Kanawha County

RFP# 21-059

Town of Chesapeake, West Virginia

A Class IV Municipality

Financial Statements and Independent Auditor's Report

For the Fiscal Year Ended June 30, 2017

Ferrari & Associates, PLLC
616 Schubert Pl | Morgantown, WV 26505

TOWN OF CHESAPEAKE, WEST VIRGINIA
SCHEDULE OF FUNDS INCLUDED IN REPORT
For the Fiscal Year Ended June 30, 2017

GOVERNMENTAL FUND TYPES

MAJOR FUNDS

General Fund
Coal Severance Tax Fund

PROPRIETARY FUND TYPES

MAJOR FUNDS

Sewer Fund

TOWN OF CHESAPEAKE, WEST VIRGINIA
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Introductory Section

TOWN OF CHESAPEAKE, WEST VIRGINIA
TOWN OFFICIALS
For the Fiscal Year Ended June 30, 2017

OFFICE	NAME	TERM ENDS
	Elective	
Mayor:	Janet Armentout	June 30, 2019
Recorder:	Don Hatfield	June 30, 2019
Council Members:	Harry Goins	June 30, 2019
	Mildred Grooms	June 30, 2019
	Joseph Booker	June 30, 2019
	Misty Johnson	June 30, 2019
	Paul Bradshaw	June 30, 2019
	Janet Searls	June 30, 2019
	Dona Lacy	June 30, 2019

Financial Section

Ferrari & Associates, PLLC
616 Schubert Pl | Morgantown, WV 26505

Independent Auditor's Report

Honorable Mayor and Council
Town of Chesapeake
Chesapeake, West Virginia 25315

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Chesapeake, West Virginia (Town), as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements for the governmental activities, each major governmental fund, and the aggregate remaining fund information in accordance with financial reporting provisions of West Virginia Code Section 6-9-2, as described in Note I. Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America for the business-type activities and each major proprietary fund. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Because of the matters described in the "Basis for Disclaimer of Opinion on Regulatory Basis of Accounting" and the "Basis for Disclaimer of Opinion on the Major Proprietary Fund" paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note I of the financial statements, the Town prepared these financial statements for governmental activities, each major governmental fund, and the aggregate remaining fund information using the accounting basis permitted by the financial reporting provisions of West Virginia Code Section 6-9-2, which is an accounting basis other than accounting principles generally accepted in the United States of America, to meet the requirements allowed by West Virginia Code Section 6-9-2.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note I and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the respective financial position of the governmental activities and each major governmental fund of the Town of Chesapeake, West Virginia, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended.

Basis for Disclaimer of Opinion on Regulatory Basis of Accounting

The Town was unable to produce documentation for all receipts and disbursements and failed to maintain adequate accounting records. As a result, we were unable to obtain sufficient appropriate audit evidence about the amounts recognized for revenues and expenses.

Disclaimer of Opinion on Regulatory Basis of Accounting

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on Regulatory Basis of Accounting" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the respective financial position of the governmental activities and each major governmental fund of the Town of Chesapeake, West Virginia, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with the financial reporting provisions West Virginia Code Section 6-9-2 permits, described in Note I.

Basis for Disclaimer of Opinion on the Major Proprietary Fund

The Town was unable to produce documentation for all receipts and disbursements and failed to maintain adequate accounting records. As a result, we were unable to obtain sufficient appropriate audit evidence about the amounts recognized for assets, liabilities, net position, revenues, and expenses. Furthermore, we were unable to obtain sufficient appropriate audit evidence to determine if any additional unrecognized assets or liabilities existed.

Disclaimer of Opinion on the Major Proprietary Fund

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on the Major Proprietary Fund" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion the respective financial position of the business-type activities and the major proprietary fund of the Town of Chesapeake, West Virginia, as of June 30, 2017, and the respective changes in financial position, and where applicable, cash flows, thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The Town has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board (GASB), 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that budgetary comparison information for the general fund and coal severance tax fund listed in the table of contents 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2022, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Ferrari & Associates, PLLC

Morgantown, West Virginia
May 23, 2022

TOWN OF CHESAPEAKE, WEST VIRGINIA
STATEMENT OF ASSETS ARISING FROM CASH TRANSACTIONS - GOVERNMENTAL FUNDS
June 30, 2017

	General	Coal Severance Tax	Total Governmental Funds
ASSETS			
Current assets:			
Cash and cash equivalents	$ 44,292	$ 71	$ 44,363
Total assets	**$ 44,292**	**$ 71**	**$ 44,363**
FUND BALANCES			
Restricted	$ 360	$ 71	$ 431
Unassigned	43,932	-	43,932
Total fund balances	**$ 44,292**	**$ 71**	**$ 44,363**

TOWN OF CHESAPEAKE, WEST VIRGINIA
STATEMENT OF REVENUES COLLECTED AND EXPENSES PAID -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2017

	General	Coal Severance Tax	Total Governmental Funds
REVENUES			
Taxes:			
Ad valorem property taxes	$ 71,532	$ -	$ 71,532
Business and occupation tax	52,653	-	52,653
Utility services tax	21,061	-	21,061
Gas and oil severance tax	2,158	-	2,158
Coal severance tax	-	3,540	3,540
Intergovernmental:			
State grants	62,869	-	62,869
Fines and forfeits	3,949	-	3,949
Charges for services	51,995	-	51,995
Licenses and permits	921	-	921
Reimbursements	658	-	658
Franchise fees	11,847	-	11,847
IRP fees	71,979	-	71,979
Gaming income	12,428	-	12,428
Video lottery	4,686	-	4,686
Miscellaneous	3,949	-	3,949
Total revenues	372,685	3,540	376,225
EXPENDITURES			
General government	123,194	2,148	125,342
Public safety	90,690	-	90,690
Streets and transportation	78,174	2,148	80,322
Health and sanitation	102,086	-	102,086
Culture and recreation	4,254	-	4,254
Total expenditures	398,398	4,296	402,694
Net change in fund balance	(25,713)	(756)	(26,469)
Fund balances - beginning	70,005	827	70,832
Fund balances - ending	$ 44,292	$ 71	$ 44,363

See accompanying notes and independent auditor's report.

TOWN OF CHESAPEAKE, WEST VIRGINIA
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
June 30, 2017

	Sewer
ASSETS	
Current assets:	
Cash and cash equivalents	$ 78,069
Receivables:	
Accounts, net	42,811
Other	21,203
Total current assets	**142,083**
Capital assets:	
Nondepreciable:	
Land	103,564
Depreciable:	
Structures and improvements	22,782
Machinery and equipment	1,209,019
Less accumulated depreciation	(1,076,384)
Total capital assets, net	**258,981**
Total assets	**$ 401,064**

TOWN OF CHESAPEAKE, WEST VIRGINIA
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
June 30, 2017

		Sewer
LIABILITIES		
Current liabilities:		
Accounts payable	$	13,664
Accrued taxes		5,056
Total current liabilities		**18,720**
Total liabilities		**18,720**
NET POSITION		
Invested in capital assets, net of related debt		258,981
Unrestricted		123,363
Total net position		**382,344**
Total liabilities and net position	**$**	**401,064**

See accompanying notes and independent auditor's report.

TOWN OF CHESAPEAKE, WEST VIRGINIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION - PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2017

	Sewer
Operating revenues:	
Sales and services to customers	$ 239,065
Discounts and penalties	7,731
Miscellaneous	23,674
Total revenues	270,470
Operating expenses:	
Personal services	140,056
Contractual services	38,108
Transportation	1,759
Insurance	22,293
Treatment and disposal	138,245
Utilities	11,666
Miscellaneous	15,849
Depreciation	20,828
Total operating expenses	388,804
Operating income (loss)	(118,334)
Nonoperating revenues (expenses):	
Interest income	527
Total nonoperating revenues (expenses)	527
Change in net position	(117,807)
Net position - beginning	500,151
Net position - ending	$ 382,344

TOWN OF CHESAPEAKE, WEST VIRGINIA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2017

	Sewer
Cash flows from operating activities:	
Cash received from customers	$ 276,175
Cash paid for goods and services	(228,373)
Cash paid to employees	(139,980)
Net cash provided (used) by operating activities	(92,178)
Cash flows from investing activities	
Interest earned	527
Net cash provided (used) by investing activities	527
Net increase (decrease) in cash and cash equivalents	(91,651)
Cash and cash equivalents, June 30, 2016	169,720
Cash and cash equivalents, June 30, 2017	$ 78,069

TOWN OF CHESAPEAKE, WEST VIRGINIA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2017

	Sewer
Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income (loss)	$ (118,334)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation expense	20,828
Decrease (increase) in accounts receivable	5,705
Decrease (increase) in other receivables	8,797
Increase (decrease) in due to other governments	(20,222)
Increase (decrease) in accrued taxes	76
Increase (decrease) in accounts payable	10,972
Net cash provided by operating activities	$ (92,178)

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except as noted, the accounting policies of the Town of Chesapeake, West Virginia, (Town) conform to the other comprehensive basis of accounting prescribed by the West Virginia State Auditor's Office as applicable to Class IV municipalities. The following is a summary of significant accounting policies:

A. Reporting Entity

The Town is a municipal corporation governed by an elected mayor and council. The accompanying financial statements present the government as required by the West Virginia State Auditor's Office and/or generally accepted accounting principles.

The services provided by the government and accounted for within these financial statements include public safety, health and sanitation services, streets and transportation, cultural and recreational programs, Sewer services, and other governmental services.

The accompanying financial statements present the government on another comprehensive basis of accounting as allowed by the West Virginia State Auditor's Office pursuant to WV Code §6-9-2. Component units are evaluated based on accounting principles generally accepted in the United States of America. In determining whether to include a governmental department, agency, commission or organization as a component unit, the government must evaluate each entity as to whether they are legally separate and financially accountable based on the criteria set forth by the Governmental Accounting Standards Board (GASB). Legal separateness is evaluated on the basis of (1) its corporate name, (2) the right to sue and be sued and (3) the right to buy, sell or lease and mortgage property. Financial accountability is based on (1) the appointment of the governing authority and (2) the ability to impose will or (3) the providing of specific financial benefit or imposition of specific financial burden. Another factor to consider in this evaluation is whether an entity is fiscally dependent on the Town. Based on this criterion, the Town does not have any component units.

B. Fund Financial Statements

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.

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

Governmental fund financial statements for Class IV municipalities are reported using the cash basis of accounting. This regulatory basis differs from accounting principles generally accepted in the United States of America. Revenues are recognized as soon as they are received. Expenditures are recorded when a payment is made. The accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

The Town reports the following major governmental funds:

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

Coal Severance Fund - This special revenue fund accounts for revenues and expenditures from a severance tax placed on coal that is distributed to West Virginia municipalities.

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Town reports the following major proprietary funds:

> **Sewer Fund** – The Sewer fund serves the Chesapeake area by providing Sewer services to the community. This fund accounts for the revenues and expenses of operating this facility. The rates for user charges and debt issuance authorizations are approved by the Town's elected council.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing the services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Sewer and Sewer funds (enterprise funds) are charges to the customer for services. Operating expenses for the enterprise funds include the cost of services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, Liabilities, and Net Position/Fund Balance

1. Deposits

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of less than three months from the date of acquisition. For purposes of the Statement of Cash Flows, restricted assets may be considered cash equivalents based on liquidity.

2. Receivables and Payables

Interfund Transactions

Activity between enterprise funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables or payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between the funds are reported as "due to/from other funds."

Trade Receivables and Payables

All trade receivables are shown at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Payables are shown at the net amount due.

Property Taxes

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; 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 the taxes are not paid on or before the date in 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 the date they are paid.

All municipalities within the state are authorized to levy taxes not in excess of the following maximum levies per $100 of assessed valuation: On Class I property, twelve and five-tenths cents (12.5 cents); On Class II property, twenty-five cents (25 cents); On Class IV property, fifty cents (50 cents). In addition, municipalities may provide for an election to lay an excess levy; the rates cannot to exceed statutory limitations, provided at least sixty percent of the voters cast ballots in favor of the excess levy.

The levy rates levied by the Town of Chesapeake stated in cents per $100 of assessed valuation for each class of property for the fiscal year ended June 30, 2017, were as follows:

Class of Property	Assessed Valuation For Tax Purposes	Current Expense
Class I	$ -	12.31 cents
Class II	17,029,634	24.62 cents
Class IV	15,677,364	49.24 cents
Total	$ 32,706,998	

3. Capital Assets and Depreciation

The Town records the purchase of property, plant and equipment in the governmental funds as expenditures in the various funds and does not account for such purchases as capital assets in conformity to the other comprehensive basis of accounting prescribed by the West Virginia State Auditor's Office as applicable to Class IV municipalities.

Capital assets, which include property, plant, and equipment, are reported in the applicable proprietary funds financial statements. Capital assets are defined by the government as assets with an initial, individual cost of $5,000 or more and estimated to have a useful life in excess of one year. 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 assets or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds during the same period.

Capital assets of the proprietary funds are depreciated using the straight-line method over the following estimated useful lives:

Asset-type	Years
Structure and Improvements	40-50
Machinery and Equipment	05-10

4. Compensated Absences

It is the government's policy to require employees to use all earned vacation time by the end of the fiscal year; therefore, no liability is reported for vacation leave. No liability is reported for unpaid accumulated sick leave.

5. Fund Balance and Equity Classification

In the governmental fund financial statements, fund balance is reported in five classifications:

Nonspendable	The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact.
Restricted	A fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.
Committed	The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action by the Town Council. The formal action that is required to be taken to establish, modify or rescind a fund balance commitment is through an ordinance.
Assigned	Amounts in the assigned fund balance classification are intended to be used by the Town for specific purposes but do not meet the criteria to be classified as restricted or committed.
Unassigned	Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications.

The Town Council is the government's highest level of decision-making authority. The Town Council may take formal action to establish, modify or rescind a fund balance commitment or to assign fund balance amounts to a specific purpose. The Town Council has adopted a revenue spending policy that provides guidance for programs with multiple revenue sources. For purposes of fund balance classification, expenditures are to be made from restricted resources first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Town Council has the authority to deviate from this policy if it is in the best interest of the government.

In the proprietary funds financial statements, equity is classified as net assets and displayed in three components:

a) Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation, and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings attributable to the acquisition, construction or improvement of those assets.

b) Restricted net position – Consists of net assets with constraints placed on the use of either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

c) Unrestricted net position – All other net assets that do not meet the definition of “restricted” or “invested in capital assets”.

6. Estimates

The presentation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

NOTE II – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and the Coal Severance Tax Fund. All annual appropriations lapse at fiscal year-end.

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 1. The budget is then forthwith submitted to the State Auditor for approval. The governing body then reconvenes on the third Tuesday in April to hear objections from the public and formally lay the levy.

The appropriated budget is prepared by fund, function and department. Transfers of appropriations between departments and revenue related revisions to the budget require approval from the governing council and then submission to the State Auditor for approval. Revisions become effective when approved by the State Auditor and budgeted amounts in the financial statements reflect only such approved amounts.

NOTE III – DETAILED NOTES ON ALL FUNDS

A. Deposits

Custodial Credit Risk

For deposits, the Town could be exposed to risk in the event of a bank failure where the Town's deposits may not be returned. The Town does not have a deposit policy for custodial credit risk. At year end, the carrying value of the Town's bank balances was $122,432 which was fully collateralized under FDIC limits.

B. Receivables

Receivables at year end for the government's Sewer fund is as follows:

	Sewer Fund
Receivables:	
Accounts	$ 46,811
Other	21,203
Gross Receivables	68,014
Less: Allowance for Uncollectible Accounts	(4,000)
Total Receivables	$ 64,014

C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 103,564	$ -	$ -	$ 103,564
Total capital assets not being depreciated, net	103,564	-	-	103,564
Capital assets being depreciated:				
Structures and improvements	22,782	-	-	22,782
Machinery and equipment	1,209,019	-	-	1,209,019
Less: accumulated depreciation	(1,055,556)	(20,828)	-	(1,076,384)
Total capital assets being depreciated, net	176,245	(20,828)	-	155,417
Business-type activities capital assets, net	$ 279,809	$ (20,828)	$ -	$ 258,981

Depreciation expense was charged to functions/programs of the government as follows:

Business-type activities:	
Sewer	$ 20,828
Total depreciation expense-business-type activities	$ 20,828

D. Fund Balance Detail

At year-end, the detail of the government's fund balances is as follows:

	General Fund	Coal Severance	Total
Restricted	$ 360	$ 71	$ 431
Unassigned	43,932	-	43,932
Totals	$ 44,292	$ 71	$ 44,363

E. Interfund Payables and Receivables

The General Fund is presented on the cash basis of accounting and, therefore, interfund balances are not reflected on the General Fund's balance sheet. The composition of interfund balances for the proprietary fund as of June 30, 2017, is as follows:

	Due to:
Due from:	Sewer
General	21,203

NOTE IV – OTHER INFORMATION

A. 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 general liability insurance for these various risks.

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

B. Contingent Liabilities

It is the opinion of the Town's management that there are no material pending lawsuits or unasserted claims against the Town.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the state and federal governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

NOTE V – SUBSEQUENT EVENTS

The spread of the novel coronavirus (COVID-19) has severely impacted many local economies around the world. In many countries, businesses and organizations are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Governments and financial institutions have responded with monetary and fiscal interventions to try to stabilize economic conditions. The Town has determined that these events are non-adjusting subsequent events. Accordingly, the financial net position, fund balances, and changes in net position and fund balances as of and for the year ended June 30, 2017 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and financial responses remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial net position, fund balances, and results of the Town for future periods.

The Town's management has evaluated the effect that subsequent events would have on the Town's financial statements through May 23, 2022, which is the date the financial statements were available to be released.

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Required Supplementary Information

TOWN OF CHESAPEAKE, WEST VIRGINIA
STATEMENT OF REVENUES COLLECTED AND EXPENSES PAID
BUDGET AND ACTUAL - GENERAL FUND
For the Fiscal Year Ended June 30, 2017

	Original Budget	Final Budget	Actual Amounts Budget Basis	Variance with Final Budget
REVENUES				
Taxes:				
Ad valorem property taxes	$ 108,685	$ 108,685	$ 71,532	$ (37,153)
Business and occupation tax	80,000	80,000	52,653	(27,347)
Utility services tax	32,000	32,000	21,061	(10,939)
Wine, liquor, and private club tax	200	200	-	(200)
Gas and oil severance tax	400	400	2,158	1,758
Intergovernmental:				
State grants	-	-	62,869	62,869
Fines and forfeits	6,000	6,000	3,949	(2,051)
Charges for services	79,000	79,000	51,995	(27,005)
Licenses and permits	1,400	1,400	921	(479)
Reimbursements	1,000	1,000	658	(342)
Franchise fees	18,000	18,000	11,847	(6,153)
IRP fees	18,000	18,000	71,979	53,979
Gaming income	17,000	17,000	12,428	(4,572)
Video lottery	5,000	5,000	4,686	(314)
Miscellaneous	6,000	6,000	3,949	(2,051)
Total revenues	372,685	372,685	372,685	-
EXPENDITURES				
General government	138,090	138,090	123,194	(14,896)
Public safety	106,600	106,600	90,690	(15,910)
Streets and transportation	23,000	23,000	78,174	55,174
Health and sanitation	119,995	119,995	102,086	(17,909)
Culture and recreation	5,000	5,000	4,254	(746)
Total expenditures	392,685	392,685	398,398	5,713
Net change in fund balance	(20,000)	(20,000)	(25,713)	(5,713)
Fund balance - beginning	20,000	20,000	70,005	50,005
Fund balance - ending	$ -	$ -	$ 44,292	$ 44,292

See accompanying notes and independent auditor's report.

TOWN OF CHESAPEAKE, WEST VIRGINIA
STATEMENT OF REVENUES COLLECTED AND EXPENSES PAID
BUDGET AND ACTUAL - COAL SEVERANCE TAX FUND
For the Fiscal Year Ended June 30, 2017

	Original Budget	Final Budget	Actual Amounts Budget Basis	Variance with Final Budget
REVENUES				
Taxes:				
Coal severance tax	$ 3,900	$ 3,900	$ 3,540	$ (360)
Total revenues	3,900	3,900	3,540	(360)
EXPENDITURES				
Current:				
General government	2,000	2,000	2,148	148
Street and transportation	2,000	2,000	2,148	148
Total expenditures	4,000	4,000	4,296	296
Net change in fund balance	(100)	(100)	(756)	(656)
Fund balance - beginning	100	100	827	727
Fund balance - ending	$ -	$ -	$ 71	$ 71

See accompanying notes and independent auditor's report.

Accompanying Information

Ferrari & Associates, PLLC
616 Schubert Pl | Morgantown, WV 26505

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*

Honorable Mayor and Council
Town of Chesapeake
Chesapeake, West Virginia 25315

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Chesapeake, West Virginia (Town) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated May 23, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did identify certain deficiencies in internal control that we consider to be material weaknesses. See findings 2017-01, 2017-02, 2017-03, & 2017-04.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. See findings 2017-05 and 2017-06.

Town's Response to Findings

The Town's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Town's responses and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ferrari & Associates, PLLC

Morgantown, West Virginia
May 23, 2022

2017-01 Segregation of Duties

Condition – It was noted that the responsibilities for approving, executing, and recording transactions and custody of the resulting asset arising from the transactions were not always assigned to different individuals.

Criteria – Proper internal control dictates responsibility for approving, executing, and recording transactions should rest with different individuals. Custody of resulting assets should also be assigned to individuals with no responsibilities in the above areas.

Cause – Due to the size of the Town's staff, the Town has does not have enough personnel to fully segregate duties.

Effect – Internal control structure elements do not reduce to a relatively low level the risk that errors and irregularities, in amounts that would be material in relation to the financial statements, may occur and not be detected in a timely manner.

Recommendation – Responsibilities of approval, execution, recording and custody should be distributed among the Town's officials to the extent as being economically practicable.

Town's Response – Town officials stated that they will segregate accounting duties to the extent feasible, but with limited financial resources and staff, some overlapping of duties is anticipated to continue.

2017-02 Source Documents

Condition – We determined during our audit that supporting accounting records of the Town could not be located.

Criteria – Proper internal control for retention of records requires and an adequate organizational system in order to safeguard records and documents. All documents and records should remain in a safe and secure location at all times and to be available for inspection.

Cause – Inadequate policies and procedures related to controls around record retention.

Effect – The opportunity existed for records to be removed from Town property and for there to not be supporting accounting records for the Town financial activity during the year.

Recommendation – The Town should establish and maintain policies and procedures sufficient to retain records in accordance with state regulations.

Town's Response – Town officials stated that they have reviewed their filing systems and will maintain all records in future years.

2017-03 Maintenance of Accounting Records

Condition – We determined during our audit that officials of the Town did not maintain adequate accounting records. Specifically, they did not do the following:

1. Maintain general ledgers.
2. Maintain classified journals for disbursements and receipts.
3. Use a uniform chart of accounts.
4. Prepare proper financial statements.
5. Maintain a detailed capital asset & depreciation schedule.

Criteria –West Virginia Code §6-9-2 states in part that:

"The chief inspector shall formulate, prescribe and install a system of accounting and reporting in conformity with the provisions of this article, which shall be uniform for all local governmental offices and agencies and for all public accounts of the same class and which shall exhibit true accounts and detailed statements for all public funds collected, received and expended for any purpose by all local governmental officers, employees or other persons. The accounts shall show the receipt, use and disposition of all public property under the control of local governmental officers, employees or other persons and any income derived therefrom and of all sources of public income, the amounts due and received from each source, all receipts, vouchers and other documents kept or required to be kept and necessary to identify and prove the validity of every transaction, all statements and reports made or required to be made for the internal administration of the office to which they pertain ... and all details of the financial administration of public affairs...."

Cause – The Town did not have an organized system of accounting in place.

Effect – The Town did not keep adequate records for accounting activity and could potentially lead to material misstatements.

Recommendation – The Town should maintain adequate accounting records.

Town's Response – Town officials stated they will endeavor to correctly maintain its accounting records in the future.

2017-04 Financial Statement Preparation

Condition – The Town did not have adequate staff to prepare the financial statements in accordance with generally accepted accounting principles (GAAP).

Criteria – Reliable financial reporting requires that financial statements conform with GAAP, or the basis of accounting that is used by the Town. Preparing financial statements is the culminating step of financial reporting.

Cause – Limited staff and time decreases the ability to prepare financial statements in conformity with GAAP.

Effect – A significant potential exists for misstatements to occur in the financial statements without being detected by employees or management in a timely manner.

Recommendation – The Town Officials should develop policies and procedures to ensure financial statements are prepared in accordance with generally accepted accounting principles, or the basis of accounting that is used by the Town.

Town's Response – Town officials have acquired accounting software to assist in financial statements preparation in future years so it can be more easily done by a 3rd party accountant or as a nonaudit service by the auditors.

2017-05 Failure to Submit Budget Revisions to Appropriate the Unexpended Balances – General and Coal Severance Tax Funds

Condition – We determined during our audit that the officials of the Town failed to submit a budget revision for the General and Coal Severance Tax Funds to appropriate the actual unexpended fund balance.

Criteria – West Virginia Code §6-9-3 states in part that:

"…All unexpended balances or appropriations shall be transferred to the credit of the fund from which originally appropriated or levied whenever the account with an appropriation is closed."

In addition, a State Supreme Court decision stated that:

"…Any excesses or balances should be carried into the proper funds of the succeeding fiscal year and proper credit made therefore when levies are being laid for that year ... Ireland v Board of Education, 115 WV 614, 177 S.E. 452 (1934)."

Cause – The Town failed to revise the carryover balance for the General and Coal Severance Tax Funds.

Effect – The Town did not appropriate all funds available.

Recommendation – The Town should exercise proper budgetary practices.

Town's Response – The Municipal officials stated they will revise the unencumbered balance for the General and Coal Severance Tax Funds in the future.

2017-06 Insufficient Rates – Sewer Fund

Condition – We determined during our audit that the rates the Town charges for sewer services are not sufficient to pay all obligations of the system. The Sewer Fund incurred a net operating loss of $117,807 during the fiscal year ended June 30, 2017.

Criteria – West Virginia Code §16-13-16 states in part that:

"…Such rates, fees or charges shall be sufficient in each year for the payment of the proper and reasonable expenses of operation, repair, replacements and maintenance of the works and for the payment of the sums herein required to be paid into the sinking fund. Revenues collected pursuant to this section shall be considered the revenues of the works."

Cause – The town failed to asset sewer rates sufficient to meet all expenses and obligations of the system.

Effect – The Town incurred a net loss for the current year and had a negative cash flow.

Recommendation – The Town Officials should review this statute and comply with the provisions set forth therein.

Town's Response – Town officials stated they are seeking rate studies to determine what necessary increase needs to occur in future years.

TOWN OF CHESAPEAKE, WEST VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2017

Status of Prior Year Audit Findings

Finding Number	Title	Status
2016-01	Segregation of Duties	Not resolved
2016-02	Source Documents	Not resolved
2016-03	Maintenance of Accounting Records	Not resolved
2016-04	Financial Statement Preparation	Not resolved
2016-05	Failure to Submit Budget Revisions to Appropriate the Unexpended Fund Balance – General and Coal Severance Tax Funds	Not resolved
2016-06	Insufficient Rates – Sewer System	Not resolved