

TOWN OF BLADES, DELAWARE

FINANCIAL REPORT

DECEMBER 31, 2009

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INDEPENDENT AUDITORS' REPORT

Office of the Mayor and Council
Blades, Delaware

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Blades, Delaware as of and for the year ended December 31, 2009, which collectively comprise the Town of Blades, Delaware's basic financial statements as listed in the table of contents. These financial statements are the responsibility of management of the Town of Blades, Delaware. 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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the Town of Blades, Delaware as of December 31, 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2010 on our consideration of the Town of Blades, Delaware's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of 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 read in conjunction with this report in considering the results of our audit.

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

The budgetary comparison information on pages 24-26 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Town of Blades, Delaware's basic financial statements. The additional supplementary schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The additional supplementary schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

Salisbury, Maryland
August 12, 2010

TOWN OF BLADES, DELAWARE

**STATEMENT OF NET ASSETS
December 31, 2009**

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash	\$ 308,888	\$ 2,926	\$ 311,814
Accounts receivable	107,213	34,040	141,253
Prepaid insurance	7,269	-	7,269
Accrued interest receivable	2,415	-	2,415
Total current assets	425,785	36,966	462,751
Noncurrent assets			
Restricted cash - police pension account	48,158	-	48,158
Capital assets, at cost			
Less accumulated depreciation	520,574	865,400	1,385,974
Total noncurrent assets	568,732	865,400	1,434,132
Total assets	994,517	902,366	1,896,883
LIABILITIES			
Current liabilities			
Accounts payable	21,151	15,036	36,187
Accrued payroll taxes	4,179	696	4,875
Accrued interest	457	-	457
Road deposit	2,500	-	2,500
Deferred revenue	22,102	-	22,102
Current portion of bonds and notes payable	-	22,166	22,166
Total current liabilities	50,389	37,898	88,287
Noncurrent liabilities			
Police pension escrow	54,158	-	54,158
Bonds and notes payable	-	469,243	469,243
Total noncurrent liabilities	54,158	469,243	523,401
Total liabilities	104,547	507,141	611,688
NET ASSETS			
Investment in capital assets, net of related debt	520,574	373,991	894,565
Unrestricted	369,396	21,234	390,630
Total net assets	\$ 889,970	\$ 395,225	\$ 1,285,195

The Notes to Financial Statements are an integral part of this statement.

TOWN OF BLADES, DELAWARE

STATEMENT OF ACTIVITIES
Year Ended December 31, 2009

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Operating		Governmental Activities	Business-type Activities	Total
		Charges for Services	Grants and Contributions			
Governmental activities						
General government	\$ 197,794	\$ 36,798	\$ -	\$ 6,500	\$ (154,496)	\$ -
Public safety	203,280	1,270	15,829	33,904	(152,277)	-
Cemetery and park	10,770	5,446	-	-	(5,324)	-
Street and light	41,111	-	-	1,206	(39,905)	-
Community hall	5,194	1,530	-	-	(3,664)	-
Code enforcement	14,286	-	-	-	(14,286)	-
Total governmental activities	472,435	45,044	15,829	41,610	(369,952)	-
Business-type activities						
Utility fund	223,715	194,114	-	-	(29,601)	(29,601)
Total business-type activities	223,715	194,114	-	-	(29,601)	(29,601)
Total	\$ 696,150	\$ 239,158	\$ 15,829	\$ 41,610	\$ (369,952)	\$ (29,601)
General revenues						
Property, capitation, and transfer taxes				208,170	-	208,170
Unrestricted investment earnings				6,304	-	6,304
Franchise fees				28,890	-	28,890
Miscellaneous				15,386	-	15,386
Total general revenues and special items				258,750	-	258,750
Transfers				21,362	(21,362)	-
Total general revenues, special items and transfers				280,112	(21,362)	258,750
Change in net assets				(89,840)	(50,963)	(140,803)
Net assets, beginning of year				979,810	446,188	1,425,998
Net assets, end of year				\$ 889,970	\$ 395,225	\$ 1,285,195

The Notes to Financial Statements are an integral part of this statement.

TOWN OF BLADES, DELAWARE

**BALANCE SHEET
GOVERNMENTAL FUND
December 31, 2009**

	Total Governmental Fund
ASSETS	
Cash	\$ 357,046
Accounts receivable	107,213
Prepaid insurance	7,269
Accrued interest receivable	2,415
<hr/>	
Total assets	\$ 473,943
<hr/>	
LIABILITIES AND FUND BALANCES	
LIABILITIES	
Accounts payable	\$ 21,151
Payroll and taxes	4,179
Road deposit	2,500
Deferred revenue	106,286
Accrued interest payable	457
Police pension escrow	54,158
<hr/>	
Total liabilities	188,731
<hr/>	
FUND BALANCE	
Unreserved	285,212
<hr/>	
Total fund balances	285,212
<hr/>	
Total liabilities and fund balances	\$ 473,943

The Notes to Financial Statements are an integral part of this statement.

TOWN OF BLADES, DELAWARE

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

December 31, 2009

Total fund balance, governmental fund \$ 285,212

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 are
therefore not reported in the fund financial statements, but are reported in the
governmental activities of the Statement of Net Assets. 520,574

Certain revenues that do not provide current financial resources are reported as
deferred income in the fund financial statements, but are reported as revenue in the
governmental activities of the Statement of Net Assets. 84,184

Net assets of governmental activities in the Statement of Net Assets \$ 889,970

The Notes to Financial Statements are an integral part of this statement.

TOWN OF BLADES, DELAWARE

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
Year Ended December 31, 2009**

	<u>Total Governmental Fund</u>
REVENUES:	
Taxes:	
Real estate	\$ 186,933
Capitation	3,310
Transfer	21,232
Tax penalties	815
Licenses and permits	27,611
Cemetery fees and lots	5,446
Investment income	6,304
Community hall rental	1,530
Public safety	12,267
Police pension income	13,269
State of Delaware grants	42,360
Franchise fees	28,890
Miscellaneous revenues	15,386
<hr/>	
Total revenues	365,353
<hr/>	
EXPENDITURES:	
Current:	
General government	180,124
Public safety	199,639
Cemetery and park	9,931
Street and light	26,641
Community hall	4,381
Code enforcement	14,286
Capital outlay	2,000
<hr/>	
Total expenditures	437,002
<hr/>	
Deficiency of revenues over expenditures	(71,649)
<hr/>	
OTHER FINANCING SOURCES:	
Operating transfers in	21,362
<hr/>	
Net change in fund balances	(50,287)
Fund balances, beginning of year	335,499
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Fund balances, end of year	\$ 285,212

The Notes to Financial Statements are an integral part of this statement.

TOWN OF BLADES, DELAWARE

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT
STATEMENT OF ACTIVITIES
Year Ended December 31, 2009**

Net change in fund balance, governmental fund \$ (50,287)

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement
of Activities, the cost of those assets is allocated over their estimated useful lives and
reported as depreciation expense. In the current period, these amounts are:

Capital outlay	2,000	
Depreciation expense	<u>(37,433)</u>	
Excess of depreciation expense over capital outlay		(35,433)

Because some revenues will not be collected for several months after the Town's
fiscal year ends, they are not considered "available" revenues and are deferred in the
governmental funds. Deferred revenues increased by this amount this year. (4,120)

Change in net assets of governmental activities \$ (89,840)

The Notes to Financial Statements are an integral part of this statement.

TOWN OF BLADES, DELAWARE

**STATEMENT OF FUND NET ASSETS
BUSINESS-TYPE ACTIVITIES**

December 31, 2009

	<u>Enterprise Fund</u>
	<u>Utility Fund</u>
ASSETS	
Current assets	
Cash	\$ 2,926
Accounts receivable	34,040
Total current assets	36,966
Noncurrent assets	
Water system, net of accumulated depreciation	865,400
Total noncurrent assets	865,400
Total assets	902,366
LIABILITIES	
Current liabilities	
Accounts payable	15,036
Payroll and taxes	696
Bonds and notes payable	22,166
Total current liabilities	37,898
Noncurrent liabilities	
Bonds and notes payable	469,243
Total noncurrent liabilities	469,243
Total liabilities	507,141
NET ASSETS	
Investment in capital assets, net of related debt	373,991
Unrestricted	21,234
Total net assets	\$ 395,225

The Notes to Financial Statements are an integral part of this statement.

TOWN OF BLADES, DELAWARE

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
BUSINESS-TYPE ACTIVITIES
Year Ended December 31, 2009**

	<u>Enterprise Fund</u> <u>Utility Fund</u>
OPERATING REVENUES:	
Water billing	\$ 163,881
Water permits and penalties	3,604
Front footage assessment	26,629
<hr/>	
Total operating revenues	194,114
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OPERATING EXPENSES:	
Salaries and wages	58,085
Payroll taxes	4,951
Repairs and maintenance	8,861
Chemicals and supplies	13,007
Insurance	13,551
Utilities	13,255
Testing	842
Postage and office supplies	1,655
Telephone	1,876
Pension	4,000
Vehicle fuel and maintenance	3,537
Equipment	2,773
Depreciation and amortization	82,046
Other	3,508
<hr/>	
Total operating expenses	211,947
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Operating loss	(17,833)
NONOPERATING EXPENSES:	
Interest expense	11,768
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Loss before operating transfers	(29,601)
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Operating transfers out	(21,362)
<hr/>	
Change in net assets	(50,963)
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Net assets, beginning of year	446,188
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Net assets, end of year	\$ 395,225

The Notes to Financial Statements are an integral part of this statement.

TOWN OF BLADES, DELAWARE

**STATEMENT OF CASH FLOWS
BUSINESS-TYPE ACTIVITIES
Year Ended December 31, 2009**

		<u>Enterprise Fund</u> <u>Utility Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$	189,784
Payments to suppliers/vendors		(59,983)
Payments to employees		(58,113)
<hr/>		
Net cash provided by operating activities		71,688
<hr/>		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating transfers out to other funds		(21,362)
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets		(14,627)
Principal paid on long-term debt		(21,605)
Interest paid on long-term debt		(11,768)
<hr/>		
Net cash used by capital and related financing activities		(48,000)
<hr/>		
Net increase in cash		2,326
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Cash and cash equivalents, beginning of year		600
<hr/>		
Cash and cash equivalents, end of year	\$	2,926
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RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$	(17,833)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization		82,046
Changes in assets and liabilities:		
Increase in receivables		(4,330)
Increase in payables		11,805
<hr/>		
Net cash provided by operating activities	\$	71,688
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The Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

Note 1. Description of The Town of Blades

The Town of Blades, Delaware (the "Town") is a municipality incorporated in 1915 under the laws of the State of Delaware. It is located Sussex County, Delaware.

Note 2. Summary of Significant Accounting Policies

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

A. Basis of Presentation

The Town's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities display information about the Town as a whole. These statements include the financial activities of the Town. The statements distinguish between those activities of the Town that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the Town at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Town's governmental activities and for business-type activities of the Town. Direct expenses are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Town, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from general revenues of the Town.

FUND FINANCIAL STATEMENTS

During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at a more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. As of December 31, 2009, the Town has no non-major funds.

B. Fund Accounting

The Town uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The Town has no fiduciary funds.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following have historically been the Town's major governmental funds:

General Fund – The general fund is the general operating fund of the Town. All general revenues and other receipts that are not allocated by law or contractual agreement to another fund and general operating expenditures are accounted for in this fund.

Municipal Street Aid Fund – The municipal street aid fund is used to account for the financial resources that are used for street maintenance repair and public safety. For the year ended December 31, 2009 the Town did not receive any municipal street aid funds.

PROPRIETARY FUNDS

Proprietary funds focus on the determination of changes in net assets, financial position and cash flows and are classified as enterprise.

Enterprise fund – Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The Town's major enterprise fund is:

Utility Fund – The utility fund is used to account for the operation and maintenance of the Town's Water system. This is supported by a charge of the Town residents' usage of water.

C. Measurement Focus

Government-wide financial statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Town are included on the statement of net assets.

Fund financial statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Town finances and meets the cash flow needs of its proprietary activities.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

Non-exchange transactions, in which the Town receives value without directly giving equal value in return, include primarily grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Town must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Town on a reimbursable basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under modified accrual basis, the following revenue sources are considered both measurable and available at year end: charges for services, fines and forfeitures, EMT reimbursements, franchise fees, grants, interest and rent.

Deferred revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

On governmental fund financial statements, receivables that were not collected within the available period have been reported as deferred revenue. The Town defines “available” as being collected within 60 days of year end.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated assets during the year is reported in the operating statement as an expense with a like amount reported as donated revenue. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Data

All funds are legally required to be budgeted and appropriated. The budget is prepared on the budgetary basis of accounting consistent with GAAP with the following exceptions: depreciation is not considered, and in the utility fund debt principal payments and capital expenditures are considered. All annual appropriations lapse at the end of the year.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

F. Cash Equivalents

For the purpose of the statement of cash flows, the proprietary fund considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

G. Property Tax

The Town's real property tax is levied each November on the assessed values certified as of that date for all taxable real property located in the Town. Payments are due by January 31. All unpaid taxes become delinquent February 1. The Town bills and collects its own property taxes.

H. Interfund Receivables and Transfers

Interfund transfers represent monies used to fund projects or to cover budget overages.

I. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical costs) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value to the asset or materially extend an asset's life are not.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

	Governmental Activities Useful Lives	Business-type Activities Useful Lives
Land	n/a	n/a
Buildings and improvements	10-40	-
Cemetery and park improvements	15	-
Water and sewer systems	-	15-39
Furniture, machinery and equipment	5-10	5-30
Streets, curbs and gutters	20-40	-

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

K. Compensated Absences

The Town does not maintain an accrual for unused vacation or sick pay. While sick leave may be carried over from year to year, any unused balance is not paid to employees upon termination. Vacation leave does not carry over from year to year and any unused vacation is paid upon termination of employment only to those employees who have been actively employed for at least six months prior to termination. The Town deems the liability for unused vacation not to be material to the Town's financial statements.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

Bond issuance costs are deferred and amortized over the term of the bonds using the interest method.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by grantors, creditors or laws or regulations of other governments. The Town has no restricted net assets as of December 31, 2009.

The Town applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Fund Balance Reserves

The Town reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures.

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Town, these revenues are charges for services for water activity. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as non-operating.

P. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash

The Town is authorized to invest in United States Government bonds or evidence of indebtedness, federally insured bank institutions, which pledge United States Treasury bills, notes or other obligations to secure such deposits, or in any investment portfolio created under the Delaware State Treasury office directly for local governments.

At December 31, 2009, the carrying amount of the Town's bank deposits was \$359,972 and the balance per bank records totaled \$357,374. As required by law, a depository is required to pledge securities, in addition to FDIC insurance, at least equal to the amount on deposit at all times. At December 31, 2009, the Town had no custodial risk relative to uninsured amounts.

As of December 31, 2009 the Town has no investments. Therefore the Town has no credit or custodial risk related to investments.

Note 4. Capital Assets

The following is a summary of changes in capital assets for the year ended December 31, 2009:

	December 31, 2008	Additions	Deductions	December 31, 2009
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated:				
Land	\$ 29,344	\$ -	\$ -	\$ 29,344
Storm drainage	-	-	-	-
Town park	72,850	-	-	72,850
Total capital assets, not being depreciated	102,194	-	-	102,194
Capital assets, being depreciated:				
Buildings	172,449	-	-	172,449
Streets	1,617,181	-	-	1,617,181
Autos	92,853	2,000	-	94,853
Police equipment	74,499	-	-	74,499
Signs	3,230	-	-	3,230
Office furniture and equipment	41,701	-	-	41,701
Cemetery	9,768	-	-	9,768
Park equipment	18,786	-	-	18,786
Total capital assets, being depreciated	2,030,467	2,000	-	2,032,467
Less accumulated depreciation:				
Buildings	(80,121)	(3,834)	-	(83,955)
Streets	(1,319,150)	(14,470)	-	(1,333,620)
Autos	(48,420)	(13,873)	-	(62,293)
Police equipment	(62,505)	(3,641)	-	(66,146)
Signs	(3,230)	-	-	(3,230)
Office furniture and equipment	(39,452)	(776)	-	(40,228)
Cemetery	(7,140)	(260)	-	(7,400)
Park equipment	(16,636)	(579)	-	(17,215)
Total accumulated depreciation	(1,576,654)	(37,433)	-	(1,614,087)
Total capital assets, being depreciated, net	453,813	(35,433)	-	418,380
Governmental activities capital assets, net	\$ 556,007	\$ (35,433)	\$ -	\$ 520,574

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

General government	\$	17,670
Public safety		3,641
Cemetery and parks		839
Street and light		14,470
Community hall		813
		813
 Total depreciation expense	 \$	 37,433

BUSINESS-TYPE ACTIVITIES

	December 31, 2008	Additions	Deductions	December 31, 2009
Capital assets, being depreciated:				
Water meter	\$ 84,343	\$ -	\$ -	\$ 84,343
Water district equipment FmHA	121,085	-	-	121,085
Water district equipment EDA	1,924,671	14,627	-	1,939,298
Total capital assets, being depreciated	2,130,099	14,627	-	2,144,726
 Less accumulated depreciation:				
Water meter	(16,846)	(5,623)	-	(22,469)
Water district equipment FmHA	(112,140)	(2,982)	-	(115,122)
Water district equipment EDA	(1,068,294)	(73,441)	-	(1,141,735)
Total accumulated depreciation	(1,197,280)	(82,046)	-	(1,279,326)
Total capital assets, being depreciated, net	932,819	(67,419)	-	865,400
 Business-type activities capital assets, net	\$ 932,819	\$ (67,419)	\$ -	\$ 865,400

Note 5. Bonds and Note Payable – Business-type Activities

The following is a summary of the changes in the business-type activities long-term debt obligations:

	Interest Rate	Date Series Matures	Balances December 31, 2008	Additions	Retirements and Repayments	Balances December 31, 2009	Amount Due in One Year
Farmers Home Administration	5.00%	2022	\$ 100,584	\$ -	\$ 5,719	\$ 94,865	\$ 6,009
State of Delaware - SRF Loan	1.50%	2031	336,556	-	12,354	324,202	12,540
DNREC - Division of Water Loan	2.41%	2026	75,874	-	3,532	72,342	3,617
Total business-type activities long-term debt			\$ 513,014	\$ -	\$ 21,605	\$ 491,409	\$ 22,166

NOTES TO FINANCIAL STATEMENTS

Note 5. Bonds and Note Payable – Business-type Activities (continued)

The annual requirements to amortize all business-type activities debt outstanding as of December 31, 2009 are as follows:

Fiscal Year Ending December 31,	Principal	Interest	Total
2010	\$ 22,166	\$ 11,207	\$ 33,373
2011	22,747	10,626	33,373
2012	23,348	10,025	33,373
2013	23,971	9,403	33,374
2014	24,615	8,758	33,373
Thereafter	374,562	55,523	430,085
	<u>\$ 491,409</u>	<u>\$ 105,542</u>	<u>\$ 596,951</u>

Interest expense in the business-type activities for the year ended December 31, 2009 totaled \$11,768.

Note 6. Police Pension Escrow Liability – Governmental Activities

The following is a summary of the changes in the governmental activities liability for police pension escrow:

	Date Interest Rate	Date Series Matures	Balances December 31, 2008	Additions	Retirements and Repayments	Balances December 31, 2009	Amount Due in One Year
Police pension escrow			\$ 40,699	\$ 13,459	\$ -	\$ 54,158	\$ -

Note 7. 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's risk financing techniques include the purchase of commercial insurance.

The Town is fully insured for general, property, excess, environmental liability coverage and workers' compensation through commercial insurance, and employees are bonded to limit the loss to the Town in the event of employees committing acts of embezzlement or theft. There has been no significant reduction in insurance coverage from the prior year by major categories of risk, and amounts of settlements have not exceeded insurance coverage for each of the past three fiscal years.

Note 8. Pension Plan

Under the Town's pension plan the Town contributes monies to the accounts of eligible employees based on the employees' years of service. Funding for the Town's contribution of police officers comes from the State of Delaware under a revenue share agreement, while the Town funds the contributions for all other eligible employees. An employee must complete five years of service in order to be fully vested in the amounts contributed by the Town. Contributions forfeited by police officers are returned to the Town to be maintained in a separate police pension escrow account for future contributions to eligible police officers' pension accounts. Employees may elect to contribute to their individual accounts. All monies contributed by employees are immediately vested.

The Town's pension expense was **\$6,000** and \$7,000 for the years ended December 31, 2009 and 2008, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 9. Commitments and Contingencies

Federal and State Grants

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 liability for reimbursement, which may arise as the result of these audits is not believed to be material.

Note 10. Required Individual Fund Disclosures

The following funds had an excess of expenditures over appropriations for the year ended December 31, 2009:

Funds	Budgeted Expenditures	Actual Expenditures	Excess of Actual Over Budgeted Expenditures
General	\$ 435,463	\$ 437,002	\$ (1,539)
Utility	176,047	223,715	(47,668)

Actual revenues were less than budgeted revenues for both funds. However, there was no material adverse impact on the Town's financial results because the excess of actual over budgeted expenditures in the utility fund is due to the fact that the Town does not budget for depreciation expense, which is a non-cash transaction.

Note 11. Date of Management's Review

In preparing the financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through August 12, 2010, the date that the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF BLADES, DELAWARE

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
REVENUE DETAIL
Year Ended December 31, 2009**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Taxes:				
Real estate	\$ 232,200	\$ 202,200	\$ 186,933	\$ (15,267)
Capitation	3,400	3,400	3,310	(90)
Transfer	16,000	12,000	21,232	9,232
Tax penalties	1,700	1,700	815	(885)
Licenses and permits	33,000	33,000	27,611	(5,389)
Cemetery fees and lots	4,300	4,300	5,446	1,146
Investment income	3,000	1,000	6,304	5,304
Community hall rental	3,000	2,000	1,530	(470)
Public safety	30,000	30,000	12,267	(17,733)
Police pension income	-	-	13,269	13,269
State of Delaware grant	72,000	50,096	42,360	(7,736)
Franchise fees	29,002	28,890	28,890	-
Miscellaneous Income	10,625	15,759	15,386	(373)
Total revenues	\$ 438,227	\$ 384,345	\$ 365,353	\$ (18,992)

TOWN OF BLADES, DELAWARE

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
EXPENDITURE DETAIL
Year Ended December 31, 2009**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
GENERAL GOVERNMENT:				
Advertising	\$ 1,000	\$ 3,000	\$ 2,617	\$ 383
Office expense	5,850	5,310	6,328	(1,018)
Council salaries and fees	12,300	12,300	12,300	-
Salaries - town clerks	64,700	64,000	63,506	494
Pension	4,000	4,000	2,000	2,000
Utilities	5,200	5,200	5,157	43
Insurance	21,600	22,100	20,976	1,124
Professional fees	30,000	35,000	36,936	(1,936)
Printing and duplicating	200	215	714	(499)
Telephone	1,200	1,200	1,086	114
Repairs and maintenance	11,200	6,700	5,702	998
Travel - special meetings	1,900	1,900	1,479	421
Town functions	2,000	3,901	1,579	2,322
Dues and Subscriptions	1,400	1,350	1,301	49
Miscellaneous	600	600	1,935	(1,335)
Refuse removal	5,200	5,000	4,712	288
Capital outlay	-	-	2,000	(2,000)
Payroll taxes	5,972	6,000	6,572	(572)
Donations	3,000	3,000	1,745	1,255
Other supplies	4,050	3,925	3,479	446
Total general government	181,372	184,701	182,124	2,577
PUBLIC SAFETY:				
Training	3,000	3,000	5,092	(2,092)
Other supplies	1,800	1,800	4,077	(2,277)
Salaries	121,200	80,000	94,677	(14,677)
Payroll taxes	9,251	9,083	8,489	594
Dues and subscriptions	800	800	150	650
EMT expenses	-	-	46	(46)
Repairs and maintenance	2,500	2,000	5,170	(3,170)
Insurance	21,500	21,500	17,507	3,993
Pension	15,000	15,000	13,459	1,541
Telephone	5,000	5,000	3,489	1,511
Gas and oil	10,000	4,000	4,117	(117)
Miscellaneous	1,259	2,859	8,160	(5,301)
Capital outlay	25,000	25,000	-	25,000
Equipment	4,000	4,000	25,608	(21,608)
Uniforms	3,000	6,000	9,598	(3,598)
Total public safety	\$ 223,310	\$ 180,042	\$ 199,639	\$ (19,597)

TOWN OF BLADES, DELAWARE

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
EXPENDITURE DETAIL
Year Ended December 31, 2009**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
CEMETERY AND PARK				
Equipment	\$ 8,000	\$ 6,000	\$ 1,031	\$ 4,969
Repairs and maintenance	4,700	4,200	2,364	1,836
Cemetery and park care	4,500	4,500	4,765	(265)
Advertising	100	200	170	30
Miscellaneous	100	100	49	51
Supplies	1,000	1,000	161	839
Utilities	600	600	556	44
Refuse removal	600	800	835	(35)
Total cemetery and park	19,600	17,400	9,931	7,469
STREET AND LIGHT				
Equipment	10,000	2,000	649	1,351
Supplies	500	500	386	114
Electricity	18,000	18,000	18,895	(895)
Repairs and maintenance	6,500	6,500	6,621	(121)
Miscellaneous	-	100	90	10
Total street and light	35,000	27,100	26,641	459
COMMUNITY HALL				
Equipment	5,000	5,000	3	4,997
Utilities	4,000	4,000	3,538	462
Repairs and maintenance	2,000	2,000	840	1,160
Total community hall	11,000	11,000	4,381	6,619
CODE ENFORCEMENT				
Salaries	23,172	12,700	10,775	1,925
Payroll taxes and health insurance	1,799	1,370	1,054	316
Miscellaneous	4,150	1,150	522	628
Repairs and maintenance	-	-	1,935	(1,935)
Total code enforcement	29,121	15,220	14,286	934
Total expenditures	\$ 499,403	\$ 435,463	\$ 437,002	\$ (1,539)

OTHER SUPPLEMENTARY INFORMATION

TOWN OF BLADES, DELAWARE

**OTHER SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - UTILITY FUND
OPERATING REVENUE AND EXPENSE DETAIL
Year Ended December 31, 2009**

	Original <u>Budget</u>	Final <u>Budget</u>	Actual	Variance Favorable (Unfavorable)
REVENUES				
Charges for services:				
Water billings	\$ 181,500	\$ 179,450	\$ 163,881	\$ (15,569)
Water permits and penalties	31,215	23,630	3,604	(20,026)
Front footage assessment	24,000	24,084	26,629	2,545
Total revenues	236,715	227,164	194,114	(33,050)
OPERATING EXPENSE				
Salaries and wages	57,900	57,900	58,085	\$ (185)
Payroll taxes	4,564	4,452	4,951	(499)
Repairs and maintenance	12,000	7,000	8,861	(1,861)
Chemicals & supplies	11,000	11,000	13,007	(2,007)
Insurance	16,000	16,000	13,551	2,449
Utilities	13,000	13,000	13,255	(255)
Testing	1,000	1,000	842	158
Postage and office supplies	2,000	2,000	1,655	345
Telephone	2,000	2,000	1,876	124
Pension	4,000	4,000	4,000	-
Vehicle fuel and maintenance	5,500	4,200	3,537	663
Equipment	10,000	16,000	2,773	13,227
Depreciation and amortization	-	-	82,046	(82,046)
Other	3,200	4,120	3,508	612
Total operating expense	142,164	142,672	211,947	(69,275)
NON-OPERATING EXPENSE				
Loan principal payments	21,605	21,605	-	21,605
Interest expense	11,770	11,770	11,768	2
Total non-operating expense	33,375	33,375	11,768	21,607
Total water expenses	\$ 175,539	\$ 176,047	\$ 223,715	\$ (47,668)

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*

Town of Blades, Delaware
Blades, Delaware

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Town of Blades, Delaware ("the Town") as of and for the year ended December 31, 2009, which collectively comprise the Town's basic financial statements and have issued our report thereon dated August 12, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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.

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 significant deficiencies or material weaknesses. We identified the following deficiencies in internal control over financial reporting that we consider to be significant deficiencies and material weaknesses.

The Town does not have sufficient controls over the receipt of cash to ensure that a theft of cash does not occur. Management has subsequently implemented controls to minimize the likelihood that a theft of cash receipts can occur.

The Town does not employ sufficient number of people in the accounting function to eliminate those people from performing incompatible duties. Management is aware of this condition and has assessed the costs to achieve maximum segregation of duties. Management has determined that these costs exceed the potential benefit of hiring additional employees. Management continues to strive to achieve maximum segregation of duties possible with the current number of employees.

The Town does not have sufficient controls in place to ensure that subsidiary ledgers are reconciled to the general ledger.

The Town does not have internal controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). Management has evaluated the cost versus the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Town to outsource this task to its independent auditors, and to carefully review the draft financial statements and notes to the financial statements prior to approving them and accepting responsibility for their content and presentation.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Town, in a separate letter dated August 12, 2010.

This report is intended solely for the information and use of the Town of Blades, Delaware, management, 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.

Salisbury, Maryland
August 12, 2010