

TOWN OF BLADES, DELAWARE

FINANCIAL REPORT

DECEMBER 31, 2013

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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, 2013, 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, the business-type activities, and each major fund of the Town of Blades, Delaware as of December 31, 2013, 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 October 29, 2014 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 27 through 29 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
October 29, 2014

TOWN OF BLADES, DELAWARE

STATEMENT OF NET POSITION

December 31, 2013

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash	\$ 152,265	\$ 279	\$ 152,544
Accounts receivable	97,347	40,068	137,415
Prepaid insurance	6,580	-	6,580
Accrued interest receivable	355	-	355
Total current assets	256,547	40,347	296,894
Noncurrent assets			
Restricted cash - police pension account	28,630	-	28,630
Capital assets, at cost			
Less accumulated depreciation	601,286	752,286	1,353,572
Total noncurrent assets	629,916	752,286	1,382,202
Total assets	886,463	792,633	1,679,096
LIABILITIES			
Current liabilities			
Accounts payable	89,309	-	89,309
Accrued payroll and taxes	6,048	1,936	7,984
Accrued interest	458	-	458
Road deposit	2,000	-	2,000
Deferred revenue	23,490	-	23,490
Admin pension payable	2,647	-	2,647
Current portion of bonds and notes payable	4,741	28,555	33,296
Total current liabilities	128,693	30,491	159,184
Noncurrent liabilities			
Police pension escrow	27,930	-	27,930
Bonds and notes payable	10,144	434,655	444,799
Total noncurrent liabilities	38,074	434,655	472,729
Total liabilities	166,767	465,146	631,913
NET POSITION			
Investment in capital assets, net of related debt	586,401	289,076	875,477
Unrestricted	133,295	38,411	171,706
Total net position	\$ 719,696	\$ 327,487	\$ 1,047,183

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

TOWN OF BLADES, DELAWARE

**STATEMENT OF ACTIVITIES
Year Ended December 31, 2013**

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Capital		Governmental Activities	Business-type Activities	Total
			Operating Grants and Contributions	Grants and Contributions			
Governmental activities							
General government	\$ 181,080	\$ 37,765	\$ -	\$ 5,750	\$ (137,565)	\$ -	\$ (137,565)
Public safety	276,446	-	41,918	63,811	(170,717)	-	(170,717)
Cemetery and park	14,018	2,310	-	-	(11,708)	-	(11,708)
Street and light	60,761	-	33,141	-	(27,620)	-	(27,620)
Community hall	5,972	3,800	-	-	(2,172)	-	(2,172)
Code enforcement	41,217	-	-	-	(41,217)	-	(41,217)
Total governmental activities	579,494	43,875	75,059	69,561	(390,999)	-	(390,999)
Business-type activities							
Utility fund	222,882	240,410	-	-	-	17,528	17,528
Total business-type activities	222,882	240,410	-	-	-	17,528	17,528
Total	\$ 802,376	\$ 284,285	\$ 75,059	\$ 69,561	\$ (390,999)	\$ 17,528	\$ (373,471)
General revenues							
Property, capitation, and transfer taxes					283,557	-	283,557
Unrestricted investment earnings					1,370	-	1,370
Franchise fees					33,021	-	33,021
Miscellaneous					39,066	-	39,066
Total general revenues and special items					357,014	-	357,014
Transfers					(3,510)	3,510	-
Total general revenues, special items and transfers					353,504	3,510	357,014
Change in net position					(37,495)	21,038	(16,457)
Net position, beginning of year					757,191	306,449	1,063,640
Net position, end of year					\$ 719,696	\$ 327,487	\$ 1,047,183

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

TOWN OF BLADES, DELAWARE

**BALANCE SHEET
GOVERNMENTAL FUND
December 31, 2013**

	Total Governmental <u>Fund</u>
ASSETS	
Cash	\$ 180,895
Accounts receivable	97,347
Prepaid insurance	6,580
Accrued interest receivable	355
<hr/>	
Total assets	\$ 285,177
<hr/>	
LIABILITIES AND FUND BALANCES	
LIABILITIES	
Accounts payable	\$ 89,309
Payroll and taxes	6,048
Road deposit	2,000
Deferred revenue	74,198
Accrued interest payable	458
Admin pension payable	2,647
Police pension escrow	27,930
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Total liabilities	202,590
<hr/>	
FUND BALANCE	
Nonspendable	6,580
Unassigned	76,007
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Total fund balances	82,587
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Total liabilities and fund balances	\$ 285,177
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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 POSITION
December 31, 2013**

Total fund balance, governmental fund	\$	82,587
Amounts reported for governmental activities in the statement of net position 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 Position.		601,286
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 Position.		50,708
Some liabilities are not due and payable in the current period and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.		(14,885)
<hr/>		
Net assets of governmental activities in the Statement of Net Position	\$	719,696

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

TOWN OF BLADES, DELAWARE

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
Year Ended December 31, 2013**

	Total Governmental <u>Fund</u>
REVENUES:	
Taxes:	
Real estate	\$ 198,268
Capitation	3,420
Transfer	61,923
Tax penalties	15,989
Licenses and permits	24,075
Cemetery fees and lots	2,310
Investment income	1,370
Community hall rental	3,800
Public safety	13,690
Police pension income	17,795
State of Delaware grants	126,825
Franchise fees	33,021
Miscellaneous revenues	39,066
Total revenues	541,552
EXPENDITURES:	
Current:	
General government	164,597
Public safety	271,418
Cemetery and park	12,303
Street and light	35,736
Community hall	5,159
Code enforcement	41,217
Interest expense	-
Capital outlay	58,411
Total expenditures	588,841
Deficiency of revenues over expenditures	(47,289)
OTHER FINANCING SOURCES (USES):	
Loan proceeds	14,885
Operating transfers out	(3,510)
Total other financing sources (uses)	11,375
Net change in fund balances	(35,914)
Fund balances, beginning of year	118,501
Fund balances, end of year	\$ 82,587

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 BALANCES OF GOVERNMENTAL FUND TO THE
STATEMENT OF ACTIVITIES
Year Ended December 31, 2013**

Net change in fund balances, governmental fund \$ (35,914)

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	58,411	
Depreciation expense	<u>(49,064)</u>	
Excess of capital outlay over depreciation expense		9,347

Loan proceeds provide current financial resources to governmental funds.
However, issuing debt increases long-term liabilities in the Statement of Net Position.
In the current period, loans of this amount were issued: (14,885)

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. 3,957

Change in net position of governmental activities \$ (37,495)

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

TOWN OF BLADES, DELAWARE
STATEMENT OF FUND NET POSITION
BUSINESS-TYPE ACTIVITIES
December 31, 2013

		<u>Enterprise Fund</u>
		<u>Utility Fund</u>
ASSETS		
Current assets		
Cash	\$	279
Accounts receivable		40,068
Total current assets		40,347
Noncurrent assets		
Water system, net of accumulated depreciation		752,286
Total noncurrent assets		752,286
Total assets		792,633
LIABILITIES		
Current liabilities		
Payroll and taxes		1,936
Bonds and notes payable		28,555
Total current liabilities		30,491
Noncurrent liabilities		
Bonds and notes payable		434,655
Total noncurrent liabilities		434,655
Total liabilities		465,146
NET POSITION		
Investment in capital assets, net of related debt		289,076
Unrestricted		38,411
Total net position	\$	327,487

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 POSITION
BUSINESS-TYPE ACTIVITIES
Year Ended December 31, 2013**

		<u>Enterprise Fund</u>
		<u>Utility Fund</u>
OPERATING REVENUES:		
Water billing	\$	174,190
Water permits and penalties		5,971
Front footage assessment		27,978
<hr/>		
Total operating revenues		208,139
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OPERATING EXPENSES:		
Salaries and wages		65,681
Payroll taxes		5,388
Repairs and maintenance		10,343
Chemicals and supplies		14,339
Insurance		24,517
Utilities		14,186
Testing		250
Postage and office supplies		1,748
Telephone		2,774
Pension		4,309
Vehicle fuel and maintenance		7,095
Equipment		6,238
Depreciation and amortization		48,080
Bad debt		2,818
Other		4,883
<hr/>		
Total operating expenses		212,649
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Operating loss		(4,510)
 NONOPERATING REVENUES AND EXPENSES:		
Grant proceeds		32,271
Interest expense		(10,233)
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Total non-operating revenue and expenses		22,038
<hr/>		
Income before operating transfers		17,528
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Operating transfers in		3,510
<hr/>		
Change in net position		21,038
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Net position, beginning of year		306,449
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Net position, end of year	\$	327,487

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, 2013**

	<u>Enterprise Fund</u>
	<u>Utility Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 205,162
Payments to suppliers/vendors	(98,888)
Payments to employees	(65,336)
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Net cash provided by operating activities	40,938
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Operating transfers in from other funds	3,510
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(81,619)
Grant revenue	32,271
Proceeds from long-term debt	43,128
Principal paid on long-term debt	(27,758)
Interest paid on long-term debt	(10,233)
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Net cash used by capital and related financing activities	(44,211)
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Net increase in cash	237
Cash and cash equivalents, beginning of year	42
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Cash and cash equivalents, end of year	\$ 279
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RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating loss	\$ (4,510)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	48,080
Changes in assets and liabilities:	
Increase in receivables	(2,977)
Increase in payables	345
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Net cash provided by operating activities	\$ 40,938
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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 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 position 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 position 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 position 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, 2013, 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 position, 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 position.

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 position. The statement of changes in fund net position 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 \$55,737 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 position 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 position 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 position

Net position represents the difference between assets and liabilities. Net position 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 position is 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 position as of December 31, 2013.

The Town applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is 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, 2013. 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, 2013, the carrying amount of the Town's bank deposits was \$181,174 and the balance per bank records totaled \$170,800 which were fully insured. At December 31, 2013, the Town had no custodial risk relative to uninsured amounts.

As of December 31, 2013 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, 2013:

	December 31, 2012	Additions	Deductions	December 31, 2013
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated:				
Land	\$ 29,344	\$ -	\$ -	\$ 29,344
Town park	72,850	-	-	72,850
Total capital assets, not being depreciated	102,194	-	-	102,194
Capital assets, being depreciated:				
Buildings	194,889	-	(7,083)	187,806
Streets	1,746,940	-	-	1,746,940
Autos	105,653	15,694	(2,000)	119,347
Police equipment	63,303	38,818	(32,500)	69,621
Signs	3,230	-	-	3,230
Office furniture and equipment	45,781	-	-	45,781
Cemetery	8,220	-	-	8,220
Park equipment	25,838	4,399	-	30,237
Total capital assets, being depreciated	2,193,854	58,911	(41,583)	2,211,182
Less accumulated depreciation:				
Buildings	(95,956)	(4,931)	7,083	(93,804)
Streets	(1,396,858)	(25,025)	-	(1,421,883)
Autos	(93,498)	(7,308)	1,500	(99,306)
Police equipment	(58,412)	(5,028)	32,500	(30,940)
Signs	(3,230)	-	-	(3,230)
Office furniture and equipment	(31,628)	(5,057)	-	(36,685)
Cemetery	(6,574)	(241)	-	(6,815)
Park equipment	(17,953)	(1,474)	-	(19,427)
Total accumulated depreciation	(1,704,109)	(49,064)	41,083	(1,712,090)
Total capital assets, being depreciated, net	489,745	9,847	-	499,092
Governmental activities capital assets, net	\$ 591,939	\$ 9,847	\$ (500)	\$ 601,286

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

General government	\$	16,483
Public safety		5,028
Cemetery and parks		1,715
Street and light		25,025
Community hall		813
		813
 Total depreciation expense	 \$	 49,064

	December 31, 2012	Additions	Deductions	December 31, 2013
BUSINESS-TYPE ACTIVITIES				
Capital assets, being depreciated:				
Water meter	\$ 84,343	\$ -	\$ -	\$ 84,343
Water district equipment FmHA	94,940	-	-	94,940
Water district equipment EDA	1,985,224	6,219	-	1,991,443
Back up well CIP	11,092	75,400	-	86,492
Total capital assets, being depreciated	2,175,599	81,619	-	2,257,218
Less accumulated depreciation:				
Water meter	(39,337)	(5,623)	-	(44,960)
Water district equipment FmHA	(94,940)	-	-	(94,940)
Water district equipment EDA	(1,322,575)	(42,457)	-	(1,365,032)
Back up well CIP	-	-	-	-
Total accumulated depreciation	(1,456,852)	(48,080)	-	(1,504,932)
Total capital assets, being depreciated, net	718,747	33,539	-	752,286
 Business-type activities capital assets, net	 \$ 718,747	 \$ 33,539	 \$ -	 \$ 752,286

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Lease Commitment – Governmental Activities

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

	Interest Rate	Date Series Matures	Balances December 31, 2012	Additions	Retirements and Repayments	Balances December 31, 2013	Amount Due in One Year
Capital lease - Chevy Sonic	5.00%	2016	\$ -	\$ 14,885	\$ -	\$ 14,885	\$ 4,741
Total governmental activities long-term debt			\$ -	\$ 14,885	\$ -	\$ 14,885	\$ 4,741

Town of Blades has a capital lease with Real Lease, Inc. for a Chevrolet Sonic. The lease agreement went into effect on June 25, 2013 with a 36 month term. The semi-annual installments are \$2,725 with imputed interest at 5%.

Original cost	\$ 15,194
Less: accumulated depreciation	1,308
<u>Net book value</u>	<u>\$ 13,886</u>
Purchase price	\$ 15,194
Less: down payment	309
<u>Financed balance</u>	<u>\$ 14,885</u>
Total future minimum lease payments	\$ 16,473
Less: amount representing interest	1,588
<u>Present value of minimum lease payments</u>	<u>14,885</u>
Less: principal payments	-
<u>Outstanding balance as of December 31, 2013</u>	<u>14,885</u>
Less: current portion	4,741
<u>Long-term portion</u>	<u>\$ 10,144</u>

At December 31, 2013 the scheduled maturities of long-term lease commitments are as follows:

Year ending December 31,	
2014	\$ 4,741
2015	5,012
2016	5,132
	<u>\$ 14,885</u>

Interest expense for capital lease commitments in the governmental activities for the year ended December 31, 2013 totaled \$0.

NOTES TO FINANCIAL STATEMENTS

Note 6. 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,		Retirements and Repayments	Balances December 31,	Amount Due in One Year
			2012	Additions		2013	
Farmers Home Administration	5.00%	2022	\$ 75,929	\$ -	\$ 6,968	\$ 68,961	\$ 7,321
State of Delaware - SRF Loan	1.50%	2031	286,014	-	13,115	272,899	13,312
DNREC - Division of Water Loan	2.41%	2026	61,266	-	3,888	57,378	3,982
DWSRF Loan	1.00%	2043	6,345	43,128	-	49,473	-
Capital lease - Backhoe	4.00%	2017	18,286	-	3,787	14,499	3,940
Total business-type activities long-term debt			<u>\$ 447,840</u>	<u>\$ 43,128</u>	<u>\$ 27,758</u>	<u>\$ 463,210</u>	<u>\$ 28,555</u>

The annual requirements to amortize all business-type activities long-term debt outstanding as of December 31, 2013 are as follows (excluding capital lease obligations):

Fiscal Year Ending December 31,	Principal	Interest	Total
2014	\$ 24,615	\$ 10,889	\$ 35,504
2015	25,283	8,091	33,374
2016	25,974	7,399	33,373
2017	26,691	6,682	33,373
2018	27,434	5,939	33,373
Thereafter	318,714	25,281	343,995
	<u>\$ 448,711</u>	<u>\$ 64,281</u>	<u>\$ 512,992</u>

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

Original cost	\$	43,750
Less: accumulated depreciation		11,979
<hr/>		
Net book value	\$	31,771
<hr/>		
Purchase price	\$	43,750
Less: down payment		23,750
<hr/>		
Financed balance	\$	20,000
<hr/>		
Total future minimum lease payments	\$	22,524
Less: amount representing interest		2,524
<hr/>		
Present value of minimum lease payments		20,000
Less: principal payments		5,501
<hr/>		
Outstanding balance as of December 31, 2013		14,499
Less: current portion		3,940
<hr/>		
Long-term portion	\$	10,559
<hr/>		

At December 31, 2013 the scheduled maturities of long-term lease commitments are as follows:

Year ending December 31,		
2014	\$	3,940
2015		4,099
2016		4,264
2017		2,196
<hr/>		
	\$	14,499
<hr/>		

Interest expense for bonds, notes payable, and capital lease commitments in the business-type activities for the year ended December 31, 2013 totaled \$10,233.

NOTES TO FINANCIAL STATEMENTS

Note 7. 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,	Additions	and	December 31,	Due in
Rate	Matures	2012		Repayments	2013	One Year
Police pension escrow		\$ 38,988	\$ 6,764	\$ 17,821	\$ 27,930	\$ -

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 9 for further disclosures related to this Plan.

Note 8. 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 9. 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, 2013 was \$3,921 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 9. 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, 2013 the Town was required to contribute 6.20% of total compensation for general employees and 15.5 % 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 \$22,466 for the year ended December 31, 2013.

Note 10. 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 11. Required Individual Fund Disclosures

The following funds had an excess of expenditures over appropriations for the year ended December 31, 2013:

Funds	Budgeted Expenditures	Actual Expenditures	Excess of Actual Over Budgeted Expenditures
General	\$ 453,543	\$ 588,841	\$ (135,298)
Utility	183,057	250,640	(67,583)

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 12. Date of Management’s Review

In preparing the financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through October 29, 2014, 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, 2013**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Taxes:				
Real estate	\$ 208,000	\$ 208,000	\$ 198,268	\$ (9,732)
Capitation	3,400	3,400	3,420	20
Transfer	24,000	24,000	61,923	37,923
Tax penalties	2,000	2,000	15,989	13,989
Licenses and permits	29,000	29,000	24,075	(4,925)
Cemetery fees and lots	3,300	3,300	2,310	(990)
Investment income	100	100	1,370	1,270
Community hall rental	4,500	4,500	3,800	(700)
Public safety	18,000	18,000	13,690	(4,310)
Police pension income	-	-	17,795	17,795
State of Delaware grant	25,000	25,000	126,825	101,825
Franchise fees	32,200	32,200	33,021	821
Miscellaneous Income	19,300	19,300	39,066	19,766
Total operating revenues	368,800	368,800	541,552	172,752
OTHER FINANCING SOURCES				
Loan proceeds	-	-	14,885	14,885
Total other financing sources	-	-	14,885	14,885
Total revenues and other financing sources	\$ 368,800	\$ 368,800	\$ 556,437	\$ 187,637

TOWN OF BLADES, DELAWARE

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
EXPENDITURE DETAIL
Year Ended December 31, 2013**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
GENERAL GOVERNMENT:				
Advertising	\$ 1,000	\$ 1,000	\$ 812	\$ 188
Office expense	3,000	3,000	5,381	(2,381)
Salaries - maintenance	12,300	12,300	12,300	-
Salaries - town clerks	68,516	68,516	71,316	(2,800)
Pension	4,700	4,700	4,645	55
Utilities	5,300	5,300	6,099	(799)
Insurance	30,900	30,900	14,602	16,298
Professional fees	26,000	26,000	29,317	(3,317)
Printing and duplicating	300	300	566	(266)
Telephone	1,400	1,400	1,955	(555)
Repairs and maintenance	1,300	1,300	1,874	(574)
Travel - special meetings	940	940	1,528	(588)
Town functions	500	500	4,009	(3,509)
Capital outlay	-	-	15,194	(15,194)
Dues and Subscriptions	585	585	737	(152)
Miscellaneous	550	550	597	(47)
Refuse removal	1,020	1,020	919	101
Payroll taxes	6,530	6,530	6,767	(237)
Donations	200	200	100	100
Other supplies	300	300	1,073	(773)
Total general government	165,341	165,341	179,791	(14,450)
PUBLIC SAFETY:				
Training	-	-	1,048	(1,048)
Other supplies	1,100	1,100	14,144	(13,044)
Salaries	130,000	130,000	154,008	(24,008)
Payroll taxes	11,000	11,000	12,852	(1,852)
Dues and subscriptions	175	175	310	(135)
Repairs and maintenance	1,500	1,500	4,404	(2,904)
Insurance	40,300	40,300	34,329	5,971
Pension	-	-	17,821	(17,821)
Telephone	4,500	4,500	4,841	(341)
Gas and oil	13,000	13,000	13,213	(213)
Miscellaneous	850	850	4,930	(4,080)
Travel - special meetings	-	-	1,136	(1,136)
Capital outlay	-	-	38,818	(38,818)
Equipment	600	600	7,284	(6,684)
Uniforms	2,000	2,000	1,098	902
Total public safety	\$ 205,025	\$ 205,025	\$ 310,236	\$ (105,211)

TOWN OF BLADES, DELAWARE

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
EXPENDITURE DETAIL
Year Ended December 31, 2013**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
CEMETERY AND PARK				
Equipment	\$ -	\$ -	\$ 3,605	\$ (3,605)
Repairs and maintenance	700	700	1,060	(360)
Cemetery and park care	4,500	4,500	4,776	(276)
Advertising	200	200	106	94
Miscellaneous	100	100	-	100
Supplies	925	925	1,362	(437)
Utilities	800	800	969	(169)
Capital outlay	-	-	4,399	(4,399)
Refuse removal	700	700	425	275
Total cemetery and park	7,925	7,925	16,702	(8,777)
STREET AND LIGHT				
Equipment	5,000	5,000	2,645	2,355
Supplies	200	200	198	2
Electricity	24,000	24,000	23,748	252
Repairs and maintenance	6,500	6,500	9,145	(2,645)
Miscellaneous	100	100	-	100
Total street and light	35,800	35,800	35,736	64
COMMUNITY HALL				
Equipment	-	-	814	(814)
Utilities	4,000	4,000	3,046	954
Miscellaneous	100	100	162	(62)
Repairs and maintenance	250	250	1,137	(887)
Total community hall	4,350	4,350	5,159	(809)
CODE ENFORCEMENT				
Salaries	24,102	24,102	25,166	(1,064)
Payroll taxes and health insurance	2,200	2,200	2,083	117
Miscellaneous	8,800	8,800	8,193	607
Repairs and maintenance	-	-	5,775	(5,775)
Total code enforcement	35,102	35,102	41,217	(6,115)
Total expenditures	\$ 453,543	\$ 453,543	\$ 588,841	\$ (135,298)

OTHER SUPPLEMENTARY INFORMATION

TOWN OF BLADES, DELAWARE

**OTHER SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - UTILITY FUND
OPERATING REVENUE AND EXPENSE DETAIL
Year Ended December 31, 2013**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES				
Charges for services:				
Water billings	\$ 230,200	\$ 230,200	\$ 174,190	\$ (56,010)
Water permits and penalties	10,600	10,600	5,971	(4,629)
Front footage assessment	27,000	27,000	27,978	978
Grant proceeds	-	-	32,271	32,271
Total revenues	267,800	267,800	240,410	(27,390)
OPERATING EXPENSE				
Salaries and wages	59,452	59,452	65,681	(6,229)
Payroll taxes	5,200	5,200	5,388	(188)
Repairs and maintenance	11,000	11,000	10,343	657
Chemicals & supplies	14,400	14,400	14,339	61
Insurance	25,305	25,305	24,517	788
Utilities	13,000	13,000	14,186	(1,186)
Testing	575	575	250	325
Postage and office supplies	2,000	2,000	1,748	252
Telephone	2,500	2,500	2,774	(274)
Pension	3,500	3,500	4,309	(809)
Vehicle fuel and maintenance	6,000	6,000	7,095	(1,095)
Equipment	5,000	5,000	6,238	(1,238)
Depreciation and amortization	-	-	48,080	(48,080)
Bad debt	-	-	2,818	(2,818)
Other	1,750	1,750	4,883	(3,133)
Total operating expense	149,682	149,682	212,649	(62,967)
NON-OPERATING EXPENSE				
Loan principal payments	22,167	22,167	27,758	(5,591)
Interest expense	11,208	11,208	10,233	975
Total non-operating expense	33,375	33,375	37,991	(4,616)
Total water expenses	\$ 183,057	\$ 183,057	\$ 250,640	\$ (67,583)



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, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 29, 2014.

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 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 a 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 a 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, regulations, 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 October 29, 2014.

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
October 29, 2014