

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

FINANCIAL STATEMENTS

MARCH 31, 2013

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

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INDEPENDENT AUDITORS' REPORT



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*DELAWARE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS*

PKF INTERNATIONAL

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements 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, 2013, 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.

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 Governmental 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Board of Public Works of the City of Lewes, Delaware, as of March 31, 2013, 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 and schedule of pension plan funding progress on pages 3 through 7 and 27 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 28-29) dated June 24, 2013, 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 Board's internal control over financial reporting and compliance.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
June 24, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS



THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
Management's Discussion & Analysis (MD&A)
March 31, 2013

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, 2013.

Financial Highlights

- The assets of the BPW exceed our liabilities at the close of the year by \$41,641,340 (net position). Of this amount, \$14,026,857 are unrestricted.
- BPW's total net position increased by \$678,456.
- As of the close of the current year, BPW reported combined ending cash balances totaling \$5,010,663, a decrease of \$14,952,596 in comparison with the prior year. Approximately 20% of this total amount, \$979,898, is available for spending as unrestricted. In 2012, \$12,201,821 was transferred to savings.
- During the year, BPW moved a portion of our cash into investment accounts. At year end, these investments totaled \$12,201,821. Of this amount, approximately 59%, \$7,248,882, is unrestricted.
- The largest portion of BPW's total assets (65%) 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 \$775,673 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, 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 our 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?"

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>2013</u>	<u>2012</u>
Current assets		
Cash		
Unrestricted	\$ 979,898	\$ 12,227,437
Restricted	4,030,765	7,735,822
Investments		
Unrestricted	7,248,882	
Restricted	4,952,939	
Accounts receivable, net of allowance	1,239,096	1,246,327
Inventories	247,924	203,431
Prepaid expenses	72,273	77,401
Total current assets	<u>18,771,777</u>	<u>21,490,418</u>
Noncurrent assets		
Capital assets, net of accumulated depreciation	39,514,986	38,915,450
Notes receivable	2,150,000	
Accrued interest receivable	16,125	
Other assets	39,778	258,981
Total noncurrent assets	<u>41,720,889</u>	<u>39,174,431</u>
Total assets	<u>\$ 60,492,666</u>	<u>\$ 60,664,849</u>
	LIABILITIES AND NET POSITION	
Current liabilities		
Accounts payable	\$ 1,070,883	\$ 1,068,548
Customer deposits	98,677	96,965
Accrued interest	115,660	123,646
Accrued liabilities	94,645	180,526
Deferred revenue	20,286	19,608
Current maturities of bond payable	806,259	775,799
Total current liabilities	<u>2,206,410</u>	<u>2,265,092</u>
Noncurrent liabilities		
Bonds payable	16,530,475	17,336,608
Accrued compensated absences	114,441	100,265
Total noncurrent liabilities	<u>16,644,916</u>	<u>17,436,873</u>
Total liabilities	<u>18,851,326</u>	<u>19,701,965</u>
NET POSITION		
Invested in capital assets, net of related debt	18,364,410	16,989,201
Invested in inventory	247,924	203,431
Restricted	9,002,149	7,752,890
Unrestricted	14,026,857	16,017,362
Total net position	<u>\$ 41,641,340</u>	<u>\$ 40,962,884</u>

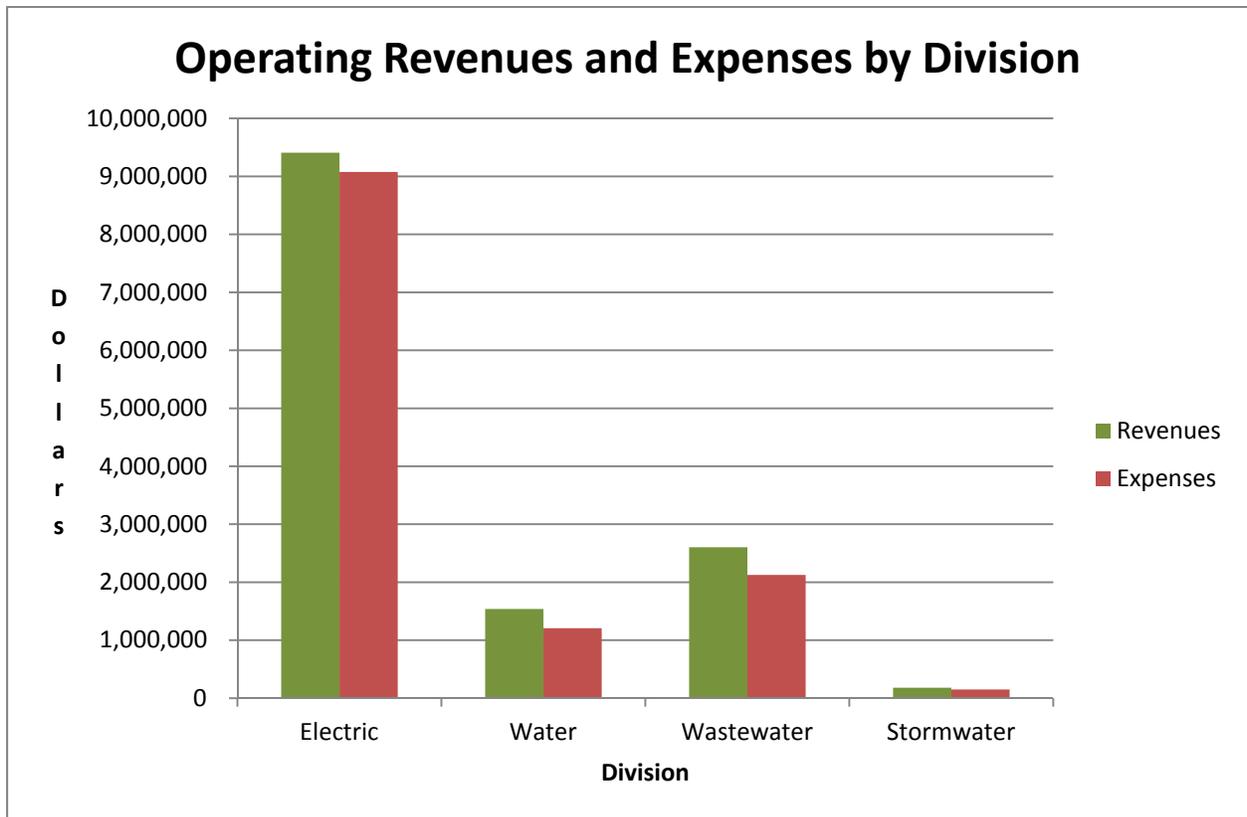
Statements of Revenues, Expenses, and Changes in Net Position

	<u>2013</u>	<u>2012</u>
Operating revenues		
Sales and assessments	\$ 13,392,522	\$ 13,624,358
Other	<u>338,225</u>	<u>331,956</u>
Total operating revenues	<u>13,730,747</u>	<u>13,956,314</u>
Operating expenses		
Production and distribution	8,623,057	7,982,720
General and administrative	2,452,283	2,625,980
Depreciation and amortization	<u>1,484,681</u>	<u>1,456,836</u>
Total operating expenses	<u>12,560,021</u>	<u>12,065,536</u>
Operating income	<u>1,170,726</u>	<u>1,890,778</u>
Non-operating revenues (expenses)		
Interest income	64,223	4,277
Interest expense	(674,070)	(607,811)
Impact fees	132,258	785,333
Loss on sale of assets	(82,877)	(3,720)
Transfer to City		(156,487)
Changes in fair value of investments	<u>68,196</u>	
Net non-operating revenues (expenses)	<u>(492,270)</u>	<u>21,592</u>
Change in net position	<u>678,456</u>	<u>1,912,370</u>
Net position, beginning of year, as restated	<u>40,962,884</u>	<u>39,050,514</u>
Net position, end of year	<u>\$ 41,641,340</u>	<u>\$ 40,962,884</u>

Lewes BPW uses enterprise funds to account for its electric, 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, \$9,409,466, as well as to incur the greatest expenses, \$9,075,785. Purchased power of \$7,144,429, was the largest single cost to the electric department.

There were operating gains in 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 \$17,336,734 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 sewer renewals and rebuilding the primary voltage power line into the BPW's substation.

Economic Factors and Next Year's Budget

The Lewes BPW completed the transition from Constellation Energy power supply to DEMEC power supply, the transition occurred in June of 2012. This change provides a quality supply that will meet the State Renewable Portfolio Standard going forward and still provide economical power costs. The Lewes BPW was able to provide power to our customers at the lowest rates in Delaware for three separate months for 2012/2013. The safety, reliability and professionalism of our system and staff have been proven through the results of minimal outages through Hurricane Sandy and other nor'easters that caused property damage.

The water and wastewater rates that were established for the 2010-2011 years included an escalating factor of 5% plus cost of living and 15% plus cost of living, respectively. These rate increases have been avoided for the last three years, and the BPW is avoiding any rate increases for this 2013/14 budget year. Operational efficiencies initiated over the past several years make it possible to defer rate increases and also to provide funds to help cover debt principal and interest payments for the

wastewater utility bonded indebtedness. Anticipated future growth is expected to provide the increased revenues need in the wastewater utility.

The Lewes community has been fortunate with an increase in growth. The most notable construction is at Canary Creek development where the third and final phase is anticipated to be completed in the 2013/2014 budget timeframe. The beginning of the Point Farm development located north of Canary Creek is in the preliminary stages. This development is proposing an additional 69 single family homes.

The BPW is completing a new water treatment facility that will bring reliability and efficiency to the water supply system. A new billing, financial reporting and work order management system is also being implemented to bring improved efficiencies and service timeliness to all customers. Additional efforts in the storm water drainage department are planned. This will stretch the limits of the storm water drainage budget, but is needed to meet the customer service demands.

The BPW has also made a change to the investment of our reserve funds. The fiduciary responsibility of the Board was not being fully met by earnings of .01% through previously held money market accounts. A newly assigned investment management firm expects to provide improved yet conservative earnings while following current investment policies. Reserve funds are accumulated to self-fund capital projects and for emergencies, such as natural disasters.

The 2012/13 year conclusion shows very narrow positive change in net position once the payment of debt principal is made. This was by design and a result of clear vision from the Board Directors and the management of the BPW.

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, 2013

ASSETS

Current assets

Cash

Unrestricted \$ 979,898

Restricted 4,030,765

Investments

Unrestricted 7,170,254

Restricted 5,031,567

Accounts receivable, net of allowance 1,239,096

Inventories 247,924

Prepaid expenses 72,273

Total current assets 18,771,777

Noncurrent assets

Capital assets, net of accumulated depreciation 39,514,986

Notes receivable 2,150,000

Accrued interest receivable 16,125

Other assets 39,778

Total noncurrent assets 41,720,889

Total assets \$ 60,492,666

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, 2013

LIABILITIES

Current liabilities

Accounts payable	\$ 1,070,883
Customer deposits	98,677
Accrued interest	115,660
Accrued liabilities	94,645
Deferred revenue	20,286
Current maturities of bonds payable	806,259
Total current liabilities	<u>2,206,410</u>

Noncurrent liabilities

Bonds payable	16,530,475
Accrued compensated absences	114,441
Total noncurrent liabilities	<u>16,644,916</u>

Total liabilities	<u>18,851,326</u>
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NET POSITION

Invested in capital assets, net of related debt	18,364,410
Invested in inventory	247,924
Restricted	9,002,149
Unrestricted	<u>14,026,857</u>
Total net position	<u>\$ 41,641,340</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, 2013

Operating revenues	
Sales and assessments	\$ 13,392,522
Other	338,225
Total operating revenues	<u>13,730,747</u>
Operating expenses	
Purchased power	7,144,429
Payroll and employee related expenses	727,740
Utilities	411,771
Repairs and maintenance	339,117
Professional and contractual services	370,945
Other supplies and expenses	142,304
Administrative	1,254,466
In lieu of franchise	670,435
Bad debt	14,133
Depreciation and amortization	1,484,681
Total operating expenses	<u>12,560,021</u>
Operating income	<u>1,170,726</u>
Non-operating revenues (expenses)	
Interest income	64,223
Interest expense	(674,070)
Impact fees	132,258
Loss on sale of assets	(82,877)
Changes in fair value of investments	68,196
Net non-operating expenses	<u>(492,270)</u>
Change in net position	<u>678,456</u>
Net position, beginning of year	<u>40,962,884</u>
Net position, end of year	<u><u>\$ 41,641,340</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, 2013

Cash flows from operating activities	
Receipts from customers	\$ 13,388,010
Other receipts	338,225
Payments to suppliers	(10,237,175)
Payments to employees	(713,564)
Net cash provided by operating activities	<u>2,775,496</u>
Cash flows from non-capital financing activities	
Impact fees received	<u>132,258</u>
Net cash provided by non-capital financing activities	<u>132,258</u>
Cash flows from investing activities	
Purchase of investments	(12,201,821)
Change in fair value of investments	68,196
Interest income	64,223
Net cash used by investing activities	<u>(12,069,402)</u>
Cash flows from capital and related financing activities	
Purchases of capital assets	(2,167,095)
Principal paid on long-term debt	(775,673)
Interest paid on long-term debt	(682,055)
Note receivable from the City of Lewes	(2,150,000)
Accrued interest on note receivable from the City of Lewes	(16,125)
Net cash used by capital and related financing activities	<u>(5,790,948)</u>
Net decrease in cash	(14,952,596)
Cash at beginning of year	<u>19,963,259</u>
Cash at end of year	<u>\$ 5,010,663</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 (Continued)

YEAR ENDED JUNE 30, 2013

Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 1,170,726
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization	1,484,681
Bad debt	14,133
(Increase) decrease in assets	
Accounts receivable	(6,902)
Inventory	(44,493)
Prepaid expenses	5,128
Other assets	219,203
Increase (decrease) in liabilities	
Accounts payable	2,335
Customer deposits	1,712
Accrued liabilities	(85,881)
Deferred revenue	678
Accrued compensated absences	14,176
Net cash provided by operating activities	<u>\$ 2,775,496</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, 2013

As of Plan fiscal year ended:	December 1, 2012
	<hr/>
ASSETS	
Investments	\$ 2,064,361
	<hr/>
NET POSITION	
Assets - held in trust for retirement benefits	2,064,361
	<hr/>
Total net position	\$ 2,064,361
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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, 2013

Plan fiscal year ended:	December 1, 2012
ADDITIONS	
Contributions	\$ 155,237
Investment earnings	
Interest	<u>52,481</u>
Total additions	<u>207,718</u>
DEDUCTIONS	
Benefits	516,440
Administrative	<u>8,634</u>
Total deductions	<u>525,074</u>
Change in net position	(317,356)
Net position, beginning	<u>2,381,717</u>
Net position, ending	<u><u>\$ 2,064,361</u></u>

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, 2013

ORGANIZATION AND REPORTING ENTITY

Organization

The Board of Public Works of the City of Lewes, Delaware (the Board) is governed by five elected board members 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. In 2010, the Board of Public Works established a department for stormwater. 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.

Implementation of Accounting Policies

In 2013, the Board adopted GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and American Institute of Certified Public Accountants (AICPA) Pronouncements (GASB 62)*. This Standard improves financial reporting by incorporating into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and the AICPA pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB 62 superseded Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The adoption of this new standard did not have a significant impact on the Board.

In 2013, the Board adopted GASB Statement No.63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position (GASB 63)* and GASB Statement No.65, *Items Previously Reported as Assets and Liabilities (GASB 65)*. The objective of these Statements is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position (net assets/balance sheet). Amounts that are required to be reported as deferred outflows should be reported in a statement of net position in a separate section following assets. Similarly, amounts required to be reported as deferred inflows of resources should be reported in a separated section following liabilities. The statement of net position should report the residual amount as net position, rather than net assets or equity. GASB 63 and 65 were implemented retroactively. The adoption of these statements resulted in a change in the presentation of the Statement of Net Assets to net position.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 largest 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. The balance in this account was \$3,660,353 as of March 31, 2013. These monies can only be expended for bond projects that were committed to by February, 2008.

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, 2013, the allowance account was \$33,548.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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:

<u>Category</u>	<u>Years</u>
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:

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position (Continued)

- *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.

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 with the exception of the Bond Project Account was \$1,349,660 and the bank balance was \$1,278,017. 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, 2013 all of the Board's deposits with the exception of the Bond Project Account were either covered by FDIC insurance or collateralized.

The Bank of New York which maintains control over the Bond Project Account has confirmed that the account balance of \$3,660,353 is invested in a Goldman U.S. Treasury Obligation Mutual fund which invests in U.S. treasury short term obligations only.

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 \$22,676 for the year ended March 31, 2013.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013

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.

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 28, 2013. The cash account is insured under FDIC.

The following is a listing of the investment:

Cash	
Cash - FDIC Insured	\$ 193,769
Cash - Money Market	911,581
Subtotal	<u>1,105,350</u>
Equities:	
Vanguard total Stock MKT ETF	754,628
American Century Equity Income Fund A	534,284
Neuberger Berman Equity Income Fund Class A	540,066
Other	580,921
Subtotal	<u>2,409,899</u>
Fixed Income:	
Ishares Barclays Inter CR BD FD	649,058
Vanguard Bond Index Func Inc	2,386,835
JP Morgan Core Bond Fund	600,749
Loomis Sayles Investment Grade Bond Fund Class A	790,331
PIMCO Total Return Fund Class A	1,099,300
Virtus Multi-Sector Short Team Bond Fund Class A	1,073,277
Federated Adjustable Rate Securities Fund SS Class	1,200,263
Other	886,759
Subtotal	<u>8,686,572</u>
Total	<u>\$ 12,201,821</u>

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013

PENSION TRUST FUND ASSETS

The pension trust fund has investments in the amount of \$2,064,361 as of December 1, 2012. The fund is administered by FAScore, LLC and invested in the MET Managed GIC. The MET Managed GIC is invested in a diversified portfolio of primarily publicly traded, fixed income securities. The fund principal is further guaranteed by MetLife, subject to MetLife's financial strength and claims paying ability.

EMPLOYEE WELFARE EXPENSE

The administrative cost of the employees' pension plan was \$8,634 for the year ended March 31, 2013. As of March 31, 2013, the liability for accrued vacation pay and sick pay was \$114,441.

CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2013 was as follows:

	Beginning Balance	Additions & Transfers	Deletions & Transfers	Ending Balance
Capital assets not being depreciated:				
Land	\$ 777,337	\$	\$	\$ 777,337
Construction in progress	<u>1,053,873</u>	<u>2,694,968</u>	<u>(2,560,364)</u>	<u>1,188,477</u>
Total capital assets not being depreciated	<u>1,831,210</u>	<u>2,694,968</u>	<u>(2,560,364)</u>	<u>1,965,814</u>
Capital assets being depreciated:				
Infrastructure	39,715,644	2,023,663	(509,205)	41,230,102
Building and improvements	10,806,202		(94,985)	10,711,217
Furniture and equipment	1,265,950	41,473		1,307,423
Vehicles	<u>1,699,030</u>			<u>1,699,030</u>
Total capital assets being depreciated	<u>53,486,826</u>	<u>2,065,136</u>	<u>(604,190)</u>	<u>54,947,772</u>
Less accumulated depreciation for:				
Infrastructure	(9,161,524)	(1,149,752)	427,837	(9,883,439)
Building and improvements	(5,493,267)	(221,249)	93,476	(5,621,040)
Furniture and equipment	(682,938)	(62,079)		(745,017)
Vehicles	<u>(1,064,857)</u>	<u>(84,247)</u>		<u>(1,149,104)</u>
Total accumulated depreciation	<u>(16,402,586)</u>	<u>(1,517,327)</u>	<u>521,313</u>	<u>(17,398,600)</u>
Capital assets, net	<u>\$38,915,450</u>	<u>\$3,242,777</u>	<u>\$ (2,643,241)</u>	<u>\$ 39,514,986</u>

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013

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, shall be due and payable in full on December 27, 2014. Interest for the year ended March 31, 2013 was \$16,125.

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, 2013 are as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases and transfers</u>	<u>Ending Balances</u>
General Obligation Bonds	<u>\$ 18,112,407</u>	<u></u>	<u>(775,673)</u>	<u>\$ 17,336,734</u>

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013

LONG TERM DEBT (Continued)

	Principal balance outstanding at March 31, 2013
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 have 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 are to be used by the Board for capital projects of the electric, water, and sewer departments. The Board pays their required principal and interest payments of various amounts every January 15 directly to the bonds paying agent. The interest rate of these bonds is 3% to 5%.	\$6,391,765
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%.	724,658
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 twenty years with principal and interest payments of \$9,272 every February 15 and August 15 starting at February 15, 2008. The interest rate is 2.46%.	218,500
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 to be amortized over twenty years with principal and interest payments of \$425,655 every February 1 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.	10,001,811
Total long-term debt	<u>\$17,336,734</u>

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013

LONG-TERM DEBT (Continued)

Debt service requirements

Principal and interest requirements to amortize the general obligation bonds as of March 31, 2013 are as follows:

<u>Year Ending</u>	<u>Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 806,259	\$ 568,860
2015	828,689	545,369
2016	850,756	521,218
2017	873,253	496,402
2018	896,192	472,903
2019-2023	4,886,202	1,981,683
2024-2028	6,385,383	1,181,014
2029-2031	1,810,000	123,069
	<u>\$ 17,336,734</u>	<u>\$ 5,890,518</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, 2013, 99% of the power was purchased from Constellation Energy Commodities and DEMEC and 1% from the University.

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.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013

DEFINED BENEFIT PENSION PLAN (Continued)

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, 2012, which is the latest actuarial report available.

Membership of the Plan

The membership consisted of the following at December 1, 2012, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	17
Terminated plan members and beneficiaries entitled to, but not yet receiving benefits	13
Active plan members	7
Total members	37

The annual required contribution or normal cost for the current year was determined as part of the December 1, 2012 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

Fiscal Year <u>Beginning</u>	Annual Pension Cost (APC) <u>Cost (APC)</u>	Percentage of APC Contributed <u>Contributed</u>
12/1/2008	\$ 146,076	100%
12/1/2009	\$ 229,940	100%
12/1/2010	\$ 155,237	100%
12/1/2011	\$ 150,670	100%
12/1/2012	\$ 144,327	100%

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013

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 that 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 benefit is funded on a pay-as-you-go plan. For the year ended March 31, 2013, the recognized cost was \$20,472 for seven retirees 65 or older.

Prior to 2004, this plan was discontinued and in addition to the seven 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

Beginning April 1, 2010, the City of Lewes began to charge 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 3.75% in lieu of franchise fee on services rendered by the BPW. For the year ended March 31, 2013, rent and in lieu of franchise fees paid to the City were \$130,556 and \$670,435, 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.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2013

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, 2013, 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, 2013

	Value of Assets (a)	Liability (AAL) (b)	AAL (UALL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / (c))
12/1/2008	\$ 2,007,542	\$ 3,199,284	\$ 1,199,424	62.75%	\$ 774,495	154.87%
12/1/2009	2,137,608	3,280,742	1,143,134	65.16%	677,531	168.72%
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 *

* All benefit accruals were frozen beginning April 1, 2010. See the "Defined Benefit Pension Plan" note on pages 23 - 24.

GOVERNMENT AUDITING STANDARDS REPORT



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PKF INTERNATIONAL

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, 2013, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated June 24, 2013.

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 of this section 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, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 13-01 that we consider 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.

PKS + Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
June 24, 2013

THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED MARCH 31, 2013

13-01 **Condition and cause** – Management relies on the auditor to prepare the financial statements in accordance with generally accepted accounting principles (GAAP). The financial statements are reviewed and approved by management prior to their issuance.

Criteria – Controls should be in place to detect, prevent, or correct misstatements in the Board's drafted financial statements.

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

Recommendation – None.

Response and planned corrective action – Management acknowledges the condition and has evaluated the cost vs. benefit of establishing internal controls over the preparation of the financial statements in accordance with GAAP, and has determined that it is in the best interest of the Board to outsource this task to its independent auditors.