RFP #: 11-111

# Independent Auditors' Report

# and Related Financial Statements

## For the Year Ended June 30, 2011

## 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

## Table of Contents

## For the Year Ended June 30, 2011


| | Page |
|---|---|
| Municipal Officials | 1 |
| Schedule of Funds | 2 |
| Independent Auditors' Report | 3 |
| Financial Statements: | |
| Statement of Net Assets | 5 |
| Statement of Activities | 6 |
| Combining Balance Sheet – Governmental Funds | 7 |
| Reconciliation of Governmental Funds Balances to the Statement of Net Assets | 8 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds | 9 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 10 |
| Statement of Net Assets – Proprietary Funds | 11 |
| Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds | 12 |
| Statement of Cash Flows – Proprietary Funds | 13 |
| Notes to the Combined Financial Statements | 14 |
| Required Supplementary Information | 24 |
| Budgetary Comparison Schedule – General Fund | 25 |
| Budgetary Comparison Schedule – Coal Severance Fund | 26 |

Reports on Internal Control and on Compliance 27

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* 28

Schedule of Findings 30

# TOWN OF CHESAPEAKE, WEST VIRGINIA

## Municipal Officials

## For the Year Ended June 30, 2011

| 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 |
| | Roy P. Kennedy | 06/30/11 |
| | Ivan P. Smith | 06/30/11 |
| | Janet Searls | 06/30/11 |
| Recorder | Gregory Hendricks | 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, 2011

### 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, 2011, 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.

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, 2011, 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.

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



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In accordance with *Government Auditing Standards*, we have also issued a report dated April 25, 2012, 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.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 25 and 26 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.

Tead & Associates, PLLC

Charleston, West Virginia
April 25, 2012

# TOWN OF CHESAPEAKE, WEST VIRGINIA

## Statement of Net Assets

## June 30, 2011

| | Primary Government | | |
|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS: | | | |
| Cash and cash equivalents | $ 42,657 | $ 11,282 | $ 53,939 |
| Restricted cash | 10,977 | - | 10,977 |
| Investments | - | 421,248 | 421,248 |
| Accounts receivable | - | 5,028 | 5,028 |
| Due from other funds | - | 30,000 | 30,000 |
| Capital assets not being depreciated | - | 103,571 | 103,571 |
| Capital assets being depreciated, net | 417,458 | 237,044 | 654,502 |
| Total assets | $ 471,092 | $ 808,173 | $ 1,279,265 |
| LIABILITIES | | | |
| Accounts payable | $ - | $ 24,021 | $ 24,021 |
| Due to other funds | 30,000 | - | 30,000 |
| Total liabilities | 30,000 | 24,021 | 54,021 |
| NET ASSETS: | | | |
| Invested in capital assets | 417,458 | 340,615 | 758,073 |
| Restricted | 10,977 | - | 10,977 |
| Unrestricted | 12,657 | 443,537 | 456,194 |
| Total net assets | 441,092 | 784,152 | 1,225,244 |
| Total liabilites and net assets | $ 471,092 | $ 808,173 | $ 1,279,265 |

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

# TOWN OF CHESAPEAKE, WEST VIRGINIA

## Statement of Activities

## For the Year Ended June 30, 2011

| Functions/Programs | Expenses | Charges for Services | Capital Contributions | Net (Expense) Revenue and Changes in Net Assets — Primary Government: Governmental Activities | Business-type Activities | Total |
|---|---|---|---|---|---|---|
| Primary government: | | | | | | |
| Governmental activities: | | | | | | |
| General government | $ 169,461 | $ - | $ 42,036 | $ (127,425) | $ - | $ (127,425) |
| Public safety | 105,853 | - | - | (105,853) | - | (105,853) |
| Streets and transportation | 28,655 | - | - | (28,655) | - | (28,655) |
| Health and sanitation | 139,063 | 74,306 | - | (64,757) | - | (64,757) |
| Culture and recreation | 10,347 | - | - | (10,347) | - | (10,347) |
| Total governmental activities | 453,379 | 74,306 | 42,036 | (337,037) | - | (337,037) |
| Business-type activities: | | | | | | |
| Sewer | 275,191 | $ 190,038 | $ - | - | (85,153) | (85,153) |
| Total business-type activities | 275,191 | 190,038 | - | - | (85,153) | (85,153) |
| Total primary government | $ 728,570 | $ 264,344 | $ 42,036 | (337,037) | (85,153) | (422,190) |
| General revenues: | | | | | | |
| Taxes | | | | 259,602 | - | 259,602 |
| Licenses and permits | | | | 39,997 | - | 39,997 |
| Fines, forfeits and court costs | | | | 4,623 | 55 | 4,678 |
| Interest | | | | - | 375 | 375 |
| Rents | | | | 11,969 | - | 11,969 |
| Lottery and gaming | | | | 24,963 | - | 24,963 |
| Contributions | | | | 8,574 | - | 8,574 |
| Reimbursements | | | | 1,805 | - | 1,805 |
| Miscellaneous | | | | 509 | - | 509 |
| Total general revenues | | | | 352,042 | 430 | 352,472 |
| Changes in net assets | | | | 15,005 | (84,723) | 774,662 |
| Net assets at beginning of year | | | | 426,087 | 868,875 | 1,294,962 |
| Net assets at end of year | | | | $ 441,092 | $ 784,152 | $ 1,225,244 |

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

# TOWN OF CHESAPEAKE, WEST VIRGINIA

## Combining Balance Sheet – Governmental Funds

## June 30, 2011

| | General Fund | Coal Severance | Total |
|---|---|---|---|
| ASSETS: | | | |
| Cash and cash equivalents | $ 42,518 | $ 139 | $ 42,657 |
| Restricted cash | 10,977 | - | 10,977 |
| Total assets | $ 53,495 | $ 139 | $ 53,634 |
| LIABILITIES | | | |
| Due to other funds | $ 30,000 | $ - | $ 30,000 |
| Total liabilities | 30,000 | - | 30,000 |
| FUND BALANCES: | | | |
| Restricted | 10,977 | 139 | 11,116 |
| Unassigned | 12,518 | - | 12,518 |
| Total fund balances | $ 23,495 | $ 139 | $ 23,634 |

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, 2011

| | |
|---|---|
| Balance sheet -- total fund balances | $ 23,634 |
| Capital assets used in governmental activities are not financial resources and therefore are not in the funds, net of accumulated depreciation | 417,458 |
| Net assets of governmental activities | $ 441,092 |

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

## For the Year Ended June 30, 2011

| | General | Coal Severance | Total |
|---|---|---|---|
| REVENUES: | | | |
| Taxes | $ 249,158 | $ 10,444 | $ 259,602 |
| Licenses and permits | 39,997 | - | 39,997 |
| Rents | 11,969 | - | 11,969 |
| Fines, forfeits and court costs | 4,623 | - | 4,623 |
| Charges for services | 74,306 | - | 74,306 |
| Lottery and gaming income | 24,963 | - | 24,963 |
| Contributions | 8,574 | - | 8,574 |
| Reimbursements | 1,805 | - | 1,805 |
| Miscellaneous | 509 | - | 509 |
| Total revenues | 415,904 | 10,444 | 426,348 |
| EXPENDITURES: | | | |
| General government | 165,553 | - | 165,553 |
| Public safety | 105,853 | - | 105,853 |
| Streets and transportation | 28,655 | - | 28,655 |
| Health and sanitation | 125,006 | 12,252 | 137,258 |
| Culture and recreation | 845 | - | 845 |
| Total expenditures | 425,912 | 12,252 | 438,164 |
| Excess (deficiency) of revenues over (under) expenditures | (10,008) | (1,808) | (11,816) |
| Fund balances at beginning of year | 33,503 | 1,947 | 35,450 |
| Fund balances at end of year | $ 23,495 | $ 139 | $ 23,634 |

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, 2011

| | |
|---|---|
| Net changes in fund balances -- total governmental funds | $ (11,816) |
| Capital contribution not recorded in governmental funds | 42,036 |
| Depreciation expense not included in governmental funds | (15,215) |
| Change in net assets of governmental activities | $ 15,005 |

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, 2011

| | |
|---|---|
| ASSETS: | |
| Cash and cash equivalents | $ 11,282 |
| Investments | 421,248 |
| Accounts receivable, net | 5,028 |
| Due from other funds | 30,000 |
| Capital assets not being depreciated | 103,571 |
| Capital assets being depreciated, net | 237,044 |
| Total assets | $ 808,173 |
| LIABILITIES | |
| Accounts payable | $ 24,021 |
| Total liabilities | 24,021 |
| NET ASSETS: | |
| Invested in capital assets, net of related debt | 340,615 |
| Unrestricted | 443,537 |
| Total net assets | 784,152 |
| Total liabilities and net assets | $ 808,173 |

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, 2011

| | |
|---|---|
| OPERATING REVENUES: | |
| Charges for services | $ 190,038 |
| Penalties | 55 |
| Total operating revenues | 190,093 |
| OPERATING EXPENSES: | |
| Personnel expenses | 76,578 |
| Contractual services | 125,447 |
| Utilities | 9,160 |
| Maintenance | 10,826 |
| Insurance | 4,924 |
| Administrative | 32,726 |
| Depreciation | 15,530 |
| Total operating expenses | 275,191 |
| Operating (loss) | (85,098) |
| NONOPERATING REVENUES (EXPENSES): | |
| Interest earned | 375 |
| Net nonoperating revenues | 375 |
| Change in net assets | (84,723) |
| Net assets at beginning of year | 868,875 |
| Net assets at end of year | $ 784,152 |

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, 2011

| | |
|---|---|
| Cash flows from operating activities: | |
| Cash received from customers | $ 206,261 |
| Cash paid to suppliers and employees | (308,537) |
| Net cash (used) by operating activities | (102,276) |
| Cash flows from investing activities: | |
| Increase in restricted assets and investments | 83,224 |
| Interest earned | 375 |
| Net cash provided from investing activities | 83,599 |
| Net decrease in cash and equivalents | (18,677) |
| Cash and equivalents, beginning | 29,959 |
| Cash and equivalents, ending | $ 11,282 |
| Reconciliation of operating income: | |
| Operating loss | $ (85,098) |
| Adjustments: | |
| Depreciation | 15,530 |
| (Increase) decrease in accounts receivable | 16,168 |
| Increase (decrease) in accounts payable | (48,876) |
| Total adjustments | (17,178) |
| Net cash (used) by operating activities | $ (102,276) |

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, 2011

### 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, 2011.

#### 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 and the proprietary fund are reported using the *economic resources measurement focus* and 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, 2011. The Town reported no encumbrances at June 30, 2011.

## 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. 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 $5,028.

### K. 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.

### L. Prepaid Items

Prepaid items are payments for costs applicable to future periods.

### M. 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 |

## N. Compensated Absences

Compensated absences are those for which employees have a right to receive consideration for expected future absences.

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

## O. Fund balance classification

GASB 54 requires that governmental fund financial statements present fund balances based on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

1. Nonspendable – This amount cannot be spent either because it is in a nonspendable form or because it is legally or contractually required to be maintained intact.

2. Restricted – This amount can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

3. Committed – This amount can be spent only for a specific purpose determined by a formal action of City Council. City Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by City Council.

4. Assigned – This amount does not meet the criteria to be classified as restricted or committed but is intended to be used for a specific purpose. Under the City's adopted policy, only City Council may assign an amount for a specific purpose.

5. Unassigned – This amount includes all other spendable amounts.

## NOTE 2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2011, were as follows:

| | |
|---|---|
| Cash in bank checking accounts | $ 42,657 |
| Restricted cash | $ 10,977 |
| Investments | $ 421,248 |

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, 2011, 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, 2011, were as follows:

| Class of Property | Assessed Valuations for Tax Purposes | Current Expense |
|---|---|---|
| Class I | $ -- | 12.50 cents |
| Class II | $ 11,531,472 | 25.00 cents |
| Class IV | $ 12,693,073 | 50.00 cents |

## NOTE 4. CHANGES IN CAPITAL ASSETS

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

| | Totals June 30, 2010 | Additions | Deletions | Totals June 30, 2011 |
|---|---|---|---|---|
| Capital assets being depreciated: | | | | |
| Equipment | $ 36,108 | $ 42,036 | $ - | $ 78,144 |
| Buildings | 380,089 | - | - | 380,089 |
| Total other capital assets | 416,197 | 42,036 | - | 458,233 |
| Less accumulated depreciation for: | | | | |
| Equipment | 1,805 | 5,713 | - | 7,518 |
| Buildings | 23,755 | 9,502 | - | 33,257 |
| Total accumulated depreciation | 25,560 | 15,215 | - | 40,775 |
| Capital assets, net | $ 390,637 | $ 26,821 | $ - | $ 417,458 |

Governmental depreciation in the amount of $ 9,502 was charged to culture and recreation, $1,805 was charged to health and sanitation, and $3,908 was charged to general government.

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

| | Totals June 30, 2010 | Additions | Deletions | Totals June 30, 2011 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land and land rights | $ 103,571 | $ - | $ - | $ 103,571 |
| Total capital assets not being depreciated | 103,571 | - | - | 103,571 |
| Capital assets being depreciated: | | | | |
| Buildings | 22,783 | - | - | 22,783 |
| Collecting, pumping, treatment, and disposal plant and equipment | 1,162,541 | - | - | 1,162,541 |
| Total capital assets being depreciated | 1,185,324 | - | - | 1,185,324 |
| Less accumulated depreciation for: | | | | |
| Buildings | 22,782 | 1 | - | 22,783 |
| Collecting, pumping, treatment, and disposal plant and equipment | 909,968 | 15,529 | - | 925,497 |
| Total accumulated depreciation | 932,750 | 15,530 | - | 948,280 |
| Total capital assets being depreciated, net | 252,574 | (15,530) | - | 237,044 |
| Capital assets, net | $ 356,145 | $ (15,530) | $ - | $ 340,615 |

## 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.

# REQUIRED SUPPLEMENTARY INFORMATION

# TOWN OF CHESAPEAKE, WEST VIRGINIA

## Budgetary Comparison Schedule – General Fund

## For the Year Ended June 30, 2011

| | Original Budget | Revised Budget | Actual | Variance Favorable (Unfavorable) |
|---|---|---|---|---|
| REVENUES: | | | | |
| Taxes | $ 211,881 | $ 211,881 | $ 249,158 | $ 37,277 |
| Licenses and permits | 32,500 | 32,500 | 39,997 | 7,497 |
| Rents | 6,000 | 6,000 | 11,969 | 5,969 |
| Fines, forfeits and court costs | 6,000 | 6,000 | 4,623 | (1,377) |
| Charge for services | 92,000 | 92,000 | 74,306 | (17,694) |
| Reimbursements | 3,000 | 3,000 | 1,805 | (1,195) |
| Contributions | - | - | 8,574 | 8,574 |
| Sale of fixed assets | 1,000 | 1,000 | - | (1,000) |
| Video lottery and gaming | 16,000 | 16,000 | 24,963 | 8,963 |
| Miscellaneous revenue | 6,500 | 6,500 | 509 | (5,991) |
| Total revenues | 374,881 | 374,881 | 415,904 | 41,023 |
| EXPENDITURES: | | | | |
| General government | 127,481 | 132,572 | 165,553 | (32,981) |
| Public safety | 119,200 | 119,200 | 105,853 | 13,347 |
| Streets and transportation | 23,500 | 23,500 | 28,655 | (5,155) |
| Health and sanitation | 117,500 | 117,500 | 125,006 | (7,506) |
| Culture and recreation | 7,200 | 7,200 | 845 | 6,355 |
| Total expenditures | 394,881 | 399,972 | 425,912 | (25,940) |
| Excess (deficiency) of revenues over (under) expenditures | (20,000) | (25,091) | (10,008) | 15,083 |
| Fund balance at beginning of year | 20,000 | 25,091 | 33,503 | 8,412 |
| Fund balance at end of year | $ - | $ - | $ 23,495 | $ 23,495 |

# TOWN OF CHESAPEAKE, WEST VIRGINIA

## Budgetary Comparison Schedule – Coal Severance Fund

## For the Year Ended June 30, 2011

| | Original Budget | Revised Budget | Actual | Variance Favorable (Unfavorable) |
|---|---|---|---|---|
| REVENUES: | | | | |
| Taxes | $ 3,900 | $ 1,847 | $ 10,444 | $ (8,597) |
| Total revenues | 3,900 | 1,847 | 10,444 | 8,597 |
| EXPENDITURES: | | | | |
| Health and sanitation | 4,000 | 1,947 | 12,252 | 10,305 |
| Total expenditures | 4,000 | 1,947 | 12,252 | 10,305 |
| (Deficiency) of revenues (under) expenditures | (100) | (100) | (1,808) | (1,708) |
| Fund balance at beginning of year | 100 | 100 | 1,947 | 2,047 |
| Fund balance at end of year | $ - | $ - | $ 139 | $ 139 |

# 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 AUDITOF 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 Town of Chesapeake (Town), as of and for the year ended June 30, 2011, and have issued our report thereon dated April 25, 2012. 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 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 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.



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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 over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, we believe that the significant deficiencies described in the accompanying Schedule of Findings as Items 2011-1 and 2011-2 are material weaknesses.

Compliance and Other Matters

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 Council, management, Town, and other federal and state oversight 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.

Tedd & Associates, PLLC

Charleston, West Virginia
April 25, 2012

# TOWN OF CHESAPEAKE, WEST VIRGINIA

## Schedule of Findings

## For the Year Ended June 30, 2011

**Item 2011-1 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, 2011

**Item 2011-2 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.