

MUNICIPAL CORPORATION
OF
CAPE CHARLES, VIRGINIA



ANNUAL FINANCIAL REPORT

FOR FISCAL YEAR ENDED JUNE 30, 2018

MUNICIPAL CORPORATION OF CAPE CHARLES, VIRGINIA

ANNUAL FINANCIAL REPORT

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MUNICIPAL CORPORATION OF CAPE CHARLES, VIRGINIA

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FOR THE YEAR ENDED JUNE 30, 2018

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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, 2018, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 14 to the financial statements, in 2018, the Town adopted new accounting guidance, GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and 85 *Omnibus 2017*. Our opinion is not modified with respect to this matter.

Restatement of Beginning Balances

As described in Note 14 to the financial statements, in 2018, the Town restated beginning balances to reflect the requirements of GASB Statement No. 75 and other restatements as detailed in Note 14. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension and OPEB funding on pages 4-8, 75, and 76-82 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 an opinion on the financial statements that collectively comprise Municipal Corporation of Cape Charles, Virginia's basic financial statements. The supporting schedules and other statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Other Matters (Continued)

Supplementary and Other Information (Continued)

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Municipal Corporation of Cape Charles, Virginia's 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 "R. F. Cox", followed by a horizontal line extending to the right.

Richmond, Virginia
February 21, 2019

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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, 2018. 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 \$27,452,919 (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 \$224,592 (Exhibit 5).

< As of the close of the current fiscal year, the Town's general fund reported an ending fund balance of \$2,868,581, a decrease of \$224,592 in comparison with the prior year.

< The combined long-term obligations decreased \$607,381 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 \$27,452,919 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	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 3,655,934	\$ 3,674,135	\$ 844,199	\$ 595,810	\$ 4,500,133	\$ 4,269,945
Capital assets	5,577,511	4,977,995	26,728,287	27,539,725	32,305,798	32,517,720
Total assets	\$ 9,233,445	\$ 8,652,130	\$ 27,572,486	\$ 28,135,535	\$ 36,805,931	\$ 36,787,665
Deferred outflows of resources:						
Pension related items	\$ 54,878	\$ 85,283	\$ 29,550	\$ 54,054	\$ 84,428	\$ 139,337
OPEB related items	4,612	-	2,484	-	7,096	-
Total deferred outflows of resources	\$ 59,490	\$ 85,283	\$ 32,034	\$ 54,054	\$ 91,524	\$ 139,337
Current liabilities	\$ 451,186	\$ 374,039	\$ 411,687	\$ 415,178	\$ 862,873	\$ 789,217
Long-term liabilities outstanding	1,333,950	1,210,186	7,056,278	7,671,423	8,390,228	8,881,609
Total liabilities	\$ 1,785,136	\$ 1,584,225	\$ 7,467,965	\$ 8,086,601	\$ 9,253,101	\$ 9,670,826
Deferred inflows of resources:						
Deferred revenue - prepaid taxes	\$ 14,146	\$ 9,393	\$ -	\$ -	\$ 14,146	\$ 9,393
Pension related items	108,088	70,640	58,201	38,733	166,289	109,373
OPEB related items	7,150	-	3,850	-	11,000	-
Total deferred inflows of resources	\$ 129,384	\$ 80,033	\$ 62,051	\$ 38,733	\$ 191,435	\$ 118,766
Net position:						
Net investment in capital assets	\$ 4,374,196	\$ 4,701,047	\$ 19,747,241	\$ 19,909,217	\$ 24,121,437	\$ 24,610,264
Restricted:						
Debt covenants	-	-	257,867	257,740	257,867	257,740
Unspent bond proceeds	874,074	-	-	-	874,074	-
Unrestricted	2,130,145	2,372,108	69,396	(102,702)	2,199,541	2,269,406
Total net position*	\$ 7,378,415	\$ 7,073,155	\$ 20,074,504	\$ 20,064,255	\$ 27,452,919	\$ 27,137,410

*Restatement of total net position for 2017 not reflected in this table. Please see Note 14.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Analysis (Continued)

During the current fiscal year, the Town's net position increased by \$424,965. 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	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 126,020	\$ 74,939	\$ 2,324,768	\$ 2,328,116	\$ 2,450,788	\$ 2,403,055
Operating grants and contributions	51,482	51,970	21,598	33,782	73,080	85,752
Capital grants and contributions	216,815	880,798	-	-	216,815	880,798
General revenues:						
General property taxes	1,397,163	1,262,771	-	-	1,397,163	1,262,771
Other local taxes	791,977	704,156	-	-	791,977	704,156
Grants and other contributions not restricted	83,027	100,420	-	-	83,027	100,420
Other general revenues	117,597	112,833	356,120	106,077	473,717	218,910
Total revenues	\$ 2,784,081	\$ 3,187,887	\$ 2,702,486	\$ 2,467,975	\$ 5,486,567	\$ 5,655,862
Expenses:						
General government						
administration	\$ 738,396	\$ 780,254	\$ -	\$ -	\$ 738,396	\$ 780,254
Public safety	553,014	529,272	-	-	553,014	529,272
Public works	395,642	462,247	-	-	395,642	462,247
Parks, recreation, and cultural	369,738	500,987	-	-	369,738	500,987
Community development	124,041	103,487	-	-	124,041	103,487
Interest and other fiscal charges	33,079	38,410	-	-	33,079	38,410
Enterprise funds	-	-	2,847,692	2,714,842	2,847,692	2,714,842
Total expenses	\$ 2,213,910	\$ 2,414,657	\$ 2,847,692	\$ 2,714,842	\$ 5,061,602	\$ 5,129,499
Change in net position	\$ 570,171	\$ 773,230	\$ (145,206)	\$ (246,867)	\$ 424,965	\$ 526,363
Beginning of year, as retated*	6,808,244	6,299,925	20,219,710	20,311,122	27,027,954	26,611,047
End of year	\$ 7,378,415	\$ 7,073,155	\$ 20,074,504	\$ 20,064,255	\$ 27,452,919	\$ 27,137,410

*2018 beginning net position differs from 2017 ending net position due to an accounting change. Please see Note 14.

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 \$2,868,581, a decrease of \$224,592 in comparison with the prior year. \$1,993,811 of June 30, 2018 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 \$69,396. Total net position decreased \$145,206.

General Fund Budgetary Highlights

During the year, actual revenues and other sources were less than budgetary estimates by \$264,243. Actual expenditures and other uses were less than budgetary estimates by \$149,651, resulting in a negative variance of \$114,592.

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, 2018 amounts to \$5,577,511 and \$26,728,287, 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 long-term obligations outstanding of \$8,390,228. Of this amount, \$8,085,427 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 \$583,774.

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

Next Year's Budgets

The fiscal year 2019 budget increased by approximately 13%.

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.

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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, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,744,125	\$ 372,082	\$ 2,116,207
Investments	320,630	99,975	420,605
Receivables (net of allowance for uncollectibles):			
Taxes receivable	134,523	-	134,523
Accounts receivable	90,129	223,594	313,723
Internal balances	234,955	(234,955)	-
Due from other governmental units	39,545	-	39,545
Inventories	-	8,651	8,651
Prepaid items	696	-	696
Net pension asset	217,257	116,985	334,242
Restricted assets:			
Investments - bond requirements	-	257,867	257,867
Investments - unspent bond proceeds	874,074	-	874,074
Capital assets (net of accumulated depreciation):			
Land and land improvements	2,165,460	-	2,165,460
Buildings and improvements	759,939	228,027	987,966
Improvements other than buildings	-	3,828,234	3,828,234
Water and sewer system	-	22,470,689	22,470,689
Machinery and equipment	248,988	192,992	441,980
Infrastructure	653,853	-	653,853
Construction in progress	1,749,271	8,345	1,757,616
Total assets	<u>\$ 9,233,445</u>	<u>\$ 27,572,486</u>	<u>\$ 36,805,931</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension related items	\$ 54,878	\$ 29,550	\$ 84,428
OPEB related items	4,612	2,484	7,096
Total deferred outflows of resources	<u>\$ 59,490</u>	<u>\$ 32,034</u>	<u>\$ 91,524</u>
LIABILITIES			
Accounts payable	\$ 312,565	\$ 95,922	\$ 408,487
Accrued liabilities	56,965	19,177	76,142
Customers' deposits	69,738	-	69,738
Accrued interest payable	11,918	42,916	54,834
Unearned revenue	-	241,795	241,795
Amounts held for others	-	11,877	11,877
Long-term liabilities:			
Due within one year	124,427	472,625	597,052
Due in more than one year	1,209,523	6,583,653	7,793,176
Total liabilities	<u>\$ 1,785,136</u>	<u>\$ 7,467,965</u>	<u>\$ 9,253,101</u>
DEFERRED INFLOWS OF RESOURCES			
Pension related items	\$ 108,088	\$ 58,201	\$ 166,289
OPEB related items	7,150	3,850	11,000
Deferred revenue - property taxes	14,146	-	14,146
Total deferred inflows of resources	<u>\$ 129,384</u>	<u>\$ 62,051</u>	<u>\$ 191,435</u>
NET POSITION			
Net investment in capital assets	\$ 4,374,196	\$ 19,747,241	\$ 24,121,437
Restricted:			
Debt service and bond covenants	-	257,867	257,867
Unspent bond proceeds	874,074	-	874,074
Unrestricted	2,130,145	69,396	2,199,541
Total net position	<u>\$ 7,378,415</u>	<u>\$ 20,074,504</u>	<u>\$ 27,452,919</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, 2018

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Position</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating</u>		<u>Governmental Activities</u>	<u>Primary Government Business-type Activities</u>		<u>Total</u>
			<u>Grants and Contributions</u>	<u>Capital Grants and Contributions</u>		<u>Governmental Activities</u>	<u>Business-type Activities</u>	
PRIMARY GOVERNMENT:								
Governmental activities:								
General government administration	\$ 738,396	\$ 1,379	\$ -	\$ -	\$ (737,017)	\$ -	\$ -	\$ (737,017)
Public safety	553,014	121,148	39,982	-	(391,884)	-	-	(391,884)
Public works	395,642	-	-	216,815	(178,827)	-	-	(178,827)
Parks, recreation, and cultural	369,738	3,493	4,500	-	(361,745)	-	-	(361,745)
Community development	124,041	-	7,000	-	(117,041)	-	-	(117,041)
Interest on long-term debt	33,079	-	-	-	(33,079)	-	-	(33,079)
Total governmental activities	\$ 2,213,910	\$ 126,020	\$ 51,482	\$ 216,815	\$ (1,819,593)	\$ -	\$ -	\$ (1,819,593)
Business-type activities:								
Water and Sewer	\$ 1,748,460	\$ 1,542,260	\$ -	\$ -	\$ -	\$ (206,200)	\$ -	\$ (206,200)
Harbor	913,035	601,327	21,598	-	-	(290,110)	-	(290,110)
Sanitation	186,197	181,181	-	-	-	(5,016)	-	(5,016)
Total business-type activities	\$ 2,847,692	\$ 2,324,768	\$ 21,598	\$ -	\$ -	\$ (501,326)	\$ -	\$ (501,326)
Total primary government	\$ 5,061,602	\$ 2,450,788	\$ 73,080	\$ 216,815	\$ (1,819,593)	\$ (501,326)	\$ (501,326)	\$ (2,320,919)
General revenues:								
General property taxes					\$ 1,397,163	\$ -	\$ -	\$ 1,397,163
Restaurant food taxes					384,086	-	-	384,086
Business license taxes					126,405	-	-	126,405
Other local taxes					281,486	-	-	281,486
Unrestricted revenues from use of money and property					59,236	4,006	-	63,242
Miscellaneous					18,321	352,114	-	370,435
Grants and contributions not restricted to specific programs					83,027	-	-	83,027
Gain on disposal of capital assets					40,040	-	-	40,040
Total general revenues					\$ 2,389,764	\$ 356,120	\$ -	\$ 2,745,884
Change in net position					\$ 570,171	\$ (145,206)	\$ -	\$ 424,965
Net position - beginning, as restated					6,808,244	20,219,710	-	27,027,954
Net position - ending					\$ 7,378,415	\$ 20,074,504	\$ -	\$ 27,452,919

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, 2018

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 1,744,125
Investments	320,630
Receivables:	
Taxes receivable	134,523
Accounts receivable	90,129
Due from other funds	947,171
Due from other governmental units	39,545
Prepaid items	696
Restricted assets:	
Cash and cash equivalents - unspent bond proceeds	874,074
Total assets	<u>\$ 4,150,893</u>
LIABILITIES	
Accounts payable	\$ 312,565
Accrued liabilities	56,965
Retainage payable	69,738
Due to other funds	712,216
Total liabilities	<u>\$ 1,151,484</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	<u>\$ 130,828</u>
FUND BALANCE	
Nonspendable:	
Prepaid items	\$ 696
Restricted:	
Unspent bond proceeds	874,074
Unassigned	1,993,811
Total fund balance	<u>\$ 2,868,581</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 4,150,893</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, 2018

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

Total fund balance per Exhibit 3 - Balance Sheet - Governmental Fund		\$ 2,868,581
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets	\$ 9,502,597	
Accumulated depreciation	<u>(3,925,086)</u>	5,577,511
The net pension asset is not an available resource and, therefore, is not reported in the funds.		
		217,257
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue.		
Unavailable property taxes		116,682
Deferred outflows of resources are not available to pay for current period expenditures, and therefore, are not reported in the funds.		
Pension related items	\$ 54,878	
OPEB related items	<u>4,612</u>	59,490
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:		
Bonds and notes payable	\$ (1,203,315)	
Net OPEB liability	(66,950)	
Compensated absences	(63,685)	
Accrued interest payable	<u>(11,918)</u>	(1,345,868)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.		
Pension related items	\$ (108,088)	
OPEB related items	<u>(7,150)</u>	(115,238)
Net position of governmental activities		<u><u>\$ 7,378,415</u></u>

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

Municipal Corporation of Cape Charles, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
For the Year Ended June 30, 2018

		<u>General</u>
REVENUES		
General property taxes	\$	1,425,966
Other local taxes		791,977
Permits, privilege fees, and regulatory licenses		101,618
Fines and forfeitures		19,277
Revenue from the use of money and property		59,236
Charges for services		5,125
Miscellaneous		18,321
Recovered costs		33,297
Intergovernmental:		
Commonwealth		129,027
Federal		222,297
Total revenues	\$	<u>2,806,141</u>
EXPENDITURES		
Current:		
General government administration	\$	784,488
Public safety - police department		443,866
Public safety - code enforcement		114,243
Public works		470,739
Parks, recreation, and cultural		220,145
Community development		128,091
Capital projects		742,013
Debt service:		
Principal retirement		132,301
Interest and other fiscal charges		34,887
Total expenditures	\$	<u>3,070,773</u>
Excess (deficiency) of revenues over (under) expenditures	\$	<u>(264,632)</u>
OTHER FINANCING SOURCES (USES)		
Sale of capital assets	\$	40,040
Total other financing sources (uses)	\$	<u>40,040</u>
Net change in fund balance	\$	(224,592)
Fund balance - beginning		3,093,173
Fund balance - ending	\$	<u><u>2,868,581</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, 2018

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

Net change in fund balance - total governmental fund \$ (224,592)

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 asset additions	\$ 773,778	
Depreciation expense	<u>(174,262)</u>	599,516

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		(28,803)
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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	\$ 105,701	
Principal retirement on notes payable	<u>26,600</u>	132,301

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:

Change in compensated absences	\$ 8,874	
OPEB expense	1,659	
Pension expense	79,408	
(Increase) decrease in accrued interest payable	<u>1,808</u>	91,749

Change in net position of governmental activities		<u>\$ 570,171</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, 2018

	Water and Sewer	Harbor	Sanitation	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 548,809	\$ -	\$ 6,484	\$ 555,293
Investments	99,975	-	-	99,975
Accounts receivable, net of allowance for uncollectibles	143,587	63,841	16,166	223,594
Due from other funds	436,333	60,532	276,060	772,925
Inventories	-	8,651	-	8,651
Total current assets	<u>\$ 1,228,704</u>	<u>\$ 133,024</u>	<u>\$ 298,710</u>	<u>\$ 1,660,438</u>
Noncurrent assets:				
Net pension asset	\$ 83,561	\$ 33,424	\$ -	\$ 116,985
Restricted assets:				
Investments - bond requirements	\$ 257,867	\$ -	\$ -	\$ 257,867
Total restricted assets	<u>\$ 257,867</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 257,867</u>
Capital assets (net of accumulated depreciation):				
Water and sewer system	\$ 22,470,689	\$ -	\$ -	\$ 22,470,689
Buildings and improvements	-	228,027	-	228,027
Improvements other than buildings	-	3,828,234	-	3,828,234
Machinery and equipment	147,208	45,784	-	192,992
Construction in progress	8,345	-	-	8,345
Total capital assets	<u>\$ 22,626,242</u>	<u>\$ 4,102,045</u>	<u>\$ -</u>	<u>\$ 26,728,287</u>
Total noncurrent assets	<u>\$ 22,967,670</u>	<u>\$ 4,135,469</u>	<u>\$ -</u>	<u>\$ 27,103,139</u>
Total assets	<u>\$ 24,196,374</u>	<u>\$ 4,268,493</u>	<u>\$ 298,710</u>	<u>\$ 28,763,577</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension related items	\$ 21,107	\$ 8,443	\$ -	\$ 29,550
OPEB related items	1,774	710	-	2,484
Total deferred outflows of resources	<u>\$ 22,881</u>	<u>\$ 9,153</u>	<u>\$ -</u>	<u>\$ 32,034</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 22,466	\$ 57,507	\$ 15,949	\$ 95,922
Accrued liabilities	12,904	6,273	-	19,177
Due to other funds	60,549	947,171	160	1,007,880
Reconciled overdraft payable	-	183,211	-	183,211
Interest payable	30,458	12,458	-	42,916
Unearned revenue	231,081	10,714	-	241,795
Customer deposits payable	11,877	-	-	11,877
Bonds payable - current portion	397,097	71,609	-	468,706
Compensated absences - current portion	3,156	763	-	3,919
Total current liabilities	<u>\$ 769,588</u>	<u>\$ 1,289,706</u>	<u>\$ 16,109</u>	<u>\$ 2,075,403</u>
Noncurrent liabilities:				
Bonds payable - net of current portion	\$ 5,641,359	\$ 870,981	\$ -	\$ 6,512,340
Compensated absences - net of current portion	28,399	6,864	-	35,263
Net OPEB liability	25,750	10,300	-	36,050
Total noncurrent liabilities	<u>\$ 5,695,508</u>	<u>\$ 888,145</u>	<u>\$ -</u>	<u>\$ 6,583,653</u>
Total liabilities	<u>\$ 6,465,096</u>	<u>\$ 2,177,851</u>	<u>\$ 16,109</u>	<u>\$ 8,659,056</u>
DEFERRED INFLOWS OF RESOURCES				
Pension related items	\$ 41,572	\$ 16,629	\$ -	\$ 58,201
OPEB related items	2,750	1,100	-	3,850
Total deferred inflows of resources	<u>\$ 44,322</u>	<u>\$ 17,729</u>	<u>\$ -</u>	<u>\$ 62,051</u>
NET POSITION				
Net investment in capital assets	\$ 16,587,786	\$ 3,159,455	\$ -	\$ 19,747,241
Restricted for debt service and bond covenants	257,867	-	-	257,867
Unrestricted	864,184	(1,077,389)	282,601	69,396
Total net position	<u>\$ 17,709,837</u>	<u>\$ 2,082,066</u>	<u>\$ 282,601</u>	<u>\$ 20,074,504</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, 2018

	<u>Water and Sewer</u>	<u>Harbor</u>	<u>Sanitation</u>	<u>Total</u>
OPERATING REVENUES				
Charges for services:				
Water	\$ 514,191	\$ -	\$ -	\$ 514,191
Sewer	1,015,203	-	-	1,015,203
Harbor fees	-	222,260	-	222,260
Penalties	11,210	-	-	11,210
Refuse collection	-	-	181,181	181,181
Fuel and oil sales	-	379,067	-	379,067
Other revenues	1,656	-	-	1,656
Miscellaneous	1,909	70,765	-	72,674
Total operating revenues	<u>\$ 1,544,169</u>	<u>\$ 672,092</u>	<u>\$ 181,181</u>	<u>\$ 2,397,442</u>
OPERATING EXPENSES				
Personnel services	\$ 396,967	\$ 147,947	\$ -	\$ 544,914
Fringe benefits	100,555	36,544	-	137,099
Contractual services	97,394	21,103	183,109	301,606
Other supplies and expenses	420,973	452,432	3,088	876,493
Depreciation	658,153	222,266	-	880,419
Total operating expenses	<u>\$ 1,674,042</u>	<u>\$ 880,292</u>	<u>\$ 186,197</u>	<u>\$ 2,740,531</u>
Operating income (loss)	<u>\$ (129,873)</u>	<u>\$ (208,200)</u>	<u>\$ (5,016)</u>	<u>\$ (343,089)</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	\$ 4,006	\$ -	\$ -	\$ 4,006
Connection fees	39,300	-	-	39,300
Facility fees	240,140	-	-	240,140
Interest and fiscal charges	(74,418)	(32,743)	-	(107,161)
Total nonoperating revenues (expenses)	<u>\$ 209,028</u>	<u>\$ (32,743)</u>	<u>\$ -</u>	<u>\$ 176,285</u>
Income (loss) before contributions	<u>\$ 79,155</u>	<u>\$ (240,943)</u>	<u>\$ (5,016)</u>	<u>\$ (166,804)</u>
Capital contributions and construction grants:				
Commonwealth	-	21,598	-	21,598
Change in net position	<u>\$ 79,155</u>	<u>\$ (219,345)</u>	<u>\$ (5,016)</u>	<u>\$ (145,206)</u>
Total net position - beginning, as restated	17,630,682	2,301,411	287,617	20,219,710
Total net position - ending	<u>\$ 17,709,837</u>	<u>\$ 2,082,066</u>	<u>\$ 282,601</u>	<u>\$ 20,074,504</u>

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

Municipal Corporation of Cape Charles, Virginia
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2018

	<u>Water and Sewer</u>	<u>Harbor</u>	<u>Sanitation</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 1,598,340	\$ 645,075	\$ 189,145	\$ 2,432,560
Payments for operating expenses	(517,724)	(364,004)	(185,054)	(1,066,782)
Payments to employees	(535,049)	(191,489)	-	(726,538)
Net cash provided by (used for) operating activities	<u>\$ 545,567</u>	<u>\$ 89,582</u>	<u>\$ 4,091</u>	<u>\$ 639,240</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of capital assets	\$ (68,981)	\$ -	\$ -	\$ (68,981)
Principal payments on bonds	(373,768)	(77,705)	-	(451,473)
Connection fees	39,300	-	-	39,300
Facility fees	240,140	-	-	240,140
Capital grants	-	21,598	-	21,598
Interest payments	(78,116)	(33,475)	-	(111,591)
Net cash provided by (used for) capital and related financing activities	<u>\$ (241,425)</u>	<u>\$ (89,582)</u>	<u>\$ -</u>	<u>\$ (331,007)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends received	\$ 2,415	\$ -	\$ -	\$ 2,415
Net cash provided by (used for) investing activities	<u>\$ 2,415</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,415</u>
Net increase (decrease) in cash and cash equivalents	\$ 306,557	\$ -	\$ 4,091	\$ 310,648
Cash and cash equivalents - beginning	242,252	-	2,393	244,645
Cash and cash equivalents - ending	<u>\$ 548,809</u>	<u>\$ -</u>	<u>\$ 6,484</u>	<u>\$ 555,293</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (129,873)	\$ (208,200)	\$ (5,016)	\$ (343,089)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	\$ 658,153	\$ 222,266	\$ -	\$ 880,419
(Increase) decrease in accounts receivable	54,461	(37,453)	7,964	24,972
(Increase) decrease in deferred outflows of resources	5,653	10,987	-	16,640
Increase (decrease) in deferred inflows of resources	21,745	5,019	-	26,764
(Increase) decrease in net pension asset	(60,648)	(20,998)	-	(81,646)
Increase (decrease) in net OPEB liability	(3,250)	(1,300)	-	(4,550)
(Increase) decrease in inventories	-	6,670	-	6,670
Increase (decrease) in customer deposits	(290)	(278)	-	(568)
Increase (decrease) in accounts payable	1,640	3,205	1,143	5,988
Increase (decrease) in unearned revenue	-	10,714	-	10,714
Increase (decrease) in accrued liabilities	(997)	(14,198)	-	(15,195)
Increase (decrease) in compensated absences	(1,027)	(706)	-	(1,733)
Increase (decrease) in reconciled overdraft payable	-	113,854	-	113,854
Total adjustments	<u>\$ 675,440</u>	<u>\$ 297,782</u>	<u>\$ 9,107</u>	<u>\$ 982,329</u>
Net cash provided by (used for) operating activities	<u>\$ 545,567</u>	<u>\$ 89,582</u>	<u>\$ 4,091</u>	<u>\$ 639,240</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
June 30, 2018

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, 2018.

Discretely Presented Component Units. - The Municipal Corp. has no discretely presented component units at June 30, 2018.

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.

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, sanitation billing and harbor billing amounted to \$82,963, \$9,810, and \$18,909, respectively, at June 30, 2018. The allowance for uncollectible property taxes was \$17,275 at June 30, 2018.

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, 2018.

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.

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

N. Other Postemployment Benefits (OPEB)

Group Life Insurance

The Virginia Retirement System (VRS) Group Life Insurance (GLI) Program provides coverage to state employees, teachers, and employees of participating political subdivisions. The GLI Program was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The GLI Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net GLI Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the GLI OPEB, and GLI OPEB expense, information about the fiduciary net position of the VRS GLI Program OPEB and the additions to/deductions from the VRS GLI OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

O. 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.

P. 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.

Q. 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;

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

Q. Fund Equity (Continued)

- 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).

R. 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 and net OPEB liability and contributions to the pension and OPEB plans made during the current year and subsequent to the net pension asset and net OPEB liability measurement date. For more detailed information on this item, reference the related notes.

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 asset and net OPEB liability are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
June 30, 2018 (Continued)

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.
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, 2018.

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). The Municipal Corp. has no investment policy that would further limit their investment choices.

Note 3 – Deposits and Investments: (Continued)

Credit Risk of Debt Securities

The Municipal Corp.’s rated debt investments as of June 30, 2018 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	\$ 417,746
Virginia State Non-Arbitrage Program	874,074
Money Market Mutual Fund	260,726
Total	<u>\$ 1,552,546</u>

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.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
June 30, 2018 (Continued)

Note 3 – Deposits and Investments: (Continued)

Fair Value Measurement (Continued)

The Municipal Corp. has the following recurring fair value measurements as of June 30, 2018:

Investment type	Balance June 30, 2018	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	\$ 260,726	\$ 260,726	\$ -	\$ -
	\$ 260,726	\$ 260,726	\$ -	\$ -

External Investment Pools

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 and SNAP are 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, 2018, the Municipal Corp. has receivables from other governments as follows:

	<u>Governmental Activities</u>
Other Local Governments:	
County of Northampton	\$ 10,222
Commonwealth of Virginia:	
Communications tax	6,921
Federal Government:	
Federal Trails grant	<u>22,402</u>
Total due from other governments	<u>\$ 39,545</u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
June 30, 2018 (Continued)

Note 5 – Interfund Obligations:

Details of the Municipal Corp.’s interfund receivables and payables as of June 30, 2018, are as follows:

	Interfund Receivables	Interfund Payables
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
	<u>1,720,096</u>	<u>1,720,096</u>
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.

Note 6 – Capital Assets:

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2018:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Governmental Activities:				
Capital assets not subject to depreciation:				
Construction in progress	\$ 1,153,366	\$ 614,907	\$ 19,002	\$ 1,749,271
Land and land improvements	<u>2,165,460</u>	<u>-</u>	<u>-</u>	<u>2,165,460</u>
Total capital assets not subject to depreciation	<u>\$ 3,318,826</u>	<u>\$ 614,907</u>	<u>\$ 19,002</u>	<u>\$ 3,914,731</u>
Capital assets subject to depreciation:				
Buildings and improvements	\$ 3,233,542	\$ 53,913	\$ -	\$ 3,287,455
Machinery and equipment	1,280,377	104,958	28,172	1,357,163
Infrastructure	<u>924,246</u>	<u>19,002</u>	<u>-</u>	<u>943,248</u>
Total capital assets subject to depreciation	<u>\$ 5,438,165</u>	<u>\$ 177,873</u>	<u>\$ 28,172</u>	<u>\$ 5,587,866</u>
Accumulated depreciation:				
Buildings and improvements	\$ 2,471,681	\$ 55,835	\$ -	\$ 2,527,516
Machinery and equipment	1,055,365	80,982	28,172	1,108,175
Infrastructure	<u>251,950</u>	<u>37,445</u>	<u>-</u>	<u>289,395</u>
Total accumulated depreciation	<u>\$ 3,778,996</u>	<u>\$ 174,262</u>	<u>\$ 28,172</u>	<u>\$ 3,925,086</u>
Total capital assets subject to depreciation, net	<u>\$ 1,659,169</u>	<u>\$ 3,611</u>	<u>\$ -</u>	<u>\$ 1,662,780</u>
Governmental activities capital assets, net	<u>\$ 4,977,995</u>	<u>\$ 618,518</u>	<u>\$ 19,002</u>	<u>\$ 5,577,511</u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
June 30, 2018 (Continued)

Note 6 – Capital Assets: (Continued)

Business-type Activities:	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets not subject to depreciation:				
Construction in progress	\$ 8,345	\$ -	\$ -	\$ 8,345
Capital assets subject to depreciation:				
Water and sewer system	\$ 30,109,642	\$ 44,079	\$ -	\$ 30,153,721
Buildings and improvements	755,670	-	-	755,670
Improvements other than buildings	6,496,401	-	-	6,496,401
Machinery and equipment	844,431	24,902	-	869,333
 Total capital assets subject to depreciation	 \$ 38,206,144	 \$ 68,981	 \$ -	 \$ 38,275,125
Accumulated depreciation:				
Water and sewer system	\$ 7,055,285	\$ 627,747	\$ -	\$ 7,683,032
Buildings and improvements	495,067	32,576	-	527,643
Improvements other than buildings	2,488,789	179,378	-	2,668,167
Machinery and equipment	635,623	40,718	-	676,341
 Total accumulated depreciation	 \$ 10,674,764	 \$ 880,419	 \$ -	 \$ 11,555,183
 Total capital assets subject to depreciation, net	 \$ 27,531,380	 \$ (811,438)	 \$ -	 \$ 26,719,942
Business-type activities capital assets, net	<u>\$ 27,539,725</u>	<u>\$ (811,438)</u>	<u>\$ -</u>	<u>\$ 26,728,287</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:

General government administration	\$ 45,365
Public safety	26,467
Public works	41,404
Parks, recreation and cultural	61,026
 Total governmental activities	 <u>\$ 174,262</u>

Business-type activities:

Water and Sewer	\$ 658,153
Harbor	222,266
 Total business-type activities	 <u>\$ 880,419</u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
June 30, 2018 (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, 2018:

	Restated Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018	Amounts Due Within One Year
Governmental activities:					
Compensated absences	\$ 72,559	\$ -	\$ 8,874	\$ 63,685	\$ 6,368
General obligation bonds	1,210,082	-	105,701	1,104,381	91,468
Net OPEB liability	75,400	2,600	11,050	66,950	-
Notes payable	125,534	-	26,600	98,934	26,591
Total obligations from governmental activities	<u>\$ 1,483,575</u>	<u>\$ 2,600</u>	<u>\$ 152,225</u>	<u>\$ 1,333,950</u>	<u>\$ 124,427</u>
Business-type activities:					
Compensated absences	\$ 40,915	\$ -	\$ 1,733	\$ 39,182	\$ 3,919
Net OPEB liability	40,600	1,400	5,950	36,050	-
General obligation bonds	7,432,519	-	451,473	6,981,046	468,706
Total obligations from business-type activities	<u>\$ 7,514,034</u>	<u>\$ 1,400</u>	<u>\$ 459,156</u>	<u>\$ 7,056,278</u>	<u>\$ 472,625</u>
Total long-term obligations	<u><u>\$ 8,997,609</u></u>	<u><u>\$ 4,000</u></u>	<u><u>\$ 611,381</u></u>	<u><u>\$ 8,390,228</u></u>	<u><u>\$ 597,052</u></u>

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Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
June 30, 2018 (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
2019	\$ 91,468	\$ 28,055	\$ 26,591	\$ 3,052	\$ 468,706	\$ 102,933
2020	92,065	25,903	27,415	2,215	475,109	96,928
2021	94,384	23,709	24,880	1,352	480,790	90,732
2022	97,346	21,342	20,048	635	486,828	83,892
2023	99,900	18,899	-	-	493,761	76,869
2024	102,870	16,379	-	-	499,305	69,641
2025	105,398	13,813	-	-	506,776	62,282
2026	107,493	11,187	-	-	515,682	54,709
2027	110,527	8,401	-	-	523,647	46,452
2028	49,747	6,238	-	-	535,427	38,299
2029	51,513	4,613	-	-	546,661	29,264
2030	53,265	2,933	-	-	553,411	19,898
2031	16,485	1,210	-	-	381,689	10,315
2032	16,905	798	-	-	385,269	6,802
2033	7,455	375	-	-	63,545	3,200
2034	7,560	189	-	-	64,440	1,611
Total	\$ <u>1,104,381</u>	\$ <u>184,044</u>	\$ <u>98,934</u>	\$ <u>7,254</u>	\$ <u>6,981,046</u>	\$ <u>793,827</u>

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Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
June 30, 2018 (Continued)

Note 7 – Long-term Obligations: (Continued)

Long-term obligations at June 30, 2018 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	\$ 336,066
\$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	554,955
\$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>213,360</u>
Total general obligation bonds	<u>\$ 1,104,381</u>
Details of Notes Payable:	
\$15,100 Rural Development note issued November 11, 2014, due in annual installments of \$3,392 through November, 2019, interest at 4.00%	\$ 6,386
\$25,300 Rural Development note issued December 29, 2015, due in annual installments of \$5,564 through December, 2020, interest at 3.25%	15,646
\$76,000 Rural Development note issued May 22, 2017, due in annual installments of \$16,537 through May, 2022, interest at 2.875%	61,624
\$18,800 Rural Development note issued May 22, 2017, due in annual installments of \$4,150 through May, 2022, interest at 3.375%	<u>15,278</u>
Total notes payable	<u>\$ 98,934</u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
June 30, 2018 (Continued)

Note 7 – Long-term Obligations: (Continued)

Long-term obligations at June 30, 2018 are as follows: (continued)

	<u>Amount Outstanding</u>
Compensated Absences (payable from the General Fund)	\$ <u>63,685</u>
Net OPEB Liability (payable from the General Fund)	\$ <u>66,950</u>
Total governmental activities obligations payable	\$ <u><u>1,333,950</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	\$ 1,478,932
\$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%	3,376,428
\$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	194,640
\$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>1,931,046</u>
Total general obligation bonds	\$ <u>6,981,046</u>
Compensated Absences (payable from Enterprise Funds)	\$ <u>39,182</u>
Net OPEB Liability (payable from Enterprise Funds)	\$ <u>36,050</u>
Total business-type activities obligations	\$ <u><u>7,056,278</u></u>

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
June 30, 2018 (Continued)

Note 8 – Deferred/Unavailable Revenue:

Deferred/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. Under the accrual basis, assessments for future periods are deferred. Unavailable revenue totaling \$130,828 consists of the following:

Unavailable Property Tax Revenue - Unavailable revenue representing uncollected tax billings not available for funding of current expenditures totaled \$116,682 at June 30, 2018.

Deferred Prepaid Property Taxes - Property taxes due subsequent to June 30, 2018 but paid in advance by the taxpayers totaled \$14,146 at June 30, 2018.

Note 9 – Litigation:

At June 30, 2018, 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 and Commitments and Contingencies:

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.

The following construction contracts were outstanding at June 30, 2018:

<u>Fund</u>	<u>Project</u>	<u>Contractor</u>	<u>Amount of Contract</u>	<u>Contract Outstanding At June 30, 2018</u>
General	Site Construction for Multi-Use Trails, Phase II	Kevcor Corporation	\$ 1,712,553	\$ 770,894

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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.</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.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</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
About Plan 1 (Cont.)	About Plan 2 (Cont.)	About the Hybrid Retirement Plan (Cont.) <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, and they have not taken a refund.</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. 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.</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 Contribution 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.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions.

Note 11 – Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting (Cont.)	Vesting (Cont.)	<p>Vesting (Cont.)</p> <p><u>Defined Contribution 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: 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></p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates: (Cont.)</u></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
Disability Coverage (Cont.)	Disability Coverage (Cont.)	Disability Coverage (Cont.) 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.
Purchase of Prior Service 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. Members also may be eligible to purchase periods of leave without pay.	Purchase of Prior Service Same as Plan 1.	Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions: <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. <u>Defined Contribution Component:</u> Not applicable.

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-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, 2016 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	19
Inactive members:	
Vested inactive members	7
Non-vested inactive members	15
Active members active elsewhere in VRS	<u>12</u>
Total inactive members	34
Active members	<u>31</u>
Total covered employees	<u><u>84</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 employer contribution rate for the year ended June 30, 2018 was 6.57% 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 \$83,299 and \$56,500 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability (Asset)

The Municipal Corp.’s net pension liability (asset) was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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, 2016, 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, 2017.

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

Largest 10 - Non-Hazardous Duty: 20% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

All Others (Non 10 Largest) - Non-Hazardous Duty: 15% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

Note 11 – Pension Plan: (Continued)

Actuarial Assumptions - General Employees (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

All Others (Non 10 Largest) - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Note 11 – Pension Plan: (Continued)

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety with Hazardous Duty Benefits employees in the Municipal Corp.'s Retirement Plan was based on an actuarial valuation as of June 30, 2016, 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, 2017.

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

Largest 10 - Hazardous Duty: 70% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

All Others (Non 10 Largest) - Hazardous Duty: 45% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

Note 11 – Pension Plan: (Continued)

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

All Others (Non 10 Largest) - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

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
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
 Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

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, 2019, 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, 2019 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.

Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
June 30, 2018 (Continued)

Note 11 – Pension Plan: (Continued)

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, 2016	\$ 2,565,073	\$ 2,666,183	\$ (101,110)
Changes for the year:			
Service cost	\$ 123,278	\$ -	\$ 123,278
Interest	175,415	-	175,415
Changes of assumptions	(51,731)	-	(51,731)
Differences between expected and actual experience	(45,840)	-	(45,840)
Contributions - employer	-	49,527	(49,527)
Contributions - employee	-	58,943	(58,943)
Net investment income	-	327,947	(327,947)
Benefit payments, including refunds			
Refunds of employee contributions	(118,285)	(118,285)	-
Administrative expenses	-	(1,872)	1,872
Other changes	-	(291)	291
Net changes	\$ 82,837	\$ 315,969	\$ (233,132)
Balances at June 30, 2017	\$ 2,647,910	\$ 2,982,152	\$ (334,242)

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%)
Municipal Corp.'s Net Pension Liability (Asset)	\$ 34,182	\$ (334,242)	\$ (636,283)

Note 11 – Pension Plan: (Continued)

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

For the year ended June 30, 2018, the Municipal Corp. recognized pension expense of (\$44,981). At June 30, 2018, the Municipal Corp. reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience \$	1,129	\$ 87,488
Change of assumptions	-	33,643
Net difference between projected and actual earnings on pension plan investments	-	45,158
Employer contributions subsequent to the measurement date	<u>83,299</u>	<u>-</u>
Total	<u>\$ 84,428</u>	<u>\$ 166,289</u>

\$83,299 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 ending June 30, 2019. 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>	
2019	\$ (103,076)
2020	(32,485)
2021	(1,254)
2022	(28,345)
2023	-

Note 12—Group Life Insurance (GLI) Program (OPEB Plan):

Plan Description

All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS
<p>Eligible Employees</p> <p>The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:</p> <ul style="list-style-type: none">• City of Richmond• City of Portsmouth• City of Roanoke• City of Norfolk• Roanoke City School Board <p>Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.</p>

Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Plan Description (Continued)

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS (CONTINUED)
<p>Benefit Amounts</p> <p>The benefits payable under the Group Life Insurance Program have several components.</p> <ul style="list-style-type: none"> • <u>Natural Death Benefit</u> - The natural death benefit is equal to the employee’s covered compensation rounded to the next highest thousand and then doubled. • <u>Accidental Death Benefit</u> - The accidental death benefit is double the natural death benefit. • <u>Other Benefit Provisions</u> - In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: <ul style="list-style-type: none"> ○ Accidental dismemberment benefit ○ Safety belt benefit ○ Repatriation benefit ○ Felonious assault benefit ○ Accelerated death benefit option
<p>Reduction in Benefit Amounts</p> <p>The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.</p>
<p>Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)</p> <p>For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. The amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,111.</p>

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer’s contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Program from the entity were \$7,096 and \$6,544 for the years ended June 30, 2018 and June 30, 2017, respectively.

Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB

At June 30, 2018, the entity reported a liability of \$103,000 its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer’s proportion of the Net GLI OPEB Liability was based on the covered employer’s actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer’s proportion was 0.00682% as compared to 0.00662% at June 30, 2016.

For the year ended June 30, 2018, the participating employer recognized GLI OPEB expense of \$4,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 2,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	4,000
Change in assumptions	-	5,000
Employer contributions subsequent to the measurement date	<u>7,096</u>	<u>-</u>
Total	<u>\$ 7,096</u>	<u>\$ 11,000</u>

Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB (Continued)

\$7,096 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2019	\$ (2,000)
2020	(2,000)
2021	(2,000)
2022	(2,000)
2023	(1,000)
Thereafter	(2,000)

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.5%
Salary increases, including inflation:	
General state employees	3.5% - 5.35%
Teachers	3.5%-5.95%
SPORS employees	3.5%-4.75%
VaLORS employees	3.5%-4.75%
JRS employees	4.5%
Locality - General employees	3.5%-5.35%
Locality - Hazardous Duty employees	3.5%-4.75%
Investment rate of return	7.0%, net of investment expenses, 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 OPEB liabilities.

Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - General State Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Teachers

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - SPORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - VaLORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - JRS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Mortality Rates - Largest Ten Locality Employers - Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Largest Ten Locality Employers - Hazardous Duty Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Mortality Rates - Non-Largest Ten Locality Employers - Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - Hazardous Duty Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and Retirement Rates)	Updated to a more current mortality table - RP-2014 projected to 2020
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

NET GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program
Total GLI OPEB Liability	\$ 2,942,426
Plan Fiduciary Net Position	1,437,586
Employers' Net GLI OPEB Liability (Asset)	<u>\$ 1,504,840</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	48.86%

The total GLI OPEB liability is calculated by the System’s actuary, and each plan’s fiduciary net position is reported in the System’s financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System’s notes to the financial statements and required supplementary information.

Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)**Long-Term Expected Rate of Return**

The long-term expected rate of return on the System's 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 System's 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
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance 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, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

Note 12—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Sensitivity of the Employer’s Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The following presents the employer’s proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what the employer’s proportionate share of the net GLI OPEB liability 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 <u>(6.00%)</u>	Current Discount <u>(7.00%)</u>	1% Increase <u>(8.00%)</u>
Municipal Corp.'s proportionate share of the Group Life Insurance Program Net OPEB Liability	\$ 133,000	\$ 103,000	\$ 78,000

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program’s Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 13 – Line of Duty Act (LODA) (OPEB Benefits):

The Line of Duty Act (LODA) provides death and healthcare benefits to certain law enforcement and rescue personnel, and their beneficiaries, who were disabled or killed in the line of duty. Benefit provisions and eligibility requirements are established by title 9.1 Chapter 4 of the Code of Virginia. Funding of LODA benefits is provided by employers in one of two ways: (a) participation in the Line of Duty and Health Benefits Trust Fund (LODA Fund), administered by the Virginia Retirement System (VRS) or (b) self-funding by the employer or through an insurance company.

The Municipal Corp. has elected to provide LODA benefits through an insurance company. The obligation for the payment of benefits has been effectively transferred from the County to VACORP. VACORP assumes all liability for the Municipal Corp.'s LODA claims that are approved by VRS. The pool purchases reinsurance to protect the pool from extreme claims costs.

The current-year OPEB expense/expenditure for the insured benefits is defined as the amount of premiums or other payments required for the insured benefits for the reporting period in accordance with the agreement with the insurance company for LODA and a change in liability to the insurer equal to the difference between amounts recognized as OPEB expense and amounts paid by the employer to the insurer. The Municipal Corp.'s LODA coverage is fully covered or "insured" through VACORP. This is built into the LODA coverage cost presented in the annual renewals. The Municipal Corp.'s LODA premium for the year ended June 30, 2018 was \$2,787.

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Municipal Corporation of Cape Charles, Virginia

Notes to Financial Statements
June 30, 2018 (Continued)

Note 14 – Adoption of Accounting Principles and Restatement of Beginning Net Position:

The Municipal Corp. implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* during the fiscal year ended June 30, 2018. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to postemployment benefits other than pensions (other postemployment benefits or OPEB). Note disclosure and required supplementary information requirements about OPEB are also addressed. The requirements of this Statement will improve accounting and financial reporting by state and local governments for OPEB. In addition, the Municipal Corp. implemented Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017* during the fiscal year ended June 30, 2018. This Statement addresses practice issues identified during implementation and application of certain GASB statements for a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). The implementation of these Statements resulted in the following restatement of net position and two unrelated restatements:

	Governmental Activities	Business-type Activities	
		Water and Sewer	Harbor
Net position, July 1, 2017, as previously stated	\$ 7,073,155	\$ 17,467,727	\$ 2,308,911
Implementation of GASB 75:			
Adjustment to record OPEB GLI liability as reported by VRS at the beginning of the year	(75,400)	(29,000)	(11,600)
Adjustment to record deferred outflow of resources related to OPEB GLI liability at the beginning of the year year	4,254	1,636	654
Other restatements:			
Adjustment to reclassify long-term liabilities between governmental activities and business-type activities	(197,989)	197,989	-
Adjustment to remove prior year proportional change in net pension asset	4,224	(7,670)	3,446
Net position, July 1, 2017, as restated	<u>\$ 6,808,244</u>	<u>\$ 17,630,682</u>	<u>\$ 2,301,411</u>

Note 15 – Upcoming Pronouncements:

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.

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. 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.

Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, clarifies which liabilities governments should include when disclosing information related to debt. It defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, it requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Note 15 – Upcoming Pronouncements: (Continued)

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. 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.

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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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 1,364,800	\$ 1,364,800	\$ 1,425,966	\$ 61,166
Other local taxes	730,326	730,326	791,977	61,651
Permits, privilege fees, and regulatory licenses	86,891	86,891	101,618	14,727
Fines and forfeitures	7,300	7,300	19,277	11,977
Revenue from the use of money and property	27,400	27,400	59,236	31,836
Charges for services	7,000	7,000	5,125	(1,875)
Miscellaneous	2,800	2,800	18,321	15,521
Recovered costs	20,000	20,000	33,297	13,297
Intergovernmental:				
Commonwealth	144,925	144,925	129,027	(15,898)
Federal	575,382	575,382	222,297	(353,085)
Total revenues	\$ 2,966,824	\$ 2,966,824	\$ 2,806,141	\$ (160,683)
EXPENDITURES				
Current:				
General government administration	\$ 773,936	\$ 773,936	\$ 784,488	\$ (10,552)
Public safety - police department	438,895	438,895	443,866	(4,971)
Public safety - code enforcement	119,424	119,424	114,243	5,181
Public works	459,226	459,226	470,739	(11,513)
Parks, recreation, and cultural	219,181	219,181	220,145	(964)
Community development	178,574	178,574	128,091	50,483
Capital projects	864,000	864,000	742,013	121,987
Debt service:				
Principal retirement	132,301	132,301	132,301	-
Interest and other fiscal charges	34,887	34,887	34,887	-
Total expenditures	\$ 3,220,424	\$ 3,220,424	\$ 3,070,773	\$ 149,651
Excess (deficiency) of revenues over (under) expenditures	\$ (253,600)	\$ (253,600)	\$ (264,632)	\$ (11,032)
OTHER FINANCING SOURCES (USES)				
Issuance of notes payable	\$ 143,600	\$ 143,600	\$ -	\$ (143,600)
Sale of land	-	-	40,040	40,040
Total other financing sources (uses)	\$ 143,600	\$ 143,600	\$ 40,040	\$ (103,560)
Net change in fund balance	\$ (110,000)	\$ (110,000)	\$ (224,592)	\$ (114,592)
Fund balance - beginning	238,859	238,859	3,093,173	2,854,314
Fund balance - ending	\$ 128,859	\$ 128,859	\$ 2,868,581	\$ 2,739,722

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 2018

	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 123,278	\$ 131,962	\$ 117,294	\$ 96,808
Interest	175,415	171,863	157,456	145,759
Differences between expected and actual experience	(45,840)	(145,730)	11,707	-
Changes of assumptions	(51,731)	-	-	-
Benefit payments, including refunds of employee contributions	(118,285)	(96,412)	(64,863)	(86,097)
Net change in total pension liability	\$ 82,837	\$ 61,683	\$ 221,594	\$ 156,470
Total pension liability - beginning	2,565,073	2,503,390	2,281,796	2,125,326
Total pension liability - ending (a)	\$ 2,647,910	\$ 2,565,073	\$ 2,503,390	\$ 2,281,796
Plan fiduciary net position				
Contributions - employer	\$ 49,527	\$ 57,508	\$ 55,321	\$ 95,752
Contributions - employee	58,943	56,761	54,670	54,200
Net investment income	327,947	47,286	113,899	328,807
Benefit payments, including refunds of employee contributions	(118,285)	(96,412)	(64,863)	(86,097)
Administrative expense	(1,872)	(1,606)	(1,494)	(1,701)
Other	(291)	(20)	(24)	18
Net change in plan fiduciary net position	\$ 315,969	\$ 63,517	\$ 157,509	\$ 390,979
Plan fiduciary net position - beginning	2,666,183	2,602,666	2,445,157	2,054,178
Plan fiduciary net position - ending (b)	\$ 2,982,152	\$ 2,666,183	\$ 2,602,666	\$ 2,445,157
Municipal Corporation's net pension liability (asset) - ending (a) - (b)	\$ (334,242)	\$ (101,110)	\$ (99,276)	\$ (163,361)
Plan fiduciary net position as a percentage of the total pension liability	112.62%	103.94%	103.97%	107.16%
Covered payroll	\$ 1,258,379	\$ 1,188,982	\$ 1,118,571	\$ 1,085,627
Municipal Corporation's net pension liability (asset) as a percentage of covered payroll	-26.56%	-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 - Pension Plan
For the Years Ended June 30, 2009 through 2018

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)
2018	\$ 83,299	\$ 83,299	\$ -	\$ 1,364,599	6.10%
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%

Municipal Corporation of Cape Charles, Virginia
Notes to Required Supplementary Information
Pension Plan
For the Year Ended June 30, 2018

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, 2014 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, 2017 are not material.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Largest 10 - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

All Others (Non 10 Largest) - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

All Others (Non 10 Largest) - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Municipal Corporation of Cape Charles, Virginia
 Schedule of Town's Share of Net OPEB Liability
 Group Life Insurance Program
 For the Year Ended June 30, 2018

Date (1)	Employer's Proportion of the Net GLI OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6)
2017	0.00682%	\$ 103,000	\$ 1,258,379	8.19%	48.86%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

Municipal Corporation of Cape Charles, Virginia
 Schedule of Employer Contributions
 Group Life Insurance Program
 For the Years Ended June 30, 2009 through June 30, 2018

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 Covered Payroll (5)
2018	\$ 7,096	\$ 7,096	-	\$ 1,364,599	0.52%
2017	6,544	6,544	-	1,258,379	0.52%
2016	5,707	5,707	-	1,188,982	0.48%
2015	5,369	5,369	-	1,118,571	0.48%
2014	5,211	5,211	-	1,085,627	0.48%
2013	5,004	5,004	-	1,042,407	0.48%
2012	2,851	2,851	-	1,018,382	0.28%
2011	2,846	2,846	-	1,016,337	0.28%
2010	1,912	1,912	-	953,876	0.27%
2009	2,672	2,672	-	989,449	0.27%

Municipal Corporation of Cape Charles, Virginia
Notes to Required Supplementary Information
Group Life Insurance Program
For the Year Ended June 30, 2018

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

General State Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Teachers

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

SPORS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

VaLORS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Municipal Corporation of Cape Charles, Virginia
Notes to Required Supplementary Information
Group Life Insurance Program
For the Year Ended June 30, 2018 (Continued)

JRS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Non-Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

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, 2018

<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	\$ 1,178,000	\$ 1,178,000	\$ 1,210,549	\$ 32,549
Personal property taxes	140,000	140,000	169,020	29,020
Machinery and tools taxes	23,800	23,800	22,696	(1,104)
Penalties and interest	23,000	23,000	23,701	701
Total general property taxes	<u>\$ 1,364,800</u>	<u>\$ 1,364,800</u>	<u>\$ 1,425,966</u>	<u>\$ 61,166</u>
Other local taxes:				
Local sales and use taxes	\$ 50,000	\$ 50,000	\$ 48,077	\$ (1,923)
Consumers' utility taxes	48,000	48,000	52,413	4,413
Business license taxes	125,000	125,000	126,405	1,405
Motor vehicle licenses	26,200	26,200	35,495	9,295
Admissions taxes	20,000	20,000	20,968	968
Short term rental tax	6,000	6,000	5,758	(242)
Hotel and motel room taxes	100,000	100,000	118,775	18,775
Restaurant food taxes	355,126	355,126	384,086	28,960
Total other local taxes	<u>\$ 730,326</u>	<u>\$ 730,326</u>	<u>\$ 791,977</u>	<u>\$ 61,651</u>
Permits, privilege fees, and regulatory licenses:				
Permits and other licenses	\$ 86,891	\$ 86,891	\$ 101,618	\$ 14,727
Total permits, privilege fees, and regulatory licenses	<u>\$ 86,891</u>	<u>\$ 86,891</u>	<u>\$ 101,618</u>	<u>\$ 14,727</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 7,300	\$ 7,300	\$ 19,277	\$ 11,977
Total fines and forfeitures	<u>\$ 7,300</u>	<u>\$ 7,300</u>	<u>\$ 19,277</u>	<u>\$ 11,977</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 4,000	\$ 4,000	\$ 21,104	\$ 17,104
Revenue from use of property	23,400	23,400	38,132	14,732
Total revenue from use of money and property	<u>\$ 27,400</u>	<u>\$ 27,400</u>	<u>\$ 59,236</u>	<u>\$ 31,836</u>
Charges for services:				
Charges for parks and recreation	\$ 4,000	\$ 4,000	\$ 2,170	\$ (1,830)
Charges for DMV stops and FOIA fees	-	-	253	253
Credit card fees	1,200	1,200	1,379	179
Charges for library	1,800	1,800	1,323	(477)
Total charges for services	<u>\$ 7,000</u>	<u>\$ 7,000</u>	<u>\$ 5,125</u>	<u>\$ (1,875)</u>
Miscellaneous:				
Miscellaneous	\$ 2,800	\$ 2,800	\$ 18,321	\$ 15,521
Total miscellaneous	<u>\$ 2,800</u>	<u>\$ 2,800</u>	<u>\$ 18,321</u>	<u>\$ 15,521</u>

Municipal Corporation of Cape Charles, Virginia
Schedule of Revenues - Budget and Actual
General Fund
For the Year Ended June 30, 2018

<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	-	-	13,297	13,297
Total recovered costs	<u>\$ 20,000</u>	<u>\$ 20,000</u>	<u>\$ 33,297</u>	<u>\$ 13,297</u>
 Total revenue from local sources	 <u>\$ 2,246,517</u>	 <u>\$ 2,246,517</u>	 <u>\$ 2,454,817</u>	 <u>\$ 208,300</u>
 Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Communications tax	\$ 50,000	\$ 50,000	\$ 43,101	\$ (6,899)
Rolling stock tax	-	-	2	2
Personal property tax relief funds	35,424	35,424	35,424	-
Total noncategorical aid	<u>\$ 85,424</u>	<u>\$ 85,424</u>	<u>\$ 78,527</u>	<u>\$ (6,897)</u>
Categorical aid:				
Other categorical aid:				
Fire programs	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Arts grant	4,500	4,500	4,500	-
Parks and recreation grant	15,000	15,000	7,000	(8,000)
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>\$ 59,501</u>	<u>\$ 59,501</u>	<u>\$ 50,500</u>	<u>\$ (9,001)</u>
Total categorical aid	<u>\$ 59,501</u>	<u>\$ 59,501</u>	<u>\$ 50,500</u>	<u>\$ (9,001)</u>
Total revenue from the Commonwealth	<u>\$ 144,925</u>	<u>\$ 144,925</u>	<u>\$ 129,027</u>	<u>\$ (15,898)</u>
 Revenue from the federal government:				
Categorical aid:				
TEA-21 grant	\$ 574,400	\$ 574,400	\$ 216,815	\$ (357,585)
JAG grant	982	982	982	-
Historic Preservation Grant	-	-	4,500	4,500
Total categorical aid	<u>\$ 575,382</u>	<u>\$ 575,382</u>	<u>\$ 222,297</u>	<u>\$ (353,085)</u>
Total revenue from the federal government	<u>\$ 575,382</u>	<u>\$ 575,382</u>	<u>\$ 222,297</u>	<u>\$ (353,085)</u>
Total General Fund	<u>\$ 2,966,824</u>	<u>\$ 2,966,824</u>	<u>\$ 2,806,141</u>	<u>\$ (160,683)</u>

Municipal Corporation of Cape Charles, Virginia
Schedule of Expenditures - Budget and Actual
General Fund
For the Year Ended June 30, 2018

<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	\$ 31,317	\$ 31,317	\$ 21,021	\$ 10,296
Total legislative	<u>\$ 31,317</u>	<u>\$ 31,317</u>	<u>\$ 21,021</u>	<u>\$ 10,296</u>
General and financial administration:				
Town Clerk	\$ 141,599	\$ 141,599	\$ 133,000	\$ 8,599
Town Manager	342,899	342,899	370,210	(27,311)
Finance	258,121	258,121	260,257	(2,136)
Total general and financial administration	<u>\$ 742,619</u>	<u>\$ 742,619</u>	<u>\$ 763,467</u>	<u>\$ (20,848)</u>
Total general government administration	<u>\$ 773,936</u>	<u>\$ 773,936</u>	<u>\$ 784,488</u>	<u>\$ (10,552)</u>
Public safety:				
Law enforcement and traffic control:				
Police	\$ 438,895	\$ 438,895	\$ 443,866	\$ (4,971)
Total law enforcement and traffic control	<u>\$ 438,895</u>	<u>\$ 438,895</u>	<u>\$ 443,866</u>	<u>\$ (4,971)</u>
Inspections:				
Code enforcement	\$ 119,424	\$ 119,424	\$ 114,243	\$ 5,181
Total inspections	<u>\$ 119,424</u>	<u>\$ 119,424</u>	<u>\$ 114,243</u>	<u>\$ 5,181</u>
Total public safety	<u>\$ 558,319</u>	<u>\$ 558,319</u>	<u>\$ 558,109</u>	<u>\$ 210</u>
Public works:				
Maintenance of general buildings and grounds:				
General properties	\$ 459,226	\$ 459,226	\$ 470,739	\$ (11,513)
Total public works	<u>\$ 459,226</u>	<u>\$ 459,226</u>	<u>\$ 470,739</u>	<u>\$ (11,513)</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Parks and recreation	\$ 81,403	\$ 81,403	\$ 82,721	\$ (1,318)
Total parks and recreation	<u>\$ 81,403</u>	<u>\$ 81,403</u>	<u>\$ 82,721</u>	<u>\$ (1,318)</u>
Library:				
Library administration	\$ 137,778	\$ 137,778	\$ 137,424	\$ 354
Total library	<u>\$ 137,778</u>	<u>\$ 137,778</u>	<u>\$ 137,424</u>	<u>\$ 354</u>
Total parks, recreation, and cultural	<u>\$ 219,181</u>	<u>\$ 219,181</u>	<u>\$ 220,145</u>	<u>\$ (964)</u>

Municipal Corporation of Cape Charles, Virginia
Schedule of Expenditures - Budget and Actual
General Fund
For the Year Ended June 30, 2018

<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	\$ 78,574	\$ 78,574	\$ 77,442	\$ 1,132
Community enhancement	100,000	100,000	50,649	49,351
Total planning and community development	<u>\$ 178,574</u>	<u>\$ 178,574</u>	<u>\$ 128,091</u>	<u>\$ 50,483</u>
Total community development	<u>\$ 178,574</u>	<u>\$ 178,574</u>	<u>\$ 128,091</u>	<u>\$ 50,483</u>
Capital projects:				
Public infrastructure - streets and walkways	\$ 748,000	\$ 748,000	\$ 624,907	\$ 123,093
Public infrastructure - other	52,000	52,000	55,948	(3,948)
Vehicles and equipment	64,000	64,000	61,158	2,842
Total capital projects	<u>\$ 864,000</u>	<u>\$ 864,000</u>	<u>\$ 742,013</u>	<u>\$ 121,987</u>
Debt service:				
Principal retirement	\$ 132,301	\$ 132,301	\$ 132,301	\$ -
Interest and other fiscal charges	34,887	34,887	34,887	-
Total debt service	<u>\$ 167,188</u>	<u>\$ 167,188</u>	<u>\$ 167,188</u>	<u>\$ -</u>
Total General Fund	<u><u>\$ 3,220,424</u></u>	<u><u>\$ 3,220,424</u></u>	<u><u>\$ 3,070,773</u></u>	<u><u>\$ 149,651</u></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
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
2018	738,396	553,014	395,642	369,738	124,041	33,079	2,847,692	5,061,602

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 Revenues from use of Money and Property	Miscellaneous(1)	Grants and Contributions Not Restricted to Specific Programs		
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	
2018	2,450,788	73,080	216,815	1,397,163	791,977	63,242	410,475	83,027	5,486,567	

Notes:

(1) Includes gain on disposal of capital assets.

Table 3

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

Fiscal Year	General Government Administration	Public Safety	Public Works	Parks, Recreation, and Cultural	Community Development	Debt Service	Total
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
2018	784,488	558,109	470,739	220,145	128,091	167,188	2,328,760

(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
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
2018	1,425,966	791,977	101,618	19,277	59,236	5,125	18,321	33,297	351,324	2,806,141

(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 Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (1)	Percent of Outstanding Delinquent Taxes to Tax Levy
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%
2018	1,354,254	1,319,862	97.46%	82,403	1,402,265	103.55%	133,957	9.89%

(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)		
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
2018	355,837,200	12,203,520	-	3,651,067		371,691,787

(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	
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
2018	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, 2018

Assessed value of real property, January 1, 2017 (1)	\$	<u>359,488,267</u>
Debt limit: 10% of assessed value	\$	35,948,827
Amount of debt applicable to debt limit:		
Gross debt (2)	\$	<u>8,085,427</u>
Less: Notes secured by property		<u>-</u>
Net general obligation bonds and notes	\$	<u>8,085,427</u>
Legal debt limit	\$	<u>27,863,400</u>

(1) Assessed value of real property, including public service corporations as of January 1, 2017

(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)			
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
2018	1,009	371,691,787	8,085,427	257,867	6,981,046	846,514	0.23%	839

(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, OPEB liability, 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 and 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, 2018, 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 February 21, 2019.

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.

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.

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

Richmond, Virginia
February 21, 2019