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STATE AUDITOR

Independent Auditors' Report

and Related Financial Statements

For the Year Ended June 30, 2006

CITY OF CHESAPEAKE, WEST VIRGINIA

A Class IV Municipality

in Kanawha County, West Virginia

Teed & Associates, PLLC
3624 MacCorkle Avenue SE
Charleston, West Virginia 25304
304-925-8752

CITY OF CHESAPEAKE, WEST VIRGINIA

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CITY OF CHESAPEAKE, WEST VIRGINIA

Municipal Officials

For the Year Ended June 30, 2006

Council Members	Maxine G. Akers	06/30/07
	Delano L. Cox	06/30/07
	Roger L. Green	06/30/07
	Mildred L. Grooms	06/30/07
	Gregory A. Hendricks	06/30/07
	Roy P. Kennedy	06/30/07
	Ivan P. Smith	06/30/07

Appointive

City Attorney	Robin Louderback

CITY OF CHESAPEAKE, WEST VIRGINIA

Schedule of Funds

For the Year Ended June 30, 2006

GOVERNMENTAL FUND TYPES

General Fund

Special Revenue Funds

Coal Severance Tax

PROPRIETARY FUND TYPES

Enterprise Funds

Sewer

Teed & Associates, PLLC

Certified Public Accountants

Established 1992

Member, American Institute of Certified Public Accountants
Member, West Virginia Society of Certified Public Accountants
Member, Tennessee Society of Certified Public Accountants

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Independent Auditors' Report

The Honorable Mayor and Council Members
City of Chesapeake, West Virginia
Chesapeake, West Virginia

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Chesapeake, West Virginia, as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City of Chesapeake, West Virginia's, management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the governmental funds are reported on the cash basis of accounting. Generally accepted accounting principles require that governmental funds be reported on the modified cash basis of accounting.

In our opinion, except for the effects on the governmental funds financial statements of the item described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and business-type activities of the City of Chesapeake, West Virginia, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued a report dated June 12, 2008, on our consideration of the City of Chesapeake's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The information provided on pages 24 and 25 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City of Chesapeake, West Virginia has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Reed & Associates

Charleston, West Virginia
June 12, 2008

CITY OF CHESAPEAKE, WEST VIRGINIA

Statement of Net Assets – Governmental Fund Types – Cash Basis and Business-type Funds – Accrual Basis

June 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 36,785	$ 23,942	$ 60,727
Investments	-	571,974	571,974
Accounts receivable	-	22,123	22,123
Other assets	-	6,600	6,600
Capital assets not being depreciated	-	44,070	44,070
Capital assets being depreciated, net	-	314,792	314,792
Total assets	36,785	983,501	1,020,286
LIABILITIES:			
Accrued taxes payable	-	1,988	1,988
Total liabilities	-	1,988	1,988
NET ASSETS:			
Invested in capital assets	-	358,862	358,862
Unrestricted	36,785	622,651	659,436
Total net assets	$ 36,785	$ 981,513	$ 1,018,298

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

CITY OF CHESAPEAKE, WEST VIRGINIA

Statement of Activities – Governmental Fund Types – Cash Basis and Business-type Funds – Accrual Basis

For the Year Ended June 30, 2006

Functions/Programs	Expenses	Charges for Services	Net (Expense) Revenue and Changes in Net Assets — Primary Government: Governmental Activities	Business-type Activities	Total
Primary government:					
Governmental activities:					
General government	$ 146,419	$ 74,491	$ (71,928)	$ -	$ (71,928)
Public safety	115,061	-	(115,061)	-	(115,061)
Streets and transportation	11,506	-	(11,506)	-	(11,506)
Health and sanitation	134,614	-	(134,614)	-	(134,614)
Culture and recreation	46,175	-	(46,175)	-	(46,175)
Social services	-	-	-	-	-
Total governmental activities	453,775	74,491	(379,284)	-	(379,284)
Business-type activities:					
Sewer	211,817	150,934	-	(60,883)	(60,883)
Total business-type activities	211,817	150,934	-	(60,883)	(60,883)
Total primary government	$ 665,592	$ 225,425	(379,284)	(60,883)	(440,167)
General revenues:					
Property taxes, levied for general purposes			265,129	-	265,129
Licenses and permits			1,225	-	1,225
Fines, forfeits and court costs			26,309	-	26,309
Interest			-	17,602	17,602
Bingo revenues			45,020	-	45,020
Rents			4,590	-	4,590
Fire protection fees			10,387	-	10,387
Franchise fees			19,783	-	19,783
Miscellaneous			22,757	-	22,757
Total general revenues			395,200	17,602	412,802
Changes in net assets			15,916	(43,281)	(27,365)
Net assets at beginning of year			20,869	1,024,794	1,045,663
Net assets at end of year			$ 36,785	$ 981,513	$ 1,018,298

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

CITY OF CHESAPEAKE, WEST VIRGINIA

Combining Balance Sheet – Governmental Funds – Cash Basis

June 30, 2006

	General Fund	Coal Severance	Total
ASSETS:			
Cash and cash equivalents	$ 29,179	$ 7,606	$ 36,785
Total assets	$ 29,179	$ 7,606	$ 36,785
FUND BALANCES:			
Unreserved	$ 29,179	$ 7,606	$ 36,785
Total fund balances	$ 29,179	$ 7,606	$ 36,785

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

CITY OF CHESAPEAKE, WEST VIRGINIA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances –Governmental Funds – Cash Basis

For the Year Ended June 30, 2006

	General	Coal Severance	Total
REVENUES:			
Taxes	$ 259,634	$ 5,495	$ 265,129
Licenses and permits	1,225	-	1,225
Rents	4,590	-	4,590
Fines, forfeits and court costs	26,309	-	26,309
Charge for services	74,491	-	74,491
Bingo revenues	45,020	-	45,020
Miscellaneous revenue	22,757	-	22,757
Fire protection fees	10,387	-	10,387
Franchise fees income	19,783	-	19,783
Total revenues	464,196	5,495	469,691
EXPENDITURES:			
General government	146,419	-	146,419
Public safety	115,061	-	115,061
Streets and transportation	11,506	-	11,506
Health and sanitation	134,482	132	134,614
Culture and recreation	46,175	-	46,175
Total expenditures	453,643	132	453,775
Excess of revenues over expenditures	10,553	5,363	15,916
Fund balances at beginning of year	18,626	2,243	20,869
Fund balances at end of year	$ 29,179	$ 7,606	$ 36,785

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

CITY OF CHESAPEAKE, WEST VIRGINIA

Statement of Net Assets – Proprietary Funds

June 30, 2006

ASSETS:	
Cash and cash equivalents	$ 23,942
Investments	571,974
Accounts receivable, net	22,123
Other assets	6,600
Capital assets not being depreciated	44,070
Capital assets being depreciated, net	314,792
Total assets	983,501
LIABILITIES:	
Accrued taxes	1,988
Total liabilities	1,988
NET ASSETS:	
Invested in capital assets, net of related debt	358,862
Unrestricted	622,651
Total net assets	$ 981,513

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

CITY OF CHESAPEAKE, WEST VIRGINIA

Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds

For the Year Ended June 30, 2006

OPERATING REVENUES:	
Charges for services	$ 151,174
Total operating revenues	151,174
OPERATING EXPENSES:	
Treatment and disposal system	108,820
Billing and collecting	36,136
General and administrative	51,330
Depreciation	15,531
Total operating expenses	211,817
Operating income (loss)	(60,643)
Nonoperating revenues (expenses):	
Interest earned	17,362
Net nonoperating revenues (expenses)	17,362
Change in net assets	(43,281)
Net assets at beginning of year	1,024,794
Net assets at end of year	$ 981,513

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

CITY OF CHESAPEAKE, WEST VIRGINIA

Statement of Cash Flows – Proprietary Funds

For the Year Ended June 30, 2006

Cash flows from operating activities:	
Cash received from customers	$ 152,119
Cash paid to suppliers and employees	(196,683)
Net cash (used) by operating activities	(44,564)
Cash flows from capital and related financing activities:	
Purchases of capital assets	(3,100)
Net cash (used) from capital and related financing activities	(3,100)
Cash flows from investing activities:	
Increase in investments	(18,223)
Interest earned	17,362
Net cash (used) from investing activities	(861)
Net (decrease) in cash and equivalents	(48,525)
Cash and equivalents, beginning	72,467
Cash and equivalents, ending	$ 23,942
Reconciliation of operating income:	
Operating loss	$ (60,643)
Adjustments:	
Depreciation	15,531
(Increase) decrease in accounts receivable	6,421
(Increase) decrease in other assets	(5,476)
Increase (decrease) in accrued taxes payable	(397)
Total adjustments	16,079
Net cash (used) by operating activities	$ (44,564)

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

CITY OF CHESAPEAKE, WEST VIRGINIA

Notes to the Combined Financial Statements

For the Year Ended June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Introduction

The financial statements of City of Chesapeake, West Virginia have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

The City has not presented the Management's Discussion and Analysis for the year ended June 30, 2006.

B. Component Unit / Reporting Entity

The government is a municipal corporation governed by an elected mayor and five-member council. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. The criteria for inclusion or exclusion from the financial reporting entity is outlined in Governmental Accounting Standards Board Statement Number 14 and includes oversight responsibility over agencies, boards and commissions by the City's Council. Oversight responsibilities include financial accountability (including selection of the governing authority), fiscal dependence and the ability for the Council to impose its will on the potential component unit.

C. Government – Wide Statements and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all 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.

In the government-wide Statement of Net Assets, both the government and business-type activities columns are presented on a consolidated basis by column and are reflected on a cash and accrual basis, respectively, economic resource basis, which recognizes all long-term assets and receivables, as well as long-term debt and obligations. The City's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities. The functions are also supported by general government revenues, which include taxes, interest revenue and other items not properly included among program revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues include charges to customers for goods, services or privileges provided, operating grants and contributions, and capital grants and contributions. Program revenues must be directly associated with the function or business-type activity. Operating grants includes operating-specific and discretionary grants while the capital grants reflect capital-specific grants. The net cost (by function or business-type activity) is normally covered by general revenue. Historically, the previous model did not summarize or present net cost by function or activity.

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

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The measurement focus describes the type of transactions and events that are reported in a fund's operating statement. Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *cash basis of accounting*, the proprietary fund financial statements uses the *accrual basis of accounting*. 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 emphasis in fund financial statements is on major funds in either the governmental or business-type activity categories. Non-major funds by category are summarized into a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise categories combined) for the determination of major funds.

City management may electively add funds as major funds, when it is determined the funds have specific community or management focus.

The focus of the governmental funds' measurement in the funds statement is upon determination of financial position and changes in financial positions (sources, uses, and balances of financial resources) rather than upon net income. Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *cash basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers all revenue as available if they are collected within sixty days after year end. Expenditures are recorded when the related fund liability is incurred.

Those revenues susceptible to accrual are property taxes, sales taxes, licenses, interest revenue and charges for services. Sales taxes collected and held by the state at year end on behalf of the government also are recognized as revenue. Fines are not susceptible to accrual because generally they are not measurable until received in cash.

The City uses the following major funds:

Governmental Funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Coal Severance Tax Fund is used to account for monies received from a specific tax on coal.

Business-type Funds:

The Sewer Fund accounts for the operating revenue and expense of the water distribution system and sewage processing plants.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City applies all applicable FASB pronouncements issued on or after November 30, 1989, in accounting and reporting for its enterprise operations, unless they conflict with GASB guidance.

The focus for proprietary fund measurement is upon determination of operating income, changes in net assets, financial position and cash flow. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The generally accepted accounting principles applicable are those similar to business in the private sector.

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

E. Budget Policy and Practice

The Mayor submits the annual budget for the General Fund and Coal Severance Tax Fund to the City Council in accordance with the Municipal Charter and State law. The budgets are prepared on prescribed forms and submitted for approval to the State Tax Commissioner. These budgets are prepared in accordance with the following procedures:

1. The governing body of the City is required to hold a meeting or meetings between the seventh and twenty-eighth days of March to ascertain the financial condition of the City and to prepare the levy estimate (budget) for the fiscal year commencing July 1st.

2. The budget is then forthwith submitted to the State Tax Commissioner for approval.

3. The governing body then reconvenes on the third Tuesday in April to hear objections from the public and to formally lay the levy.

Revisions are authorized only with the prior written approval of the State Tax Commissioner. The budgeted amounts reflected in the accompanying financial statements are such approved amounts.

F. Budgeting and Budgetary Control

The General Fund and Coal Severance Tax Fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows; personnel services, contractual commodities, capital outlay, and contributions. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. All budget revisions

at this level are subject to final review by the City Council and approval by the State Tax Commissioner. Within these control levels, management may transfer appropriations without Council approval. Revisions to the budget were made throughout the year and the budgeted amounts reflected in the accompanying financial statements are such approved amounts.

G. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation, is not employed as an extension of the formal budgetary process for the year ended June 30, 2006. The City reported no encumbrances at June 30, 2006.

H. Accounting Estimates

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

I. Cash and Cash Equivalents and Investments

For the purpose of the Statement of Cash Flows, the proprietary fund type considers all highly liquid investments with a remaining maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value, which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Managed funds related to the retirement systems not listed on an established market are reported at estimated fair value as determined by the respective fund managers based on quoted sales prices of underlying securities. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

State statutes authorize the government to invest in the State Investment Pool or the Municipal Bond Commission or to invest such funds in the following classes of securities: Obligations of the United States or any agency thereof, certificates of deposit (which mature in less than one year), general and direct obligations of the State of West Virginia; obligations of the Federal National Mortgage Association; indebtedness secured by first lien deed of trusts for property situated within this State if

the payment is substantially insured or guaranteed by the federal government; pooled mortgage trusts (subject to limitations); indebtedness of any private corporation that is properly graded as in the top two or three highest rating grades; interest earning deposits, which are fully insured or collateralized; and mutual funds registered with the S.E.C., which have fund assets over three hundred million dollars.

State statute limitation concerning the aforementioned investments include the following: At no time can investment portfolios consist of more then seventy-five percent of the indebtedness of any private corporation nor can the portfolio have over twenty-five percent of its portfolio consisting of the indebtedness of a private corporation's debt which matures in less than one year; at no time may more than nine percent of the portfolio be invested in securities issued by a single private corporation or association; and at no time can more than sixty percent of the portfolio be invested in equity mutual funds.

J. Restricted Assets

The City's restricted assets in the Sewer Fund include cash totaling $187,410, which is held in Municipal Bond Commission money market accounts.

K. Receivables

The City's management periodically analyzes delinquent accounts of the Sewer Fund and uses the allowance method for accounting for bad debt. Accounts receivable on the financial statements is $22,123, net of allowance for doubtful accounts of $4,000.

L. Inventories

The City considers inventories of materials and supplies utilized in governmental fund types to be immaterial and, therefore, expended at the time of purchase. For the proprietary funds, inventories are valued at cost using the first-in first-out (FIFO) method.

M. Prepaid Items

Prepaid items are payments for costs applicable to future periods.

N. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. 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.

Capital assets of the primary government are depreciated using the straight-line method over the following useful lives:

Buildings	25 – 50 years
Improvements	10 – 20 years
Utility plant	10 – 20 years
Equipment	3 – 10 years

O. Compensated Absences

Compensated absences are those for which employees have a right to receive consideration for expected future absences. Compensated absences should be accounted for in accordance with the provisions of Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*.

The City has elected not to accrue a liability for compensated absences, as the amount would be immaterial.

P. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Q. Interfund Transactions

All interfund services provided and used are reported as transfers.

R. Net Assets

1. Invested in capital assets, net of related debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction or improvement of the assets.

2. Restricted net assets – This amount is restricted by external creditors, grantors, contributors or laws or regulations of other governments.

3. Unrestricted net assets – This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

NOTE 2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2006, were as follows:

Cash deposits in bank checking accounts	$ 60,727
Investments	$ 571,974

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. The City's deposits at June 30, 2006, were insured by the Federal Depository Insurance Corporation (FDIC) and collateral held in the City's name by the financial institutions.

NOTE 3. PROPERTY TAXES

The taxes on real property and the interest and other charges upon such taxes attach as an enforceable lien on the first day of July. There is no lien denominated as such on personal property; however, statutes provide that the sheriff of a county may distrain for delinquent taxes any goods and chattels belonging to a person assessed. All current taxes assessed on real and personal property may be paid in two installments; the first installment is payable on September 1st of the year for which the assessment is made, and becomes delinquent on October 1st, and the second installment is payable on the first day of the following March and becomes delinquent on April 1st. Taxes paid on or before the date when they are payable, including both first and second installments, are subject to a discount of two and one-half percent. If taxes are not paid on or before the date on which they become delinquent, including both first and second installments, interest at the rate of nine percent per annum is added from the date they become delinquent until paid.

All municipalities within the state are authorized to levy taxes not in excess of the following maximum levies per $100.00 of assessed valuation: on Class I property, twelve and five-tenths cents (12.5 cents); on Class II property, twenty-five cents (25 cents); and on Class IV property, fifty cents (50 cents). In addition, municipalities may provide for an election to lay an excess levy, the rates not to exceed fifty percent of such authorized maximum levies, provided that at least sixty percent of the voters cast ballots in favor of the excess levy.

The levy rates levied by the City of Chesapeake, West Virginia, per $100.00 of assessed valuation for each class of property for the fiscal year ended June 30, 2006, were as follows:

Class of Property	Assessed Valuations for Tax Purposes	Current Expense
Class I	$ --	12.50 cents
Class II	$ 11,058,690	25.00 cents
Class IV	$ 13,201,226	50.00 cents

NOTE 4. CHANGES IN CAPITAL ASSETS

Changes in capital assets during the year were as follows:

	Totals June 30, 2005	Additions	Deletions	Totals June 30, 2006
Capital assets not being depreciated:				
Land and land rights	$ 44,071	$ -	$ -	$ 44,071
Total capital assets not being depreciated	44,071	-	-	44,071
Other capital assets:				
Buildings	22,783	-	-	22,783
Collecting, pumping, treatment, and disposal plant and equipment	1,307,414	3,100	-	1,310,514
Total other capital assets	1,330,197	3,100	-	1,333,297
Less accumulated depreciation for:				
Buildings	22,783	-	-	22,783
Collecting, pumping, treatment, and disposal plant and equipment	980,192	15,531	-	995,723
Total accumulated depreciation	1,002,975	15,531	-	1,018,506
Capital assets, net	$ 371,293	$ (12,431)	$ -	$ 358,862

NOTE 5. CONTINGENT LIABILITIES

In the normal course of operations, the City receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liabilities for reimbursement, which may arise as the result of these audits, is not believed to be material.

NOTE 6. RISK MANAGEMENT

The government is exposed to various risks of loss related to torts; theft of; damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries umbrella (general liability) insurance for these various risks.

The City pays the State Workers' Compensation System a premium based on a rate per $100.00 of salaries. The rate is calculated based on accident history and administrative costs to provide coverage to employees for job-related injuries.

The City offers health insurance to all eligible employees through the West Virginia Public Employee Insurance Agency (PEIA).

Liabilities are reported when it is probable a loss has occurred and the amount of the loss can be reasonably estimated.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CHESAPEAKE, WEST VIRGINIA

Budgetary Comparison Schedule – General Fund

For the Year Ended June 30, 2006

	Original Budget	Revised Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:				
Taxes	$ 200,620	$ 213,456	$ 259,634	$ 46,178
Licenses and permits	13,500	13,500	1,225	(12,275)
Rents	2,000	2,000	4,590	2,590
Fines, forfeits and court costs	5,000	5,000	26,309	21,309
Charge for services	82,000	82,000	74,491	(7,509)
Bingo revenues	105,000	105,000	45,020	(59,980)
Miscellaneous revenue	13,400	13,400	22,757	9,357
Fire protection fees	12,000	12,000	10,387	(1,613)
Franchise fees income	15,000	15,000	19,783	4,783
Total revenues	448,520	461,356	464,196	2,840
EXPENDITURES				
General government	135,120	147,956	146,419	1,537
Public safety	117,200	117,200	115,061	2,139
Streets and transportation	23,500	23,500	11,506	11,994
Health and sanitation	120,500	120,500	134,482	(13,982)
Culture and recreation	7,200	7,200	46,175	(38,975)
Social services	65,000	65,000	-	65,000
Total expenditures	468,520	481,356	453,643	27,713
Excess (deficiency) of revenues over (under) expenditures	(20,000)	(20,000)	10,553	30,553
Fund balance at beginning of year	20,000	20,000	18,626	(1,374)
Fund balance at end of year	$ -	$ -	$ 29,179	$ 29,179

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

CITY OF CHESAPEAKE, WEST VIRGINIA

Budgetary Comparison Schedule – Coal Severance Fund

For the Year Ended June 30, 2006

	Original Budget	Revised Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:				
Taxes	$ 3,900	$ 3,900	$ 5,495	$ (1,595)
Total revenues	3,900	3,900	5,495	1,595
EXPENDITURES:				
Health and sanitation	4,000	4,000	132	(3,868)
Total expenditures	4,000	4,000	132	(3,868)
Excess (deficiency) of revenues over (under) expenditures	(100)	(100)	5,363	5,463
Fund balance at beginning of year	100	100	2,243	2,343
Fund balance at end of year	$ -	$ -	$ 7,606	$ 7,606

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

REPORTS ON INTERNAL CONTROL AND ON COMPLIANCE

Teed & Associates, PLLC

Certified Public Accountants

Established 1992
Member, American Institute of Certified Public Accountants
Member, West Virginia Society of Certified Public Accountants
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Mayor and Council Members
City of Chesapeake, West Virginia
Chesapeake, West Virginia

We have audited the financial statements of the City of Chesapeake, West Virginia as of and for the year ended June 30, 2006, and have issued our report thereon dated June 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described in the accompanying Schedule of Findings as Item 2006-1 is a material weakness.

Compliance

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

This report is intended solely for the information and use of the audit committee, management, City Council, and other federal and state agencies and is not intended to be used and should not be used by anyone other than these specified parties. However in accordance with *West Virginia Code* 6-9-9a, this report is a matter of public record and its distribution is not limited.

Reed & Associates

Charleston, West Virginia
June 12, 2008

CITY OF CHESAPEAKE, WEST VIRGINIA

Schedule of Findings

For the Year Ended June 30, 2006

Item 2006-1 Segregation of Duties

Condition

During our audit, we noted that there is insufficient segregation of duties in the offices of the City of Chesapeake, West Virginia. Specifically, we noted that the same employee prepares checks, reconciles bank accounts, prepares and makes deposits, and opens the mail for the City.

Criteria

Proper internal control procedures require that various duties be segregated among different employees. The duties of collecting, recording, depositing, reconciling, and disbursing of monies should be separated. Segregation of duties helps to prevent and detect any errors made and helps to correct errors in a timely fashion.

Cause

The City of Chesapeake has only two employees in the business office, making it difficult to achieve a proper segregation of duties.

Effect

Without proper segregation of duties, the possibility of discrepancies occurring without being detected, or improper use of funds, is greatly increased.

Recommendation

Since there are only two employees in the business office for the City of Chesapeake, there appears to be a limitation on what steps could be taken to properly segregate duties. The Officials should take special care to review financial documents for possible discrepancies.