

**TOWN OF BLADES, DELAWARE**

**FINANCIAL REPORT**

**DECEMBER 31, 2010**

## TABLE OF CONTENTS

	<u>Page(s)</u>
Independent Auditors' Report on the Financial Statements	3 - 4
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	5
Statement of Activities	6
Governmental Fund Financial Statements:	
Balance Sheet	7 - 8
Statement of Revenues, Expenditures, and Changes in Fund Balances	9 - 10
Enterprise Fund Financial Statements:	
Statement of Fund Net Assets	11
Statement of Revenues, Expenses, and Changes in Fund Net Assets	12
Statement of Cash Flows	13
Notes to the Financial Statements	14 - 23
Required Supplementary Information:	
General Fund:	
Budgetary Comparison Schedule - General Fund - Revenue Detail	25
Budgetary Comparison Schedule - General Fund - Expenditure Detail	26 - 27
Other Supplementary Information:	
Utility Fund:	
Budgetary Comparison Schedule - Utility Fund - Operating Revenue and Expense Detail	29
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	30 - 31

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, 2010, 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, 2010, 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 29, 2011 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 25-27 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 29, 2011

**TOWN OF BLADES, DELAWARE**

**STATEMENT OF NET ASSETS**  
**December 31, 2010**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets			
Cash	\$ 252,101	\$ 1,484	\$ 253,585
Accounts receivable (Governmental activities net of allowance for doubtful accounts \$46,896)	118,424	36,543	154,967
Prepaid insurance	5,183	-	5,183
Accrued interest receivable	303	-	303
<b>Total current assets</b>	<b>376,011</b>	<b>38,027</b>	<b>414,038</b>
Noncurrent assets			
Restricted cash - police pension account	55,413	-	55,413
Capital assets, at cost			
Less accumulated depreciation	579,154	784,077	1,363,231
<b>Total noncurrent assets</b>	<b>634,567</b>	<b>784,077</b>	<b>1,418,644</b>
<b>Total assets</b>	<b>1,010,578</b>	<b>822,104</b>	<b>1,832,682</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	36,897	-	36,897
Accrued payroll taxes	4,327	1,718	6,045
Accrued interest	457	-	457
Road deposit	2,500	-	2,500
Deferred revenue	4,430	-	4,430
Admin pension payable	11,849	-	11,849
Current portion of bonds and notes payable	-	22,747	22,747
<b>Total current liabilities</b>	<b>60,460</b>	<b>24,465</b>	<b>84,925</b>
Noncurrent liabilities			
Police pension escrow	55,413	-	55,413
Bonds and notes payable	-	446,495	446,495
<b>Total noncurrent liabilities</b>	<b>55,413</b>	<b>446,495</b>	<b>501,908</b>
<b>Total liabilities</b>	<b>115,873</b>	<b>470,960</b>	<b>586,833</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	579,154	314,835	893,989
Unrestricted	315,551	36,309	351,860
<b>Total net assets</b>	<b>\$ 894,705</b>	<b>\$ 351,144</b>	<b>\$ 1,245,849</b>

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

**TOWN OF BLADES, DELAWARE**

**STATEMENT OF ACTIVITIES  
Year Ended December 31, 2010**

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating		Governmental Activities	Business-type Activities	Total
			Grants and Contributions	Capital Grants and Contributions			
<b>Governmental activities</b>							
General government	\$ 218,732	\$ 35,830	\$ -	\$ 2,017	\$ (180,885)	\$ -	\$ (180,885)
Public safety	245,447	-	4,761	43,554	(197,132)	-	(197,132)
Cemetery and park	13,660	3,055	-	10,000	(605)	-	(605)
Street and light	42,689	-	-	95,861	53,172	-	53,172
Community hall	5,889	800	-	-	(5,089)	-	(5,089)
Code enforcement	10,056	-	-	-	(10,056)	-	(10,056)
<b>Total governmental activities</b>	<b>536,473</b>	<b>39,685</b>	<b>4,761</b>	<b>151,432</b>	<b>(340,595)</b>	<b>-</b>	<b>(340,595)</b>
<b>Business-type activities</b>							
Utility fund	236,197	212,531	-	-	-	(23,666)	(23,666)
<b>Total business-type activities</b>	<b>236,197</b>	<b>212,531</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(23,666)</b>	<b>(23,666)</b>
<b>Total</b>	<b>\$ 772,670</b>	<b>\$ 252,216</b>	<b>\$ 4,761</b>	<b>\$ 151,432</b>	<b>\$ (340,595)</b>	<b>\$ (23,666)</b>	<b>\$ (364,261)</b>
<b>General revenues</b>							
Property, capitiation, and transfer taxes					265,451	-	265,451
Unrestricted investment earnings					3,633	-	3,633
Franchise fees					29,423	-	29,423
Miscellaneous					26,408	-	26,408
<b>Total general revenues and special items</b>					<b>324,915</b>	<b>-</b>	<b>324,915</b>
Transfers					20,415	(20,415)	-
<b>Total general revenues, special items and transfers</b>					<b>345,330</b>	<b>(20,415)</b>	<b>324,915</b>
Change in net assets					4,735	(44,081)	(39,346)
Net assets, beginning of year					889,970	395,225	1,285,195
Net assets, end of year					\$ 894,705	\$ 351,144	\$ 1,245,849

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

**TOWN OF BLADES, DELAWARE**

**BALANCE SHEET  
GOVERNMENTAL FUND  
December 31, 2010**

	Total Governmental Fund
<b>ASSETS</b>	
Cash	\$ 307,514
Accounts receivable (net of allowance for doubtful accounts of \$46,896)	118,424
Prepaid insurance	5,183
Accrued interest receivable	303
<hr/>	
<b>Total assets</b>	<b>\$ 431,424</b>
<hr/>	
<b>LIABILITIES AND FUND BALANCES</b>	
<b>LIABILITIES</b>	
Accounts payable	\$ 36,897
Payroll and taxes	4,327
Road deposit	2,500
Deferred revenue	123,644
Accrued interest payable	457
Admin pension payable	11,849
Police pension escrow	55,413
<hr/>	
Total liabilities	235,087
<hr/>	
<b>FUND BALANCE</b>	
Reserved for prepaid insurance	5,183
Unreserved	191,154
<hr/>	
Total fund balances	196,337
<hr/>	
<b>Total liabilities and fund balances</b>	<b>\$ 431,424</b>
<hr/>	

*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, 2010**

Total fund balance, governmental fund \$ 196,337

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. 579,154

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. 119,214

---

Net assets of governmental activities in the Statement of Net Assets \$ 894,705

---

*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, 2010**

	Total Governmental Fund
<b>REVENUES:</b>	
Taxes:	
Real estate	\$ 195,171
Capitation	3,348
Transfer	26,383
Tax penalties	5,519
Licenses and permits	22,007
Cemetery fees and lots	3,055
Investment income	3,633
Community hall rental	800
Public safety	17,503
Police pension income	1,081
State of Delaware grants	151,432
Franchise fees	29,423
Miscellaneous revenues	26,408
Total revenues	485,763
<b>EXPENDITURES:</b>	
Current:	
General government	201,516
Public safety	241,992
Cemetery and park	12,875
Street and light	27,196
Community hall	5,076
Code enforcement	10,056
Capital outlay	96,342
Total expenditures	595,053
Deficiency of revenues over expenditures	(109,290)
<b>OTHER FINANCING SOURCES:</b>	
Operating transfers in	20,415
Net change in fund balances	(88,875)
Fund balances, beginning of year	285,212
Fund balances, end of year	\$ 196,337

*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 OF ACTIVITIES  
Year Ended December 31, 2010**

Net change in fund balance, governmental fund \$ (88,875)

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	96,342	
Depreciation expense	<u>(37,762)</u>	
Excess of capital outlay over depreciation expense		58,580

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. 35,030

---

Change in net assets of governmental activities \$ 4,735

---

*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, 2010**

	<u>Enterprise Fund</u> <u>Utility Fund</u>
<b>ASSETS</b>	
Current assets	
Cash	\$ 1,484
Accounts receivable	36,543
Total current assets	38,027
Noncurrent assets	
Water system, net of accumulated depreciation	784,077
Total noncurrent assets	784,077
Total assets	822,104
<b>LIABILITIES</b>	
Current liabilities	
Payroll and taxes	1,718
Bonds and notes payable	22,747
Total current liabilities	24,465
Noncurrent liabilities	
Bonds and notes payable	446,495
Total noncurrent liabilities	446,495
Total liabilities	470,960
<b>NET ASSETS</b>	
Investment in capital assets, net of related debt	314,835
Unrestricted	36,309
Total net assets	\$ 351,144

*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, 2010**

		<u>Enterprise Fund</u>
		<u>Utility Fund</u>
<b>OPERATING REVENUES:</b>		
Water billing	\$	179,318
Water permits and penalties		6,777
Front footage assessment		26,436
<hr/>		
Total operating revenues		212,531
<hr/>		
<b>OPERATING EXPENSES:</b>		
Salaries and wages		62,468
Payroll taxes		6,059
Repairs and maintenance		10,979
Chemicals and supplies		13,018
Insurance		19,832
Utilities		13,800
Testing		250
Postage and office supplies		1,667
Telephone		2,379
Pension		4,000
Vehicle fuel and maintenance		4,668
Equipment		1,878
Depreciation and amortization		81,323
Other		2,669
<hr/>		
Total operating expenses		224,990
<hr/>		
Operating loss		(12,459)
<hr/>		
<b>NONOPERATING EXPENSES:</b>		
Interest expense		11,207
<hr/>		
Loss before operating transfers		(23,666)
<hr/>		
Operating transfers out		(20,415)
<hr/>		
Change in net assets		(44,081)
<hr/>		
Net assets, beginning of year		395,225
<hr/>		
Net assets, end of year	\$	351,144

*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, 2010**

	<u>Enterprise Fund</u> <u>Utility Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts from customers	\$ 210,028
Payments to suppliers/vendors	(96,235)
Payments to employees	(61,446)
<hr/>	
Net cash provided by operating activities	52,347
<hr/>	
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Operating transfers out to other funds	(20,415)
<hr/>	
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Principal paid on long-term debt	(22,167)
Interest paid on long-term debt	(11,207)
<hr/>	
Net cash used by capital and related financing activities	(33,374)
<hr/>	
Net decrease in cash	(1,442)
<hr/>	
Cash and cash equivalents, beginning of year	2,926
<hr/>	
Cash and cash equivalents, end of year	\$ 1,484
<hr/>	
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating loss	\$ (12,459)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	81,323
Changes in assets and liabilities:	
Increase in receivables	(2,503)
Decrease in payables	(14,014)
<hr/>	
Net cash provided by operating activities	\$ 52,347
<hr/>	

*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, 2010, 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, 2010 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. Receivables**

Accounts receivable are reported net of an allowance for doubtful accounts in the amount of \$46,896 based on the Town's analysis of collectability on certain property tax accounts.

**J. 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.

**K. 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	10-40	-

## NOTES TO FINANCIAL STATEMENTS

### **Note 2. Summary of Significant Accounting Policies (continued)**

#### **L. 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.

#### **M. 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.

#### **N. 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, 2010.

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

#### **O. 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.

#### **P. 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 goods or service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as non-operating.

#### **Q. 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, 2010, the carrying amount of the Town's bank deposits was \$308,018 and the balance per bank records totaled \$306,228 which were fully insured. At December 31, 2010, the Town had no custodial risk relative to uninsured amounts.

As of December 31, 2010 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, 2010:

	December 31, 2009	Additions	Deductions	December 31, 2010
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets, not being depreciated:				
Land	\$ 29,344	\$ -	\$ -	\$ 29,344
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	72,737	-	1,689,918
Autos	94,853	-	(795)	94,058
Police equipment	74,499	-	-	74,499
Signs	3,230	-	-	3,230
Office furniture and equipment	38,898	13,625	(9,046)	43,477
Cemetery	9,768	-	(1,548)	8,220
Park equipment	21,589	9,980	(1,309)	30,260
Total capital assets, being depreciated	2,032,467	96,342	(12,698)	2,116,111
Less accumulated depreciation:				
Buildings	(83,955)	(3,822)	-	(87,777)
Streets	(1,333,620)	(15,493)	-	(1,349,113)
Autos	(62,293)	(12,277)	795	(73,775)
Police equipment	(66,146)	(3,455)	-	(69,601)
Signs	(3,230)	-	-	(3,230)
Office furniture and equipment	(37,425)	(1,930)	9,046	(30,309)
Cemetery	(7,400)	(241)	1,548	(6,093)
Park equipment	(20,018)	(544)	1,309	(19,253)
Total accumulated depreciation	(1,614,087)	(37,762)	12,698	(1,639,151)
Total capital assets, being depreciated, net	418,380	58,580	-	476,960
Governmental activities capital assets, net	\$ 520,574	\$ 58,580	\$ -	\$ 579,154

## NOTES TO FINANCIAL STATEMENTS

### Note 4. Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

General government	\$	17,216
Public safety		3,455
Cemetery and parks		785
Street and light		15,493
Community hall		813
Total depreciation expense	\$	37,762

<b>BUSINESS-TYPE ACTIVITIES</b>	December 31, 2009	Additions	Deductions	December 31, 2010
Capital assets, being depreciated:				
Water meter	\$ 84,343	\$ -	\$ -	\$ 84,343
Water district equipment FmHA	121,085	-	(5,704)	115,381
Water district equipment EDA	1,939,298	-	-	1,939,298
Total capital assets, being depreciated	2,144,726	-	(5,704)	2,139,022
Less accumulated depreciation:				
Water meter	(22,469)	(5,743)	-	(28,212)
Water district equipment FmHA	(115,122)	(2,982)	5,704	(112,400)
Water district equipment EDA	(1,141,735)	(72,598)	-	(1,214,333)
Total accumulated depreciation	(1,279,326)	(81,323)	5,704	(1,354,945)
Total capital assets, being depreciated, net	865,400	(81,323)	-	784,077
Business-type activities capital assets, net	\$ 865,400	\$ (81,323)	\$ -	\$ 784,077

### 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, 2009	Additions	Retirements and Repayments	Balances December 31, 2010	Amount Due in One Year
Farmers Home Administration	5.00%	2022	\$ 94,865	\$ -	\$ 6,009	\$ 88,856	\$ 6,313
State of Delaware - SRF Loan	1.50%	2031	324,202	-	12,540	311,662	12,729
DNREC - Division of Water Loan	2.41%	2026	72,342	-	3,618	68,724	3,705
Total business-type activities long-term debt			\$ 491,409	\$ -	\$ 22,167	\$ 469,242	\$ 22,747

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, 2010 are as follows:

Fiscal Year Ending December 31,	Principal	Interest	Total
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
2015	25,283	8,091	33,374
Thereafter	349,278	47,432	396,710
	<u>\$ 469,242</u>	<u>\$ 94,335</u>	<u>\$ 563,577</u>

Interest expense in the business-type activities for the year ended December 31, 2010 totaled \$11,207.

**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	Balances		Retirements	Balances	Amount
Interest	Series	December 31,	and	and	December 31,	Due in
Rate	Matures	2009	Additions	Repayments	2010	One Year
Police pension escrow		\$ 54,158	\$ 1,255	\$ -	\$ 55,413	\$ -

Police pension escrow funds are required to be held separately to fund the Town's contributions on behalf of Town police officers to the State of Delaware County & Municipal Police and Firefighters Pension Plan. See Note 8 for further disclosures related to this Plan.

**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**

Prior to January 1, 2011, the Town contributed monies to the accounts of eligible employees based on the employees' years of service in annuity contracts held with PNC. Funding for the Town's contribution of police officers came from the State of Delaware under a revenue share agreement, while the Town funded the contributions for all other eligible employees. An employee must have completed five years of service in order to be fully vested in the amounts contributed by the Town. Contributions forfeited by police officers were 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 have elected to contribute to their individual accounts. All monies contributed by employees were immediately vested.

## NOTES TO FINANCIAL STATEMENTS

### **Note 8. Pension Plan (continued)**

The Town closed the pension plan annuity contracts held with PNC during 2010. The value of each vested participant's contract for participants still employed by the Town was paid to the participant through a payroll check to ensure appropriate taxes were withheld. The remaining value of each remaining vested participant's contract will be paid to the participant by PNC. Unvested participant contracts will be returned to the Town, the value of these unvested contracts at December 31, 2010 was \$9,171 which is presented as a component of accounts receivable.

Effective January 1, 2011, the Town entered into the State of Delaware County & Municipal General Employees' Pension Plan and the State of Delaware County & Municipal Police and Firefighters Pension Plan.

#### Plan Description

All regular employees of the Town participate in the State of Delaware County & Municipal General Employees' Pension Plan. Police officers participate in the State of Delaware County & Municipal Police and Firefighters Pension Plan. Both plans are cost sharing multiple employer public retirement systems included in the Delaware Public Employees Retirement System and administered by the State of Delaware Board of Pension Trustees. The plans are outlined in the Delaware State Code sections Title 29 chapters 55A and Title 11 chapter 88. The Delaware Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the Office of Pensions, McArdle Building, 860 Silver Lake Blvd., Suite #1, Dover, DE 19904-2402 or on their website.

General participants in the System may retire with full benefits after thirty years of service regardless of age or at various ages with specified years of eligible service for reduced benefits. Police officers may retire with full benefits after twenty years of service regardless of age or earlier at reduced benefits. Annual service retirement allowances are paid monthly to retired members in accordance with allowance options selected based on average final compensation. Participants terminating in the retirement system prior to vesting in the plans are refunded their accumulated contributions plus earned interest. Employees are vested in the plans after 5 years of service. Participants and their beneficiaries may also be eligible for disability and death benefits based on years of credible service and final average compensation.

#### Funding Policy

The State Office of Pensions requires active members to contribute to the System at rates determined annually by actuarial valuations. For the State fiscal year ending June 30, 2010 the Town was required to contribute 6.15% of total compensation for general employees and 13.70% of regular salary for police officers. Employee contributions are done through payroll withholding in the amount of 3% for general employees and 7% for police officers.

The Town's pension expense was \$6,000 for the years ended December 31, 2010 and 2009, respectively.

### **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.

## NOTES TO FINANCIAL STATEMENTS

### Note 10. Required Individual Fund Disclosures

The following funds had an excess of expenditures over appropriations for the year ended December 31, 2010:

Funds	Budgeted Expenditures	Actual Expenditures	Excess of Actual Over Budgeted Expenditures
General	\$ 470,113	\$ 595,053	\$ (124,940)
Utility	150,655	236,197	(85,542)

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 29, 2011, 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, 2010**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Taxes:				
Real estate	\$ 243,000	\$ 243,000	\$ 195,246	\$ (47,754)
Capitation	3,400	3,400	3,348	(52)
Transfer	13,000	13,000	26,383	13,383
Tax penalties	2,000	2,000	5,891	3,891
Licenses and permits	23,800	23,800	22,007	(1,793)
Cemetery fees and lots	4,500	4,500	3,055	(1,445)
Investment income	800	800	3,633	2,833
Community hall rental	1,500	1,500	800	(700)
Public safety	21,000	21,000	17,503	(3,497)
Police pension income	-	-	1,081	1,081
State of Delaware grant	30,500	30,500	151,432	120,932
Franchise fees	28,890	28,890	29,423	533
Miscellaneous Income	6,132	6,132	27,340	21,208
<b>Total revenues</b>	<b>\$ 378,522</b>	<b>\$ 378,522</b>	<b>\$ 487,142</b>	<b>\$ 108,620</b>

**TOWN OF BLADES, DELAWARE**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
EXPENDITURE DETAIL  
Year Ended December 31, 2010**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable ( <u>Unfavorable</u> )
<b>GENERAL GOVERNMENT:</b>				
Advertising	\$ 2,000	\$ 2,000	\$ 1,337	\$ 663
Bad debt expense	-	-	46,896	(46,896)
Office expense	3,900	3,900	4,544	(644)
Salaries - maintenance	-	12,300	15,075	(2,775)
Salaries - town clerks	64,000	64,000	59,827	4,173
Pension	4,000	4,000	2,000	2,000
Utilities	5,200	5,200	5,473	(273)
Insurance	41,500	41,500	11,661	29,839
Professional fees	35,000	35,000	31,292	3,708
Printing and duplicating	700	700	575	125
Telephone	1,200	1,200	1,131	69
Repairs and maintenance	1,000	1,000	6,896	(5,896)
Travel - special meetings	1,400	1,400	884	516
Town functions	2,308	2,308	2,669	(361)
Dues and Subscriptions	350	350	803	(453)
Miscellaneous	400	400	772	(372)
Refuse removal	1,260	1,260	1,013	247
Capital outlay	-	-	13,625	(13,625)
Payroll taxes	6,651	6,651	5,991	660
Donations	1,500	1,500	924	576
Other supplies	2,320	2,320	1,753	567
<b>Total general government</b>	<b>174,689</b>	<b>186,989</b>	<b>215,141</b>	<b>(28,152)</b>
<b>PUBLIC SAFETY:</b>				
Training	-	-	3,067	(3,067)
Other supplies	300	300	4,068	(3,768)
Salaries	140,000	140,000	155,098	(15,098)
Payroll taxes	12,000	12,000	12,920	(920)
Dues and subscriptions	800	800	584	216
Repairs and maintenance	1,500	1,500	1,838	(338)
Insurance	22,000	22,000	32,537	(10,537)
Pension	6,000	6,000	1,255	4,745
Telephone	4,500	4,500	3,743	757
Gas and oil	8,000	8,000	9,743	(1,743)
Miscellaneous	2,404	2,404	2,005	399
Travel - special meetings	-	-	50	(50)
Equipment	15,000	15,000	12,206	2,794
Uniforms	6,000	6,000	2,878	3,122
<b>Total public safety</b>	<b>\$ 218,504</b>	<b>\$ 218,504</b>	<b>\$ 241,992</b>	<b>\$ (23,488)</b>

**TOWN OF BLADES, DELAWARE**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
EXPENDITURE DETAIL  
Year Ended December 31, 2010**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>CEMETERY AND PARK</b>				
Equipment	\$ 15,000	\$ 15,000	\$ 4,490	\$ 10,510
Repairs and maintenance	600	600	868	(268)
Cemetery and park care	4,500	4,500	4,920	(420)
Advertising	200	200	126	74
Miscellaneous	100	100	71	29
Supplies	100	100	792	(692)
Utilities	500	500	920	(420)
Capital outlay	-	-	9,980	(9,980)
Refuse removal	720	720	688	32
<b>Total cemetery and park</b>	<b>21,720</b>	<b>21,720</b>	<b>22,855</b>	<b>(1,135)</b>
<b>STREET AND LIGHT</b>				
Equipment	300	300	241	59
Supplies	200	200	594	(394)
Electricity	18,000	18,000	22,114	(4,114)
Fuel	-	-	172	(172)
Repairs and maintenance	5,500	5,500	4,075	1,425
Capital outlay	-	-	72,737	(72,737)
Miscellaneous	100	100	-	100
<b>Total street and light</b>	<b>24,100</b>	<b>24,100</b>	<b>99,933</b>	<b>(75,833)</b>
<b>COMMUNITY HALL</b>				
Equipment	200	200	241	(41)
Utilities	3,500	3,500	4,209	(709)
Miscellaneous	-	-	13	(13)
Repairs and maintenance	500	500	613	(113)
<b>Total community hall</b>	<b>4,200</b>	<b>4,200</b>	<b>5,076</b>	<b>(876)</b>
<b>CODE ENFORCEMENT</b>				
Salaries	12,700	12,700	7,843	4,857
Payroll taxes and health insurance	1,270	1,270	783	487
Miscellaneous	630	630	717	(87)
Repairs and maintenance	-	-	713	(713)
<b>Total code enforcement</b>	<b>14,600</b>	<b>14,600</b>	<b>10,056</b>	<b>4,544</b>
<b>Total expenditures</b>	<b>\$ 457,813</b>	<b>\$ 470,113</b>	<b>\$ 595,053</b>	<b>\$ (124,940)</b>

**OTHER SUPPLEMENTARY INFORMATION**

**TOWN OF BLADES, DELAWARE**

**OTHER SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - UTILITY FUND  
OPERATING REVENUE AND EXPENSE DETAIL  
Year Ended December 31, 2010**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
Charges for services:				
Water billings	\$ 158,050	\$ 158,050	\$ 179,318	\$ 21,268
Water permits and penalties	3,500	3,500	6,777	3,277
Front footage assessment	27,000	27,000	26,436	(564)
<b>Total revenues</b>	<b>188,550</b>	<b>188,550</b>	<b>212,531</b>	<b>23,981</b>
<b>OPERATING EXPENSE</b>				
Salaries and wages	57,900	57,900	62,468	\$ (4,568)
Payroll taxes	5,000	5,000	6,059	(1,059)
Repairs and maintenance	5,000	5,000	10,979	(5,979)
Chemicals & supplies	10,800	10,800	13,018	(2,218)
Insurance	10,350	10,350	19,832	(9,482)
Utilities	13,000	13,000	13,800	(800)
Testing	250	250	250	-
Postage and office supplies	1,500	1,500	1,667	(167)
Telephone	2,000	2,000	2,379	(379)
Pension	4,000	4,000	4,000	-
Vehicle fuel and maintenance	3,400	3,400	4,668	(1,268)
Equipment	2,000	2,000	1,878	122
Depreciation and amortization	-	-	81,323	(81,323)
Other	2,080	2,080	2,669	(589)
<b>Total operating expense</b>	<b>117,280</b>	<b>117,280</b>	<b>224,990</b>	<b>(107,710)</b>
<b>NON-OPERATING EXPENSE</b>				
Loan principal payments	22,167	22,167	-	22,167
Interest expense	11,208	11,208	11,207	1
<b>Total non-operating expense</b>	<b>33,375</b>	<b>33,375</b>	<b>11,207</b>	<b>22,168</b>
<b>Total water expenses</b>	<b>\$ 150,655</b>	<b>\$ 150,655</b>	<b>\$ 236,197</b>	<b>\$ (85,542)</b>



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, 2010, which collectively comprise the Town’s basic financial statements and have issued our report thereon dated August 29, 2011. 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 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 29, 2011.

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 29, 2011