

TOWN OF BLADES, DELAWARE

FINANCIAL REPORT

DECEMBER 31, 2015

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INDEPENDENT AUDITORS' REPORT

Office of the Mayor and Council
Blades, Delaware

Report on the Financial Statements

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, 2015, 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, 2015, 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.

Change in Accounting Principle

As discussed in Note 12 to the financial statements, during the year ended December 31, 2015 the Town adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to 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. Our opinion on the basic financial statements is not affected by this missing information.

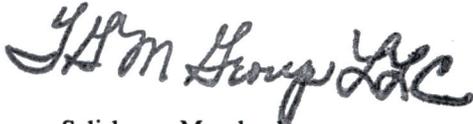
Other Information

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, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional supplementary is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic 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 basic financial statements as a whole.

Other Reporting Required By *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2017 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 our 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* in considering the Town of Blades, Delaware's internal control over financial reporting and compliance.

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

Salisbury, Maryland
November 7, 2017

TOWN OF BLADES, DELAWARE

**STATEMENT OF NET POSITION
December 31, 2015**

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
ASSETS			
Current assets			
Cash	\$ 100,546	\$ 65	\$ 100,611
Accounts receivable	100,009	59,035	159,044
Prepaid insurance	7,566	-	7,566
Accrued interest receivable	264	-	264
Total current assets	208,385	59,100	267,485
Noncurrent assets			
Restricted cash - police pension account	30,215	-	30,215
Net pension asset	18,289	-	18,289
Capital assets, at cost	2,349,743	2,559,036	4,908,779
Less accumulated depreciation	(1,809,391)	(1,586,808)	(3,396,199)
Total noncurrent assets	588,856	972,228	1,561,084
Total assets	797,241	1,031,328	1,828,569
DEFERRED OUTFLOWS OF RESOURCES			
Pension (see Note 9)	22,347	-	22,347
LIABILITIES			
Current liabilities			
Accounts payable	63,611	-	63,611
Accrued payroll and taxes	4,354	1,084	5,438
Accrued interest	457	-	457
Road deposit	2,000	-	2,000
Deferred revenue	34,898	-	34,898
Admin pension payable	2,637	-	2,637
Current portion of bonds and notes payable	5,132	38,821	43,953
Total current liabilities	113,089	39,905	152,994
Noncurrent liabilities			
Police pension escrow	29,333	-	29,333
Bonds and notes payable	-	550,055	550,055
Total noncurrent liabilities	29,333	550,055	579,388
Total liabilities	142,422	589,960	732,382
DEFERRED INFLOWS OF RESOURCES			
Pension (see Note 9)	45,002	-	45,002
NET POSITION			
Investment in capital assets, net of related debt	535,220	383,352	918,572
Unrestricted	96,944	58,016	154,960
Total net position	\$ 632,164	\$ 441,368	\$ 1,073,532

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

TOWN OF BLADES, DELAWARE

**STATEMENT OF ACTIVITIES
Year Ended December 31, 2015**

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Operating		Governmental Activities	Business-type Activities	Total
		Charges for Services	Grants and Contributions			
Governmental activities						
General government	\$ 245,060	\$ 28,962	\$ -	\$ 800	\$ (215,298)	\$ -
Public safety	242,519	-	33,352	48,052	(161,115)	-
Cemetery and park	14,724	5,945	-	10,000	1,221	-
Street and light	61,855	-	29,519	-	(32,336)	-
Community hall	5,862	7,650	-	-	1,788	-
Code enforcement	37,271	-	-	-	(37,271)	-
Total governmental activities	607,291	42,557	62,871	58,852	(443,011)	-
Business-type activities						
Utility fund	209,695	385,135	-	-	-	175,440
Total business-type activities	209,695	385,135	-	-	-	175,440
Total	\$ 816,986	\$ 427,692	\$ 62,871	\$ 58,852	\$ (443,011)	\$ 175,440
General revenues						
Property, capitation, and transfer taxes					238,518	-
Unrestricted investment earnings					464	-
Franchise fees					32,681	-
Miscellaneous					46,413	-
Total general revenues and special items					318,076	-
Transfers					146,700	(146,700)
Total general revenues, special items and transfers					464,776	(146,700)
Change in net position					21,765	28,740
Net position, beginning, as restated (see Note 12)					610,399	412,628
Net position, end of year					\$ 632,164	\$ 441,368
					\$	\$ 1,073,532

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

TOWN OF BLADES, DELAWARE

**BALANCE SHEET
GOVERNMENTAL FUND
December 31, 2015**

	Total Governmental <u>Fund</u>
ASSETS	
Cash	\$ 130,761
Accounts receivable	100,009
Prepaid insurance	7,566
Accrued interest receivable	264
<hr/>	
Total assets	\$ 238,600
<hr/>	
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 63,611
Payroll and taxes	4,354
Road deposit	2,000
Deferred revenue	34,898
Accrued interest payable	457
Admin pension payable	2,637
Police pension escrow	29,333
<hr/>	
Total liabilities	137,290
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DEFERRED INFLOWS OF RESOURCES	
Unavailable revenues - property taxes	56,050
<hr/>	
FUND BALANCE	
Nonspendable	7,566
Unassigned	37,694
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Total fund balance	45,260
<hr/>	
Total liabilities, deferred inflows of resources and fund balance	\$ 238,600
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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, 2015**

Total fund balance, governmental fund	\$	45,260
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.		540,352
Certain property tax collections are not available to pay for current-period expenditures and therefore are reported as deferred inflows of resources in the governmental activities of the Statement of Net Position.		56,050
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. Those liabilities consist of:		
Deferred outflow of resources - Pension (See Note 9)		22,347
Deferred inflow of resources - Pension (See Note 9)		(45,002)
Net pension asset		18,289
Bonds and notes payable		(5,132)
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Net position of governmental activities in the Statement of Net Position	\$	632,164

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

TOWN OF BLADES, DELAWARE

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
Year Ended December 31, 2015**

	<u>Total Governmental Fund</u>
REVENUES:	
Taxes:	
Real estate	\$ 200,673
Capitation	3,336
Transfer	28,312
Tax penalties	5,870
Licenses and permits	24,160
Cemetery fees and lots	5,945
Investment income	464
Community hall rental	7,650
Public safety	4,802
Police pension income	14,168
State of Delaware grants	107,555
Franchise fees	32,681
Miscellaneous revenues	46,413
Total revenues	482,029
EXPENDITURES:	
Current:	
General government	195,833
Public safety	233,033
Cemetery and park	12,181
Street and light	35,770
Community hall	5,049
Code enforcement	37,271
Debt service:	
Principal	5,012
Interest	438
Capital outlay	8,497
Total expenditures	533,084
Deficiency of revenues over expenditures	(51,055)
OTHER FINANCING SOURCES (USES):	
Operating transfers in	146,700
Total other financing sources (uses)	146,700
Net change in fund balance	95,645
Fund deficit, beginning of year	(50,385)
Fund balance, end of year	\$ 45,260

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

TOWN OF BLADES, DELAWARE

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TO THE
STATEMENT OF ACTIVITIES
Year Ended December 31, 2015**

Net change in fund balance, governmental fund \$ 95,645

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	8,497	
Depreciation expense	(50,154)	
Excess of depreciation expense over capital outlay		(41,657)

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. 5,012

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. 327

Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Change in deferred outflow of resources - Pension (See Note 9)		(3,628)
Change in deferred inflow of resources - Pension (See Note 9)		(45,002)
Change in net pension liability / asset		11,068

Change in net position of governmental activities \$ 21,765

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, 2015

	<u>Enterprise Fund</u>
	<u>Utility Fund</u>
ASSETS	
Current assets	
Cash	\$ 65
Accounts receivable - water charges	57,605
Accounts receivable - other	1,430
Total current assets	59,100
Noncurrent assets	
Water system, net of accumulated depreciation	972,228
Total noncurrent assets	972,228
Total assets	1,031,328
LIABILITIES	
Current liabilities	
Payroll and taxes	1,084
Bonds and notes payable	38,821
Total current liabilities	39,905
Noncurrent liabilities	
Bonds and notes payable	550,055
Total noncurrent liabilities	550,055
Total liabilities	589,960
NET POSITION	
Investment in capital assets, net of related debt	383,352
Unrestricted	58,016
Total net position	\$ 441,368

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, 2015**

		<u>Enterprise Fund</u>
		<u>Utility Fund</u>
OPERATING REVENUES:		
Water billing	\$	224,833
Water permits and penalties		13,617
Front footage assessment		27,357
<hr/>		
Total operating revenues		265,807
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OPERATING EXPENSES:		
Salaries and wages		65,913
Payroll taxes		5,602
Repairs and maintenance		11,436
Chemicals and supplies		10,303
Insurance		26,552
Utilities		12,984
Testing		600
Postage and office supplies		1,815
Telephone		1,770
Pension		4,162
Vehicle fuel and maintenance		4,811
Equipment		4,504
Depreciation and amortization		39,841
Bad debt		670
Other		8,834
<hr/>		
Total operating expenses		199,797
<hr/>		
Operating income		66,010
NONOPERATING REVENUES AND EXPENSES:		
Grant proceeds		119,328
Interest expense		(9,898)
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Total non-operating revenue and expenses		109,430
<hr/>		
Income before operating transfers		175,440
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Operating transfers out		(146,700)
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Change in net position		28,740
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Net position, beginning of year		412,628
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Net position, end of year	\$	441,368

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, 2015**

	<u>Enterprise Fund</u> <u>Utility Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 256,194
Payments to suppliers/vendors	(47,609)
Payments to employees	(65,791)
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Net cash provided by operating activities	142,794
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Operating transfers out to other funds	(146,700)
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(203,501)
Grant revenue	119,328
Proceeds from long-term debt	131,673
Principal paid on long-term debt	(33,689)
Interest paid on long-term debt	(9,898)
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Net cash provided by capital and related financing activities	3,913
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Net increase in cash	7
Cash and cash equivalents, beginning of year	58
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Cash and cash equivalents, end of year	\$ 65
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RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 66,010
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	39,841
Changes in assets and liabilities:	
Decrease in receivables	36,821
Increase in payables	122
<hr/>	
Net cash provided by operating activities	\$ 142,794
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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, 2015, the Town has no non-major funds.

B. Fund Accounting

The Town uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The Town has no fiduciary funds.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following have historically been the Town's major governmental funds:

General Fund – The general fund is the general operating fund of the Town. All general revenues and other receipts that are not allocated by law or contractual agreement to another fund and general operating expenditures are accounted for in this fund.

PROPRIETARY FUNDS

Proprietary funds focus on the determination of changes in net 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 position. The statement of cash flows provides information about how the Town finances and meets the cash flow needs of its proprietary activities.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. The Town defines "available" as being collected within 60 days of year end.

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.

Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

See Note 9 for further details relating to the deferred outflows/inflows of resources, as recorded on the statement of net position, relating to the Town's pension plan.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated assets during the year is reported in the operating statement as an expense with a like amount reported as donated revenue. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Data

All funds are legally required to be budgeted and appropriated. The budget is prepared on the budgetary basis of accounting consistent with GAAP with the following exceptions: depreciation is not considered, and in the utility fund debt principal payments and capital expenditures are considered. All annual appropriations lapse at the end of the year.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

F. Cash Equivalents

For the purpose of the statement of cash flows, the proprietary fund considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

G. Property Tax

The Town's real property tax is levied each November on the assessed values certified as of that date for all taxable real property located in the Town. Payments are due by January 31. All unpaid taxes become delinquent February 1. The Town bills and collects its own property taxes.

H. Interfund Receivables and Transfers

Interfund transfers represent monies used to fund projects or to cover budget overages.

I. Receivables

Allowance for doubtful accounts – The Town has evaluated the collectability of outstanding amounts due to the Town from water service charges. Based on its analysis, the Town has determined that all water amounts are collectible, and as such, has not established an allowance for doubtful accounts.

J. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

K. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net 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	-

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

L. Compensated Absences

The Town does not maintain an accrual for unused vacation or sick pay. While sick leave may be carried over from year to year, any unused balance is not paid to employees upon termination. Vacation leave does not carry over from year to year and any unused vacation is paid upon termination of employment only to those employees who have been actively employed for at least six months prior to termination. The Town deems the liability for unused vacation not to be material to the Town's financial statements.

M. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

Bond issuance costs are deferred and amortized over the term of the bonds using the interest method.

N. Net 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, 2015.

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.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

O. Governmental Fund Balances (continued)

The Town did not have any restricted, committed, or assigned fund balances at December 31, 2015. 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, 2015, the carrying amount of the Town's bank deposits was \$130,826 and the balance per bank records totaled \$132,569 which was fully insured. At December 31, 2015, the Town had no custodial risk relative to uninsured amounts.

As of December 31, 2015 the Town has no investments. Therefore the Town has no credit or custodial risk related to investments.

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets

The following is a summary of changes in capital assets for the year ended December 31, 2015:

	December 31, 2014	Additions	Deductions	December 31, 2015
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	1,769,902	-	-	1,769,902
Autos	119,347	-	-	119,347
Police equipment	76,080	-	-	76,080
Signs	3,230	-	-	3,230
Office furniture and equipment	45,781	-	-	45,781
Cemetery	8,220	-	-	8,220
Park equipment	30,237	8,497	(1,551)	37,183
Total capital assets, being depreciated	2,240,603	8,497	(1,551)	2,247,549
Less accumulated depreciation:				
Buildings	(98,735)	(4,930)	-	(103,665)
Streets	(1,447,458)	(26,086)	-	(1,473,544)
Autos	(104,764)	(5,457)	-	(110,221)
Police equipment	(39,904)	(9,486)	-	(49,390)
Signs	(3,230)	-	-	(3,230)
Office furniture and equipment	(38,336)	(1,651)	-	(39,987)
Cemetery	(7,056)	(241)	-	(7,297)
Park equipment	(21,305)	(2,303)	1,551	(22,057)
Total accumulated depreciation	(1,760,788)	(50,154)	1,551	(1,809,391)
Total capital assets, being depreciated, net	479,815	(41,657)	-	438,158
Governmental activities capital assets, net	\$ 582,009	\$ (41,657)	\$ -	\$ 540,352

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

General government	\$	11,227
Public safety		9,486
Cemetery and parks		2,543
Street and light		26,085
Community hall		813
 Total depreciation expense	 \$	 50,154

BUSINESS-TYPE ACTIVITIES	December 31, 2014	Additions	Deductions	December 31, 2015
Capital assets, not being depreciated				
Back up well CIP	\$ 184,809	\$ 169,050	\$ -	\$ 353,859
Total capital assets, not being depreciated	184,809	169,050	-	353,859
 Capital assets, being depreciated:				
Vehicles	24,500	34,451	-	58,951
Water meter	84,343	-	-	84,343
Water district equipment FmHA	94,940	-	-	94,940
Water district equipment EDA	1,966,943	-	-	1,966,943
Total capital assets, being depreciated	2,170,726	34,451	-	2,205,177
 Less accumulated depreciation:				
Vehicles	(24,500)	-	-	(24,500)
Water meter	(50,583)	(5,623)	-	(56,206)
Water district equipment FmHA	(94,940)	-	-	(94,940)
Water district equipment EDA	(1,376,944)	(34,218)	-	(1,411,162)
Total accumulated depreciation	(1,546,967)	(39,841)	-	(1,586,808)
Total capital assets, being depreciated, net	623,759	(5,390)	-	618,369
 Business-type activities capital assets, net	\$ 808,568	\$ 163,660	\$ -	\$ 972,228

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Lease Commitment – Governmental Activities

The following is a summary of the changes in the governmental activities capital lease obligations:

	Balances December 31, 2014	Additions	Retirements and Repayments	Balances December 31, 2015
Real Lease, Inc. 2013 Chevrolet Sonic lease, interest at 5% payable in annual installments of \$2,725, including interest, through 2016	\$ 10,144	\$ -	\$ 5,012	\$ 5,132
	<u>\$ 10,144</u>	<u>\$ -</u>	<u>\$ 5,012</u>	<u>\$ 5,132</u>

Future minimum lease payments under this capital lease are as follows:

<u>Fiscal Year Ending December 31,</u>	
2016	\$ 5,324
	<u>5,324</u>
Less amounts representing interest	192
<u>Present value of net minimum lease payments</u>	<u>\$ 5,132</u>

Interest expense on the above capital lease was \$438 for the year ended December 31, 2015.

The cost of items acquired under capital lease arrangements, as included in capital assets, totaled \$15,694 and the related accumulated depreciation was \$7,585 at December 31, 2015.

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, 2014	Additions	Retirements and Repayments	Balances December 31, 2015	Amount Due in One Year
Farmers Home Administration	5.00%	2022	\$ 61,640	\$ -	\$ 7,691	\$ 53,949	\$ 8,081
State of Delaware - SRF Loan	1.50%	2031	259,587	-	13,513	246,074	13,716
DNREC - Division of Water Loan	2.41%	2026	53,396	-	4,122	49,274	4,177
DWSRF Loan	1.00%	2043	105,710	97,222	-	202,932	3,283
Capital lease - Backhoe	4.00%	2017	10,559	-	8,363	2,196	2,196
Capital lease - Ford F250	4.33%	2020	-	34,451	-	34,451	7,368
Total business-type activities long-term debt			\$ 490,892	\$ 131,673	\$ 33,689	\$ 588,876	\$ 38,821

The annual requirements to amortize all business-type activities long-term debt outstanding as of December 31, 2015 are as follows (excluding capital lease obligations):

Fiscal Year Ending December 31,	Principal	Interest	Total
2016	\$ 29,257	\$ 8,414	\$ 37,671
2017	33,306	8,662	41,968
2018	34,116	7,853	41,969
2019	34,953	7,015	41,968
2020	35,820	6,148	41,968
2021 - 2025	145,234	20,795	166,029
2026 - 2030	121,623	10,803	132,426
2031 - 2035	55,965	4,366	60,331
2036 - 2040	40,786	2,188	42,974
2041-2043	21,169	319	21,488
	\$ 552,229	\$ 76,563	\$ 628,792

Interest expense for long-term debt (excluding capital lease obligations) in the business-type activities for the year ended December 31, 2015 totaled \$9,301.

NOTES TO FINANCIAL STATEMENTS

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

The following is a summary of the changes in the business-type activities capital lease obligations:

	Balances December 31, 2014	Additions	Retirements and Repayments	Balances December 31, 2015
Real Lease, Inc. backhoe lease, interest at 4%; payable in semi-annual installments of \$2,240, including interest, through 2017	\$ 10,559	\$ -	\$ 8,363	\$ 2,196
Real Lease, Inc. 2016 Ford F250 lease, interest at 4.33% payable in annual installments of \$7,503, including interest, through 2020	-	34,451	-	34,451
	<u>\$ 10,559</u>	<u>\$ 34,451</u>	<u>\$ 8,363</u>	<u>\$ 36,647</u>

Future minimum lease payments under these capital leases are as follows:

<u>Fiscal Year Ending December 31,</u>	
2016	\$ 9,745
2017	7,503
2018	7,503
2019	7,503
2020	7,503
	<u>39,757</u>
Less amounts representing interest	3,110
<u>Present value of net minimum lease payments</u>	<u>\$ 36,647</u>

Interest expense on the above capital leases was \$596 for the year ended December 31, 2015.

The cost of items acquired under capital lease arrangements, as included in capital assets, totaled \$78,201 and the related accumulated depreciation was \$24,479 at December 31, 2015.

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,	and	December 31,	Due in	
Rate	Matures	2014	Additions	2015	One Year	
			Repayments			
Police pension escrow		\$ 28,090	\$ 15,217	\$ 14,005	\$ 29,302	\$ -

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 and Retirement Plans

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, 2015 was \$3,870 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.

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

A. Plan Descriptions and Contribution Information

The County & Municipal Other Employees' Pension Plan (the Employee Plan) and the County & Municipal Police and Firefighters' Pension Plan (the Police & Fire Plan) are cost sharing multiple-employer defined-benefit pension plans established in the Delaware Code (collectively "the Plans").

The General Assembly is responsible for setting benefits and contributions and amending plan provisions; administrative rules and regulations are adopted and maintained by the Board of Pension Trustees (the Board).

The management of both Plans is the responsibility of the Board. The Board is comprised of five members appointed by the Governor and confirmed by the State Senate, plus two ex-officio members. The daily operation is the responsibility of the Office of Pensions. Although most of the assets of the Plans are commingled with other Plans for investment purposes, the Plans' assets may be used only for the payment of benefits to the members of the Plans in accordance with the terms of the Plans.

The following are brief descriptions of the Plans in effect as of June 30, 2014. For a more complete description, please refer to the DPERS CAFR.

Separately issued financial statements for DPERS are available from the pension office at:

McArdle Building, Suite 1
860 Silver Lake Blvd
Dover, DE 19904

Plan Description and Eligibility

The Employee Plan - Covers employees of counties or municipalities that have joined the Employee Plan.

The Police & Fire Plan - Covers police officers and firefighters employed by a county or municipality of the State that have joined the Police & Fire Plan.

Service Benefits

The Employee Plan - 1/60th of final average monthly compensation multiplied by years of credited service, subject to maximum limitations. For this plan, final average monthly compensation is the monthly average of the highest five years of compensation.

The Police & Fire Plan - 2.5% of final average monthly compensation multiplied by years of credited service up to 20 years, plus 3.5% of final average monthly compensation multiplied by years of service in excess of 20 years. For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting - 5 years of credited service.

Retirement

The Employee Plan - Age 62 with 5 years of credited service; age 60 with 15 years of credited service; or after 30 years of credited service.

The Police & Fire Plan - Age 62 with 5 years of service; age plus credited service (but not less than 10 years) equals 75; or 20 years of credited service.

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

Disability Benefits

The Employee Plan - Same as Service Benefits. Employee must have 5 years of credited service.

The Police & Fire Plan -

Duty - Total Disability - 75% of final average compensation plus 10% for each dependent not to exceed 25% for all dependents.

Duty - Partial Disability - Calculated the same as Service Benefits, subject to minimum 50% of final average compensation.

Non-Duty - Same as Service Benefits, total disability subject to a minimum 50% of final average monthly compensation plus 5% of each dependent not to exceed 20% for all dependents. Partial disability to a minimum of 30% of final average monthly compensation.

Survivor Benefits

The Employee Plan - If employee is receiving a pension, then eligible survivor receives 50% of pension; if employee is active, eligible survivor receives 50% of pension the employee would have received at age 62.

The Police & Fire Plan - If employee is receiving a pension, then eligible survivor receives 50% of pension; if employee is active, eligible survivor receives 50% of pension the employee would have received at age 62. If the member is killed in the line of duty, the eligible survivor receives 75% of the member's compensation.

Contributions

The Employee Plan -

Employer - Determined by Board of Pension Trustees. Employer contributions were 6.6% and 6.8% of earnings for the Fiscal Year 2014 and 2013, respectively.

Member - 3% of earnings in excess of \$6,000.

The Police & Fire Plan -

Employer - Determined by Board of Pension Trustees. Employer contributions were 15.5% and 14.8% of earnings for the Fiscal Year 2014 and 2013, respectively.

Member - 7% of compensation.

B. Basis of Presentation

The Schedules of Employer Allocations and Pension Amounts by Employer (collectively, the Schedules) present amounts that are considered elements of the financial statements of DPERS or of its participating employers. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of DPERS or the participating employers.

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

C. Summary of Significant Accounting Policies

The accompanying schedules of the Plan within the Delaware Public Employees' Retirement System (DPERS or the System) have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

The Plans schedules are presented on the accrual basis of accounting. Employer contributions to each plan are recognized when due pursuant to legal requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plans.

Management of the System has made certain estimates and assumptions relative to the Plans schedules in conformity with U.S. generally accepted accounting principles. Due to the inherent nature of these estimates, actual results could differ from those estimates.

D. Employer Allocation Percentage Methodology

The amounts assigned to each employer in the Schedule of Pension Amounts by Participating Employer is each employer's proportionate share of the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense (the Collective Pension Amounts) determined in accordance with Governmental Accounting Standards Board No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). Management has elected to allocate the employer's proportionate shares of the Collective Pension amounts based on the percentage of actual employer contributions as documented in the Schedule of Employer Allocations. Employer specific contributions represent payments made by employers to purchase prior service.

E. Collective Net Pension Liability (Asset) of Employers and Actuarial Information

The collective total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of June 30, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. The collective total pension liability for the June 30, 2013 measurement date was determined by an actuarial valuation as of June 30, 2013. These actuarial valuations used the following actuarial assumptions:

Plan	County & Municipal Other Employees'	County & Municipal Police & Firefighters'
Actuarial assumptions:		
Investment rate of return/Discount rate (1)	7.20%	7.20%
Projected salary increases (1)	3.5% to 11.5%	4% to 11.5%
Cost-of-living adjustments	Ad hoc	Ad hoc

(1) Inflation is included at 3%

The total pension liabilities are measured based on assumptions pertaining to the interest rates, inflation rates, and employee demographic behavior in future years. The assumptions used were based on the results of an actuarial experience study conducted in 2011. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates the larger the impact on future financial statements.

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

Mortality rates were based on the Sex distinct RP -2000 combined Mortality Table projected to 2015 using scale AA for Males or Females, as appropriate, for mortality improvement.

Projected benefit payments do not include the effects of projected ad hoc cost-of-living adjustments (ad hoc COLAs) as they are not substantively automatic. The primary considerations relevant to making this determination include the historical pattern of granting the changes and the consistency in the amounts of the changes.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by an asset allocation percentage, which is based on the nature and mix of current and expected plan investments, and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System's current and expected asset allocation is summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
Domestic equity	5.70 %
International equity	5.70 %
Fixed income	2.00 %
Alternative investments	7.80 %
Cash and equivalents	0.00 %

Discount rate - The discount rate for all plans used to measure the total pension liability was 7.2%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at rates determined by the Board of Pension Trustees, actuarially determined. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate - The following presents the collective net pension liability of the Plans, calculated using the discount rate of 7.2%, as well as what the Plans' net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

Plans	1% Decrease	Discount Rate	1% Increase
County & Municipal Other Employees'	\$ 28,922	\$ (2,196)	\$ (27,848)
County & Municipal Police & Firefighters	42,164	(16,093)	(63,804)
Total pensions liability/(asset)	\$ 71,086	\$ (18,289)	\$ (91,652)

The amounts above represent the Town's proportional percentage

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

A. Components on Schedule of Pension Amounts by Employer

Net Pension Liability

The employer proportionate share of net pension liability is equal to the collective net pension liability multiplied by the employers proportionate share percentage for fiscal year ending June 30, 2014 as shown in Schedule of Employer Allocations.

Expected and Actual Experience Differences

The difference between expected and actual experience with regard to economic and demographic factors is amortized over the weighted average of the expected remaining service life of active and inactive members which is 8 and 11 years for the Employee and the Police & Fire Plan, respectively. The first year of amortization is recognized as pension expense with the remaining years either a deferred outflow or deferred inflow. The collective amount of the difference between expected and actual experience for fiscal year ending June 30, 2014 is \$0.00. As this is the first year of implementation of GASB Statement No. 68 and roll forward procedures were used to determine the total pension liability at the measurement date, there were no changes between expected and actual experience.

Change in Assumptions

The change in assumptions about future economic or demographic factors or other inputs is amortized over the weighted average of the expected remaining service life of active and inactive members which is 8 and 11 years for the Employee and the Police & Fire Plan, respectively. The first year of amortization is recognized as pension expense with the remaining years either a deferred outflow or deferred inflow. The collective amount of change in assumptions for fiscal year ending June 30, 2014 is \$0.00.

Change in Employer Proportionate Share

The change in employer proportionate share is the amount of difference between the employer proportionate share of net pension liability (asset) in the prior year compared to the current year. This change in proportion is amortized over the weighted average of the expected remaining service life of active and inactive members which is 8 and 11 years for the Employee and the Police & Fire Plan, respectively. The first year of amortization is recognized as pension expense with the remaining years shown as either a deferred outflow of resources or deferred inflow of resources.

Net Difference between Projected and Actual Investment Earnings on Pension Plan Investments

The difference between the actual earnings on plan investments compared to the plans expected rate of return of 7.2% is amortized over a closed period of 5 years. The collective amount of the difference between projected and actual earnings for fiscal year ending June 30, 2014 is \$19,154 and \$31,011 for the Employee and the Police & Fire Plan, respectively. The first year of amortization, \$3,355 and \$6,201 for the Employee and the Police & Fire Plan, respectively, is recognized as pension expense with the remaining 4 years, \$13,420 and \$24,803 for the Employee and the Police & Fire Plan, respectively, to be shown as a deferred inflow of resources. The amounts above represent the Town's proportional percentage.

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

B. Collective Deferred Outflows of Resources and Deferred Inflows of Resources

The components of collective deferred outflows of resources and deferred inflows of resources, other than the difference between the projected and actual earnings on DPERS investments, are amortized into pension expense over a closed period, which reflects the weighted average remaining service life of all Plan members, beginning the year in which the deferred amount occurs. The amortization period is 8 and 11 years for the Employee and the Police & Fire Plan, respectively, for deferred amounts arising in 2014. The annual difference between the projected and actual earnings on investments is amortized over a five-year closed period beginning the year in which the difference occurs. The cumulative amounts of collective net deferred outflows (inflows) of resources reported as of June 30, 2014 will be recognized in pension expense as follows:

Years ending June 30:	County & Municipal Other Employees'	County & Municipal Police & Firefighters'	Total
2015	\$ (3,355)	\$ (6,201)	\$ (9,556)
2016	(3,355)	(6,201)	(9,556)
2017	(3,355)	(6,201)	(9,556)
2018	(3,355)	(6,200)	(9,555)
	<u>\$ (13,420)</u>	<u>\$ (24,803)</u>	<u>\$ (38,223)</u>

The amounts above represent the Town's proportional percentage

C. Pension Expense

The components of the pension expense for the year ended June 30, 2014 are as follows:

	County & Municipal Other Employees'	County & Municipal Police & Firefighters'	Total
Service costs	\$ 13,166	\$ 21,269	\$ 34,435
Interest on total pension liability	13,335	(7,285)	6,050
Member contributions	(4,462)	149	(4,313)
Administrative expense	358	23,598	23,956
Projected earnings on plan investments	(12,349)	(22,557)	(34,906)
Amortization of investment return differences	(3,355)	(6,201)	(9,556)
Pension expense before purchased service	6,693	8,973	15,666
Employer specific purchased service	-	-	-
Total collective pension expense	<u>\$ 6,693</u>	<u>\$ 8,973</u>	<u>\$ 15,666</u>

The amounts above represent the Town's proportional percentage

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

	County & Municipal Other Employees'	County & Municipal Police & Firefighters'	Total
Employer's proportionate (percentage) of the collective NPL	0.5965763%	0.1487619%	
Employer's proportionate share of the collective NPL	\$ (2,196)	\$ (16,093)	\$ (18,289)
Pension expense recognized by the employer for the year ended June 30, 2015			
Collective pension expense	\$ 6,693	\$ 8,973	\$ 15,666
Pension expense from proportion change	(270)	(489)	(759)
Adjustment for employer purchase of service	-	-	-
Total pension expense	\$ 6,423	\$ 8,484	\$ 14,907
Deferred outflows of resources:			
Expected and actual experience differences	\$ -	\$ -	\$ -
Assumption changes	-	-	-
Changes in proportion	-	-	-
Year end June 30, 2015 contributions	9,780	12,567	22,347
Total deferred outflows of resources	\$ 9,780	\$ 12,567	\$ 22,347
Deferred inflows of resources:			
Expected and actual experience differences	\$ -	\$ -	\$ -
Assumption changes	-	-	-
Projected and actual plan investment differences	13,420	24,803	38,223
Changes in proportion	1,888	4,891	6,779
Total deferred inflows of resources	\$ 15,308	\$ 29,694	\$ 45,002
Net pension liability (asset) June 30, 2014	\$ 2,059	\$ (9,280)	\$ (7,221)
Year end June 30, 2014 contributions	(10,678)	(15,297)	(25,975)
Change in NPL factored for contributions	6,423	8,484	14,907
Net pension liability (asset) June 30, 2015	\$ (2,196)	\$ (16,093)	\$ (18,289)

The \$22,347 of deferred outflows of resources resulting from the Town's contributions to the plans subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ending December 31, 2015.

For the year ended December 31, 2014, the Town's payroll for all employees was \$309,820. As of the plans measurement date June 30, 2014, total covered payroll was \$259,862. Covered payroll refers to all compensation paid by the Town to active employees covered by the Plans.

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.

NOTES TO FINANCIAL STATEMENTS

Note 11. Required Individual Fund Disclosures

The following funds had an excess of expenditures over appropriations for the year ended December 31, 2015:

Funds	Budgeted Expenditures	Actual Expenditures	Excess of Actual Over Budgeted Expenditures
General	\$ 442,705	\$ 527,634	\$ (84,929)
Utility	196,171	243,384	(47,213)

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. Prior Period Restatement

The Town has determined to restate its Statement of Net Position and Statement of Activities as of December 31, 2015. The determination to restate these financial statements was made as a result of the fiscal year 2015 implementation of the GASB's Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* - an amendment of GASB Statement No. 68. This statement's objective is to improve the accounting and financial reporting for pensions as well as to improve the information provided by employers about financial support for pensions that are provided by other entities (see Note 9).

The following table is a summary of the effect of these changes on net position and the change in net position:

	Net Position	Change in Net Position
As previously reported, December 31, 2014	\$ 577,203	\$ (142,493)
Adjustment to deferred financing outflows for contributions	25,975	25,975
Adjustment to net pension (liability) asset	7,221	7,221
As restated, December 31, 2014	\$ 610,399	\$ (109,297)

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF BLADES, DELAWARE

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
REVENUE DETAIL
Year Ended December 31, 2015**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
Taxes:				
Real estate	\$ 208,681	\$ 208,681	\$ 200,673	\$ (8,008)
Capitation	3,424	3,424	3,336	(88)
Transfer	20,000	20,000	28,312	8,312
Tax penalties	8,000	8,000	5,870	(2,130)
Licenses and permits	26,000	26,000	24,160	(1,840)
Cemetery fees and lots	3,300	3,300	5,945	2,645
Investment income	1,500	1,500	464	(1,036)
Community hall rental	4,500	4,500	7,650	3,150
Public safety	16,000	16,000	4,802	(11,198)
Police pension income	-	-	14,168	14,168
State of Delaware grant	29,000	29,000	107,555	78,555
Franchise fees	33,050	33,050	32,681	(369)
Miscellaneous income	23,490	23,490	46,413	22,923
Total revenues	\$ 376,945	\$ 376,945	\$ 482,029	\$ 105,084

TOWN OF BLADES, DELAWARE

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
EXPENDITURE DETAIL
Year Ended December 31, 2015**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
GENERAL GOVERNMENT:				
Advertising	\$ 800	\$ 800	\$ 2,888	\$ (2,088)
Office expense	3,000	3,000	5,369	(2,369)
Salaries - maintenance	12,300	12,300	12,658	(358)
Salaries - town clerks	70,600	70,600	74,146	(3,546)
Pension	5,000	5,000	4,506	494
Utilities	5,800	5,800	5,185	615
Insurance	30,000	30,000	16,443	13,557
Professional fees	26,000	26,000	34,422	(8,422)
Printing and duplicating	150	150	573	(423)
Telephone	2,000	2,000	1,019	981
Repairs and maintenance	1,100	1,100	3,146	(2,046)
Travel - special meetings	1,100	1,100	1,937	(837)
Town functions	500	500	5,483	(4,983)
Dues and subscriptions	695	695	1,444	(749)
Miscellaneous	525	525	17,588	(17,063)
Refuse removal	1,020	1,020	1,020	-
Payroll taxes	6,630	6,630	7,226	(596)
Donations	100	100	50	50
Other supplies	250	250	730	(480)
Total general government	167,570	167,570	195,833	(28,263)
PUBLIC SAFETY:				
Training	-	-	919	(919)
Other supplies	1,100	1,100	4,159	(3,059)
Salaries	125,000	125,000	130,809	(5,809)
Payroll taxes	10,500	10,500	11,063	(563)
Dues and subscriptions	310	310	180	130
Repairs and maintenance	1,500	1,500	5,834	(4,334)
Insurance	35,600	35,600	36,958	(1,358)
Pension	-	-	14,189	(14,189)
Telephone	4,500	4,500	4,191	309
Gas and oil	10,000	10,000	6,124	3,876
Miscellaneous	900	900	3,880	(2,980)
Travel - special meetings	125	125	1,715	(1,590)
Equipment	100	100	9,784	(9,684)
Uniforms	4,000	4,000	3,228	772
Total public safety	\$ 193,635	\$ 193,635	\$ 233,033	\$ (39,398)

TOWN OF BLADES, DELAWARE

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
EXPENDITURE DETAIL
Year Ended December 31, 2015**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
CEMETERY AND PARK				
Equipment	\$ -	\$ -	\$ 358	\$ (358)
Repairs and maintenance	700	700	5,186	(4,486)
Cemetery and park care	4,500	4,500	4,485	15
Advertising	100	100	-	100
Capital outlay	-	-	8,497	(8,497)
Miscellaneous	100	100	30	70
Supplies	925	925	570	355
Utilities	800	800	1,042	(242)
Refuse removal	700	700	510	190
Total cemetery and park	7,825	7,825	20,678	(12,853)
STREET AND LIGHT				
Equipment	5,000	5,000	1,370	3,630
Supplies	200	200	1,805	(1,605)
Electricity	24,000	24,000	24,359	(359)
Repairs and maintenance	6,500	6,500	8,231	(1,731)
Miscellaneous	100	100	5	95
Total street and light	35,800	35,800	35,770	30
COMMUNITY HALL				
Utilities	2,800	2,800	3,191	(391)
Miscellaneous	100	100	78	22
Repairs and maintenance	250	250	1,780	(1,530)
Total community hall	3,150	3,150	5,049	(1,899)
CODE ENFORCEMENT				
Salaries	25,000	25,000	26,294	(1,294)
Payroll taxes and health insurance	2,400	2,400	2,251	149
Miscellaneous	7,325	7,325	8,401	(1,076)
Repairs and maintenance	-	-	325	(325)
Total code enforcement	34,725	34,725	37,271	(2,546)
Total operating expenditures	442,705	442,705	527,634	(84,929)
DEBT SERVICE				
Loan principal payments	5,012	5,012	5,012	-
Interest expense	438	438	438	-
Total debt service	5,450	5,450	5,450	-
Total expenditures	\$ 448,155	\$ 448,155	\$ 533,084	\$ (84,929)

TOWN OF BLADES, DELAWARE
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2015

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Fiscal Year	Measurement Date	Employer's Proportion (Percentage) of the Collective NPL	Employer's Proportion Share of the Collective NPL	Employer's Covered Employee Payroll	Proportionate Share as a Percentage of Covered Payroll (B / C)	Plan's Total Fiduciary Net Position	Plan's Total Pension Liability	Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (D / E)
		A	B	C	(B / C)	D	E	(D / E)
MUNI PLAN								
2015	June 30, 2014	0.5966%	(2,196) \$	161,299	-1%	\$ 34,688,000	\$ 34,320,000	101%
POLICE PLAN								
2015	June 30, 2014	0.1488%	(16,093) \$	98,563	-16%	\$ 252,662,000	\$ 241,845,000	104%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which the information is available.

TOWN OF BLADES, DELAWARE

**REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2015**

SCHEDULE OF THE CONTRIBUTIONS - PENSION PLAN

Fiscal Year	Measurement Date	Contractually Required Contribution A	Actual Contribution B	Contribution Deficiency (Excess) (A - B)	Employer's Covered Employee Payroll C	Actual Contribution as a Percentage of Covered Payroll (B / C)
MUNI PLAN						
2015	June 30, 2014	\$ 10,678	\$ 10,678	-	\$ 161,299	7%
POLICE PLAN						
2015	June 30, 2014	\$ 15,297	\$ 15,297	-	\$ 98,563	16%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which the information is available.

TOWN OF BLADES, DELAWARE
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2015
ACTUARIAL ASSUMPTIONS - PENSION PLAN

Plan	County & Municipal Other Employees'	County & Municipal Police & Firefighters'
Actuarial assumptions:		
Investment rate of return/Discount rate (1)	7.20%	7.20%
Projected salary increases (1)	3.5% to 11.5%	4% to 11.5%
Cost-of-living adjustments	Ad hoc	Ad hoc

(1) Inflation is included at 3%

Mortality rates were based on the Sex distinct RP -2000 combined Mortality Table projected to 2015 using scale AA for Males or Females, as appropriate, for mortality improvement.

OTHER SUPPLEMENTARY INFORMATION

TOWN OF BLADES, DELAWARE

**OTHER SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - UTILITY FUND
OPERATING REVENUE AND EXPENSE DETAIL
Year Ended December 31, 2015**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES				
Charges for services:				
Water billings	\$ 227,200	\$ 227,200	\$ 224,833	\$ (2,367)
Water permits and penalties	13,400	13,400	13,617	217
Front footage assessment	26,781	26,781	27,357	576
Grant proceeds	-	-	119,328	119,328
Total revenues	267,381	267,381	385,135	117,754
OPERATING EXPENSE				
Salaries and wages	63,000	63,000	65,913	(2,913)
Payroll taxes	5,400	5,400	5,602	(202)
Repairs and maintenance	11,671	11,671	11,436	235
Chemicals and supplies	14,800	14,800	10,303	4,497
Insurance	20,000	20,000	26,552	(6,552)
Utilities	13,000	13,000	12,984	16
Testing	575	575	600	(25)
Postage and office supplies	2,000	2,000	1,815	185
Telephone	2,500	2,500	1,770	730
Pension	4,500	4,500	4,162	338
Vehicle fuel and maintenance	7,600	7,600	4,811	2,789
Equipment	6,000	6,000	4,504	1,496
Depreciation and amortization	-	-	39,841	(39,841)
Bad debt	-	-	670	(670)
Other	1,750	1,750	8,834	(7,084)
Total operating expense	152,796	152,796	199,797	(47,001)
NON-OPERATING EXPENSE				
Loan principal payments	33,689	33,689	33,689	-
Interest expense	9,686	9,686	9,898	(212)
Total non-operating expense	43,375	43,375	43,587	(212)
Total water expenses	\$ 196,171	\$ 196,171	\$ 243,384	\$ (47,213)

Herbert J. Geary III
Corey N. Duncan
Roy J. Geiser
Chris A. Hall
Ronald W. Hickman
Charles M. Meenehan
Craig A. Walter
Mark A. Welsh



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
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, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated November 7, 2017.

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 significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

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 deficiency in internal control over financial reporting to be a material weakness:

Finding Number 2015-001

Criteria: Proper segregation of duties should be in place to strengthen internal controls to provide reasonable assurance that a material misstatement to the financial statements is prevented.

Condition: We noted that the system currently in place creates conflicts within duties assigned to a single individual and produces a high level of internal control risk. During our audit, we noted a lack of segregation of duties.

Cause: The lack of appropriately designed internal control systems has produced conflicts regarding assigned duties.

Effect: Segregation of duties issues does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, the misappropriation of assets and/or errors on a timely basis.

Recommendation: We recommend that, when possible, responsibilities for authorization, recording, and maintaining custody of assets be assigned to different employees. In situations where this is not possible, we recommend the implementation of certain transaction review controls. It is important to note that review controls do not eliminate all risk when segregation of duties conflicts exist, and management and those charged with governance need to be aware of such risks.

Identification of Repeat Finding: Due to the nature and size of the Town, this is a repeat finding.

Views of Responsible Officials: It has been determined that it would not be cost effective for the Town to add additional personnel to ensure complete segregation of duties in the finance department.

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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Salisbury, Maryland
November 7, 2017