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Alison S. Tackett
Lisa K. Wheeler
John R. Tackett

INDEPENDENT AUDITOR'S REPORT

The Honorable Town Council
Town of Warfield
Warfield, Kentucky

We have audited the accompanying financial statements of the governmental activities of the Town of Warfield, Kentucky, as of and for the year ended June 30, 2007 which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Warfield, Kentucky, management. Our responsibility is to express an opinion on the 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 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities and the business-type activities of the Town of Warfield as of June 30, 2007, and for the year there ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2009, on our consideration of the Town of Warfield, Kentucky's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The schedules listed in the table of contents as supplemental information are presented for the purpose of additional analysis and are not a required part of the financial statements of the Town of Warfield. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements, and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Town of Warfield, Kentucky, has not presented the Management; Discussion and Analysis letter that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

John B. Tackett PSC

John B. Tackett, PSC, CPA
Pikeville and Salyersville, Kentucky
December 4, 2009

John B. Tackett PSC CPA
Pikeville and Salyersville KY

TOWN OF WARFIELD
STATEMENT OF NET ASSETS
JUNE 30, 2007

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash and cash equivalents	$ 139,270
Prepaid Expenses	1,198
Receivables (Note 5)	5,672
Capital assets (Note 1)	
Land	100,001
Buildings	303,309
Equipment/autos	86,763
Less Accumulated depreciation	(81,969)
TOTAL ASSETS	$ 554,244
LIABILITIES	
Accrued expenses	$ 1,000
Tax liabilities	40
Long-term liabilities (Note 2)	
Due within one year	3,168
Due in more than one year	2,202
TOTAL LIABILITIES	6,410
NET ASSETS	
Invested in capita assets, net of related debt	402,734
Unrestricted (deficit)	145,100
TOTAL NET ASSETS	$ 547,834

The accompanying notes to the basic financial statements are an integral part of these statements.

TOWN OF WARFIELD
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

		PROGRAM REVENUES		NET EXPENSES, REVENEUS, AND CHANGES IN NET ASSETS
Functions/Programs Primary Government	Expenses	Fees, Fines, Charges for Services	Operating Grants and Contributions	GOVERNMENTAL ACTIVITIES
Governmental Activities				
General government	$36,686	$26,541	$0	$(10,145)
Street maintenance	32,563	0	0	(32,563)
Public safety	60	0	0	(60)
Interest expense	565	0	0	(565)
Depreciation	9,453	0	0	(9,453)
Recreation	3,461	0	0	(3,461)
TOTAL GOVERNMENTAL ACTIVITIES	$82,788	$26,541	$0	(56,247)
General Revenues				
Taxes				92,871
Other				3,926
Total general revenues				96,797
Changes in net assets				40,550
Net assets at beginning of year				507,284
Net assets at end of year				$547,834

The accompanying notes to the basic financial statements are an integral part of these statements.

TOWN OF WARFIELD
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	GENERAL	OTHER GOVERNMENTAL FUND	TOTAL
ASSETS			
Cash and cash equivalents	$119,612	$19,658	$139,270
Receivables (Note 5)	5,672	0	5,672
Intertransfers due from/to	(2,351)	2,351	0
Prepaid expenses	187	1,011	1,198
TOTAL ASSETS	$123,120	$23,020	$146,140
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	$ 79	$ 921	$ 1,000
Payroll tax liabilities	40	0	40
TOTAL LIABILITIES	119	921	1,040
FUND BALANCES			
Unrestricted	123,001	22,099	145,100
TOTAL FUND BALANCES	123,001	22,099	145,100
TOTAL LIABILITIES AND FUND BALANCES	$123,120	$23,020	$146,140
TOTAL GOVERNMENTAL FUND BALANCE			$145,100
Amounts reported for governmental activities in the Statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds			490,073
Accumulated depreciation			(81,969)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds			(5,370)
NET ASSETS OF GOVERNMENTAL ACTIVITIES			$547,834

The accompanying notes to the basic financial statements are an integral part of these statements.

TOWN OF WARFIELD
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the year ended June 30, 2007

	GENERAL FUND	OTHER GOVERNMENTAL FUND	TOTAL GOVERNMEN[T] FUNDS
REVENUES			
Taxes and licenses	$ 45,060	$46,761	$ 91
B & O Tax	1,050	0	
Rental	26,541	0	26
Grants	0	0	
Donations	2,669	0	2
Miscellaneous	639	0	
Interest	618	0	
TOTAL REVENUES	76,577	46,761	12
EXPENDITURES			
IG funds	3,461	0	3
Salaries, taxes, and benefits	29,098	18,937	48
Insurance	215	234	
Maintenance	60	2,534	2
Administrative	9,554	11,281	20
Other	65	0	
TOTAL EXPENDITURES	42,453	32,986	7
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	34,124	13,775	4
OTHER FINANCING SOURCES (USES)			
Note Payments	(14,309)	0	(14
TOTAL OTHER FINANCING SOURCES (USES)	(14,309)	0	(14
EXCESS (DEFICIT) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	19,815	13,775	3
Fund Balance – July 1,2006	103,186	8,324	11
FUND BALANCE – JUNE 30, 2007	$123,001	$22,099	$14

The accompanying notes to the basic financial statements are an integral part of these statements.

TOWN OF WARFIELD
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

Net change in fund balance-total governmental funds (page 6)	$33,5[illegible]
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this funds financial statements because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceed depreciation expense for the year.	(6,78[illegible]
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net assets.	13,7[illegible]
Generally, expenditures recognized in this fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	
Change in net assets of governmental activities	$40,5[illegible]

The accompanying notes to the basic financial statements are an integral part of these statements.

Note A – Summary of Significant Accounting Policies

The Town of Warfield operates under a Mayor-Council form of Government and provides the following services: public safety, highway streets, public improvements, and general administrative services.

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

Principles Determining Scope of Reporting Entity

The financial statements of the Town consists only of the funds and account groups of the Town. The Town has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent upon the Town. Control or dependence is determined on the basis of budget adoption, taxing authority, and funding.

Basic Financial Statements – Government-Wide Statements

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The Town's public assets, parks, recreation, and general administrative services are classified as governmental activities. The Town has no business-type activity.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. 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 Town first utilizes restricted resources to finance qualifying activities.

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 governmental revenues (property, sales and use taxes, certain intergovernmental revenues, etc.).

Note A – Summary of Significant Accounting Policies (Cont'd)

The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reports capital-specific grants.

The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reports capital-specific grants

The Town does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's assets resulting form the current year's activities.

Accounting

The accounts of the Town are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund of account groups summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues, and expenditures. Government resources are allocated to, and accounted for, in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The following funds and group of accounts are used by the Town:

General Fund -- The General Fund is the general operating fund of the Town. All financial resources except those required to be accounted for in another fund, are accounted for in the General Fund.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific services.

Note A – Summary of Significant Accounting Policies (Cont'd)

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing resources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Measurable means the amount of the transaction can be determined; and available means collectible within the current period or soon enough thereafter to be used to pay liability of the current period. Expenditures are recorded when the related fund liability is incurred.

Budgets and Budgetary Accounting

In establishing the budgetary data reflected in the financial statements, the Town Councils have complied with the general requirements set forth in K.R.S. Chapter 91A.030 (1) - (12).

Cash and Cash Equivalents

The Town has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agent. Additionally, each fund's equity in the Town's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

Capital Assets

Capital Assets purchased or acquired with an original cost of $200 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the

Note A – Summary of Significant Accounting Policies (Cont'd)

following estimated useful lives:

Buildings	20-50 years
Machinery and equipment	5-10 years
Improvements	10-20 years
Other infrastructure	10-50 years

GASBS No. 34 requires the Town to report and depreciate new infrastructure assets effective with the beginning of the current year. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. Neither their historical cost nor related depreciation has historically been reported in the financial statements.

Property Tax Calendar and Revenues

The Town is responsible for levying property taxes. Taxes are levied on April 1 based on assessed values at January 1. Property tax payments are due on June 1. Taxes are considered delinquent 60 days after their due date and become a lien on the property at that time.

Governmental Fund Balances

Governmental fund balances are reported as "reserved" when the balances are not available for appropriation or expenditure (for example because the represent supplies inventories) or because they are legally segregated for a specific future use (for example because the government has encumbered assets pending vendor completion of supplies orders). The remaining balances are "unreserved" fund balances. From time to time, the Town Council agrees to set aside or "designate" resources for future uses – such as for specific capital projects. These unreserved, designated balances are based on management's tentative plans and can be changed.

Interfund Activity

Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or between proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Note B – Fixed Assets

A Summary of changes in General Fixed Assets Follows:

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
Buildings	$303,309	0	0	$303,309
Property	100,001	0	0	100,001
Auto and Trucks	46,768	0	0	46,768
Office Equipment	10,783	0	0	10,783
Other Equipment	26,543	2,669	0	29,212
	$487,404	$2,669	$0	$490,073

Note C – Notes Payable

The amount shown in the accompanying financial statements as notes payable represents the Town of Warfield's future obligation to make loan payments from future revenues. The loans are collateralized by a lien on property and revenues.

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Notes Payable					
Project Fund	$10,733	$0	$10,733	$ 0	$ 0
Equipment	8,381	0	3,011	5,370	3,168
Total Long-term Liabilities	19,114	$0	13,744	$5,370	3,168

Five-year maturities

2008	3,168
2009	2,202

Note D – Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town belongs to the Kentucky Association of Counties Kentucky Municipal League Self-Insurance Fund (KACO-KML), and the Kentucky Municipal Risk Management Association (KMRMA), both public entity risk pools operating as risk management and insurance programs for member counties and municipalities. The Town pays premiums to KACO-KML for workers compensation coverage and to KMRMA for general liability risks of loss, including employee fidelity bonding.

Note E – Contingencies

Grant Audit – The Town receives Federal and State Grants for specific purposes that are subject to review and audit by Federal and State agencies. Such audits could result in a request for reimbursement by the Federal and State for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of Town management, such disallowance's, if any, will not be significant.

SUPPLEMENTAL INFORMATION

TOWN OF WARFIELD
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
BUDGET TO ACTUAL
For the year ended June 30, 2007

	ORIGINAL BUDGET	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABL
REVENUES				
Taxes and licenses	$ 42,077	$ 42,077	$ 45,060	$ 2,9
Business & Operations Tax	1,500	1,500	1,050	(45
Rental	15,600	15,600	26,541	10,9
Grants	10,000	10,000	0	(10,00
Donations	7,400	7,400	2,669	(4,73
Miscellaneous	0	0	639	6
Interest	0	0	618	6
TOTAL REVENUES	$ 76,577	$ 76,577	$ 76,577	$
EXPENDITURES				
IG funds	2,500	2,500	3,461	(9
Salaries, taxes, and benefits	54,402	54,402	29,098	25,3
Insurance	0	0	215	(2
Maintenance	25,000	25,000	60	24,9
Administrative	0	0	9,554	(9,5
Other	18,400	18,400	65	18,3
TOTAL EXPENDITURES	100,302	100,302	42,453	57,8
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(23,725)	(23,725)	34,124	57,8
OTHER FINANCING SOURCES (USES)				
Note Payments	0	0	(14,309)	(14,3
TOTAL OTHER FINANCING SOURCES (USES)	0	0	(14,309)	(14,3
EXCESS (DEFICIT) OF REVENUES AND OTHER FINANCING OVER EXPENDITURES AND OTHER FINANCIAL USES	(23,725)	(23,725)	19,815	43,5
Fund Balance – July 1, 2006	73,760	73,760	103,186	29,4
FUND BALANCE – JUNE 30, 2007	$ 50,035	$ 50,035	$123,001	$72,9

See Notes to the Financial Statements.

TOWN OF WARFIELD
COUNCIL AND ADMINISTRATIVE PERSONNEL
JUNE 30, 2007

Town Council

Name	Term Expires
Dollie Adkins	December 31, 2008
Thomas Evans	December 31, 2008
E. Carol Summers	December 31, 2008
Carroll Pinson	December 31, 2008

Administrative Personnel

Name	Title
John P. Henley	Mayor
Irene Lowe	Town Clerk/Treasurer

John B. Tackett PSC CPA

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and To The City Council
Town of Warfield, Kentucky

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Town of Warfield, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the Town of Warfield, Kentucky's basic financial statements and have issued our report thereon dated December 4, 2009. 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 Town of Warfield, Kentucky'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 of Warfield, Kentucky's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town of Warfield, Kentucky's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town of Warfield, Kentucky's financial statements that is more than inconsequential will not be prevented or detected by the Town of Warfield, Kentucky's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. 2007-1

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

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies described above is a material weakness. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Warfield, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 or other matters that are required to be reported under *Government Auditing Standards*.

Town of Warfield, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Town of Warfield, Kentucky's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

John B. Tackett PSC

John B. Tackett, PSC, CPA
Pikeville and Salyersville, Kentucky
December 4, 2009

TOWN OF WARFIELD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2007

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses a qualified opinion on the financial statements of Town of Warfield due to non-inclusion of MD&A letter.

2. Conditions were disclosed during the audit of the financial statements.

3. No instances of noncompliance material to the financial statements of Town of Warfield were disclosedduring the audit.

4. There are significant deficiencies in internal control disclosed during the audit.

FINDINGS – FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

2007-1 PAYROLL

Several instances of math errors, caused differences between actual payroll per control cards and disbursements journal. This resulted in errors in reporting and filing of quarterly payroll tax returns and preparation and filing of annual wage statements.

RESPONSE

Consider several options:

A. An independent review of payroll
B. Acquisition of software to perform payroll services.