

TOWN OF BLADES, DELAWARE

FINANCIAL REPORT

DECEMBER 31, 2012

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## INDEPENDENT AUDITORS' REPORT

Office of the Mayor and Council  
Blades, Delaware

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Blades, Delaware as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Town of Blades, Delaware's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

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

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

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that our audit provides a reasonable basis for our opinions.

### 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2013 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.

A handwritten signature in black ink that reads "JAM Group LLC". The signature is written in a cursive, flowing style.

Salisbury, Maryland  
September 10, 2013

**TOWN OF BLADES, DELAWARE**

**STATEMENT OF NET ASSETS**

**December 31, 2012**

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets			
Cash	\$ 172,580	\$ 42	\$ 172,622
Accounts receivable	95,670	37,091	132,761
Prepaid insurance	5,287	-	5,287
Accrued interest receivable	469	-	469
Total current assets	274,006	37,133	311,139
Noncurrent assets			
Restricted cash - police pension account	26,604	-	26,604
Capital assets, at cost			
Less accumulated depreciation	591,939	718,747	1,310,686
Total noncurrent assets	618,543	718,747	1,337,290
Total assets	892,549	755,880	1,648,429
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	61,823	-	61,823
Accrued payroll and taxes	6,540	1,591	8,131
Accrued interest	457	-	457
Road deposit	2,000	-	2,000
Deferred revenue	22,903	-	22,903
Admin pension payable	2,647	-	2,647
Current portion of bonds and notes payable	-	27,758	27,758
Total current liabilities	96,370	29,349	125,719
Noncurrent liabilities			
Police pension escrow	38,988	-	38,988
Bonds and notes payable	-	420,082	420,082
Total noncurrent liabilities	38,988	420,082	459,070
Total liabilities	135,358	449,431	584,789
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	591,939	270,907	862,846
Unrestricted	165,252	35,542	200,794
Total net assets	\$ 757,191	\$ 306,449	\$ 1,063,640

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

**TOWN OF BLADES, DELAWARE**

**STATEMENT OF ACTIVITIES  
Year Ended December 31, 2012**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental activities</b>							
General government	\$ 199,842	\$ 36,550	\$ -	\$ 9,287	\$ (154,005)	\$ -	\$ (154,005)
Public safety	254,015	-	36,065	37,552	(180,398)	-	(180,398)
Cemetery and park	10,882	3,155	-	-	(7,727)	-	(7,727)
Street and light	94,149	-	61,342	-	(32,807)	-	(32,807)
Community hall	4,704	4,950	-	-	246	-	246
Code enforcement	35,313	-	-	-	(35,313)	-	(35,313)
<b>Total governmental activities</b>	<b>598,905</b>	<b>44,655</b>	<b>97,407</b>	<b>46,839</b>	<b>(410,004)</b>	<b>-</b>	<b>(410,004)</b>
<b>Business-type activities</b>							
Utility fund	222,771	227,823	-	-	-	5,052	5,052
<b>Total business-type activities</b>	<b>222,771</b>	<b>227,823</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,052</b>	<b>5,052</b>
<b>Total</b>	<b>\$ 821,676</b>	<b>\$ 272,478</b>	<b>\$ 97,407</b>	<b>\$ 46,839</b>	<b>\$ (410,004)</b>	<b>\$ 5,052</b>	<b>\$ (404,952)</b>
<b>General revenues</b>							
Property, capitation, and transfer taxes					225,134	-	225,134
Unrestricted investment earnings					1,645	-	1,645
Franchise fees					32,526	-	32,526
Miscellaneous					37,724	-	37,724
<b>Total general revenues and special items</b>					<b>297,029</b>	<b>-</b>	<b>297,029</b>
Transfers					(12,163)	12,163	-
<b>Total general revenues, special items and transfers</b>					<b>284,866</b>	<b>12,163</b>	<b>297,029</b>
Change in net assets					(125,138)	17,215	(107,923)
Net assets, beginning of year					882,329	289,234	1,171,563
Net assets, end of year					\$ 757,191	\$ 306,449	\$ 1,063,640

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

**TOWN OF BLADES, DELAWARE**

**BALANCE SHEET  
GOVERNMENTAL FUND  
December 31, 2012**

	Total Governmental <u>Fund</u>
<b>ASSETS</b>	
Cash	\$ 199,184
Accounts receivable	95,670
Prepaid insurance	5,287
Accrued interest receivable	469
<hr/>	
<b>Total assets</b>	<b>\$ 300,610</b>
<hr/>	
<b>LIABILITIES AND FUND BALANCES</b>	
<b>LIABILITIES</b>	
Accounts payable	\$ 61,823
Payroll and taxes	6,540
Road deposit	2,000
Deferred revenue	69,654
Accrued interest payable	457
Admin pension payable	2,647
Police pension escrow	38,988
<hr/>	
Total liabilities	182,109
<hr/>	
<b>FUND BALANCE</b>	
Nonspendable	5,287
Unassigned	113,214
<hr/>	
Total fund balances	118,501
<hr/>	
<b>Total liabilities and fund balances</b>	<b>\$ 300,610</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, 2012**

Total fund balance, governmental fund	\$	118,501
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.		591,939
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.		46,751
<hr/>		
Net assets of governmental activities in the Statement of Net Assets	\$	757,191
<hr/>		

*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, 2012**

	<u>Total Governmental Fund</u>
<b>REVENUES:</b>	
Taxes:	
Real estate	\$ 192,930
Capitation	3,292
Transfer	22,979
Tax penalties	2,200
Licenses and permits	24,780
Cemetery fees and lots	3,155
Investment income	1,645
Community hall rental	4,950
Public safety	11,770
Police pension income	16,183
State of Delaware grants	128,063
Franchise fees	32,526
Miscellaneous revenues	37,724
<hr/>	
Total revenues	482,197
<hr/>	
<b>EXPENDITURES:</b>	
Current:	
General government	180,573
Public safety	251,956
Cemetery and park	8,981
Street and light	69,124
Community hall	3,891
Code enforcement	35,313
Capital outlay	39,196
<hr/>	
Total expenditures	589,034
<hr/>	
Deficiency of revenues over expenditures	(106,837)
<hr/>	
<b>OTHER FINANCING SOURCES:</b>	
Operating transfers out	(12,163)
<hr/>	
Net change in fund balances	(119,000)
<hr/>	
Fund balances, beginning of year	237,501
<hr/>	
Fund balances, end of year	\$ 118,501
<hr/>	

*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, 2012**

Net change in fund balance, governmental fund \$ (119,000)

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	39,196	
Loss on disposal	(440)	
Depreciation expense	<u>(48,627)</u>	
Excess of depreciation expense over capital outlay		(9,871)

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. 3,733

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**Change in net assets of governmental activities \$ (125,138)**

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*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, 2012**

	<u>Enterprise Fund</u> <u>Utility Fund</u>
<b>ASSETS</b>	
Current assets	
Cash	\$ 42
Accounts receivable	37,091
Total current assets	37,133
Noncurrent assets	
Water system, net of accumulated depreciation	718,747
Total noncurrent assets	718,747
 Total assets	 755,880
<b>LIABILITIES</b>	
Current liabilities	
Payroll and taxes	1,591
Bonds and notes payable	27,758
Total current liabilities	29,349
Noncurrent liabilities	
Bonds and notes payable	420,082
Total noncurrent liabilities	420,082
 Total liabilities	 449,431
<b>NET ASSETS</b>	
Investment in capital assets, net of related debt	270,907
Unrestricted	35,542
 Total net assets	 \$ 306,449

*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, 2012**

	<u>Enterprise Fund</u> <u>Utility Fund</u>
<b>OPERATING REVENUES:</b>	
Water billing	\$ 185,935
Water permits and penalties	10,943
Front footage assessment	26,198
<hr/>	
Total operating revenues	223,076
<hr/>	
<b>OPERATING EXPENSES:</b>	
Salaries and wages	66,676
Payroll taxes	5,526
Repairs and maintenance	6,556
Chemicals and supplies	17,031
Insurance	22,342
Utilities	13,102
Testing	608
Postage and office supplies	1,781
Telephone	2,149
Pension	4,369
Vehicle fuel and maintenance	8,007
Equipment	7,649
Depreciation and amortization	48,007
Bad debt	3,855
Other	4,542
<hr/>	
Total operating expenses	212,200
<hr/>	
Operating income	10,876
<b>NONOPERATING REVENUES AND EXPENSES:</b>	
Grant proceeds	4,747
Interest expense	(10,571)
<hr/>	
Total non-operating revenue and expenses	(5,824)
<hr/>	
Income before operating transfers	5,052
Operating transfers in	12,163
<hr/>	
Change in net assets	17,215
Net assets, beginning of year	289,234
<hr/>	
Net assets, end of year	\$ 306,449

*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, 2012**

		<u>Enterprise Fund</u>
		<u>Utility Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$	219,176
Payments to suppliers/vendors		(97,128)
Payments to employees		(66,803)
		55,245
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Operating transfers in from other funds		12,163
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition of capital assets		(62,917)
Grant revenue		4,747
Proceeds from long-term debt		26,345
Principal paid on long-term debt		(25,043)
Interest paid on long-term debt		(10,571)
		(67,439)
<b>Net decrease in cash</b>		<b>(31)</b>
<b>Cash and cash equivalents, beginning of year</b>		<b>73</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$</b>	<b>42</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$	10,876
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		48,007
Changes in assets and liabilities:		
Increase in receivables		(3,900)
Increase in payables		262
		55,245
<b>Net cash provided by operating activities</b>	<b>\$</b>	<b>55,245</b>

*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 governmental 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, 2012, 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.

#### 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:

## NOTES TO FINANCIAL STATEMENTS

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

#### B. Fund Accounting (continued)

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.

#### 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.

## NOTES TO FINANCIAL STATEMENTS

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

#### D. Basis of Accounting (continued)

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, 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.

#### 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.

**NOTES TO FINANCIAL STATEMENTS**

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

**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	-

**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.

## NOTES TO FINANCIAL STATEMENTS

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

#### 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, 2012.

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, 2012. Nonspendable fund balances consist of prepaid amounts.

#### 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, 2012, the carrying amount of the Town's bank deposits was \$199,226 and the balance per bank records totaled \$208,244 which were fully insured. At December 31, 2012, the Town had no custodial risk relative to uninsured amounts.

As of December 31, 2012 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, 2012:

	December 31, 2011	Additions	Deductions	December 31, 2012
<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	<u>102,194</u>	-	-	<u>102,194</u>
Capital assets, being depreciated:				
Buildings	172,448	22,441	-	194,889
Streets	1,746,940	-	-	1,746,940
Autos	105,653	-	-	105,653
Police equipment	74,502	5,200	(16,399)	63,303
Signs	3,230	-	-	3,230
Office furniture and equipment	43,478	11,555	(9,252)	45,781
Cemetery	8,220	-	-	8,220
Park equipment	30,258	-	(4,420)	25,838
Total capital assets, being depreciated	<u>2,184,729</u>	<u>39,196</u>	<u>(30,071)</u>	<u>2,193,854</u>
Less accumulated depreciation:				
Buildings	(91,586)	(4,370)	-	(95,956)
Streets	(1,371,833)	(25,025)	-	(1,396,858)
Autos	(83,153)	(10,345)	-	(93,498)
Police equipment	(72,752)	(2,059)	16,399	(58,412)
Signs	(3,230)	-	-	(3,230)
Office furniture and equipment	(35,513)	(5,367)	9,252	(31,628)
Cemetery	(6,333)	(241)	-	(6,574)
Park equipment	(20,713)	(1,220)	3,980	(17,953)
Total accumulated depreciation	<u>(1,685,113)</u>	<u>(48,627)</u>	<u>29,631</u>	<u>(1,704,109)</u>
Total capital assets, being depreciated, net	<u>499,616</u>	<u>(9,431)</u>	-	<u>489,745</u>
Governmental activities capital assets, net	<u>\$ 601,810</u>	<u>\$ (9,431)</u>	<u>\$ (440)</u>	<u>\$ 591,939</u>

## NOTES TO FINANCIAL STATEMENTS

### Note 4. Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

General government	\$	19,269
Public safety		2,059
Cemetery and parks		1,461
Street and light		25,025
Community hall		813
		813
 Total depreciation expense	 \$	 48,627

	December 31, 2011	Additions	Deductions	December 31, 2012
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital assets, being depreciated:				
Water meter	\$ 84,343	\$ -	\$ -	\$ 84,343
Water district equipment FmHA	115,381	-	(20,441)	94,940
Water district equipment EDA	1,939,298	51,825	(5,899)	1,985,224
Back up well CIP	-	11,092	-	11,092
Total capital assets, being depreciated	2,139,022	62,917	(26,340)	2,175,599
Less accumulated depreciation:				
Water meter	(33,714)	(5,623)	-	(39,337)
Water district equipment FmHA	(115,381)	-	20,441	(94,940)
Water district equipment EDA	(1,286,090)	(42,384)	5,899	(1,322,575)
Back up well CIP	-	-	-	-
Total accumulated depreciation	(1,435,185)	(48,007)	26,340	(1,456,852)
Total capital assets, being depreciated, net	703,837	14,910	-	718,747
Business-type activities capital assets, net	\$ 703,837	\$ 14,910	\$ -	\$ 718,747

NOTES TO FINANCIAL STATEMENTS

**Note 5. Bonds, Note Payable and Capital Lease Commitment – 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, 2011	Additions	Retirements and Repayments	Balances December 31, 2012	Amount Due in One Year
Farmers Home Administration	5.00%	2022	\$ 82,543	\$ -	\$ 6,614	\$ 75,929	\$ 6,968
State of Delaware - SRF Loan	1.50%	2031	298,934	-	12,920	286,014	13,115
DNREC - Division of Water Loan	2.41%	2026	65,061	-	3,795	61,266	3,888
DWSRF Loan	1.00%	2043	-	6,345	-	6,345	-
Capital lease - Backhoe	4.00%	2017	-	20,000	1,714	18,286	3,787
<b>Total business-type activities long-term debt</b>			<b>\$ 446,538</b>	<b>\$ 26,345</b>	<b>\$ 25,043</b>	<b>\$ 447,840</b>	<b>\$ 27,758</b>

The annual requirements to amortize all business-type activities long-term debt outstanding as of December 31, 2012 are as follows (excluding capital lease obligations):

Fiscal Year Ending December 31,	Principal	Interest	Total
2013	\$ 23,971	\$ 9,403	\$ 33,374
2014	30,779	10,888	41,667
2015	25,464	8,091	33,555
2016	25,974	7,399	33,373
2017	26,691	6,682	33,373
Thereafter	296,675	31,220	327,895
	<b>\$ 429,554</b>	<b>\$ 73,683</b>	<b>\$ 503,237</b>

Town of Blades has a capital lease with Real Lease, Inc. for a Compact Backhoe with accessories. The lease agreement went into effect on March 8, 2012 with a 60 month term. The semi-annual installments are \$2,240 with imputed interest at 4%.

## NOTES TO FINANCIAL STATEMENTS

### Note 5. Bonds, Note Payable and Capital Lease Commitment – Business-type Activities (continued)

Original cost	\$	43,750
Less: accumulated depreciation		5,729
		38,021
Net book value	\$	38,021
<hr/>		
Purchase price	\$	43,750
Less: down payment		23,750
		20,000
Financed balance	\$	20,000
<hr/>		
Total future minimum lease payments	\$	22,524
Less: amount representing interest		2,524
		20,000
Present value of minimum lease payments		20,000
Less: principal payments		1,714
		18,286
Outstanding balance as of December 31, 2012		18,286
Less: current portion		3,787
		14,499
Long-term portion	\$	14,499

At December 31, 2012 the scheduled maturities of long-term lease commitments are as follows:

Year ending September 30,		
2013	\$	3,787
2014		3,940
2015		4,099
2016		4,264
2017		2,196
		18,286
		18,286

Interest expense for bonds, notes payable, and capital lease commitments in the business-type activities for the year ended December 31, 2012 totaled \$10,571.

## NOTES TO FINANCIAL STATEMENTS

### 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	December 31,	Due in	
Rate	Matures	2011	Repayments	2012	One Year	
Police pension escrow		\$ 37,900	\$ 17,318	\$ 16,231	\$ 38,988	\$ -

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 Bank. 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. The Town closed the pension plan annuity contracts held with PNC Bank 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 Bank. Unvested participant contracts will be returned to the Town, the value of these unvested contracts at December 31, 2012 was \$3,169 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.

**NOTES TO FINANCIAL STATEMENTS**

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

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, 2012 the Town was required to contribute 6.20% of total compensation for general employees and 13.90% 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 \$20,844 for the year ended December 31, 2012.

**Note 9. Commitments and Contingencies**

**Federal and State Grants**

In the normal course of operations, the Town receives grant funds from various Federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement, which may arise as the result of these audits is not believed to be material.

**Note 10. Required Individual Fund Disclosures**

The following funds had an excess of expenditures over appropriations for the year ended December 31, 2012:

Funds	Budgeted Expenditures	Actual Expenditures	Excess of Actual Over Budgeted Expenditures
General	\$ 453,258	\$ 589,034	\$ (135,776)
Utility	174,892	247,814	(72,922)

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 10, 2013, 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, 2012**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
Taxes:				
Real estate	\$ 212,050	\$ 212,050	\$ 192,930	\$ (19,120)
Capitation	3,400	3,400	3,292	(108)
Transfer	13,000	13,000	22,979	9,979
Tax penalties	4,000	4,000	2,200	(1,800)
Licenses and permits	26,000	26,000	24,780	(1,220)
Cemetery fees and lots	4,700	4,700	3,155	(1,545)
Investment income	800	800	1,645	845
Community hall rental	2,000	2,000	4,950	2,950
Public safety	18,000	18,000	11,770	(6,230)
Police pension income	-	-	16,183	16,183
State of Delaware grant	20,500	20,500	128,063	107,563
Franchise fees	29,100	29,100	32,526	3,426
Miscellaneous Income	20,900	20,900	37,724	16,824
<b>Total revenues</b>	<b>\$ 354,450</b>	<b>\$ 354,450</b>	<b>\$ 482,197</b>	<b>\$ 127,747</b>

**TOWN OF BLADES, DELAWARE**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
EXPENDITURE DETAIL  
Year Ended December 31, 2012**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>GENERAL GOVERNMENT:</b>				
Advertising	\$ 1,000	\$ 1,000	\$ 1,408	\$ (408)
Office expense	2,200	2,200	10,303	(8,103)
Salaries - maintenance	12,300	12,300	12,300	-
Salaries - town clerks	68,516	68,516	71,708	(3,192)
Pension	-	-	4,613	(4,613)
Utilities	5,600	5,600	5,528	72
Insurance	24,750	24,750	13,697	11,053
Professional fees	26,000	26,000	37,605	(11,605)
Printing and duplicating	500	500	184	316
Telephone	1,000	1,000	1,656	(656)
Repairs and maintenance	1,000	1,000	7,090	(6,090)
Travel - special meetings	1,200	1,200	1,118	82
Town functions	-	-	3,428	(3,428)
Capital outlay	-	-	33,996	(33,996)
Dues and Subscriptions	750	750	502	248
Miscellaneous	550	550	782	(232)
Refuse removal	1,260	1,260	1,157	103
Payroll taxes	7,130	7,130	6,786	344
Donations	700	700	-	700
Other supplies	650	650	708	(58)
<b>Total general government</b>	<b>155,106</b>	<b>155,106</b>	<b>214,569</b>	<b>(59,463)</b>
<b>PUBLIC SAFETY:</b>				
Training	-	-	1,410	(1,410)
Other supplies	1,100	1,100	8,977	(7,877)
Salaries	130,000	130,000	142,458	(12,458)
Payroll taxes	11,000	11,000	12,118	(1,118)
Dues and subscriptions	250	250	175	75
Repairs and maintenance	1,500	1,500	6,239	(4,739)
Insurance	32,600	32,600	32,222	378
Pension	-	-	16,231	(16,231)
Telephone	4,500	4,500	4,752	(252)
Gas and oil	15,000	15,000	13,657	1,343
Miscellaneous	350	350	2,440	(2,090)
Travel - special meetings	-	-	2,981	(2,981)
Capital outlay	-	-	5,200	(5,200)
Equipment	600	600	6,316	(5,716)
Uniforms	2,000	2,000	1,980	20
<b>Total public safety</b>	<b>\$ 198,900</b>	<b>\$ 198,900</b>	<b>\$ 257,156</b>	<b>\$ (58,256)</b>

**TOWN OF BLADES, DELAWARE**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
EXPENDITURE DETAIL  
Year Ended December 31, 2012**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>CEMETERY AND PARK</b>				
Equipment	\$ -	\$ -	\$ 1,113	\$ (1,113)
Repairs and maintenance	700	700	1,690	(990)
Cemetery and park care	4,500	4,500	3,029	1,471
Advertising	200	200	211	(11)
Miscellaneous	100	100	10	90
Supplies	200	200	1,065	(865)
Utilities	500	500	1,078	(578)
Refuse removal	700	700	785	(85)
<b>Total cemetery and park</b>	<b>6,900</b>	<b>6,900</b>	<b>8,981</b>	<b>(2,081)</b>
<b>STREET AND LIGHT</b>				
Equipment	300	300	1,002	(702)
Supplies	200	200	1,571	(1,371)
Electricity	24,000	24,000	23,043	957
Repairs and maintenance	31,300	31,300	43,502	(12,202)
Miscellaneous	100	100	6	94
<b>Total street and light</b>	<b>55,900</b>	<b>55,900</b>	<b>69,124</b>	<b>(13,224)</b>
<b>COMMUNITY HALL</b>				
Equipment	100	100	-	100
Utilities	4,000	4,000	2,931	1,069
Miscellaneous	-	-	101	(101)
Repairs and maintenance	250	250	859	(609)
<b>Total community hall</b>	<b>4,350</b>	<b>4,350</b>	<b>3,891</b>	<b>459</b>
<b>CODE ENFORCEMENT</b>				
Salaries	24,102	24,102	25,277	(1,175)
Payroll taxes and health insurance	2,200	2,200	2,126	74
Miscellaneous	5,800	5,800	7,910	(2,110)
<b>Total code enforcement</b>	<b>32,102</b>	<b>32,102</b>	<b>35,313</b>	<b>(3,211)</b>
<b>Total expenditures</b>	<b>\$ 453,258</b>	<b>\$ 453,258</b>	<b>\$ 589,034</b>	<b>\$ (135,776)</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, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
Charges for services:				
Water billings	\$ 231,647	\$ 231,647	\$ 185,935	\$ (45,712)
Water permits and penalties	16,500	16,500	10,943	(5,557)
Front footage assessment	27,000	27,000	26,198	(802)
Grant proceeds	-	-	4,747	4,747
<b>Total revenues</b>	<b>275,147</b>	<b>275,147</b>	<b>227,823</b>	<b>(47,324)</b>
<b>OPERATING EXPENSE</b>				
Salaries and wages	59,452	59,452	66,676	\$ (7,224)
Payroll taxes	5,200	5,200	5,526	(326)
Repairs and maintenance	10,965	10,965	6,556	4,409
Chemicals & supplies	13,800	13,800	17,031	(3,231)
Insurance	20,800	20,800	22,342	(1,542)
Utilities	13,000	13,000	13,102	(102)
Testing	250	250	608	(358)
Postage and office supplies	1,500	1,500	1,781	(281)
Telephone	2,500	2,500	2,149	351
Pension	-	-	4,369	(4,369)
Vehicle fuel and maintenance	6,400	6,400	8,007	(1,607)
Equipment	5,000	5,000	7,649	(2,649)
Depreciation and amortization	-	-	48,007	(48,007)
Bad debt	-	-	3,855	(3,855)
Other	2,650	2,650	4,542	(1,892)
<b>Total operating expense</b>	<b>141,517</b>	<b>141,517</b>	<b>212,200</b>	<b>(70,683)</b>
<b>NON-OPERATING EXPENSE</b>				
Loan principal payments	22,167	22,167	25,043	(2,876)
Interest expense	11,208	11,208	10,571	637
<b>Total non-operating expense</b>	<b>33,375</b>	<b>33,375</b>	<b>35,614</b>	<b>(2,239)</b>
<b>Total water expenses</b>	<b>\$ 174,892</b>	<b>\$ 174,892</b>	<b>\$ 247,814</b>	<b>\$ (72,922)</b>



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

Town of Blades, Delaware  
Blades, Delaware

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of Town of Blades, Delaware ("the Town") as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated September 10, 2013.

Internal Control Over Financial Reporting

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

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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not 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 misstatement, 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 10, 2013.

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 10, 2013