RFP #: 09-085

Independent Auditors' Report

and Related Financial Statements

For the Year Ended June 30, 2008

TOWN 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

TOWN OF CHESAPEAKE, WEST VIRGINIA

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TOWN OF CHESAPEAKE, WEST VIRGINIA

Municipal Officials

For the Year Ended June 30, 2008

Office	Name	Term
Mayor	Damron Bradshaw	06/30/11
Council Members	Maxine G. Akers	06/30/11
	Delano L. Cox	06/30/11
	Roger L. Green	06/30/11
	Mildred L. Grooms	06/30/11
	Gregory A. Hendricks	06/30/11
	Roy P. Kennedy	06/30/11
	Ivan P. Smith	06/30/11
Recorder	Jeffrey Boyd	06/30/11
	Appointive	
Town Clerk	Sue Hatfield	
Town Attorney	Robin Louderback	

TOWN OF CHESAPEAKE, WEST VIRGINIA

Schedule of Funds

For the Year Ended June 30, 2008

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
Town of Chesapeake
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 Town of Chesapeake, West Virginia, as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town 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 Town of Chesapeake, West Virginia, as of June 30, 2008, 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 July 26, 2010, on our consideration of the Town 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 26 and 27 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 Town of Chesapeake, West Virginia has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America as determined is necessary to supplement, although not required to be part of, the basic financial statements.

Teed & Associates, PLLC

Charleston, West Virginia
July 26, 2010

TOWN OF CHESAPEAKE, WEST VIRGINIA

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

June 30, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	$ 49,903	$ 114,475	$ 164,378
Restricted cash	10,930	205,675	216,605
Investments	-	255,413	255,413
Accounts receivable	-	17,626	17,626
Other assets	-	6,692	6,692
Capital assets not being depreciated	-	103,571	103,571
Capital assets being depreciated, net	375,338	283,622	658,960
Total assets	436,171	987,074	1,423,245
NET ASSETS:			
Invested in capital assets	375,338	387,193	762,531
Restricted by:			
Environmental bonding requirement	10,930	-	10,930
Board designation	-	205,675	205,675
Unrestricted	49,903	394,206	444,109
Total net assets	$ 436,171	$ 987,074	$ 1,423,245

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

TOWN OF CHESAPEAKE, WEST VIRGINIA

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

For the Year Ended June 30, 2008

				Net (Expense) Revenue and Changes in Net Assets		
				Primary Government		
	Expenses	Charges for Services	Capital Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs:						
Primary government:						
Governmental activities:						
General government	$ 168,569	$ -	$ -	$ 168,569	$ -	$ 168,569
Public safety	62,919	10,587	-	52,332	-	52,332
Streets and transportation	23,894	-	-	23,894	-	23,894
Health and sanitation	129,021	81,805	-	47,216	-	47,216
Culture and recreation	143,625	-	35,071	108,554	-	108,554
Total governmental activities	528,028	92,392	35,071	400,565	-	400,565
Business-type activities:						
Sewer	188,554	$ 171,281	-	-	(17,273)	(17,273)
Total business-type activities	188,554	171,281	-	-	(17,273)	(17,273)
Total primary government	$ 716,582	$ 263,673	$ 35,071	400,565	(17,273)	383,292
General revenues:						
Taxes				236,720	-	236,720
Licenses and permits				46,524	-	46,524
Fines, forfeits, and court costs				4,152	-	4,152
Interest				39	24,444	24,483
Bingo revenues				135,258	-	135,258
Rents				5,840	-	5,840
Lottery and gaming				10,911	-	10,911
Sale of assets				600	-	600
Reimbursements				1,137	-	1,137
Contributions				5,886	-	5,886
Miscellaneous				374	-	374
Total general revenues				447,441	24,444	471,885
Changes in net assets				46,876	7,171	88,593
Net assets at beginning of year, as restated				389,295	979,903	1,369,198
Net assets at end of year				$ 436,171	$ 987,074	$ 1,423,245

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

TOWN OF CHESAPEAKE, WEST VIRGINIA

Combining Balance Sheet – Governmental Funds – Cash Basis

June 30, 2008

	General Fund	Coal Severance	Total
ASSETS:			
Cash and cash equivalents	$ 49,262	$ 641	$ 49,903
Restricted cash	10,930	-	10,930
Total assets	$ 60,192	$ 641	$ 60,833
FUND BALANCES:			
Reserved	$ 10,930	$ -	$ 10,930
Unreserved	49,262	641	49,903
Total fund balances	$ 60,192	$ 641	$ 60,833

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

TOWN OF CHESAPEAKE, WEST VIRGINIA

Reconciliation of Governmental Fund Balances to the Statement of Net Assets

For the Year Ended June 30, 2008

Balance sheet -- total fund balances	$ 60,833
Capital assets used in governmental activities are not financial resources and therefore are not in the funds, net of accumulated depreciation	375,338
Net assets of governmental activities	$ 436,171

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

TOWN OF CHESAPEAKE, WEST VIRGINIA

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

For the Year Ended June 30, 2008

	General	Coal Severance	Total
REVENUES:			
Taxes	$ 230,504	$ 6,216	$ 236,720
Intergovernmental			
State	35,071	-	35,071
Licenses and permits	46,524	-	46,524
Rents	5,840	-	5,840
Fines, forfeits and court costs	4,152	-	4,152
Charge for services	92,392	-	92,392
Bingo revenues	135,258	-	135,258
Lottery & gaming income	10,911	-	10,911
Sale of assets	600	-	600
Reimbursements	1,137	-	1,137
Contributions	5,886	-	5,886
Interest	39	-	39
Miscellaneous	374	-	374
Total revenues	568,688	6,216	574,904
EXPENDITURES:			
General government	168,569	-	168,569
Public safety	62,919	-	62,919
Streets and transportation	23,894	-	23,894
Health and sanitation	120,269	8,752	129,021
Culture and recreation	217,210	-	217,210
Total expenditures	592,861	8,752	601,613
Excess (deficiency) of revenues over (under) expenditures	(24,173)	(2,536)	(26,709)
Fund balances at beginning of year	84,365	3,177	87,542
Fund balances at end of year	$ 60,192	$ 641	$ 60,833

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

TOWN OF CHESAPEAKE, WEST VIRGINIA

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2009

Net changes in fund balances -- total governmental funds	$ (26,709)
Purchase of capital assets is expensed in governmental funds	78,336
Depreciation expense not included in governmental funds	(4,751)
Change in net assets of governmental activities	$ 46,876

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

TOWN OF CHESAPEAKE, WEST VIRGINIA

Statement of Net Assets – Proprietary Fund

June 30, 2008

ASSETS:	
Cash and cash equivalents	$ 114,475
Investments	255,413
Accounts receivable, net	17,626
Other assets	6,692
Restricted cash	205,675
Capital assets not being depreciated	103,571
Capital assets being depreciated, net	283,622
Total assets	$ 987,074
NET ASSETS:	
Invested in capital assets, net of related debt	$ 387,193
Restricted for debt service	205,675
Unrestricted	394,206
Total net assets	$ 987,074

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

TOWN OF CHESAPEAKE, WEST VIRGINIA

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

For the Year Ended June 30, 2008

OPERATING REVENUES:	
Charges for services	$ 171,281
Total operating revenues	171,281
OPERATING EXPENSES:	
Personnel expenses	86,292
Contractual services	53,159
Utilities	6,219
Maintenance	3,721
Insurance	5,303
Administrative	18,331
Depreciation	15,529
Total operating expenses	188,554
Operating (loss)	(17,273)
NONOPERATING REVENUES:	
Interest earned	24,444
Net nonoperating revenues	24,444
Change in net assets	7,171
Net assets at beginning of year	979,903
Net assets at end of year	$ 987,074

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

TOWN OF CHESAPEAKE, WEST VIRGINIA

Statement of Cash Flows – Proprietary Fund

For the Year Ended June 30, 2008

Cash flows from operating activities:	
Cash received from customers	$ 177,651
Cash paid to suppliers and employees	(174,796)
Net cash provided by operating activities	2,855
Cash flows from investing activities:	
Decrease in investments	8,754
Purchase of property and equipment	(59,500)
Interest earned	24,444
Net cash (used) from investing activities	(26,302)
Net decrease in cash and equivalents	(23,447)
Cash and equivalents, beginning	137,922
Cash and equivalents, ending	$ 114,475
Reconciliation of operating income:	
Operating loss	$ (17,273)
Adjustments:	
Depreciation	15,529
(Increase) decrease in accounts receivable	6,370
Increase (decrease) in accrued taxes payable	(1,771)
Total adjustments	20,128
Net cash provided by operating activities	$ 2,855

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

TOWN OF CHESAPEAKE, WEST VIRGINIA

Notes to the Combined Financial Statements

For the Year Ended June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Introduction

The financial statements of Town 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 Town has not presented the Management's Discussion and Analysis for the year ended June 30, 2008.

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 Town'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. The Town'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 Town'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.

Town 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 Town 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 Town 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 Town 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 Town'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 Town 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 Town is required to hold a meeting or meetings between the seventh and twenty-eighth days of March to ascertain the financial condition of the Town 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 Town 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, 2008. The Town reported no encumbrances at June 30, 2008.

H. Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Town 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 Town's restricted assets in the Sewer Fund include cash totaling $205,675, which is held in Municipal Bond Commission money market accounts.

K. Receivables

The Town'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 $17,626, net of allowance for doubtful accounts of $4,000.

L. Inventories

The Town 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 Town 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, 2008, were as follows:

Cash deposits in bank checking accounts	$ 164,378
Restricted cash	$ 216,605
Investments	$ 255,413

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 Town does not have a deposit policy for custodial credit risk. The Town's deposits at June 30, 2008, were insured by the Federal Depository Insurance Corporation (FDIC) and collateral held in the Town'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 Town of Chesapeake, West Virginia, per $100.00 of assessed valuation for each class of property for the fiscal year ended June 30, 2008, were as follows:

Class of Property	Assessed Valuations for Tax Purposes	Current Expense
Class I	$ --	12.50 cents
Class II	$ 10,832,690	25.00 cents
Class IV	$ 13,149,923	50.00 cents

NOTE 4. CHANGES IN CAPITAL ASSETS

Changes in governmental capital assets during the year were as follows:

	Totals June 30, 2007	Additions	Deletions & Transfers	Totals June 30, 2008
Capital assets not being depreciated:				
Construction in progress	$ 301,753	$ 78,336	$ 380,089	$ -
Total capital assets not being depreciated	301,753	78,336	380,089	-
Capital assets being depreciated:				
Buildings	-	-	380,089	380,089
Total other capital assets	-	-	380,089	380,089
Less accumulated depreciation for:				
Buildings	-	4,751	-	4,751
Total accumulated depreciation	-	4,751	-	4,751
Total capital assets being depreciated, net	-	(4,751)	380,089	375,338
Capital assets, net	$ 301,753	$ 73,585	$ -	$ 375,338

Governmental depreciation in the amount of $ 4,751 was charged to culture and recreation.

Changes in business capital assets during the year were as follows:

	Totals June 30, 2007	Additions	Deletions	Totals June 30, 2008
Capital assets not being depreciated:				
Land and land rights	$ 44,071	$ 59,500	$ -	$ 103,571
Total capital assets not being depreciated	44,071	59,500	-	103,571
Capital assets being depreciated:				
Buildings	22,783	-	-	22,783
Collecting, pumping, treatment, and disposal plant and equipment	1,310,405	-	-	1,310,405
Total capital assets being depreciated	1,333,188	-	-	1,333,188
Less accumulated depreciation for:				
Buildings	22,782	-	-	22,782
Collecting, pumping, treatment, and disposal plant and equipment	1,011,255	15,529	-	1,026,784
Total accumulated depreciation	1,034,037	15,529	-	1,049,566
Total capital assets being depreciated, net	299,151	(15,529)	-	283,622
Capital assets, net	$ 343,222	$ 43,971	$ -	$ 387,193

NOTE 5. CONTINGENT LIABILITIES

In the normal course of operations, the Town 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 Town pays BrickStreet Insurance 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 Town offers health insurance to all eligible employees through Carelink Insurance.

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

NOTE 7. PRIOR PERIOD ADJUSTMENT

The Town recorded a prior period adjustment to the governmental funds at July 1, 2007 as follows:

Beginning net assets @ July 1, 2007, as audited	$ 87,542
Add construction in progress not recorded in prior fiscal years	301,753
Beginning net assets @ July 1, 2007, as restated	$ 389,295

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF CHESAPEAKE, WEST VIRGINIA

Budgetary Comparison Schedule – General Fund

For the Year Ended June 30, 2008

	Original Budget	Revised Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:				
Taxes	$ 210,972	$ 210,972	$ 230,504	$ 19,532
Intergovernmental				
State	-	-	35,071	35,071
Licenses and permits	28,500	28,500	46,524	18,024
Rents	2,000	2,000	5,840	3,840
Fines, forfeits and court costs	5,000	5,000	4,152	(848)
Charge for services	95,000	95,000	92,392	(2,608)
Bingo revenues	100,000	100,000	135,258	35,258
Reimbursements	2,000	2,000	1,137	(863)
Sale of fixed assets	1,000	1,000	600	(400)
Contributions	-	-	5,886	5,886
Video lottery	6,000	6,000	10,911	4,911
Interest	-	-	39	39
Miscellaneous revenue	12,400	12,400	374	(12,026)
Total revenues	462,872	462,872	568,688	105,816
EXPENDITURES:				
General government	149,472	149,472	168,569	(19,097)
Public safety	117,200	117,200	62,919	54,281
Streets and transportation	23,500	23,500	23,894	(394)
Health and sanitation	120,500	120,500	120,269	231
Culture and recreation	7,200	7,200	217,210	(210,010)
Social services	65,000	65,000	-	65,000
Total expenditures	482,872	482,872	592,861	(109,989)
Excess (deficiency) of revenues over (under) expenditures	(20,000)	(20,000)	(24,173)	(4,173)
Fund balance at beginning of year	20,000	20,000	84,365	64,365
Fund balance at end of year	$ -	$ -	$ 60,192	$ 60,192

TOWN OF CHESAPEAKE, WEST VIRGINIA

Budgetary Comparison Schedule – Coal Severance Fund

For the Year Ended June 30, 2008

	Original Budget	Revised Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:				
Taxes	$ 3,900	$ 3,900	$ 6,216	$ (2,316)
Total revenues	3,900	3,900	6,216	2,316
EXPENDITURES:				
Health and sanitation	4,000	4,000	8,752	4,752
Total expenditures	4,000	4,000	8,752	4,752
Excess (deficiency) of revenues over (under) expenditures	(100)	(100)	(2,536)	(2,436)
Fund balance at beginning of year	100	100	3,177	3,277
Fund balance at end of year	$ -	$ -	$ 641	$ 641

REPORTS ON INTERNAL CONTROL AND ON COMPLIANCE

Teed & Associates, PLLC

Certified Public Accountants

Established 1992

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Member, West Virginia Society of Certified Public Accountants
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INDEPENDENT AUDITOR'S 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
Town of Chesapeake
Chesapeake, West Virginia

We have audited the financial statements of the Town of Chesapeake, West Virginia as of and for the year ended June 30, 2008, and have issued our report thereon dated July 26, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting 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 Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town'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 Town'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 Town's financial statements that is more than inconsequential will not be prevented or detected by the Town'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 Town'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 deficiencies described in the accompanying Schedule of Findings as Items 2008-1 and 2008-2 are material weaknesses.

Compliance

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

This report is intended solely for the information and use of the audit committee, management, Town 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.

Teed & Associates, PLLC

Charleston, West Virginia
July 26, 2010

TOWN OF CHESAPEAKE, WEST VIRGINIA

Schedule of Findings

For the Year Ended June 30, 2008

Item 2008-1 Segregation of Duties

Condition

During our audit, we noted that there is insufficient segregation of duties in the offices of the Town 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 Town.

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 Town 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 Town 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.

TOWN OF CHESAPEAKE, WEST VIRGINIA

Schedule of Findings (continued)

For the Year Ended June 30, 2008

Item 2008-2 Detailed Capital Assets and Depreciation Schedules – Sewer Funds

Condition

The Town of failed to maintain detailed fixed asset and depreciation schedules within the enterprise funds. The capital asset list is comprised of broad categories listed in the Public Service Commission (PSC) report and is being depreciated by approximately two percent annually.

Criteria

Generally accepted accounting principles dictate that detailed listings of assets be maintained and depreciation be charged against operations over the estimated useful lives of the respective capital assets.

Cause

The Town has no controls in place to ensure that a particular asset within the enterprise funds are separately listed and depreciated.

Effect

By not having detailed capital asset schedules, the Town could lose custodial control over certain assets within the enterprise fund that are susceptible to theft. Accumulated depreciation records are not kept for categories, but for the total accumulated depreciation on only a portion of the capital assets. This creates an understatement of depreciation and accumulated depreciation.

Recommendations

The Town should analyze past PSC reports to determine what capital assets can be properly identified and included on a detailed capital asset schedule.