489)
Total library	<u>\$ 131,958</u>	<u>\$ 131,958</u>	<u>\$ 135,447</u>	<u>\$ (3,489)</u>
Total parks, recreation, and cultural	<u>\$ 213,036</u>	<u>\$ 212,349</u>	<u>\$ 211,061</u>	<u>\$ 1,288</u>

Municipal Corporation of Cape Charles, Virginia
 Schedule of Expenditures - Budget and Actual
 General Fund
 For the Year Ended June 30, 2017

<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	\$ 78,545	\$ 76,422	\$ 101,510	\$ (25,088)
Community enhancement	-	-	2,260	(2,260)
Total planning and community development	<u>\$ 78,545</u>	<u>\$ 76,422</u>	<u>\$ 103,770</u>	<u>\$ (27,348)</u>
Total community development	<u>\$ 78,545</u>	<u>\$ 76,422</u>	<u>\$ 103,770</u>	<u>\$ (27,348)</u>
Capital projects:				
Land purchase	\$ 70,000	\$ 70,000	\$ 50,768	\$ 19,232
Sidewalk repair program	30,000	-	-	-
Multi-use trail	1,256,000	1,286,000	1,280,214	5,786
Total capital projects	<u>\$ 1,356,000</u>	<u>\$ 1,356,000</u>	<u>\$ 1,330,982</u>	<u>\$ 25,018</u>
Debt service:				
Principal retirement	\$ 109,570	\$ 968,421	\$ 1,013,887	\$ (45,466)
Bond issuance costs	-	-	7,472	(7,472)
Interest and other fiscal charges	91,888	91,888	38,649	53,239
Total debt service	<u>\$ 201,458</u>	<u>\$ 1,060,309</u>	<u>\$ 1,060,008</u>	<u>\$ 301</u>
Total General Fund	<u>\$ 3,723,536</u>	<u>\$ 4,681,077</u>	<u>\$ 4,536,579</u>	<u>\$ 144,498</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
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
2016	779,857	459,190	439,968	324,326	70,414	55,195	2,844,926	4,973,876
2017	780,254	529,272	462,247	500,987	103,487	38,410	2,714,842	5,129,499

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		
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		
2016	2,516,334	84,851	859,789	1,352,474	657,466	30,779	867,091	81,037	6,449,821		
2017	2,403,055	85,752	880,798	1,262,771	704,156	39,320	179,590	100,420	5,655,862		

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
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
2016	826,293	488,694	430,037	180,502	71,111	136,248	2,132,885
2017	804,763	532,415	493,580	211,061	103,770	1,060,008	3,205,597

(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
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
2016	1,302,263	657,466	100,313	7,134	30,331	5,090	34,741	33,204	299,616	2,470,158
2017	1,306,460	704,156	62,835	5,034	38,138	7,070	5,695	22,426	1,033,188	3,185,002

(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
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%	
2016	1,304,355	1,212,623	92.97%	56,558	1,269,181	97.30%	210,947	16.17%	
2017	1,307,990	1,210,464	92.54%	56,477	1,266,941	96.86%	170,484	13.03%	

(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)	
2008	\$ 309,377,451	\$ 12,581,000	\$ 34,300	\$ 1,086,411	\$ 323,079,162	
2009	578,730,450	13,332,827	17,500	2,303,243	594,384,020	
2010	610,324,249	12,728,600	17,500	3,052,751	626,123,100	
2011	618,341,300	12,162,400	17,000	3,678,477	634,199,177	
2012	622,094,327	14,489,100	17,000	3,940,015	640,540,442	
2013	623,140,200	15,296,652	17,000	3,688,742	642,142,594	
2014	409,929,500	14,324,494	15,800	3,688,742	427,958,536	
2015	404,822,056	11,393,551	8,300	3,631,182	419,855,089	
2016	410,160,956	12,104,739	3,500	3,705,047	425,974,242	
2017	354,182,650	10,873,870	3,300	3,606,095	368,665,915	

(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	
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
2016	0.2759	2.00	0.2759		0.2759
2017	0.3260	2.00	0.3260		0.3260

(1) Per \$100 of assessed value.

Table 8

Municipal Corporation of Cape Charles, Virginia
Computation of Legal Debt Margin
At June 30, 2017

Assessed value of real property, January 1, 2016 (1)	<u>\$ 357,788,745</u>
Debt limit: 10% of assessed value	\$ 35,778,875
Amount of debt applicable to debt limit:	
Gross debt (2)	<u>\$ 8,768,135</u>
Less: Notes secured by property	<u>-</u>
Net general obligation bonds and notes	<u>\$ 8,768,135</u>
Legal debt limit	<u>\$ 27,010,740</u>

(1) Assessed value of real property, including public service corporations as of January 1, 2016

(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	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
				Debt Service Monies Available	Debt Payable from Enterprise Revenues (4)			
2008	1,134	\$ 323,079,162	\$ 3,088,603	\$ 94,823	\$ 1,974,829	\$ 1,018,951	0.32%	\$ 899
2009	1,134	594,384,020	4,224,092	95,904	3,155,384	972,804	0.16%	858
2010	1,009	626,123,100	9,962,723	95,904	8,766,119	1,100,700	0.18%	1,091
2011	1,009	634,199,177	10,703,649	95,904	9,554,330	1,053,415	0.17%	1,044
2012	1,009	640,540,442	9,092,562	257,582	7,998,966	836,014	0.13%	829
2013	1,009	642,142,594	9,417,364	353,486	8,378,491	685,387	0.11%	679
2014	1,009	427,958,536	10,094,123	257,582	8,793,226	1,043,315	0.24%	1,034
2015	1,009	419,855,089	9,611,950	257,582	8,384,203	970,165	0.23%	962
2016	1,009	425,974,242	9,116,776	257,582	7,960,552	898,642	0.21%	891
2017	1,009	368,665,915	8,642,601	257,740	7,630,508	754,353	0.20%	748

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

(2) From Table 6.

(3) Includes all long-term general obligation bonded debt. Excludes notes payable 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

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*

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, 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, 2017, 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 June 29, 2018.

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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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 "R. F. Clark", followed by a horizontal line extending to the right.

Richmond, Virginia
June 29, 2018

Independent Auditors' Report on Compliance For Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited Municipal Corporation of Cape Charles, Virginia's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Municipal Corporation of Cape Charles, Virginia's major federal programs for the year ended June 30, 2017. Municipal Corporation of Cape Charles, Virginia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Municipal Corporation of Cape Charles, Virginia's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipal Corporation of Cape Charles, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Municipal Corporation of Cape Charles, Virginia's compliance.

Opinion on Each Major Federal Program

In our opinion, Municipal Corporation of Cape Charles, Virginia complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of Municipal Corporation of Cape Charles, Virginia is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Municipal Corporation of Cape Charles, Virginia's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Municipal Corporation of Cape Charles, Virginia's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Richmond, Virginia
June 29, 2018

Municipal Corporation of Cape Charles, Virginia
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Grantor/Pass - Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Agriculture:			
Direct Payments:			
Community Facilities Loans and Grants	10.766	N/A	<u>\$ 144,900</u>
Department of the Interior:			
Pass Through Payments:			
Virginia Department of Historic Resources:			
Historic Preservation Fund Grants-In-Aid	15.904	5014510-502005	<u>\$ 20,500</u>
Virginia Department of Health:			
Sportfishing and Boating Safety Act	15.622	F15AP00120	<u>\$ 16,064</u>
Total Department of the Interior			<u>\$ 36,564</u>
Department of Justice:			
Pass Through Payments:			
Virginia Department of Criminal Justice Services:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	5014410-7040	<u>\$ 970</u>
Department of Transportation:			
Pass Through Payments:			
Virginia Department of Transportation:			
Highway Planning and Construction	20.205	EN02-182-123	<u>\$ 830,698</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,013,132</u></u>

See accompanying notes to schedule of expenditures of federal awards.

Municipal Corporation of Cape Charles, Virginia

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Municipal Corporation of Cape Charles, Virginia under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance), *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Municipal Corporation of Cape Charles, Virginia, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Municipal Corporation of Cape Charles, Virginia.

Note B - Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

Note C - Relationship to Financial Statements

Federal expenditures, revenues and capital contributions are reported in the Town's basic financial statements as follows:

Intergovernmental federal revenues per the basic financial statements:	
General Fund	\$ 902,268
Proprietary Fund:	
Harbor Fund	16,064
Total	<u>\$ 918,332</u>
Total federal expenditures per basic financial statements	
	\$ 918,332
Add: Rural Development note proceeds	
	<u>94,800</u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards	<u><u>\$ 1,013,132</u></u>

Note D - Subrecipients

No awards were passed through to subrecipients.

Note E - De Minimis Cost Rate

The Municipal Corporation did not elect to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.

Note F - Loan Balances

The Municipal Corporation has no loans balances or loan guarantees which are subject to reporting for the current year.

Municipal Corporation of Cape Charles, Virginia
 Schedule of Findings and Questioned Costs
 For the year ended June 30, 2017

Section I-Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *unmodified*

Internal control over financial reporting:

Material weakness(es) identified?	_____ yes	_____ <input checked="" type="checkbox"/> no	
Significant deficiency(ies) identified?	_____ yes	_____ <input checked="" type="checkbox"/> none reported	

Noncompliance material to financial statements noted?

	_____ yes	_____ <input checked="" type="checkbox"/> no	
--	-----------	--	--

Internal control over major programs:

Material weakness(es) identified?	_____ yes	_____ <input checked="" type="checkbox"/> no	
Significant deficiency(ies) identified?	_____ yes	_____ <input checked="" type="checkbox"/> none reported	

Type of auditors' report issued on compliance for major programs: *unmodified*

Any findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?

	_____ yes	_____ <input checked="" type="checkbox"/> no	
--	-----------	--	--

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
20.205	Highway Planning and Construction

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?

	_____ yes	_____ <input checked="" type="checkbox"/> no	
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Section II-Financial Statement Findings

None

Section III-Federal Award Findings and Questioned Costs

None

Municipal Corporation of Cape Charles, Virginia

Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2017

There were no prior year audit findings.