

TOWN OF BLADES, DELAWARE

FINANCIAL REPORT

DECEMBER 31, 2011

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 - 24
Required Supplementary Information:	
General Fund:	
Budgetary Comparison Schedule - General Fund - Revenue Detail	26
Budgetary Comparison Schedule - General Fund - Expenditure Detail	27 - 28
Other Supplementary Information:	
Utility Fund:	
Budgetary Comparison Schedule - Utility Fund - Operating Revenue and Expense Detail	30
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>	31 - 32

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, 2011, 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2012 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.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 26 through 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Salisbury, Maryland
September 6, 2012

TOWN OF BLADES, DELAWARE

STATEMENT OF NET ASSETS

December 31, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash	\$ 221,008	\$ 73	\$ 221,081
Accounts receivable	126,029	33,191	159,220
Prepaid insurance	5,287	-	5,287
Accrued interest receivable	556	-	556
Total current assets	352,880	33,264	386,144
Noncurrent assets			
Restricted cash - police pension account	37,408	-	37,408
Capital assets, at cost			
Less accumulated depreciation	601,809	703,837	1,305,646
Total noncurrent assets	639,217	703,837	1,343,054
Total assets	992,097	737,101	1,729,198
LIABILITIES			
Current liabilities			
Accounts payable	44,850	-	44,850
Accrued payroll taxes	5,197	1,329	6,526
Accrued interest	457	-	457
Road deposit	2,000	-	2,000
Deferred revenue	16,652	-	16,652
Admin pension payable	2,712	-	2,712
Current portion of bonds and notes payable	-	23,348	23,348
Total current liabilities	71,868	24,677	96,545
Noncurrent liabilities			
Police pension escrow	37,900	-	37,900
Bonds and notes payable	-	423,190	423,190
Total noncurrent liabilities	37,900	423,190	461,090
Total liabilities	109,768	447,867	557,635
NET ASSETS			
Investment in capital assets, net of related debt	601,809	257,299	859,108
Unrestricted	280,520	31,935	312,455
Total net assets	\$ 882,329	\$ 289,234	\$ 1,171,563

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

TOWN OF BLADES, DELAWARE

**STATEMENT OF ACTIVITIES
Year Ended December 31, 2011**

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Operating	Capital	Governmental Activities	Business-type Activities	Total
		Charges for Services	Grants and Contributions			
Governmental activities						
General government	\$ 177,130	\$ 46,316	\$ -	\$ (130,564)	\$ -	\$ (130,564)
Public safety	244,597	-	23,794	(188,549)	-	(188,549)
Cemetery and park	10,394	4,755	-	(5,639)	-	(5,639)
Street and light	69,399	-	-	(18,530)	-	(18,530)
Community hall	6,194	5,300	-	(894)	-	(894)
Code enforcement	28,434	-	-	(28,434)	-	(28,434)
Total governmental activities	536,148	56,371	23,794	(372,610)	-	(372,610)
Business-type activities						
Utility fund	226,455	221,155	-	-	(5,300)	(5,300)
Total business-type activities	226,455	221,155	-	-	(5,300)	(5,300)
Total	\$ 762,603	\$ 277,526	\$ 23,794	\$ (372,610)	\$ (5,300)	\$ (377,910)
General revenues						
Property, capitation, and transfer taxes				229,944	-	229,944
Unrestricted investment earnings				2,891	-	2,891
Franchise fees				29,856	-	29,856
Miscellaneous				40,933	-	40,933
Total general revenues and special items				303,624	-	303,624
Transfers				56,610	(56,610)	-
Total general revenues, special items and transfers				360,234	(56,610)	303,624
Change in net assets				(12,376)	(61,910)	(74,286)
Net assets, beginning of year				894,705	351,144	1,245,849
Net assets, end of year				\$ 882,329	\$ 289,234	\$ 1,171,563

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

TOWN OF BLADES, DELAWARE

**BALANCE SHEET
GOVERNMENTAL FUND
December 31, 2011**

	Total Governmental <u>Fund</u>
ASSETS	
Cash	\$ 258,416
Accounts receivable	126,029
Prepaid insurance	5,287
Accrued interest receivable	556
<hr/>	
Total assets	\$ 390,288
<hr/>	
LIABILITIES AND FUND BALANCES	
LIABILITIES	
Accounts payable	\$ 44,850
Payroll and taxes	5,197
Road deposit	2,000
Deferred revenue	59,671
Accrued interest payable	457
Admin pension payable	2,712
Police pension escrow	37,900
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Total liabilities	152,787
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FUND BALANCE	
Nonspendable	5,287
Unassigned	232,214
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Total fund balances	237,501
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Total liabilities and fund balances	\$ 390,288
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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, 2011**

Total fund balance, governmental fund	\$	237,501
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.		601,809
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.		43,019
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Net assets of governmental activities in the Statement of Net Assets	\$	882,329

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, 2011**

	<u>Total Governmental Fund</u>
REVENUES:	
Taxes:	
Real estate	\$ 228,312
Capitation	3,332
Transfer	28,977
Tax penalties	45,518
Licenses and permits	24,453
Cemetery fees and lots	4,755
Investment income	2,891
Community hall rental	5,300
Public safety	29,738
Police pension income	15,919
State of Delaware grants	83,373
Franchise fees	29,856
Miscellaneous revenues	40,933
<hr/>	
Total revenues	543,357
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EXPENDITURES:	
Current:	
General government	159,552
Public safety	241,446
Cemetery and park	8,694
Street and light	46,679
Community hall	5,381
Code enforcement	28,434
Capital outlay	68,617
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Total expenditures	558,803
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Deficiency of revenues over expenditures	(15,446)
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OTHER FINANCING SOURCES:	
Operating transfers in	56,610
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Net change in fund balances	41,164
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Fund balances, beginning of year	196,337
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Fund balances, end of year	\$ 237,501

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, 2011**

Net change in fund balance, governmental fund \$ 41,164

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	68,617	
Depreciation expense	<u>(45,962)</u>	
Excess of capital outlay over depreciation expense		22,655

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. (76,195)

Change in net assets of governmental activities \$ (12,376)

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, 2011

	<u>Enterprise Fund</u>
	<u>Utility Fund</u>
ASSETS	
Current assets	
Cash	\$ 73
Accounts receivable	33,191
Total current assets	33,264
Noncurrent assets	
Water system, net of accumulated depreciation	703,837
Total noncurrent assets	703,837
Total assets	737,101
LIABILITIES	
Current liabilities	
Payroll and taxes	1,329
Bonds and notes payable	23,348
Total current liabilities	24,677
Noncurrent liabilities	
Bonds and notes payable	423,190
Total noncurrent liabilities	423,190
Total liabilities	447,867
NET ASSETS	
Investment in capital assets, net of related debt	257,299
Unrestricted	31,935
Total net assets	\$ 289,234

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, 2011**

	<u>Enterprise Fund</u>
	<u>Utility Fund</u>
OPERATING REVENUES:	
Water billing	\$ 168,716
Water permits and penalties	24,422
Front footage assessment	28,017
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Total operating revenues	221,155
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OPERATING EXPENSES:	
Salaries and wages	60,435
Payroll taxes	5,134
Repairs and maintenance	7,408
Chemicals and supplies	12,303
Insurance	20,150
Utilities	12,983
Postage and office supplies	1,452
Telephone	2,510
Vehicle fuel and maintenance	4,985
Equipment	3,435
Depreciation and amortization	80,240
Other	4,751
<hr/>	
Total operating expenses	215,786
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Operating income	5,369
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NONOPERATING EXPENSES:	
Interest expense	10,669
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Loss before operating transfers	(5,300)
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Operating transfers out	(56,610)
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Change in net assets	(61,910)
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Net assets, beginning of year	351,144
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Net assets, end of year	\$ 289,234

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, 2011**

		<u>Enterprise Fund</u>
		<u>Utility Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$	224,507
Payments to suppliers/vendors		(76,522)
Payments to employees		(59,413)
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Net cash provided by operating activities		88,572
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating transfers out to other funds		(56,610)
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal paid on long-term debt		(22,704)
Interest paid on long-term debt		(10,669)
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Net cash used by capital and related financing activities		(33,373)
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Net decrease in cash		(1,411)
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Cash and cash equivalents, beginning of year		1,484
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Cash and cash equivalents, end of year	\$	73
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RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$	5,369
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		80,240
Changes in assets and liabilities:		
Decrease in receivables		3,352
Decrease in payables		(389)
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Net cash provided by operating activities	\$	88,572
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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 in 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, 2011, 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.

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, 2011.

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

O. Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of the Town charter or code, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – Amounts that can be used only for specific purposes determined by formal action by the Town Council ordinance or resolution.

Assigned – Amounts that are designated by the Council or management with intent to be used for specific purposes, but are neither restricted or committed by ordinance or resolution.

Unassigned – Amounts not included in other spendable classifications.

The Town did not have any restricted, committed, or assigned fund balances at December 31, 2011. Nonspendable fund balances consist of prepaid amounts.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

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.

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, 2011, the carrying amount of the Town's bank deposits was \$258,489 and the balance per bank records totaled \$263,887 which were fully insured. At December 31, 2011, the Town had no custodial risk relative to uninsured amounts.

As of December 31, 2011 the Town has no investments. Therefore the Town has no credit or custodial risk related to investments.

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets

The following is a summary of changes in capital assets for the year ended December 31, 2011:

	December 31, 2010	Additions	Deductions	December 31, 2011
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated:				
Land	\$ 29,344	\$ -	\$ -	\$ 29,344
Town park	72,850	-	-	72,850
Total capital assets, not being depreciated	<u>102,194</u>	-	-	<u>102,194</u>
Capital assets, being depreciated:				
Buildings	172,449	-	-	172,449
Streets	1,689,918	57,023	-	1,746,941
Autos	94,058	11,594	-	105,652
Police equipment	74,499	-	-	74,499
Signs	3,230	-	-	3,230
Office furniture and equipment	43,477	-	-	43,477
Cemetery	8,220	-	-	8,220
Park equipment	30,260	-	-	30,260
Total capital assets, being depreciated	<u>2,116,111</u>	<u>68,617</u>	-	<u>2,184,728</u>
Less accumulated depreciation:				
Buildings	(87,777)	(3,809)	-	(91,586)
Streets	(1,349,113)	(22,720)	-	(1,371,833)
Autos	(73,775)	(9,378)	-	(83,153)
Police equipment	(69,601)	(3,151)	-	(72,752)
Signs	(3,230)	-	-	(3,230)
Office furniture and equipment	(30,309)	(5,204)	-	(35,513)
Cemetery	(6,093)	(240)	-	(6,333)
Park equipment	(19,253)	(1,460)	-	(20,713)
Total accumulated depreciation	<u>(1,639,151)</u>	<u>(45,962)</u>	-	<u>(1,685,113)</u>
Total capital assets, being depreciated, net	<u>476,960</u>	<u>22,655</u>	-	<u>499,615</u>
Governmental activities capital assets, net	<u>\$ 579,154</u>	<u>\$ 22,655</u>	<u>\$ -</u>	<u>\$ 601,809</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 17,578
Public safety	3,151
Cemetery and parks	1,700
Street and light	22,720
Community hall	<u>813</u>
Total depreciation expense	<u>\$ 45,962</u>

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets (continued)

	December 31, 2010	Additions	Deductions	December 31, 2011
BUSINESS-TYPE ACTIVITIES				
Capital assets, being depreciated:				
Water meter	\$ 84,343	\$ -	\$ -	\$ 84,343
Water district equipment FmHA	115,381	-	-	115,381
Water district equipment EDA	1,939,298	-	-	1,939,298
Total capital assets, being depreciated	<u>2,139,022</u>	-	-	<u>2,139,022</u>
Less accumulated depreciation:				
Water meter	(28,212)	(5,502)	-	(33,714)
Water district equipment FmHA	(112,400)	(2,981)	-	(115,381)
Water district equipment EDA	(1,214,333)	(71,757)	-	(1,286,090)
Total accumulated depreciation	<u>(1,354,945)</u>	<u>(80,240)</u>	-	<u>(1,435,185)</u>
Total capital assets, being depreciated, net	<u>784,077</u>	<u>(80,240)</u>	-	<u>703,837</u>
Business-type activities capital assets, net	<u>\$ 784,077</u>	<u>\$ (80,240)</u>	<u>\$ -</u>	<u>\$ 703,837</u>

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, 2010	Additions	Retirements and Repayments	Balances December 31, 2011	Amount Due in One Year
Farmers Home Administration	5.00%	2022	\$ 88,856	\$ -	\$ 6,313	\$ 82,543	\$ 6,632
State of Delaware - SRF Loan	1.50%	2031	311,662	-	12,728	298,934	12,920
DNREC - Division of Water Loan	2.41%	2026	68,724	-	3,663	65,061	3,796
Total business-type activities long-term debt			<u>\$ 469,242</u>	<u>\$ -</u>	<u>\$ 22,704</u>	<u>\$ 446,538</u>	<u>\$ 23,348</u>

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, 2011 are as follows:

Fiscal Year Ending December 31,	Principal	Interest	Total
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
2016	25,974	7,399	33,373
Thereafter	323,347	40,033	363,380
	<u>\$ 446,538</u>	<u>\$ 83,709</u>	<u>\$ 530,247</u>

Interest expense in the business-type activities for the year ended December 31, 2011 totaled \$10,669.

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	2010	Additions	Repayments	2011	One Year
Police pension escrow		\$ 55,413	\$ 20,195	\$ 37,708	\$ 37,900	\$ -

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, 2011 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, 2011 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 \$16,037 for the year ended December 31, 2011.

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, 2011:

Funds	Budgeted Expenditures	Actual Expenditures	Excess of Actual Over Budgeted Expenditures
General	\$ 431,550	\$ 558,803	\$ (127,253)
Utility	156,915	249,159	(92,244)

There was no material adverse impact on the Town's financial results for the utility fund 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.

Actual revenues were greater than budgeted revenues for the general fund due to the fact that the Town does not budget for grant revenues because of the nature of the variation in grants received from year to year. As a result, the related expenditures are not budgeted for and account for the majority of the excess of actual over budgeted expenditures in the general fund.

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 September 6, 2012, 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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Taxes:				
Real estate	\$ 250,000	\$ 250,000	\$ 228,312	\$ (21,688)
Capitation	3,400	3,400	3,332	(68)
Transfer	13,000	13,000	28,977	15,977
Tax penalties	15,000	15,000	45,518	30,518
Licenses and permits	24,000	24,000	24,453	453
Cemetery fees and lots	4,700	4,700	4,755	55
Investment income	800	800	2,891	2,091
Community hall rental	1,500	1,500	5,300	3,800
Public safety	15,000	15,000	29,738	14,738
Police pension income	-	-	15,919	15,919
State of Delaware grant	500	500	83,373	82,873
Franchise fees	29,100	29,100	29,856	756
Miscellaneous Income	5,400	5,400	40,933	35,533
Total revenues	\$ 362,400	\$ 362,400	\$ 543,357	\$ 180,957

TOWN OF BLADES, DELAWARE

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
EXPENDITURE DETAIL
Year Ended December 31, 2011**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
GENERAL GOVERNMENT:				
Advertising	\$ 1,000	\$ 1,000	\$ 1,522	\$ (522)
Office expense	2,200	2,200	11,000	(8,800)
Salaries - maintenance	12,300	12,300	12,300	-
Salaries - town clerks	64,000	64,000	64,407	(407)
Utilities	5,400	5,400	5,402	(2)
Insurance	38,700	38,700	12,074	26,626
Professional fees	30,000	30,000	26,247	3,753
Printing and duplicating	500	500	199	301
Telephone	1,000	1,000	1,398	(398)
Repairs and maintenance	1,000	1,000	10,137	(9,137)
Travel - special meetings	1,200	1,200	1,636	(436)
Town functions	-	-	2,503	(2,503)
Dues and Subscriptions	750	750	743	7
Miscellaneous	550	550	386	164
Refuse removal	-	-	1,133	(1,133)
Payroll taxes	7,630	7,630	6,117	1,513
Donations	700	700	500	200
Other supplies	1,000	1,000	1,848	(848)
Total general government	167,930	167,930	159,552	8,378
PUBLIC SAFETY:				
Training	-	-	1,145	(1,145)
Other supplies	900	900	7,317	(6,417)
Salaries	126,000	126,000	137,856	(11,856)
Payroll taxes	12,600	12,600	11,647	953
Dues and subscriptions	750	750	50	700
Repairs and maintenance	2,000	2,000	5,736	(3,736)
Insurance	32,600	32,600	32,073	527
Pension	-	-	16,037	(16,037)
Telephone	4,500	4,500	5,025	(525)
Gas and oil	10,000	10,000	14,280	(4,280)
Miscellaneous	1,100	1,100	4,133	(3,033)
Travel - special meetings	-	-	1,079	(1,079)
Capital outlay	-	-	11,594	(11,594)
Equipment	5,000	5,000	2,961	2,039
Uniforms	2,000	2,000	2,107	(107)
Total public safety	\$ 197,450	\$ 197,450	\$ 253,040	\$ (55,590)

TOWN OF BLADES, DELAWARE

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
EXPENDITURE DETAIL
Year Ended December 31, 2011**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
CEMETERY AND PARK				
Equipment	\$ -	\$ -	\$ 208	\$ (208)
Repairs and maintenance	700	700	1,059	(359)
Cemetery and park care	5,760	5,760	3,408	2,352
Advertising	200	200	251	(51)
Miscellaneous	100	100	1,190	(1,090)
Supplies	200	200	862	(662)
Utilities	500	500	1,061	(561)
Refuse removal	700	700	655	45
Total cemetery and park	8,160	8,160	8,694	(534)
STREET AND LIGHT				
Equipment	300	300	42	258
Supplies	200	200	646	(446)
Electricity	22,000	22,000	21,214	786
Repairs and maintenance	5,500	5,500	24,777	(19,277)
Capital outlay	-	-	57,023	(57,023)
Miscellaneous	100	100	-	100
Total street and light	28,100	28,100	103,702	(75,602)
COMMUNITY HALL				
Equipment	200	200	464	(264)
Utilities	3,500	3,500	4,018	(518)
Miscellaneous	-	-	98	(98)
Repairs and maintenance	500	500	801	(301)
Total community hall	4,200	4,200	5,381	(1,181)
CODE ENFORCEMENT				
Salaries	22,360	22,360	22,095	265
Payroll taxes and health insurance	2,300	2,300	1,961	339
Miscellaneous	1,050	1,050	3,900	(2,850)
Repairs and maintenance	-	-	478	(478)
Total code enforcement	25,710	25,710	28,434	(2,724)
Total expenditures	\$ 431,550	\$ 431,550	\$ 558,803	\$ (127,253)

OTHER SUPPLEMENTARY INFORMATION

TOWN OF BLADES, DELAWARE

**OTHER SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - UTILITY FUND
OPERATING REVENUE AND EXPENSE DETAIL
Year Ended December 31, 2011**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Charges for services:				
Water billings	\$ 183,700	\$ 183,700	\$ 168,716	\$ (14,984)
Water permits and penalties	12,100	12,100	24,422	12,322
Front footage assessment	27,000	27,000	28,017	1,017
Total revenues	222,800	222,800	221,155	(1,645)
OPERATING EXPENSE				
Salaries and wages	57,900	57,900	60,435	\$ (2,535)
Payroll taxes	5,790	5,790	5,134	656
Repairs and maintenance	5,000	5,000	7,408	(2,408)
Chemicals & supplies	13,800	13,800	12,303	1,497
Insurance	11,500	11,500	20,150	(8,650)
Utilities	13,000	13,000	12,983	17
Testing	250	250	-	250
Postage and office supplies	1,500	1,500	1,452	48
Telephone	2,000	2,000	2,510	(510)
Vehicle fuel and maintenance	5,200	5,200	4,985	215
Equipment	5,000	5,000	3,435	1,565
Depreciation and amortization	-	-	80,240	(80,240)
Other	2,600	2,600	4,751	(2,151)
Total operating expense	123,540	123,540	215,786	(92,246)
NON-OPERATING EXPENSE				
Loan principal payments	22,167	22,167	22,704	(537)
Interest expense	11,208	11,208	10,669	539
Total non-operating expense	33,375	33,375	33,373	2
Total water expenses	\$ 156,915	\$ 156,915	\$ 249,159	\$ (92,244)

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, 2011, which collectively comprise the Town’s basic financial statements and have issued our report thereon dated September 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we have identified certain deficiencies in internal control that we consider to be material weaknesses.

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.

We consider the following deficiencies in internal control over financial reporting to be 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 September 6, 2012.

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
September 6, 2012