TOWN OF BLADES, DELAWARE

FINANCIAL REPORT

DECEMBER 31, 2014

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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, 2014, 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, 2014, 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 April 19, 2016 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, as listed in the table of contents, 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.

TGM Group LLC

Salisbury, Maryland
April 19, 2016

TOWN OF BLADES, DELAWARE

STATEMENT OF NET POSITION
December 31, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash	$ 121,513	$ 58	$ 121,571
Accounts receivable	113,750	95,856	209,606
Prepaid insurance	7,264	-	7,264
Accrued interest receivable	272	-	272
Total current assets	242,799	95,914	338,713
Noncurrent assets			
Restricted cash - police pension account	1,026	-	1,026
Capital assets, at cost			
Less accumulated depreciation	582,009	808,568	1,390,577
Total noncurrent assets	583,035	808,568	1,391,603
Total assets	825,834	904,482	1,730,316
LIABILITIES			
Current liabilities			
Accounts payable	165,660	-	165,660
Accrued payroll and taxes	5,831	962	6,793
Accrued interest	457	-	457
Road deposit	2,000	-	2,000
Deferred revenue	33,762	-	33,762
Admin pension payable	2,644	-	2,644
Current portion of bonds and notes payable	5,012	29,382	34,394
Total current liabilities	215,366	30,344	245,710
Noncurrent liabilities			
Police pension escrow	28,133	-	28,133
Bonds and notes payable	5,132	461,510	466,642
Total noncurrent liabilities	33,265	461,510	494,775
Total liabilities	248,631	491,854	740,485
NET POSITION			
Investment in capital assets, net of related debt	571,865	317,676	889,541
Unrestricted	5,338	94,952	100,290
Total net position	$ 577,203	$ 412,628	$ 989,831

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

TOWN OF BLADES, DELAWARE

STATEMENT OF ACTIVITIES
Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities	Net (Expenses) Revenues and Changes in Net Position: Business-type Activities	Net (Expenses) Revenues and Changes in Net Position: Total
Governmental activities							
General government	$ 211,573	$ 26,437	$ -	$ 750	$ (184,386)	$ -	$ (184,386)
Public safety	231,056	-	23,747	31,437	(175,872)	-	(175,872)
Cemetery and park	11,291	6,125	-	-	(5,166)	-	(5,166)
Street and light	71,160	-	26,016	36,127	(9,017)	-	(9,017)
Community hall	4,943	3,050	-	-	(1,893)	-	(1,893)
Code enforcement	37,457	-	-	-	(37,457)	-	(37,457)
Total governmental activities	567,480	35,612	49,763	68,314	(413,791)	-	(413,791)
Business-type activities							
Utility fund	214,611	294,327	-	-	-	79,716	79,716
Total business-type activities	214,611	294,327	-	-	-	79,716	79,716
Total	$ 782,091	$ 329,939	$ 49,763	$ 68,314	$ (413,791)	$ 79,716	$ (334,075)
General revenues							
Property, capitation, and transfer taxes					211,725	-	211,725
Unrestricted investment earnings					650	-	650
Franchise fees					32,965	-	32,965
Miscellaneous					31,383	-	31,383
Total general revenues and special items					276,723	-	276,723
Transfers					(5,425)	5,425	-
Total general revenues, special items and transfers					271,298	5,425	276,723
Change in net position					(142,493)	85,141	(57,352)
Net position, beginning of year					719,696	327,487	1,047,183
Net position, end of year					$ 577,203	$ 412,628	$ 989,831

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

TOWN OF BLADES, DELAWARE

BALANCE SHEET
GOVERNMENTAL FUND
December 31, 2014

		Total Governmental Fund
ASSETS		
Cash	$	122,539
Accounts receivable		113,750
Prepaid insurance		7,264
Accrued interest receivable		272
Total assets	$	243,825
LIABILITIES AND FUND DEFICIT		
LIABILITIES		
Accounts payable	$	165,660
Payroll and taxes		5,831
Road deposit		2,000
Deferred revenue		89,485
Accrued interest payable		457
Admin pension payable		2,644
Police pension escrow		28,133
Total liabilities		294,210
FUND DEFICIT		
Nonspendable		7,264
Unassigned		(57,649)
Total fund deficit		(50,385)
Total liabilities and fund deficit	$	243,825

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, 2014

Total fund deficit, governmental fund	$	(50,385)
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.		582,009
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.		55,723
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.		(10,144)
Net assets of governmental activities in the Statement of Net Position	$	577,203

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

TOWN OF BLADES, DELAWARE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND DEFICIT GOVERNMENTAL FUND Year Ended December 31, 2014

	Total Governmental Fund
REVENUES:	
Taxes:	
Real estate	$ 189,614
Capitation	3,484
Transfer	5,300
Tax penalties	8,312
Licenses and permits	23,325
Cemetery fees and lots	6,125
Investment income	650
Community hall rental	3,050
Public safety	3,113
Police pension income	13,217
State of Delaware grants	104,859
Franchise fees	32,965
Miscellaneous revenues	31,383
Total revenues	425,397
EXPENDITURES:	
Current:	
General government	199,638
Public safety	222,092
Cemetery and park	9,172
Street and light	45,585
Community hall	4,130
Code enforcement	37,457
Debt service:	
Principal	4,741
Interest	708
Capital outlay	29,421
Total expenditures	552,944
Deficiency of revenues over expenditures	(127,547)
OTHER FINANCING SOURCES (USES):	
Operating transfers out	(5,425)
Total other financing sources (uses)	(5,425)
Net change in fund deficit	(132,972)
Fund balances, beginning of year	82,587
Fund deficit, end of year	$ (50,385)

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 DEFICIT OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2014

Net change in fund deficit, governmental fund		$ (132,972)
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	29,421	
Depreciation expense	(48,698)	
Excess of depreciation expense over capital outlay		(19,277)
Governmental funds report repayment of capital leases and debt principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.		4,741
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.		5,015
Change in net position of governmental activities		$ (142,493)

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, 2014

	Enterprise Fund Utility Fund
ASSETS	
Current assets	
Cash	$ 58
Accounts receivable - water charges	47,992
Accounts receivable - other	47,864
Total current assets	95,914
Noncurrent assets	
Water system, net of accumulated depreciation	808,568
Total noncurrent assets	808,568
Total assets	904,482
LIABILITIES	
Current liabilities	
Payroll and taxes	962
Bonds and notes payable	29,382
Total current liabilities	30,344
Noncurrent liabilities	
Bonds and notes payable	461,510
Total noncurrent liabilities	461,510
Total liabilities	491,854
NET POSITION	
Investment in capital assets, net of related debt	317,676
Unrestricted	94,952
Total net position	$ 412,628

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, 2014

	Enterprise Fund Utility Fund
OPERATING REVENUES:	
Water billing	$ 220,031
Water permits and penalties	6,139
Front footage assessment	26,077
Total operating revenues	252,247
OPERATING EXPENSES:	
Salaries and wages	68,274
Payroll taxes	5,913
Repairs and maintenance	4,410
Chemicals and supplies	14,211
Insurance	25,160
Utilities	12,805
Postage and office supplies	1,858
Telephone	2,592
Pension	4,444
Vehicle fuel and maintenance	7,071
Equipment	6,704
Depreciation and amortization	42,035
Bad debt	617
Other	8,728
Total operating expenses	204,822
Operating income	47,425
NONOPERATING REVENUES AND EXPENSES:	
Grant proceeds	42,080
Interest expense	(9,789)
Total non-operating revenue and expenses	32,291
Income before operating transfers	79,716
Operating transfers in	5,425
Change in net position	85,141
Net position, beginning of year	327,487
Net position, end of year	$ 412,628

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, 2014

		Enterprise Fund Utility Fund
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$	244,323
Payments to suppliers/vendors		(142,377)
Payments to employees		(69,248)
Net cash provided by operating activities		32,698
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating transfers in from other funds		5,425
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets		(98,317)
Grant revenue		42,080
Proceeds from long-term debt		56,237
Principal paid on long-term debt		(28,555)
Interest paid on long-term debt		(9,789)
Net cash used by capital and related financing activities		(38,344)
Net decrease in cash		**(221)**
Cash and cash equivalents, beginning of year		**279**
Cash and cash equivalents, end of year	**$**	**58**
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$	47,425
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		42,035
Changes in assets and liabilities:		
Increase in receivables		(55,788)
Decrease in payables		(974)
Net cash provided by operating activities	$	32,698

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

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, 2014, 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:

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.

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 $51,794 based on the Town's analysis of collectability on certain property tax accounts.

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	-
Cemetary 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.

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, 2014.

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, 2014. 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.

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, 2014, the carrying amount of the Town's bank deposits was $121,571 and the balance per bank records totaled $126,173 which was fully insured. At December 31, 2014, the Town had no custodial risk relative to uninsured amounts.

As of December 31, 2014 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, 2014:

	December 31, 2013	Additions	Deductions	December 31, 2014
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	187,806	-	-	187,806
Streets	1,746,940	22,962	-	1,769,902
Autos	119,347	-	-	119,347
Police equipment	69,621	6,459	-	76,080
Signs	3,230	-	-	3,230
Office furniture and equipment	45,781	-	-	45,781
Cemetery	8,220	-	-	8,220
Park equipment	30,237	-	-	30,237
Total capital assets, being depreciated	2,211,182	29,421	-	2,240,603
Less accumulated depreciation:				
Buildings	(93,804)	(4,931)	-	(98,735)
Streets	(1,421,883)	(25,575)	-	(1,447,458)
Autos	(99,306)	(5,458)	-	(104,764)
Police equipment	(30,940)	(8,964)	-	(39,904)
Signs	(3,230)	-	-	(3,230)
Office furniture and equipment	(36,685)	(1,651)	-	(38,336)
Cemetery	(6,815)	(241)	-	(7,056)
Park equipment	(19,427)	(1,878)	-	(21,305)
Total accumulated depreciation	(1,712,090)	(48,698)	-	(1,760,788)
Total capital assets, being depreciated, net	499,092	(19,277)	-	479,815
Governmental activities capital assets, net	$ 601,286	$ (19,277)	$ -	$ 582,009

Note 4. Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

General government	$	11,227
Public safety		8,964
Cemetary and parks		2,119
Street and light		25,575
Community hall		813
Total depreciation expense	$	48,698

BUSINESS-TYPE ACTIVITIES	December 31, 2013	Additions	Deductions	December 31, 2014
Capital assets, not being depreciated				
Back up well CIP	$ 86,492	$ 98,317	$ -	$ 184,809
Total capital assets, not being depreciated	86,492	98,317	-	184,809
Capital assets, being depreciated:				
Water meter	84,343	-	-	84,343
Water district equipment FmHA	94,940	-	-	94,940
Water district equipment EDA	1,991,443	-	-	1,991,443
Total capital assets, being depreciated	2,170,726	-	-	2,170,726
Less accumulated depreciation:				
Water meter	(44,960)	(5,623)	-	(50,583)
Water district equipment FmHA	(94,940)	-	-	(94,940)
Water district equipment EDA	(1,365,032)	(36,412)	-	(1,401,444)
Total accumulated depreciation	(1,504,932)	(42,035)	-	(1,546,967)
Total capital assets, being depreciated, net	665,794	(42,035)	-	623,759
Business-type activities capital assets, net	$ 752,286	$ 56,282	$ -	$ 808,568

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, 2013	Additions	Retirements and Repayments	Balances December 31, 2014	Amount Due in One Year
Capital lease - Chevy Sonic	5.00%	2016	$ 14,885	$ -	$ 4,741	$ 10,144	$ 5,012
Total governmental activities long-term debt			$ 14,885	$ -	$ 4,741	$ 10,144	$ 5,012

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		4,447
Net book value	$	10,747
Purchase price	$	15,194
Less: down payment		309
Financed balance	$	14,885
Total future minimum lease payments	$	16,473
Less: amount representing interest		1,588
Present value of minimum lease payments		14,885
Less: principal payments		4,741
Outstanding balance as of December 31, 2014		10,144
Less: current portion		5,012
Long-term portion	$	5,132

At December 31, 2014 the scheduled maturities of long-term lease commitments are as follows:

Year ending December 31,		
2015	$	5,012
2016		5,132
	$	10,144

Interest expense for capital lease commitments in the governmental activities for the year ended December 31, 2014 totaled $708.

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, 2013	Additions	Retirements and Repayments	Balances December 31, 2014	Amount Due in One Year
Farmers Home Administration	5.00%	2022	$ 68,961	$ -	$ 7,321	$ 61,640	$ 7,692
State of Delaware - SRF Loan	1.50%	2031	272,899	-	13,312	259,587	13,513
DNREC - Division of Water Loan	2.41%	2026	57,378	-	3,982	53,396	4,078
DWSRF Loan	1.00%	2043	49,473	56,237	-	105,710	-
Capital lease - Backhoe	4.00%	2017	14,499	-	3,940	10,559	4,099
Total business-type activities long-term debt			$ 463,210	$ 56,237	$ 28,555	$ 490,892	$ 29,382

The annual requirements to amortize all business-type activities long-term debt outstanding as of December 31, 2014 are as follows (excluding capital lease obligations):

Fiscal Year Ending December 31,	Principal	Interest	Total
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
2019	28,205	5,168	33,373
Thereafter	346,746	22,243	368,989
	$ 480,333	$ 55,522	$ 535,855

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%.

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

Original cost	$	43,750
Less: accumulated depreciation		18,229
Net book value	$	25,521
Purchase price	$	43,750
Less: down payment		23,750
Financed balance	$	20,000
Total future minimum lease payments	$	22,524
Less: amount representing interest		2,524
Present value of minimum lease payments		20,000
Less: principal payments		9,441
Outstanding balance as of December 31, 2014		10,559
Less: current portion		4,099
Long-term portion	$	6,460

At December 31, 2014 the scheduled maturities of long-term lease commitments are as follows:

Year ending December 31,		
2015	$	4,099
2016		4,264
2017		2,196
	$	10,559

Interest expense for bonds, notes payable, and capital lease commitments in the business-type activities for the year ended December 31, 2014 totaled $9,789.

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:

	Interest Rate	Date Series Matures	Balances December 31, 2013	Additions	Retirements and Repayments	Balances December 31, 2014	Amount Due in One Year
Police pension escrow			$ 27,930	$ 13,111	$ 12,951	$ 28,090	$ -

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, 2014 was $4,050 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.

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, 2014 the Town was required to contribute 6.62% of total compensation for general employees and 15.52% 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 $24,162 for the year ended December 31, 2014.

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, 2014:

Funds	Budgeted Expenditures	Actual Expenditures	Excess of Actual Over Budgeted Expenditures
General	$ 460,180	$ 547,495	$ (87,315)
Utility	201,499	243,166	(41,667)

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.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF BLADES, DELAWARE

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
REVENUE DETAIL
Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Taxes:				
Real estate	$ 208,681	$ 208,681	$ 189,614	$ (19,067)
Capitation	3,424	3,424	3,484	60
Transfer	20,000	20,000	5,300	(14,700)
Tax penalties	8,000	8,000	8,312	312
Licenses and permits	26,000	26,000	23,325	(2,675)
Cemetery fees and lots	3,300	3,300	6,125	2,825
Investment income	1,500	1,500	650	(850)
Community hall rental	4,500	4,500	3,050	(1,450)
Public safety	16,000	16,000	3,113	(12,887)
Police pension income	-	-	13,217	13,217
State of Delaware grant	29,000	29,000	104,859	75,859
Franchise fees	33,050	33,050	32,965	(85)
Miscellaneous income	21,490	21,490	31,383	9,893
Total revenues	$ 374,945	$ 374,945	$ 425,397	$ 50,452

TOWN OF BLADES, DELAWARE

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
EXPENDITURE DETAIL
Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
GENERAL GOVERNMENT:				
Advertising	$ 800	$ 800	$ 2,242	$ (1,442)
Office expense	3,000	3,000	4,930	(1,930)
Salaries - maintenance	12,300	12,300	12,300	-
Salaries - town clerks	70,600	70,600	74,565	(3,965)
Pension	5,000	5,000	4,770	230
Utilities	5,800	5,800	5,233	567
Insurance	30,900	30,900	12,995	17,905
Professional fees	26,000	26,000	27,611	(1,611)
Printing and duplicating	150	150	514	(364)
Telephone	2,000	2,000	1,966	34
Repairs and maintenance	1,100	1,100	3,898	(2,798)
Travel - special meetings	1,100	1,100	1,235	(135)
Town functions	500	500	6,935	(6,435)
Dues and subscriptions	695	695	1,862	(1,167)
Miscellaneous	525	525	2,333	(1,808)
Refuse removal	1,020	1,020	1,105	(85)
Payroll taxes	6,630	6,630	7,408	(778)
Donations	100	100	265	(165)
Bad debt	-	-	26,367	(26,367)
Other supplies	250	250	1,104	(854)
Total general government	168,470	168,470	199,638	(31,168)
PUBLIC SAFETY:				
Training	-	-	6,020	(6,020)
Other supplies	1,100	1,100	7,662	(6,562)
Salaries	132,000	132,000	113,472	18,528
Payroll taxes	10,500	10,500	9,938	562
Dues and subscriptions	310	310	165	145
Repairs and maintenance	1,500	1,500	6,823	(5,323)
Insurance	40,300	40,300	34,689	5,611
Pension	-	-	13,236	(13,236)
Telephone	4,500	4,500	4,945	(445)
Gas and oil	14,000	14,000	6,355	7,645
Miscellaneous	900	900	4,873	(3,973)
Travel - special meetings	125	125	1,909	(1,784)
Capital outlay	-	-	6,459	(6,459)
Equipment	100	100	3,319	(3,219)
Uniforms	4,000	4,000	8,686	(4,686)
Total public safety	$ 209,335	$ 209,335	$ 228,551	$ (19,216)

TOWN OF BLADES, DELAWARE

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
EXPENDITURE DETAIL
Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
CEMETERY AND PARK				
Equipment	$ -	$ -	$ 180	$ (180)
Repairs and maintenance	700	700	1,211	(511)
Cemetery and park care	4,500	4,500	4,310	190
Advertising	100	100	256	(156)
Miscellaneous	100	100	625	(525)
Supplies	925	925	1,212	(287)
Utilities	800	800	928	(128)
Refuse removal	700	700	450	250
Total cemetery and park	7,825	7,825	9,172	(1,347)
STREET AND LIGHT				
Equipment	5,000	5,000	294	4,706
Supplies	200	200	857	(657)
Electricity	24,000	24,000	23,721	279
Repairs and maintenance	6,500	6,500	20,713	(14,213)
Capital outlay	-	-	22,962	(22,962)
Miscellaneous	100	100	-	100
Total street and light	35,800	35,800	68,547	(32,747)
COMMUNITY HALL				
Utilities	2,800	2,800	3,314	(514)
Miscellaneous	100	100	178	(78)
Repairs and maintenance	250	250	638	(388)
Total community hall	3,150	3,150	4,130	(980)
CODE ENFORCEMENT				
Salaries	25,000	25,000	26,309	(1,309)
Payroll taxes and health insurance	2,000	2,000	2,337	(337)
Miscellaneous	8,600	8,600	8,571	29
Repairs and maintenance	-	-	240	(240)
Total code enforcement	35,600	35,600	37,457	(1,857)
Total operating expenditures	460,180	460,180	547,495	(87,315)
DEBT SERVICE				
Loan principal payments	4,742	4,742	4,741	1
Interest expense	708	708	708	-
Total debt service	5,450	5,450	5,449	1
Total expenditures	$ 465,630	$ 465,630	$ 552,944	$ (87,314)

OTHER SUPPLEMENTARY INFORMATION

TOWN OF BLADES, DELAWARE

OTHER SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - UTILITY FUND
OPERATING REVENUE AND EXPENSE DETAIL
Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Charges for services:				
Water billings	$ 251,003	$ 251,003	$ 220,031	$ (30,972)
Water permits and penalties	14,400	14,400	6,139	(8,261)
Front footage assessment	26,781	26,781	26,077	(704)
Grant proceeds	-	-	42,080	42,080
Total revenues	292,184	292,184	294,327	2,143
OPERATING EXPENSE				
Salaries and wages	63,000	63,000	68,274	(5,274)
Payroll taxes	5,400	5,400	5,913	(513)
Repairs and maintenance	11,699	11,699	4,410	7,289
Chemicals & supplies	14,800	14,800	14,211	589
Insurance and	25,300	25,300	25,160	140
Utilities	13,000	13,000	12,805	195
Testing	575	575	-	575
Postage and office supplies	2,000	2,000	1,858	142
Telephone	2,500	2,500	2,592	(92)
Pension	4,500	4,500	4,444	56
Vehicle fuel and maintenance	7,600	7,600	7,071	529
Equipment	6,000	6,000	6,704	(704)
Depreciation and amortization	-	-	42,035	(42,035)
Bad debt	-	-	617	(617)
Other	1,750	1,750	8,728	(6,978)
Total operating expense	158,124	158,124	204,822	(46,698)
NON-OPERATING EXPENSE				
Loan principal payments	22,167	22,167	28,555	(6,388)
Interest expense	21,208	21,208	9,789	11,419
Total non-operating expense	43,375	43,375	38,344	5,031
Total water expenses	$ 201,499	$ 201,499	$ 243,166	$ (41,667)

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, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated April 19, 2016.

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.

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 April 19, 2016.

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
April 19, 2016

Herbert J. Geary III
Corey N. Duncan
Roy J. Geiser
Chris A. Hall
Ronald W. Hickman
Charles M. Meenehan
Craig A. Walter
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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, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated April 19, 2016.

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.

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 April 19, 2016.

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.

WM Group LLC

Salisbury, Maryland
April 19, 2016