

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
(A COMPONENT UNIT OF THE
CITY OF LEWES, DELAWARE)**

FINANCIAL STATEMENTS

MARCH 31, 2015

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE**

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INDEPENDENT AUDITORS' REPORT



INDEPENDENT AUDITORS' REPORT

ANDREW M. HAYNIE, CPA
SUSAN P. KEEN, CPA
MICHAEL C. KLEGER, CPA
JEFFREY A. MICHALIK, CPA
DANIEL M. O'CONNELL II, CPA
JOHN M. STERN, JR., CPA

Board of Directors
of The Board of Public Works
of the City of Lewes, Delaware

www.pkscpa.com

Salisbury
1801 SWEETBAY DRIVE
P.O. Box 72
SALISBURY, MD 21803
TEL: 410.546.5600
FAX: 410.548.9576

Ocean City
12216 OCEAN GATEWAY
SUITE 800
OCEAN CITY, MD 21842
TEL: 410.213.7185
FAX: 410.213.7638

Lewes
1143 SAVANNAH ROAD
SUITE 1
LEWES, DE 19958
TEL: 302.645.5757
FAX: 302.645.1757

MEMBERS OF:

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MARYLAND ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

DELAWARE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

PKF INTERNATIONAL

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Board of Public Works of the City of Lewes, Delaware ("the Board"), a component unit of the City of Lewes, Delaware, as of and for the year ended March 31, 2015, and the related notes to the financial statements, which collectively comprise the Board'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.

Auditor's 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 from 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 business-type activities of the Board of Public Works of the City of Lewes, Delaware, as of March 31, 2015, and the respective change in financial position and 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 management's discussion and analysis (pages 4 through 9) and schedule of pension plan funding progress (page 29) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report (pages 30 through 31) dated July 29, 2015, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 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 Board's internal control over financial reporting and compliance.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
July 29, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS



THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
Management's Discussion & Analysis (MD&A)
March 31, 2015

As management of the Board of Public Works of the City of Lewes, Delaware, (BPW), we offer readers of Lewes BPW's financial statements this narrative overview and analysis of the financial activities for the year ended March 31, 2015.

Financial Highlights

- The assets of the BPW exceed our liabilities at the close of the year by \$44,124,039 (net position). Of this amount, \$9,867,592 are unrestricted.
- BPW's total net position increased by \$965,569.
- As of the close of the current year, BPW reported combined ending cash balances totaling \$840,493 a decrease of \$5,018,089 in comparison with the prior year due to paying a large bond payable. Approximately 100% of this total amount is available for spending as unrestricted.
- The largest portion of BPW's total assets (65.5%) is in the form of capital assets (e.g., infrastructure, treatment plants, wells, buildings and equipment). Lewes BPW uses these capital assets to provide the electric, water, wastewater, and stormwater services to our customers. These assets are capital assets that can't be converted readily to cash.
- BPW's bonds payable decreased by \$6,775,320 during the reporting period.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to BPW's basic financial statements. Our auditors, PKS & Company, P.A. have included the **Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows** in their report.

The **Statement of Net Position** presents information on all of the BPW's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the BPW's financial position is improving or deteriorating.

All of the current period's revenues and expenses are accounted for in the **Statement of Revenues, Expenses and Changes in Net Position**. This report can be used to determine whether BPW has successfully recovered all its costs.

The primary purpose of the **Statement of Cash Flows** is to provide information about BPW's cash receipts, cash payments and net changes in cash resulting from activities related to operations, investing and financing. This statement provides answers to such questions as "Where did cash come from?", "What was it used for?" and "What was the change in the cash balance during the reporting period?"

March 31, 2015

Summary of the Financial Reporting Entity

Lewes BPW is chartered by the General Assembly of Delaware to provide electric, water, wastewater and stormwater services to customers in the City of Lewes and its immediate surrounds. BPW operates an electric distribution system; a water production (wells), treatment and distribution system; a wastewater collection and treatment system; and a stormwater collection system.

Statements of Net Assets

	ASSETS	
	<u>2015</u>	<u>2014</u>
Current assets		
Cash		
Unrestricted	\$ 840,493	\$ 2,370,053
Restricted		3,488,529
Investments		
Unrestricted	8,763,422	7,624,290
Restricted	4,113,558	4,980,284
Accounts receivable, net of allowance	1,500,083	1,402,607
Inventories	303,643	315,254
Prepaid expenses	122,839	118,251
Total current assets	<u>15,644,038</u>	<u>20,299,268</u>
Noncurrent assets		
Capital assets, net of accumulated depreciation	39,321,961	39,935,050
Notes receivable		640,000
Accrued interest receivable		53,912
Other assets	61,099	49,713
Total noncurrent assets	<u>39,383,060</u>	<u>40,678,675</u>
Total assets	<u>\$ 55,027,098</u>	<u>\$ 60,977,943</u>
	LIABILITIES AND NET POSITION	
Current liabilities		
Accounts payable	\$ 1,013,987	\$ 841,561
Customer deposits	102,546	211,603
Accrued interest	39,101	102,170
Deferred revenue	11,593	9,733
Current maturities of bond payable	678,689	828,689
Total current liabilities	<u>1,845,916</u>	<u>1,993,756</u>
Noncurrent liabilities		
Bonds payable	8,925,815	15,701,135
Accrued compensated absences	131,328	124,582
Total noncurrent liabilities	<u>9,057,143</u>	<u>15,825,717</u>
Total liabilities	<u>10,903,059</u>	<u>17,819,473</u>
NET POSITION		
Invested in capital assets, net of related debt	29,717,457	19,916,697
Invested in inventory	303,643	315,254
Restricted	4,235,347	8,518,526
Unrestricted	9,867,592	14,407,993
Total net position	<u>\$ 44,124,039</u>	<u>\$ 43,158,470</u>

March 31, 2015

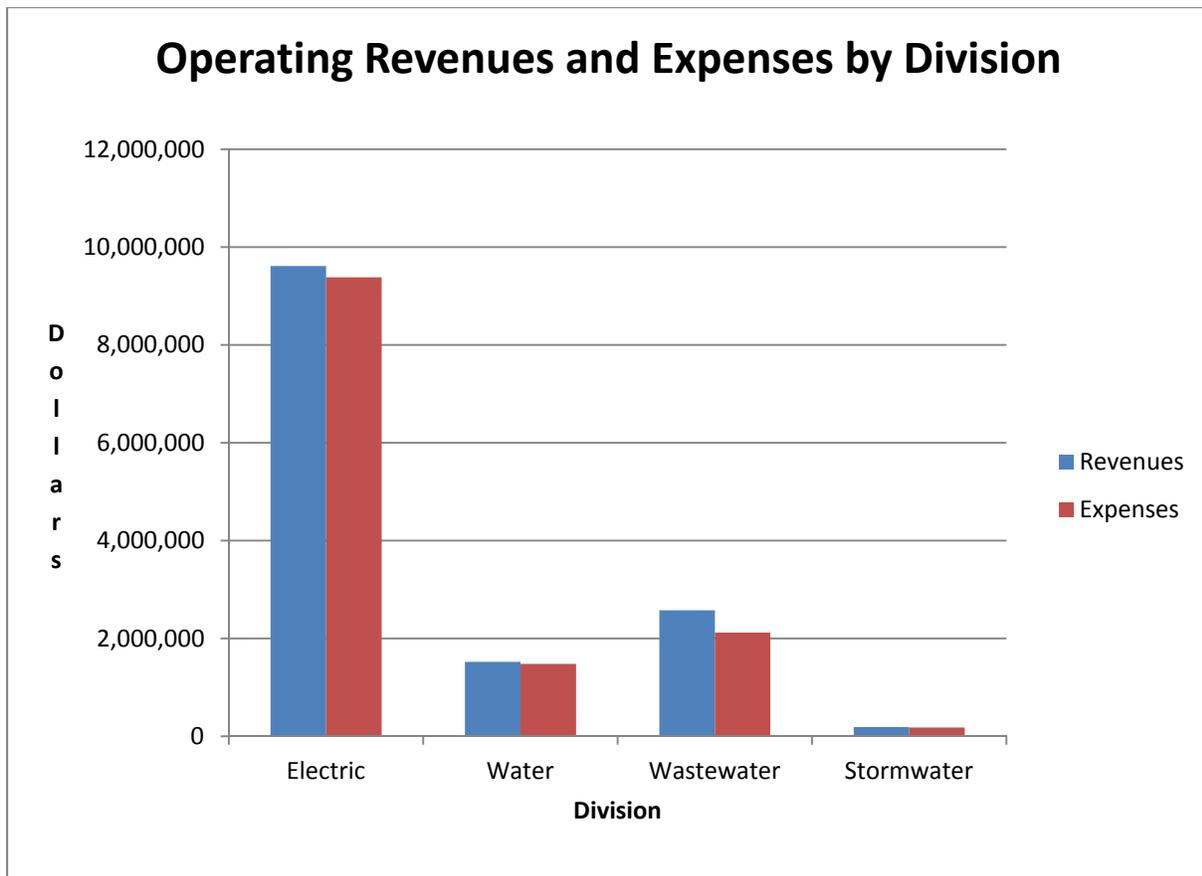
Statements of Revenues, Expenses and Changes in Net Position

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Sales and assessments	\$ 13,630,383	\$ 13,451,266
Other	<u>270,366</u>	<u>267,076</u>
Total operating revenues	<u>13,900,749</u>	<u>13,718,342</u>
Operating Expenses		
Purchased power	7,364,848	6,973,576
Payroll and employee related expenses	775,652	794,155
Utilities	13,753	58,936
Repairs and maintenance	726,196	395,108
Professional and contractual services	440,480	360,152
Other supplies and expenses	160,432	192,412
Administrative	1,318,982	1,280,000
In lieu of franchise	688,016	691,022
Bad debt	11,889	10,878
Depreciation and amortization	<u>1,660,888</u>	<u>1,484,219</u>
Total operating expenses	<u>13,161,136</u>	<u>12,240,458</u>
Operating income	<u>739,613</u>	<u>1,477,884</u>
Non-operating revenues (expenses)		
Investment income	245,358	286,773
Interest expense	(465,600)	(539,074)
Impact fees	335,546	209,289
Department transfers in (out)		
Change in fair value of investments	93,888	51,799
Grants	<u>16,764</u>	<u>30,459</u>
Net non-operating revenues (expenses)	<u>225,956</u>	<u>39,246</u>
Change in net position	<u>965,569</u>	<u>1,517,130</u>
Net position, beginning of year	<u>43,158,470</u>	<u>41,641,340</u>
Net position, end of year	\$ <u>44,124,039</u>	\$ <u>43,158,470</u>

Lewes BPW uses enterprise funds to account for its electric, water, wastewater, and stormwater departments. Additional information is presented separately in the auditors' report under the Supplementary information as Schedules of Revenues, Expenses and Changes in Net Position for each department.

The electric department continues to provide the majority of BPW's revenues, \$9,613,557, as well as to incur the greatest expenses, \$9,382,278. Purchased power of \$7,364,848, was the largest single cost to the electric department.

There were operating gains in all four departments - the electric, water, wastewater, and stormwater departments.



Long-Term Debt and Capital Projects

Lewes BPW does not have authority to directly borrow money. Loans and bonds are originated through the City of Lewes. BPW makes principal and interest payments directly to the issuers of the debt.

BPW has \$9,604,504 in bond obligations at the end of the year. These monies have been or will be used for major capital renewal and expansion projects. They include: expansion of the wastewater treatment plant, water and wastewater renewals and rebuilding the primary voltage power line into the BPW's substation.

Economic Factors and Next Year's Budget

“Safety, Reliability and Professionalism” has remained the motto of the Board of Public Works. For the 2014 and 2015 fiscal years, we have maintained that motto with great success. Our safety record speaks for itself, as we are in our fifth year of having no reported lost time due to work related injuries in the office and out in the field. The continuance of our monthly meetings has enabled us to keep that culture of safety. Our goal is that our employees will go home safe and healthy. This also brings financial rewards to the BPW as our insurance rates will continue to remain reasonable and discounted.

March 31, 2015

The reliability aspects of our business are also being supported by our employees and the decisions of the board. We are continuing to make investments in the infrastructure of our electric, water, wastewater, and storm water services. In 2014, we connected the well field distribution line and the Savannah Road main with a 16 inch connection. This single connection has helped provide increased hydraulics for the major portion of our system as well as bolster the entire system. Efforts are being made to the improvement of water quantity and reliability to the fire hydrants throughout our system. The next goal is to improve the water quality as we have an aging infrastructure that needs to be renewed. The importance of this has been recognized by our board which has placed monies into the renewal of future water infrastructure.

The wastewater treatment facilities and wastewater collection system has also continued to reliably serve the community as no major issues with the collection system or any disruptions of service at the wastewater treatment plant have been reported. It has been noted that there is an increase in the amount of maintenance dollars being spent at the plant and it is anticipated it will continue. This is happening as we approach the 10 year anniversary of the plant upgrade, and pumps and moving parts are reaching their life expectancies. One major success of the wastewater program was a conclusion to the question of our nutrient trade offset requirements. Answering the requirements of our NPDES permit, we approached DNREC with a proposal of growing oysters. DNREC accepted our current practice of moving manure from the Lewes/Rehoboth watershed as a permanent solution to our NPDES requirements. This has saved the Lewes community significant dollars in avoided costs.

The BPW stormwater utility has just completed a system-wide stormwater evaluation and master plan. This plan points out the areas of greatest concern and has given us some direction as to where to head in the future to provide stormwater reliability. A continuation of the current cleaning plan, the attack of high priority stormwater structural concerns and an increase in maintenance activities in the areas of greatest concern have begun.

Our electric system is a true backbone of the BPW as we have provided over 83,000,000 kWh of power in the 2014-2015 year. There were few outages of significant duration and those that did occur were from the delivery to Lewes and natural occurrences such as animals and lightning ... not from deficiencies in the electric system assets.

The Lewes community has seen modest growth for the last couple of years. Due to the nation's economic position, development has been very slow and cautious. 2014-15 saw the conclusion and completion of the Canary Creek subdivision. Many proposed developments were put on hold during those years to wait for more favorable economic times. Those times seem to have arrived. Several developments are now advancing through the design and permitting phases towards the construction phases. In 2015-16 we anticipate a significant increase in construction of residential development.

In 2014, the BPW began working with the citizens of Highland Acres to serve them sewer and water and with the BPW's assistance and cooperation with the City of Lewes, a vote was held and passed allowing Highland Acres to be annexed into the City. This allows them to receive BPW water and sewer and City services. The construction will be completed in 2016. It is anticipated that with the BPW efforts, Highland Acres customer satisfaction will be high, which will support our efforts to provide utilities to other developments and individuals outside the City of Lewes.

March 31, 2015

Perhaps the most significant action that was taken in 2014-15 was the pay off of \$7 million in debt. In December 2014 a bond issue used for the building of the BPW office and other wastewater infrastructure upgrades became callable. The BPW paid off the debt using escrowed dollars and reserve funds. Our reserve funds remain above the minimum reserve fund requirements. This action strengthens the soundness of our business model and supports the fiscal health of the BPW. It is anticipated that we will be able to continue to self fund capital projects, work towards paying off debt, and do this without any rate increases in the foreseeable future.

In 2014-15 the directors of the BPW have been very successful in their duties to protect the interests of the citizens of Lewes as well as ensure that the BPW meets or exceeds their expectations. The dedication of our directors has been the support of paying off the bond debt, providing household hazardous waste pick-up two times a year free of charge as well as various nonprofit organizations utilizing BPW properties free of charge.

While the nation is progressing cautiously out of its recession, the BPW saw a slight lull in construction but is optimistic of the future. The BPW sees this in the form of increased activity in the development of new properties. We are anticipating growth in the Showfield property (water only), Highland Heights, Point Farm/Harborview, Canal Place and others. These new developments will help us continue to hold rates and provide utility services to all of our customers. This is because of the previous planning for future growth in our water treatment facilities, waste water treatment and our electric substation and distribution system upgrades.

Requests for Information

This financial report is designed to provide a general overview of the Board of Public Works' finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Darrin Gordon, General Manager, Lewes Board of Public Works, 107 Franklin Avenue, Lewes, DE 19958.

BASIC FINANCIAL STATEMENTS

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE**

STATEMENT OF NET POSITION

MARCH 31, 2015

ASSETS

Current assets

Cash

Unrestricted \$ 840,493

Investments

Unrestricted 8,763,422

Restricted 4,113,558

Accounts receivable, net of allowance 1,500,083

Inventories 303,643

Prepaid expenses 122,839

Total current assets 15,644,038

Noncurrent assets

Capital assets, net of accumulated depreciation 39,321,961

Other assets 61,099

Total noncurrent assets 39,383,060

Total assets \$ 55,027,098

The accompanying notes are an integral part of these financial statements.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE**

STATEMENT OF NET POSITION (Continued)

MARCH 31, 2015

LIABILITIES

Current liabilities	
Accounts payable	\$ 1,013,987
Customer deposits	102,546
Accrued interest	39,101
Deferred revenue	11,593
Current maturities of bonds payable	678,689
Total current liabilities	<u>1,845,916</u>
 Noncurrent liabilities	
Bonds payable	8,925,815
Accrued compensated absences	131,328
Total noncurrent liabilities	<u>9,057,143</u>
 Total liabilities	<u>10,903,059</u>
 NET POSITION	
Invested in capital assets, net of related debt	29,717,457
Invested in inventory	303,643
Restricted	4,235,347
Unrestricted	9,867,592
Total net position	<u>\$ 44,124,039</u>

The accompanying notes are an integral part of these financial statements.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE**

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION**

YEAR ENDED MARCH 31, 2015

OPERATING REVENUES	
Sales and assessments	\$ 13,630,383
Other	270,366
Total operating revenues	<u>13,900,749</u>
 OPERATING EXPENSES	
Purchased power	7,364,848
Payroll and employee related expenses	775,652
Utilities	13,753
Repairs and maintenance	726,196
Professional and contractual services	440,480
Other supplies and expenses	160,432
Administrative	1,318,982
In lieu of franchise	688,016
Bad debt	11,889
Depreciation and amortization	1,660,888
Total operating expenses	<u>13,161,136</u>
Operating income	<u>739,613</u>
 NON-OPERATING REVENUES (EXPENSES)	
Interest income	245,358
Interest expense	(465,600)
Impact fees	335,546
Changes in fair value of investments	93,888
Grants	16,764
Net non-operating revenues	<u>225,956</u>
Change in net position	<u>965,569</u>
NET POSITION, BEGINNING OF YEAR	<u>43,158,470</u>
NET POSITION, END OF YEAR	<u><u>\$ 44,124,039</u></u>

The accompanying notes are an integral part of these financial statements.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE**

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 13,413,821
Other receipts	270,366
Payments to suppliers	(10,544,644)
Payments to employees	(768,906)
Net cash provided by operating activities	<u>2,370,637</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Impact fees received	<u>335,546</u>
Net cash provided by non-capital financing activities	<u>335,546</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchases of capital assets	(1,047,799)
Principal paid on long-term debt	(6,925,320)
Interest paid on long-term debt	(528,669)
Note receivable from the City of Lewes	640,000
Grants received	16,764
Net cash used by capital and related financing activities	<u>(7,845,024)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(178,518)
Interest income	299,270
Net cash provided by investing activities	<u>120,752</u>

Net decrease in cash (5,018,089)

CASH AT BEGINNING OF YEAR 5,858,582

CASH AT END OF YEAR \$ 840,493

The accompanying notes are an integral part of these financial statements.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE**

STATEMENT OF CASH FLOWS (Continued)

YEAR ENDED MARCH 30, 2015

**RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income	\$ 739,613
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization	1,660,888
Bad debt	11,889
(Increase) decrease in assets	
Accounts receivable	(109,365)
Inventory	11,611
Prepaid expenses	(4,588)
Other assets	(11,386)
Increase (decrease) in liabilities	
Accounts payable	172,426
Customer deposits	(109,057)
Deferred revenue	1,860
Accrued compensated absences	6,746
Net cash provided by operating activities	<u>\$ 2,370,637</u>

The accompanying notes are an integral part of these financial statements.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE**

**STATEMENT OF FIDUCIARY NET POSITION
PENSION TRUST FUND**

MARCH 31, 2015

As of Plan fiscal year ended:	March 31, 2015
	<hr/>
ASSETS	
Investments	\$ 2,027,488
	<hr/>
NET POSITION	
Assets - held in trust for retirement benefits	2,027,488
	<hr/>
Total net position	\$ 2,027,488
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PENSION TRUST FUND**

YEAR ENDED MARCH 31, 2015

Plan fiscal year ended:	March 31, 2015
	<hr/>
ADDITIONS	
Contributions	\$ 150,262
Investment earnings	
Interest	<hr/> 42,610
Total additions	<hr/> 192,872
DEDUCTIONS	
Benefits	179,654
Administrative	<hr/> 8,261
Total deductions	<hr/> 187,915
Change in net position	4,957
NET POSITION, BEGINNING	<hr/> 2,022,531
NET POSITION, ENDING	<hr/> <hr/> \$ 2,027,488

The accompanying notes are an integral part of these financial statements.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE**

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2015

ORGANIZATION AND REPORTING ENTITY

Organization

The Board of Public Works of the City of Lewes, Delaware (the Board) is governed by five elected directors and the mayor of the City of Lewes, Delaware. The Board was authorized to establish, control, and operate an electric plant, waterworks, and wastewater system for the City of Lewes, Delaware by a law passed by the Delaware Legislature on March 15, 1901. The accounting records are maintained in accordance with generally accepted accounting principles (GAAP) applicable to local governments.

Reporting Entity

The Board meets the criteria set forth in generally accepted accounting principles as promulgated by GASB for inclusion as a component unit within the City of Lewes, Delaware's (the City) basic financial statements. The Board's financial statements are not currently presented in the City's basic financial statements. The accompanying financial statements present the financial position and changes in net position and cash flows of the Board only. The Board does not have any component units and is not involved in any joint ventures.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Board utilizes the accrual basis of accounting in which revenues are recognized when they are earned, and expenses are recognized when they are incurred. Deferred revenue represents monies received but not yet earned.

Fund Accounting

The accounts of the Board are organized on the basis of a fund which is considered a separate accounting entity. The operations of the fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenses.

The Board reports one major proprietary fund. This fund accounts for the operation and management of the electric, water, wastewater, and stormwater departments.

The Board reports one fiduciary pension fund separately.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE**

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Fund Type

The Board is intended to be self-supporting through user charges. All of its revenues, expenses, assets, and liabilities, including fixed assets and long-term debt associated with the specific activity, are accounted for within its financial statements.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and delivering goods in connection with the fund's principle ongoing operations such as charges to customers for sales and services and expenses such as salaries, product costs, administrative expenses, and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Restricted Cash

Restricted cash consists of various accounts, the proceeds of which are from the State or other parties and the expenditures of which are limited to certain guidelines.

The restricted cash account is the Bond Project Fund. The bond proceeds were deposited in an account for the Board with the Bank of New York. The Bank of New York is paying agent for the capital improvements financed by the bond issues. This account was closed during the year ended March 31, 2015, when the bond was repaid.

Allowance for Doubtful Accounts

The Board utilizes the allowance method for recognizing bad debt expense for receivables. The amount of the allowance is determined by a review of receivables and prior years' experience. At March 31, 2015, the allowance account was \$16,000.

Inventory

Inventory is stated at cost and is determined on the first-in, first-out method. Inventories are charged to capital outlay or expense when consumed, rather than when purchased.

Capital Assets

The Board defines capital assets as those which have an acquisition cost or donated value of at least \$5,000 and an estimated life in excess of one year. Such assets are valued at historical or estimated historical depreciated cost if actual cost is not available. Donated fixed assets are stated at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that does not add value or materially extend an asset's life are expensed.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE**

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (continued)

Expenditures for major assets and improvements of the assets are capitalized as the assets are acquired or constructed. Exhaustible capital assets are depreciated, which is charged as an expense against their operations. Depreciation has been provided over the estimated useful lives using the straight-line method.

Estimated useful lives are as follows:

Category	Years
Infrastructure	10 - 75
Buildings and improvements	10 - 50
Vehicles	10 - 50
Furniture and equipment	5 - 50

Accounting for Compensated Absences

The Board accrues and expenses a liability for certain compensated absences (primarily vacation pay and sick leave) that employees have earned but have not yet been paid.

Cash Flows

For the purposes of the Statement of Cash Flows, the Board has defined cash equivalents as all highly liquid deposits and other investment instruments that have a maturity of three months or less.

Net Position

Net position is categorized as invested in capital assets (net of related debt), restricted and unrestricted and are further described as follows:

- *Invested in capital assets, net of related debt* – This category groups all capital assets including infrastructure into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributed to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted*– This category represents those assets which have constraints placed on the expenditures either externally imposed or imposed by law or enabled by legislature.
- *Unrestricted*– This category presents the net position of the Board not included elsewhere.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE**

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Board to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

CASH AND DEPOSITS

Custodial Credit Risk

At year-end, the carrying amount of the Board's cash deposits was \$2,366,773 and the bank balance was \$1,883,983. Custodial credit risk is the risk that in the event of a bank failure, the Board's deposits may not be returned to it. The Board has a deposit policy for custodial credit risk requiring deposits to be collateralized. As of March 31, 2015, all of the Board's deposits (excluding the Bond Project Account) were either covered by FDIC insurance or collateralized.

The Board's cash investment policy limits the type of exposure it is willing to take which limits the rate of interest it earns. Total interest income from the Board's cash deposits was \$19,469 for the year ended March 31, 2015.

INVESTMENTS

Concentration of Credit Risk

All investments are carried in a third party managed portfolio of funds with guidelines as directed by the Investment Committee Board as follows:

- Equities must not exceed 60% or be less than 20% of the portfolio.
- Fixed Income must not exceed 70% or be less than 30% of the portfolio.
- Alternative Investments must not exceed 15% of the portfolio.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE**

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2015

INVESTMENTS (Continued)

Credit Risk

All investments other than cash are in mutual funds type accounts which are listed and traded in the open market and valued at the actual market price as of March 31, 2015. The cash account is insured under FDIC.

The following is a listing of the investment:

Cash	
Cash- FDIC Insured	\$ 302,899
Cash- Money Market	15,871
Subtotal	<u>318,770</u>
Equities:	
Vanguard Total Stock MKT ETF	927,498
Vanguard FTSE Europe ETF	367,774
American Century Equity Income Fund A	781,030
Neuberger Berman Equity Income Fund Class A	743,938
Other	801,149
Subtotal	<u>3,621,389</u>
Fixed Income:	
Ishares Barclays Inter CR BD FD	828,750
Vanguard Bond Index Fund Inc	3,239,541
JP Morgan Core Bond Fund	744,178
Loomis Sayles Investment Grade Bond Fund Class A	1,433,343
Virtus Multi-Sector Short Term Bond Fund Class A	1,623,133
Other	1,067,876
Subtotal	<u>8,936,821</u>
Total	<u>\$ 12,876,980</u>

PENSION TRUST FUND ASSETS

The pension trust fund has investments in the amount of \$2,076,093 as of March 31, 2015. The fund is administered by Great West Life and Annuity Insurance Company and invested 100% in annuities held by Great West Life and Annuity Insurance Company. The Great West Life and Annuity Insurance Company is invested in a diversified portfolio of primarily publicly traded, fixed income securities and mortgages.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE**

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2015

EMPLOYEE WELFARE EXPENSE

The administrative cost of the employees' pension plan was \$8,261 for the year ended March 31, 2015. As of March 31, 2015, the liability for accrued vacation pay and sick pay was \$131,328.

CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2015 was as follows:

	Beginning Balance	Additions & Transfers	Deletions & Transfers	Ending Balance
Capital assets not being depreciated:				
Land	\$ 777,337	\$	\$	\$ 777,337
Construction in progress	3,018,044	957,549	(3,424,697)	550,896
Total capital assets not being depreciated	<u>3,795,381</u>	<u>957,549</u>	<u>(3,424,697)</u>	<u>1,328,233</u>
Capital assets being depreciated:				
Infrastructure	41,301,198	2,862,338		44,163,536
Building and improvements	10,711,217	15,945		10,727,162
Furniture and equipment	1,310,512	23,562		1,334,074
Vehicles	1,729,410	72,525		1,801,935
Software		540,874		540,874
Total capital assets being depreciated	<u>55,052,337</u>	<u>3,515,244</u>		<u>58,567,581</u>
Less accumulated depreciation for:				
Infrastructure	(11,057,822)	(1,161,664)		(12,219,486)
Building and improvements	(5,821,549)	(191,525)		(6,013,074)
Furniture and equipment	(804,326)	(58,033)		(862,359)
Vehicles	(1,228,971)	(69,372)		(1,298,343)
Software		(180,591)		(180,591)
Total accumulated depreciation	<u>(18,912,668)</u>	<u>(1,661,185)</u>		<u>(20,573,853)</u>
Capital assets, net	<u>\$39,935,050</u>	<u>\$2,811,608</u>	<u>\$ (3,424,697)</u>	<u>\$ 39,321,961</u>

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE**

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2015

NOTES RECEIVABLE

On December 20, 2012, the Board approved a note to the City of Lewes in the amount of \$2,150,000 to purchase a location for a public library. The interest is accrued and the rate is adjusted quarterly to match the rate of return on investment that the Board has with its investments with The Chesapeake Group at UBS Financial Services, up to a maximum of ten percent. The entire unpaid principal balance, together with all unpaid interest accrued was paid in full during the year ended March 31, 2015.

LONG-TERM DEBT

Since the Board does not have borrowing authority, the Board has borrowed through the City of Lewes, monies from general obligation bonds to the public and the State of Delaware Revolving Funds. These loans are considered general obligation bonds and are collateralized by the full faith, credit and taxing power of the City of Lewes.

Changes in long-term debt for the year ended March 31, 2015 are as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases and transfers</u>	<u>Ending Balances</u>
General Obligation Bonds	<u>\$ 16,529,824</u>	<u> </u>	<u>\$ (6,925,319)</u>	<u>\$ 9,604,505</u>

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE**

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2015

LONG-TERM DEBT (Continued)

	<u>Principal balance outstanding at March 31, 2015</u>	<u>Principal balance outstanding at March 31, 2014</u>
The general obligation bonds consist of the following:		
During the fiscal year ended September 30, 2007, the City of Lewes issued \$19,500,000 of general obligation bonds. These bonds had a final due date of January 15, 2030. The funds are being shared by the City of Lewes and the Board with the Board's original share being \$14,605,000. In 2008 and 2010, the Board transferred cash to the City and the City assumed \$2,173,235 and \$1,580,000 respectively, of this bond. During the year ended March 31, 2011, the Board transferred \$2,250,000 to the City. The funds were used by the Board for capital projects of the electric, water and sewer departments. The Board prepaid the bond payable during the year ended March 31, 2015. The interest rate of these bonds was 3% to 5%.	\$	\$ 6,246,764
During the fiscal year ended September 30, 2005, the City of Lewes issued \$1,300,000 of general obligation bonds due to the Delaware Wastewater Pollution Control Revolving Fund. The funds are being used by the Board for the upgrade of the water plant and certain other water capital projects. The loan is to be amortized over twenty years with principal and interest payments of \$30, 833 every February 1 and August 1 starting at February 1, 2008. The interest rate is 2.5%.	635,911	680,836
During the fiscal year ended September 30, 2005, the City of Lewes issued \$716,000 of general obligation bonds due to the Delaware Safe Drinking Water Revolving Fund. The funds are being used by the Board for certain water capital projects. The loan is to be amortized over 20 years with principal and interest payments of \$9,272 every February and August 15 starting February 15, 2008. The interest rate is 2.46%.	191,673	205,250
During the fiscal year ended September 30, 2007, the City of Lewes issued \$12,600,000 of general obligation bonds due to the Delaware Water Pollution Control Revolving Fund. The funds are being used by the Board for the wastewater treatment plant and other sewer capital projects. The loan is amortized over twenty years with principal and interest payments of \$425,655 every February and August 1 starting at August 1, 2009. The interest rate is at 2.5%. There was an additional draw down in 2009 of \$675,860.	8,776,920	9,396,974
Total long-term debt	<u>\$ 9,604,504</u>	<u>\$ 16,529,824</u>

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE**

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2015

LONG-TERM DEBT (Continued)

Debt service requirements

Principal and interest requirements to amortize the general obligation bonds as of March 31, 2015 are as follows:

<u>Year Ending</u>	<u>Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 695,756	\$ 235,764
2017	713,253	218,265
2018	731,192	200,329
2019	749,579	181,939
2020	768,428	163,090
2021-2025	4,141,924	516,038
2026-2030	1,804,372	56,779
	<u>\$ 9,604,504</u>	<u>\$ 1,572,204</u>

PURCHASE OF POWER

The Board purchased its power from Constellation Energy Commodities through May 2012. Beginning in June 2012, the Board entered into a contract to purchase its power from Delaware Municipal Electric Corporation (DEMEC). Beginning in the fiscal year ended March 31, 2011, the Board entered into an agreement with the University of Delaware (the University) wherein the Board will purchase excess wind power from the University if it is generated and wherein the University will purchase power from the Board if they need additional power. The Board purchases power from the University at the same price as DEMEC. For the year ended March 31, 2015, 99% of the power was purchased from DEMEC and 1% from the University.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE**

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2015

DEFINED BENEFIT PENSION PLAN

Plan description

The Board of Public Works of Lewes, Delaware Employee Retirement Plan (the Plan) is a single-employer defined benefit pension plan established by the Board effective November 15, 1962. The Board has the power and authority to establish and amend the benefit provisions of the Plan. The Plan provides retirement benefits to plan members. Members are qualified to participate in the Plan after one year of service. Normal retirement age is 65. Vesting begins after 3 years of service and requires at least 1,000 hours during a 12-month period. Retirement benefits are calculated by a formula and provide 50% of average annual earnings less 35% of primary social security benefits. Employees may take early retirement with reduced benefits at age 55 and at least 12 years of service. Effective December 1, 2002, employees with 35 years of service may retire with full benefits after their 60th birthday. Annual reporting for the Plan is presented in the Board's fiduciary fund financial statements.

Funding policy

The Board will contribute all amounts required to pay for the benefits provided under the Plan. Contributions are based on periodic calculations by an independent professional, called an "enrolled actuary".

All information that follows for the Plan is as of December 1, 2014, which is the latest actuarial report available.

Membership of the Plan

The membership consisted of the following at December 1, 2014, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	18
Terminated plan members and beneficiaries entitled to, but not yet receiving benefits	11
Active plan members	<u>7</u>
Total members	<u><u>36</u></u>

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE**

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2015

DEFINED BENEFIT PENSION PLAN (Continued)

Membership of the Plan (continued)

The annual required contribution or normal cost for the current year was determined as part of the December 1, 2014 actuarial valuation using the weighted average temporary annuity method, plus estimated expense. The actuarial assumptions included a 4% investment rate of return. The assumptions did not include post-retirement benefit increases. The actuarial value of assets was determined by the market value of investments.

As of June 24, 2010, the Board elected to end its Defined Benefit Plan and begin a Defined Contribution Plan. All benefit accruals were frozen retroactive to April 1, 2010. All vested amounts will remain in the Defined Benefit Plan and continue to be funded accordingly.

Trend Information

<u>Fiscal Year</u> <u>Beginning</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
12/1/2010	\$ 155,237	100%
12/1/2011	\$ 150,670	100%
12/1/2012	\$ 144,327	100%
12/1/2013	\$ 150,262	100%
12/1/2014	\$ 165,131	100%

OTHER POST EMPLOYMENT BENEFITS (OPEB)

In June of 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*. This statement establishes standards for reporting non-pension postemployment benefits, such as health care premiums for retirees. Fiscal year 2009 was the first year the Board was required to adopt this statement.

The Board currently provides additional post-employment benefits for health insurance for certain retired employees until they reach the age of 65 and supplemental insurance after age 65.

The current benefit for those who elect is 100% of the cost of supplemental or health insurance premium.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE**

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2015

OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

The benefit is funded on a pay-as-you-go plan. For the year ended March 31, 2015, the recognized cost was \$17,172 for six retirees 65 or older.

Prior to 2004, this plan was discontinued and in addition to the six current retirees only one additional employee qualifies to receive benefits under this plan and he is under 65 years of age.

Since GASB 45's purpose is to account for current year costs and liability for future retiree benefits and, since only two current employees age 64 are eligible for the benefit and 65 is the normal retirement age, the dollar value of current and future cost is deemed nonmaterial to the current and future financial statements. Therefore the Board has elected not to adopt GASB 45.

RELATED PARTY TRANSACTIONS

The City of Lewes charges the Board rent for the use of buildings and offices owned by the City of Lewes and the Board began to bill the City for utilities used. In addition, in accordance with the City's charter, the City of Lewes imposes a 5% in lieu of franchise fee on sales and assessments rendered by the BPW. For the year ended March 31, 2015, rent and in lieu of franchise fees paid to the City were \$133,591 and \$153,602, respectively.

RISK MANAGEMENT

The Board 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 Board maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Board. Settled claims have not exceeded this coverage in any of the past three fiscal years.

COMMITMENTS AND CONTINGENT LIABILITIES

The Board is the recipient of various federal and state grants. The Board may be under obligation to repay these grant funds if, upon final review by the respective granting agencies, the funds expended did not meet the established program objectives. As of March 31, 2015, the Board is not aware of any repayment requests.

REQUIRED SUPPLEMENTARY INFORMATION

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE**

SCHEDULE OF PENSION PLAN FUNDING PROGRESS

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

MARCH 31, 2015

	Value of Assets (a)	Liability (AAL) (b)	AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / (c))
12/1/2010	2,371,226	3,592,955	1,221,729	66.00%	521,473	234.28%
12/1/2011	2,381,717	3,443,499	1,061,782	69.17%	N/A	N/A *
12/1/2012	2,064,361	3,010,041	945,680	68.58%	N/A	N/A *
12/1/2013	2,069,760	2,942,686	872,926	68.90%	N/A	N/A *
12/1/2014	2,076,093	2,905,887	829,794	68.90%	N/A	N/A *

* All benefit accruals were frozen beginning April 1, 2010. See the "Defined Benefit Pension Plan" note on pages 24 - 25.

GOVERNMENT AUDITING STANDARDS REPORT



ANDREW M. HAYNIE, CPA
SUSAN P. KEEN, CPA
MICHAEL C. KLEGER, CPA
JEFFREY A. MICHALIK, CPA
DANIEL M. O'CONNELL II, CPA
JOHN M. STERN, JR., CPA

www.pkscpa.com

Salisbury
1801 SWEETBAY DRIVE
P.O. BOX 72
SALISBURY, MD 21803
TEL: 410.546.5600
FAX: 410.548.9576

Ocean City
12216 OCEAN GATEWAY
SUITE 800
OCEAN CITY, MD 21842
TEL: 410.213.7185
FAX: 410.213.7638

Lewes
1143 SAVANNAH ROAD
SUITE 1
LEWES, DE 19958
TEL: 302.645.5757
FAX: 302.645.1757

MEMBERS OF:

AMERICAN INSTITUTE OF
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**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***

Board of Directors
of The Board of Public Works
of the City of Lewes, 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 business-type activities and aggregate remaining fund information of the Board of Public Works of the City of Lewes, Delaware ("the Board"), a component unit of the City of Lewes, Delaware, as of and for the year ended March 31, 2015, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated July 29, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board'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 Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *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 attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first 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.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify a deficiency in internal control, as described in the accompanying schedule of findings that we consider to be a significant deficiency. We consider the deficiency described in 15-01 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free from 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*.

The Board of Public Works of the City of Lewes, Delaware's Response to Findings

The Board's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
July 29, 2015

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE**

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED MARCH 31, 2015

15-01 **Condition and cause** – The accounts receivable subledger is not reconciled to the general ledger. During fiscal year 2014, new accounting software was implemented. With the implementation, new controls and processes were created; however, the processes over accounts receivable no longer adequately safeguard these assets.

Criteria – The accounts receivable subledger should be reconciled to the general ledger to properly safeguard the assets.

Effect – There is a danger that intentional or unintentional errors could be made and not detected.

Recommendation – Management should reconcile the subledger to the general ledger monthly.

Response and planned corrective action – Management acknowledges the condition and has taken steps to correct this problem.