

TOWN OF BLADES, DELAWARE

FINANCIAL REPORT

DECEMBER 31, 2017

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



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, 2017, 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, 2017, 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary 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 information 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 May 14, 2020 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 "JHM Group LLC". The signature is written in a cursive, flowing style.

Salisbury, Maryland
May 14, 2020

TOWN OF BLADES, DELAWARE

STATEMENT OF NET POSITION

December 31, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash	\$ 91,309	\$ 598	\$ 91,907
Accounts receivable	99,232	66,043	165,275
Prepaid insurance	9,522	-	9,522
Total current assets	200,063	66,641	266,704
Noncurrent assets			
Restricted cash - police pension account	8,665	-	8,665
Capital assets, at cost	2,398,104	2,557,966	4,956,070
Less accumulated depreciation	(1,858,041)	(1,724,416)	(3,582,457)
Total noncurrent assets	548,728	833,550	1,382,278
Total assets	748,791	900,191	1,648,982
DEFERRED OUTFLOWS OF RESOURCES			
Pension (see Note 9)	77,691	-	77,691
LIABILITIES			
Current liabilities			
Accounts payable	92,471	-	92,471
Accrued payroll and taxes	8,368	1,404	9,772
Accrued interest	457	-	457
Road deposit	2,000	-	2,000
Deferred revenue	65,518	-	65,518
Admin pension payable	2,566	-	2,566
Current portion of bonds, notes payable and capital leases	12,342	40,740	53,082
Total current liabilities	183,722	42,144	225,866
Noncurrent liabilities			
Police pension escrow	18,678	-	18,678
Net pension liability	52,789	-	52,789
Bonds, notes payable, and capital leases	40,848	469,632	510,480
Total noncurrent liabilities	112,315	469,632	581,947
Total liabilities	296,037	511,776	807,813
DEFERRED INFLOWS OF RESOURCES			
Pension (see Note 9)	18,985	-	18,985
NET POSITION			
Net investment in capital assets	486,873	323,178	810,051
Unrestricted	24,587	65,237	89,824
Total net position	\$ 511,460	\$ 388,415	\$ 899,875

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

TOWN OF BLADES, DELAWARE

**STATEMENT OF ACTIVITIES
Year Ended December 31, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
General government	\$ 202,659	\$ 70,120	\$ -	\$ 16,775	\$ (115,764)	\$ -	\$ (115,764)
Public safety	332,391	-	26,191	63,319	(242,881)	-	(242,881)
Cemetery and park	10,787	5,180	-	-	(5,607)	-	(5,607)
Street and light	108,335	-	27,781	19,970	(60,584)	-	(60,584)
Community hall	5,393	5,650	-	-	257	-	257
Code enforcement	59,599	-	-	-	(59,599)	-	(59,599)
Total governmental activities	719,164	80,950	53,972	100,064	(484,178)	-	(484,178)
Business-type activities							
Utility fund	250,641	273,456	-	-	-	22,815	22,815
Total business-type activities	250,641	273,456	-	-	-	22,815	22,815
Total	\$ 969,805	\$ 354,406	\$ 53,972	\$ 100,064	\$ (484,178)	\$ 22,815	\$ (461,363)
General revenues							
Property, capitation, and transfer taxes					259,787	-	259,787
Unrestricted investment earnings					46	-	46
Gain from sale of asset					13,494	-	13,494
Franchise fees					37,172	-	37,172
Miscellaneous					32,001	-	32,001
Total general revenues and special items					342,500	-	342,500
Transfers					48,171	(48,171)	-
Total general revenues, special items and transfers					390,671	(48,171)	342,500
Change in net position					(93,507)	(25,356)	(118,863)
Net position, beginning of year					604,967	413,771	1,018,738
Net position, end of year					\$ 511,460	\$ 388,415	\$ 899,875

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

TOWN OF BLADES, DELAWARE

**BALANCE SHEET
GOVERNMENTAL FUND
December 31, 2017**

	Total Governmental <u>Fund</u>
ASSETS	
Cash	\$ 99,974
Accounts receivable	99,232
Prepaid insurance	9,522
<hr/>	
Total assets	\$ 208,728
<hr/>	
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 92,471
Payroll and taxes	8,368
Road deposit	2,000
Deferred revenue	65,518
Accrued interest payable	457
Admin pension payable	2,566
Police pension escrow	18,678
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Total liabilities	190,058
<hr/>	
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenues - property taxes	70,273
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FUND BALANCE (DEFICIT)	
Nonspendable	9,522
Unassigned deficit	(61,125)
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Total fund balance (deficit)	(51,603)
<hr/>	
Total liabilities, deferred inflows of resources and fund balance	\$ 208,728
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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, 2017**

Total fund (deficit) balance, governmental fund	\$ (51,603)
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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.	540,063
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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.	70,273
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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)	77,691
Deferred inflow of resources - Pension (See Note 9)	(18,985)
Net pension liability	(52,789)
Bonds and notes payable	(53,190)

Net position of governmental activities in the Statement of Net Position	\$ 511,460
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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, 2017**

	<u>Total Governmental Fund</u>
REVENUES:	
Taxes:	
Real estate	\$ 205,904
Capitation	3,456
Transfer	31,808
Tax penalties	3,178
Licenses and permits	24,410
Cemetery fees and lots	5,180
Investment income	46
Community hall rental	5,650
Public safety	45,710
Police pension income	14,531
State of Delaware grants	139,505
Franchise fees	37,172
Miscellaneous revenues	32,001
<hr/>	
Total revenues	548,551
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EXPENDITURES:	
Current:	
General government	193,527
Public safety	300,245
Cemetery and park	8,102
Street and light	82,249
Community hall	4,580
Code enforcement	59,599
Debt service:	
Principal	14,435
Interest	563
Capital outlay	13,728
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Total expenditures	677,028
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Deficiency of revenues over expenditures	(128,477)
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OTHER FINANCING SOURCES (USES):	
Operating transfers in	48,171
Proceeds from sale of asset	19,655
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Total other financing sources (uses)	67,826
Net change in fund balance	(60,651)
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Fund balance, beginning of year	9,048
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Fund balance (deficiency), end of year	\$ (51,603)

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, 2017**

Net change in fund balance, governmental fund \$ (60,651)

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	13,728	
Depreciation expense	(71,716)	
Total		(57,988)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the Statement of Activities, a gain or loss is reported for each disposal. This is the cost of assets disposed of, less accumulated depreciation. (6,161)

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. 14,435

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. 15,441

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)		54,112
Change in deferred inflow of resources - Pension (See Note 9)		6,456
Change in net pension liability / asset		(59,151)

Change in net position of governmental activities \$ (93,507)

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, 2017

	<u>Enterprise Fund</u> <u>Utility Fund</u>
ASSETS	
Current assets	
Cash	\$ 598
Accounts receivable - water charges	66,043
Total current assets	66,641
Noncurrent assets	
Water system, net of accumulated depreciation	833,550
Total noncurrent assets	833,550
Total assets	900,191
LIABILITIES	
Current liabilities	
Accrued payroll and taxes	1,404
Bonds and notes payable	40,740
Total current liabilities	42,144
Noncurrent liabilities	
Bonds and notes payable	469,632
Total noncurrent liabilities	469,632
Total liabilities	511,776
NET POSITION	
Net investment in capital assets	323,178
Unrestricted	65,237
Total net position	\$ 388,415

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, 2017

		<u>Enterprise Fund</u>
		<u>Utility Fund</u>
OPERATING REVENUES:		
Water billing	\$	234,813
Water permits and penalties		11,609
Front footage assessment		26,784
Miscellaneous		250
<hr/>		
Total operating revenues		273,456
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OPERATING EXPENSES:		
Salaries and wages		70,071
Payroll taxes		5,720
Repairs and maintenance		14,240
Chemicals and supplies		9,348
Insurance		31,822
Utilities		12,171
Testing		250
Postage and office supplies		2,749
Telephone		1,897
Pension		4,795
Vehicle fuel and maintenance		4,497
Equipment		7,295
Depreciation and amortization		70,322
Other		5,654
<hr/>		
Total operating expenses		240,831
<hr/>		
Operating income		32,625
NONOPERATING REVENUES AND EXPENSES:		
Interest expense		(9,810)
<hr/>		
Total non-operating revenue and expenses		(9,810)
<hr/>		
Income before operating transfers		22,815
<hr/>		
Operating transfers out		(48,171)
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Change in net position		(25,356)
Net position, beginning of year		413,771
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Net position, end of year	\$	388,415

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, 2017**

	<u>Enterprise Fund</u> <u>Utility Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 268,061
Payments to suppliers/vendors	(100,438)
Payments to employees	(70,048)
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Net cash provided by operating activities	97,575
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Operating transfers out to other funds	(48,171)
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal paid on long-term debt	(39,661)
Interest paid on long-term debt	(9,810)
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Net cash used by capital and related financing activities	(49,471)
<hr/>	
Net decrease in cash	(67)
Cash and cash equivalents, beginning of year	665
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Cash and cash equivalents, end of year	\$ 598
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RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 32,625
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	70,322
Changes in assets and liabilities:	
Increase in receivables	(5,395)
Increase in payables	23
<hr/>	
Net cash provided by operating activities	\$ 97,575
<hr/>	

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, 2017, 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 balance 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 it 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	-
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	-

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, 2017.

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, 2017. 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, 2017, the carrying amount of the Town's bank deposits was \$100,572 and the balance per bank records totaled \$127,412 which was fully insured. At December 31, 2017, the Town had no custodial risk relative to uninsured amounts.

As of December 31, 2017 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, 2017:

	December 31, 2016	Additions	Deductions	December 31, 2017
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated:				
Land	\$ 29,344	\$ -	\$ -	\$ 29,344
Town park	72,850	-	-	72,850
Total capital assets, not being depreciated	<u>102,194</u>	-	-	<u>102,194</u>
Capital assets, being depreciated:				
Buildings	187,806	-	-	187,806
Streets	1,769,902	-	(4,000)	1,765,902
Autos	202,241	-	(42,763)	159,478
Police equipment	83,580	13,728	(7,500)	89,808
Signs	3,230	-	-	3,230
Office furniture and equipment	51,173	-	(3,971)	47,202
Cemetery	8,220	-	-	8,220
Park equipment	37,183	-	(2,919)	34,264
Total capital assets, being depreciated	<u>2,343,335</u>	<u>13,728</u>	<u>(61,153)</u>	<u>2,295,910</u>
Less accumulated depreciation:				
Buildings	(108,596)	(4,931)	-	(113,527)
Streets	(1,499,630)	(26,086)	4,000	(1,521,716)
Autos	(96,142)	(24,270)	42,763	(77,649)
Police equipment	(59,144)	(11,015)	1,339	(68,820)
Signs	(3,230)	-	-	(3,230)
Office furniture and equipment	(42,536)	(2,729)	3,971	(41,294)
Cemetery	(7,538)	(241)	-	(7,779)
Park equipment	(24,501)	(2,444)	2,919	(24,026)
Total accumulated depreciation	<u>(1,841,317)</u>	<u>(71,716)</u>	<u>54,992</u>	<u>(1,858,041)</u>
Total capital assets, being depreciated, net	<u>502,018</u>	<u>(57,988)</u>	-	<u>437,869</u>
Governmental activities capital assets, net	<u>\$ 604,212</u>	<u>\$ (57,988)</u>	<u>\$ (6,161)</u>	<u>\$ 540,063</u>

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

General government	\$	9,986
Public safety		32,146
Cemetery and parks		2,685
Street and light		26,086
Community hall		813
 Total depreciation expense	 \$	 71,716

	December 31, 2016	Additions	Deductions/ Transfers	December 31, 2017
BUSINESS-TYPE ACTIVITIES				
Capital assets, being depreciated:				
Vehicles	\$ 58,951	\$ -	\$ -	\$ 58,951
Water meter	84,343	-	-	84,343
Water district equipment FmHA	94,940	-	(318)	94,622
Water district equipment EDA	2,320,802	-	(752)	2,320,050
Total capital assets, being depreciated	2,559,036	-	(1,070)	2,557,966
Less accumulated depreciation:				
Vehicles	(31,390)	(6,890)	-	(38,280)
Water meter	(61,829)	(5,623)	-	(67,452)
Water district equipment FmHA	(94,940)	-	318	(94,622)
Water district equipment EDA	(1,467,005)	(57,809)	752	(1,524,062)
Total accumulated depreciation	(1,655,164)	(70,322)	1,070	(1,724,416)
Total capital assets, being depreciated, net	903,872	(70,322)	-	833,550
 Business-type activities capital assets, net	 \$ 903,872	 \$ (70,322)	 \$ -	 \$ 833,550

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, 2016	Additions	Retirements and Repayments	Balances December 31, 2017
Real Lease, Inc. two 2016 Chevrolet Caprices, interest at 4.99% payable in annual installments of \$14,998, including interest, through 2021.	\$ 67,625	\$ -	\$ 14,435	\$ 53,190
	\$ 67,625	\$ -	\$ 14,435	\$ 53,190

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

<u>Fiscal Year Ending December 31,</u>			
2018		\$	14,998
2019			14,998
2020			14,998
2021			14,998
			59,992
	Less amounts representing interest		6,802
	<u>Present value of net minimum lease payments</u>	\$	53,190

Interest expense on the above capital lease was \$563 for the year ended December 31, 2017.

The cost of items acquired under capital lease arrangements, as included in capital assets, totaled \$67,625 and the related accumulated depreciation was \$15,571 at December 31, 2017.

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, 2016	Additions	Retirements and Repayments	Balances December 31, 2017	Amount Due in One Year
Farmers Home Administration	5.00%	2022	\$ 45,847	\$ -	\$ 8,490	\$ 37,357	\$ 8,919
State of Delaware - SRF Loan	1.50%	2031	232,357	-	13,923	218,434	14,133
DNREC - Division of Water Loan	2.41%	2026	45,097	-	4,278	40,819	4,382
DWSRF Loan	1.00%	2043	199,649	-	6,615	193,034	6,681
Capital lease - Ford F250	4.33%	2020	27,083	-	6,355	20,728	6,625
Total business-type activities long-term debt			\$ 550,033	\$ -	\$ 39,661	\$ 510,372	\$ 40,740

The annual requirements to amortize all business-type activities long-term debt outstanding as of December 31, 2017 are as follows (excluding capital lease obligations):

Fiscal Year Ending December 31,	Principal	Interest	Total
2018	\$ 34,115	\$ 7,853	\$ 41,968
2019	34,953	7,015	41,968
2020	35,820	6,148	41,968
2021	35,593	5,251	40,844
2022	26,779	4,512	31,291
2023 - 2027	132,118	16,327	148,445
2028 - 2032	104,797	7,602	112,399
2033 - 2037	39,584	3,391	42,975
2038 - 2042	41,608	1,367	42,975
2043	4,277	21	4,298
	\$ 489,644	\$ 59,487	\$ 549,131

Interest expense for long-term debt (excluding capital lease obligations) in the business-type activities for the year ended December 31, 2017 totaled \$8,662.

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, 2016	Additions	Retirements and Repayments	Balances December 31, 2017
Real Lease, Inc. 2016 Ford F250 lease, interest at 4.33% payable in annual installments of \$7,503, including interest, through 2020	\$ 27,083	\$ -	\$ 6,355	\$ 20,728
	\$ 27,083	\$ -	\$ 6,355	\$ 20,728

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

<u>Fiscal Year Ending December 31,</u>	
2018	\$ 7,503
2019	7,503
2020	7,503
	22,509
<u>Less amounts representing interest</u>	<u>1,781</u>
<u>Present value of net minimum lease payments</u>	<u>\$ 20,728</u>

Interest expense on the above capital leases was \$1,148 for the year ended December 31, 2017.

The cost of items acquired under capital lease arrangements, as included in capital assets, totaled \$34,451 and the related accumulated depreciation was \$13,780 at December 31, 2017.

NOTES TO FINANCIAL STATEMENTS

Note 7. Police Pension Escrow Liability – Governmental Activities

The following is a summary of the changes in the governmental activities liability for police pension escrow:

	Date	Balances		Retirements	Balances	Amount
Interest	Series	December 31,	Additions	and	December 31,	Due in
Rate	Matures	2016	Repayments	2017	One Year	
Police pension escrow		\$ 19,809	\$ 13,774	\$ 14,905	\$ 18,678	\$ -

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, 2017 was \$4,687 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 Plans are administered by the Delaware Public Employees' Retirement System (DPERS).

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.

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

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

The following are brief descriptions of the Plans in effect as of June 30, 2016. For a more complete description, please refer to the DPERS CAFR.

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.

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. The accompanying schedules have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the GASB. Such preparation requires management of DPERS to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

C. Allocation Methodology

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, requires participating employers in the Plans to recognize their proportionate share of the collective net pension liability, collective deferred inflows of resources, collective deferred outflows of resources, and collective pension expense excluding that attributable to employer-paid member contributions. The employer allocation percentages presented in the Schedule of Employer Allocations and applied to amounts presented in the Schedule of Pension Amounts by Employer are based on the ratio of each employer's contribution to the Plans' total employer contributions during the measurement period July 1, 2015 through June 30, 2016. Employer contributions to the Plans are recognized when due pursuant to legal requirements. Employer contributions are determined by the Board of Pension Trustees. Employer contributions were 6.2% and 13.9% of earnings for fiscal year 2016 for the Employee Plan and the Police & Fire Plan, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

D. Net Pension Liability (Asset)

The components of the net pension liability (asset) of the Town at June 30, 2016 were as follows:

Plan	County & Municipal Other Employees'	County & Municipal Police & Firefighters'
Employers' total pension liability	\$ 243,464	\$ 370,691
Plan net position	210,304	351,063
Employers' net pension liability	\$ 33,161	\$ 19,628
Employer's proportionate (percentage) of the collective NPL	0.5352%	0.1235%

The amounts above represent the Town's proportionate share.

Actuarial Assumptions

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016. 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)	2.5% + Merit	2.5% + Merit
Cost-of-living adjustments	0.00%	0.00%

(1) Inflation is included at 2.5%

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.

Key assumption changes include a reduction in the inflation assumption from 3.0% to 2.5% and a change to use updated mortality tables. Mortality assumptions are based on the RP-2014 tables with gender adjustments for healthy annuitants and disabled retirees and an adjusted version on MP-2015 mortality improvement scale on a fully generational basis.

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.

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

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 Plans' current and expected asset allocation is summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Asset Allocation
Domestic equity	5.7%	34.0%
International equity	5.7%	14.7%
Fixed income	2.0%	25.0%
Alternative investments	7.8%	20.9%
Cash and equivalents	0.0%	5.4%

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 (asset) to changes in the discount rate - The following presents the net pension liability (asset), calculated using the discount rate of 7.2%, as well as what the net pension liability (asset) 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'	\$ 70,597	\$ 33,161	\$ 2,339
County & Municipal Police & Firefighters	78,087	19,628	(28,014)
Total pensions liability/(asset)	\$ 148,684	\$ 52,789	\$ (25,675)

The amounts above represent the Town's proportional percentage

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

E. Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Pension Liability

The following presents a summary of changes in the deferred outflows of resources and deferred inflows of resources:

	Measurement Period Ending June 30,	Amortization period	December 31, 2016	Additions	Deductions	December 31, 2017
<u>County & Municipal Other Employees'</u>						
Deferred outflows of resources:						
Difference between expected and actual experience	2016	9 years	\$ -	\$ 10,132	\$ (1,126)	9,006
Changes of assumptions	2016	9 years	-	5,451	(606)	4,845
Net difference between projected and actual earnings on pension plan investments	2014 - 2016	5 years	(3,408)	17,923	(2,112)	12,403
Change in proportion	2016	9 years	-	344	(37)	307
Year ending contribution	N/A	N/A	11,119	11,442	(11,119)	11,442
Total deferred outflows			\$ 7,711	\$ 45,292	\$ (15,000)	\$ 38,003
Deferred inflows of resources:						
Expected and actual experience difference	2015	8 years	\$ 3,113	\$ -	\$ (308)	\$ 2,805
Change in proportion	2015	8 years	1,618	-	(269)	1,349
Change in proportion	2014	8 years	1,439	-	(205)	1,234
Total deferred inflows			\$ 6,170	\$ -	\$ (782)	\$ 5,388
Net pension liability (asset)	N/A	N/A	\$ 217	\$ 32,944	\$ -	\$ 33,161
<u>County & Municipal Police & Firefighters'</u>						
Deferred outflows of resources:						
Difference between expected and actual experience	2016	10 years	\$ -	\$ 3,723	\$ (372)	\$ 3,351
Net difference between projected and actual earnings on pension plan investments	2014 - 2016	5 years	(6,432)	29,732	(3,000)	20,300
Change in proportion	2015	11 years	-	-	-	-
Year ending contribution	N/A	N/A	12,460	16,037	(12,460)	16,037
Total deferred outflows			\$ 6,028	\$ 49,492	\$ (15,832)	\$ 39,688
Deferred inflows of resources:						
Difference between expected and actual experience	2015	11 years	\$ 3,755	\$ -	\$ (412)	\$ 3,343
Changes of assumptions	2016	10 years	-	5,733	(573)	5,160
Change in proportion	2016	10 years	-	38	(4)	34
Change in proportion	2014	11 years	5,676	-	(616)	5,060
Total deferred inflows			\$ 9,431	\$ 5,771	\$ (1,605)	\$ 13,597
Net pension liability (asset)	N/A	N/A	\$ (6,579)	\$ 26,207	\$ -	\$ 19,628

The amounts above represent the Town's proportional percentage

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

E. Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Pension Liability (continued)

The \$27,479 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, 2018.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension (income) expense as follows:

Years ending June 30:	County & Municipal Other Employees'	County & Municipal Police & Firefighters'	Total
2018	\$ 2,563	\$ 1,380	\$ 3,943
2019	2,563	1,380	3,943
2020	5,563	7,380	12,943
2021	4,563	4,380	8,943
2022	564	(1,620)	(1,056)
Thereafter	5,357	(2,846)	2,511
	<u>\$ 21,173</u>	<u>\$ 10,054</u>	<u>\$ 31,227</u>

The amounts above represent the Town's proportional percentage

F. Pension Expense

The components of the pension expense are as follows:

	County & Municipal Other Employees'	County & Municipal Police & Firefighters'	Total
Service costs	\$ 13,285	\$ 21,888	\$ 35,173
Interest on total pension liability	16,522	25,104	41,626
Member contributions	(5,063)	(6,579)	(11,642)
Administrative expense	428	167	595
Projected earnings on plan investments	(14,960)	(24,940)	(39,900)
Recognition of deferred outflows and inflows of resources:			
Difference between projected and actual earnings on plan investments	2,112	3,000	5,112
Difference between expected and actual experiences with regards to factors or other inputs in the measurement of the total pension liability	818	(40)	778
Change in assumptions with regards to factors or other inputs in the measurement of total pension liability	606	573	1,179
Total pension expense	<u>\$ 13,748</u>	<u>\$ 19,173</u>	<u>\$ 32,921</u>

The amounts above represent the Town's proportional percentage

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

For the year ended December 31, 2017, the Town's payroll for all employees was \$338,990. As of the plans measurement date June 30, 2016, total covered payroll was \$268,979. 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.

Note 11. Required Individual Fund Disclosures

The following funds had an excess of expenditures over appropriations for the year ended December 31, 2017:

Funds	Budgeted Expenditures	Actual Expenditures	Excess of Actual Over Budgeted Expenditures
General	\$ 467,980	\$ 662,030	\$ (194,050)
Utility	213,680	290,302	(76,622)

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, 2017

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
Taxes:				
Real estate	\$ 222,000	\$ 222,000	\$ 205,904	\$ (16,096)
Capitation	3,500	3,500	3,456	(44)
Transfer	25,000	25,000	31,808	6,808
Tax penalties	8,000	8,000	3,178	(4,822)
Licenses and permits	26,000	26,000	24,410	(1,590)
Cemetery fees and lots	4,900	4,900	5,180	280
Investment income	-	-	46	46
Community hall rental	6,500	6,500	5,650	(850)
Public safety	20,000	20,000	45,710	25,710
Police pension income	-	-	14,531	14,531
State of Delaware grant	30,000	30,000	139,505	109,505
Franchise fees	32,850	32,850	37,172	4,322
Miscellaneous income	24,810	24,810	32,001	7,191
Total operating revenues	403,560	403,560	548,551	144,991
OTHER FINANCING SOURCES				
Proceeds from sale of asset	-	-	19,655	19,655
Total other financing sources	-	-	19,655	19,655
Total revenues and other financing sources	\$ 403,560	\$ 403,560	\$ 568,206	\$ 164,646

TOWN OF BLADES, DELAWARE

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
EXPENDITURE DETAIL
Year Ended December 31, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
GENERAL GOVERNMENT:				
Advertising	\$ 1,000	\$ 1,000	\$ 1,708	\$ (708)
Office expense	2,500	2,500	3,006	(506)
Salaries - maintenance	12,300	12,300	10,300	2,000
Salaries - town clerks	76,000	76,000	78,075	(2,075)
Pension	4,400	4,400	5,203	(803)
Utilities	5,500	5,500	5,603	(103)
Insurance	31,100	31,100	16,999	14,101
Professional fees	25,000	25,000	23,528	1,472
Printing and duplicating	200	200	644	(444)
Telephone	620	620	939	(319)
Repairs and maintenance	1,000	1,000	1,856	(856)
Travel - special meetings	1,100	1,100	2,509	(1,409)
Town functions	500	500	5,267	(4,767)
Dues and subscriptions	445	445	1,384	(939)
Miscellaneous	525	525	25,638	(25,113)
Refuse removal	1,800	1,800	2,534	(734)
Payroll taxes	7,200	7,200	7,022	178
Donations	100	100	25	75
Other supplies	1,150	1,150	1,287	(137)
Total general government	172,440	172,440	193,527	(21,087)
PUBLIC SAFETY:				
Training	100	100	950	(850)
Other supplies	1,100	1,100	3,555	(2,455)
Salaries	130,000	130,000	151,477	(21,477)
Payroll taxes	10,800	10,800	12,409	(1,609)
Dues and subscriptions	410	410	1,709	(1,299)
Repairs and maintenance	1,500	1,500	5,789	(4,289)
Insurance	37,300	37,300	54,135	(16,835)
Pension	-	-	14,544	(14,544)
Telephone	4,000	4,000	4,301	(301)
Gas and oil	8,000	8,000	9,615	(1,615)
Miscellaneous	900	900	11,036	(10,136)
Travel - special meetings	750	750	261	489
Capital outlay	-	-	13,728	(13,728)
Equipment	100	100	28,275	(28,175)
Uniforms	2,800	2,800	2,189	611
Total public safety	\$ 197,760	\$ 197,760	\$ 313,973	\$ (116,213)

TOWN OF BLADES, DELAWARE

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
EXPENDITURE DETAIL
Year Ended December 31, 2017**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
CEMETERY AND PARK				
Equipment	\$ -	\$ -	\$ 515	\$ (515)
Repairs and maintenance	3,300	3,300	393	2,907
Cemetery and park care	4,500	4,500	3,912	588
Advertising	100	100	96	4
Miscellaneous	100	100	378	(278)
Supplies	1,000	1,000	664	336
Utilities	800	800	1,549	(749)
Refuse removal	700	700	595	105
Total cemetery and park	10,500	10,500	8,102	2,398
STREET AND LIGHT				
Equipment	6,500	6,500	3,629	2,871
Supplies	800	800	102	698
Electricity	26,000	26,000	23,906	2,094
Repairs and maintenance	6,500	6,500	54,612	(48,112)
Total street and light	39,800	39,800	82,249	(42,449)
COMMUNITY HALL				
Equipment	1,500	1,500	420	1,080
Utilities	3,800	3,800	3,561	239
Miscellaneous	250	250	-	250
Repairs and maintenance	300	300	599	(299)
Total community hall	5,850	5,850	4,580	1,270
CODE ENFORCEMENT				
Salaries	28,000	28,000	29,145	(1,145)
Payroll taxes and health insurance	2,800	2,800	2,379	421
Miscellaneous	10,830	10,830	27,941	(17,111)
Repairs and maintenance	-	-	134	(134)
Total code enforcement	41,630	41,630	59,599	(17,969)
Total operating expenditures	467,980	467,980	662,030	(194,050)
DEBT SERVICE				
Loan principal payments	-	-	14,435	(14,435)
Interest expense	-	-	563	(563)
Total debt service	-	-	14,998	(14,998)
Total expenditures	\$ 467,980	\$ 467,980	\$ 677,028	\$ (209,048)

TOWN OF BLADES, DELAWARE

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended December 31, 2017

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Fiscal Year	Measurement Date	Employer's Proportion (Percentage) of the Collective NPL A	Employer's Proportion Share of the Collective NPL B	Employer's Covered Employee Payroll C	Proportionate Share as a Percentage of Covered Payroll (B / C)	Plan's Total Fiduciary Net Position D	Plan's Total Pension Liability E	Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (D / E)
MUNI PLAN								
2017	June 30, 2016	0.5352%	\$ 33,161	\$ 179,050	19%	\$ 39,292,000	\$ 45,488,000	86%
2016	June 30, 2015	0.5091%	\$ 217	\$ 150,926	0%	\$ 37,840,000	\$ 37,883,000	100%
2015	June 30, 2014	0.5966%	\$ (2,196)	\$ 161,299	-1%	\$ 34,688,000	\$ 34,320,000	101%
POLICE PLAN								
2017	June 30, 2016	0.1235%	\$ 19,628	\$ 89,964	22%	\$ 284,298,000	\$ 300,194,000	95%
2016	June 30, 2015	0.1248%	\$ (6,579)	\$ 88,625	-7%	\$ 273,109,000	\$ 267,839,000	102%
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, 2017**

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						
2017	June 30, 2016	\$ 11,119	\$ 11,119	\$ -	\$ 179,050	6%
2016	June 30, 2015	\$ 9,780	\$ 9,780	\$ -	\$ 150,926	6%
2015	June 30, 2014	\$ 10,678	\$ 10,678	\$ -	\$ 161,299	7%
POLICE PLAN						
2017	June 30, 2016	\$ 12,460	\$ 12,460	\$ -	\$ 89,964	14%
2016	June 30, 2015	\$ 12,567	\$ 12,567	\$ -	\$ 88,625	14%
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, 2017
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)	2.5% + Merit	2.5% + Merit
Cost-of-living adjustments	0.00%	0.00%

(1) Inflation is included at 2.5%

Key assumption changes include a reduction in the inflation assumption from 3.0% to 2.5% and a change to use updated mortality tables. Mortality assumptions are based on the RP-2014 tables with gender adjustments for healthy annuitants and disabled retirees and an adjusted version on MP-2015 mortality improvement scale on a fully generational basis.

OTHER SUPPLEMENTARY INFORMATION

TOWN OF BLADES, DELAWARE

**OTHER SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - UTILITY FUND
OPERATING REVENUE AND EXPENSE DETAIL
Year Ended December 31, 2017**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES				
Charges for services:				
Water billings	\$ 232,700	\$ 232,700	\$ 234,813	\$ 2,113
Water permits and penalties	15,400	15,400	11,609	(3,791)
Front footage assessment	30,000	30,000	26,784	(3,216)
Miscellaneous	-	-	250	250
Total revenues	278,100	278,100	273,456	(4,644)
OPERATING EXPENSE				
Salaries and wages	68,000	68,000	70,071	(2,071)
Payroll taxes	6,000	6,000	5,720	280
Repairs and maintenance	24,000	24,000	14,240	9,760
Chemicals and supplies	11,800	11,800	9,348	2,452
Insurance	21,200	21,200	31,822	(10,622)
Utilities	14,000	14,000	12,171	1,829
Testing	600	600	250	350
Postage and office supplies	2,000	2,000	2,749	(749)
Telephone	1,700	1,700	1,897	(197)
Pension	4,800	4,800	4,795	5
Vehicle fuel and maintenance	5,600	5,600	4,497	1,103
Equipment	5,000	5,000	7,295	(2,295)
Depreciation and amortization	-	-	70,322	(70,322)
Other	1,600	1,600	5,654	(4,054)
Total operating expense	166,300	166,300	240,831	(74,531)
NON-OPERATING EXPENSE				
Loan principal payments	39,661	39,661	39,661	-
Interest expense	7,719	7,719	9,810	(2,091)
Total non-operating expense	47,380	47,380	49,471	(2,091)
Total water expenses	\$ 213,680	\$ 213,680	\$ 290,302	\$ (76,622)

Herbert J. Geary III
Corey N. Duncan
Roy J. Geiser
Chris A. Hall
Ronald W. Hickman
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 the Town of Blades, Delaware (“the Town”) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements and have issued our report thereon dated May 14, 2020.

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 deficiencies in internal control over financial reporting to be material weaknesses:

Finding Number 2017-001 – Segregation of Duties

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.

Finding Number 2017-002 – Timely and Accurate Financial Reporting

Criteria: Accounting policies and procedures should be properly designed to ensure timely and accurate financial reporting.

Condition: The accounting policies and procedures currently in place lead to a reconciliation process resulting in overall inaccuracies and delays in the financial reporting process.

Cause: The lack of properly designed accounting policies and procedures has resulted in significant adjustments during the audit process. In addition management and employees do not have sufficient knowledge of generally accepted accounting principles (GAAP).

Effect: During our audit, significant adjusting journal entries were prepared prior to preparation of the financial statements, indicating that the Town's financial reports were not timely or accurate throughout the year. Timely and accurate financial reporting creates confidence, credibility, reliability and awareness for the mayor, council, management and other users of those financial reports.

Recommendation: We recommend designing and implementing accounting policies and procedures that would enable the Town to have timely and accurate financial reporting.

Identification of Repeat Finding: First year finding.

Views of Responsible Officials: The Town will review its accounting policies and procedures to ensure timely and accurate financial reporting.

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
May 14, 2020