

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

FINANCIAL STATEMENTS

MARCH 31, 2017

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

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INDEPENDENT AUDITORS' REPORT



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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 business-type activities of the Board of Public Works of the City of Lewes, Delaware ("the Board"), as of and for the year ended March 31, 2017, 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 an opinion 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. 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.

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, 2017, and the respective changes 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 30) 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 31 through 32) dated July 26, 2017, 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 26, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
Management's Discussion & Analysis (MD&A)
March 31, 2017

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, 2017.

Financial Highlights

- The assets of the BPW exceed our liabilities at the close of the year by \$46,485,544 (net position). Of this amount, \$9,460,702 are unrestricted.
- BPW's total net position increased by \$2,102,982.
- As of the close of the current year, BPW reported combined ending cash balances totaling \$1,293,950 an increase of \$749,917 in comparison with the prior year. Approximately 100% of this total amount is available for spending as unrestricted.
- The largest portion of BPW's total assets (70%) 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 increased by \$602,336 during the reporting period due to new bonds being issued during the year.
- Notes receivable increased by \$1,901,968 during the reporting period due to a new note related to Highland Acres.
- Deferred revenue increased by \$2,013,255 during the reporting period due to the unearned revenue from the Highland Acres note receivable.

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?"

THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
Management's Discussion & Analysis (MD&A)
March 31, 2017

Statements of Net Assets

	2017	2016
ASSETS		
Current assets		
Cash		
Unrestricted	\$ 1,293,950	\$ 544,033
Reserve fund investments		
Unrestricted	8,159,291	8,426,216
Restricted	5,084,629	4,477,172
Accounts receivable, net of allowance	1,312,001	1,146,139
Prepaid expenses	336	33,365
Total current assets	<u>15,850,207</u>	<u>14,626,925</u>
Noncurrent assets		
Capital assets, net of accumulated depreciation	41,427,973	39,667,529
Notes receivable	1,901,968	
Other assets	47,882	59,567
Total non current assets	<u>43,377,823</u>	<u>39,727,096</u>
Total assets	<u>\$ 59,228,030</u>	<u>\$ 54,354,021</u>
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable	\$ 872,476	\$ 724,311
Customer deposits	109,934	102,370
Accrued interest	33,142	34,963
Deferred revenue	2,024,848	10,527
Current maturities of bonds payable	668,036	700,736
Total current liabilities	<u>3,708,436</u>	<u>1,572,907</u>
Noncurrent liabilities		
Bonds payable	8,819,724	8,184,688
Accrued compensated absences	166,444	154,297
Other liabilities	47,882	59,567
Total noncurrent liabilities	<u>9,034,050</u>	<u>8,398,552</u>
Total liabilities	<u>12,742,486</u>	<u>9,971,459</u>
Net position		
Net investment in capital assets	31,940,213	30,782,105
Restricted	5,084,629	4,477,172
Unrestricted	9,460,702	9,123,285
Total net position	<u>\$ 46,485,544</u>	<u>\$ 44,382,562</u>

THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
Management's Discussion & Analysis (MD&A)
March 31, 2017

Statements of Revenues, Expenses and Changes in Net Position

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Sales and assessments	\$ 13,620,502	\$ 13,565,125
Other	<u>492,672</u>	<u>303,965</u>
Total operating revenues	<u>14,113,174</u>	<u>13,869,090</u>
Operating Expenses		
Purchased power	6,881,742	7,008,628
Payroll and employee related expenses	921,648	870,796
Utilities	22,910	16,758
Repairs and maintenance	715,644	784,942
Professional and contractual services	423,898	426,519
Other supplies and expenses	203,779	217,957
Administrative	1,427,205	1,340,385
In lieu of franchise	695,413	694,241
Bad debt	56,680	11,497
Depreciation and amortization	<u>1,712,270</u>	<u>1,694,457</u>
Total operating expenses	<u>13,061,189</u>	<u>13,066,180</u>
Operating income	<u>1,051,985</u>	<u>802,910</u>
Non-operating revenues (expenses)		
Investment income	323,310	343,038
Interest expense	(228,765)	(231,578)
Impact fees	547,658	162,056
Gain (loss) on sale of assets	27,635	(161,593)
Change in fair value of investments	210,547	(372,279)
Grants	64,096	80,710
Capital projects pass-through revenue	<u>106,516</u>	<u> </u>
Net non-operating revenues (expenses)	<u>1,050,997</u>	<u>(179,646)</u>
Change in net position	<u>2,102,982</u>	<u>623,264</u>
Net position, beginning of year	<u>44,382,562</u>	<u>43,759,298</u>
Net position, end of year	<u>\$ 46,485,544</u>	<u>\$ 44,382,562</u>

THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
Management's Discussion & Analysis (MD&A)
March 31, 2017

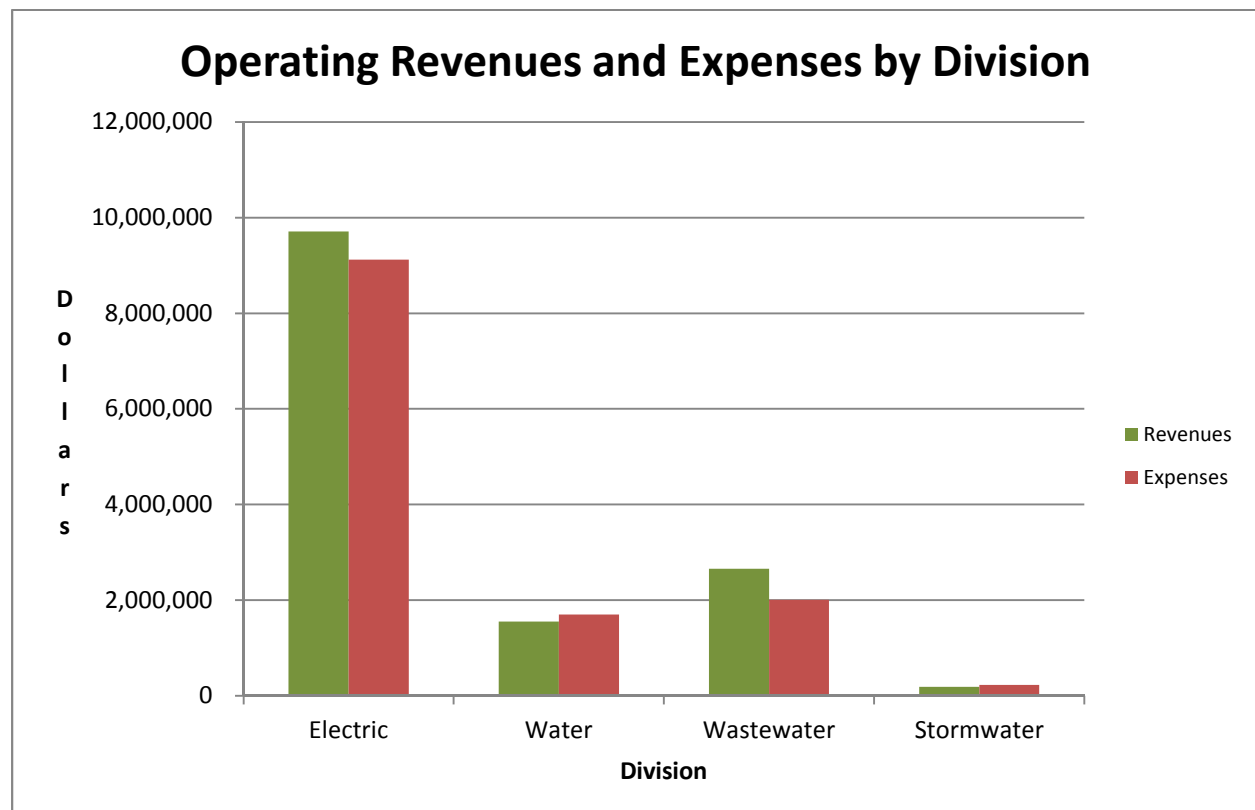
Summary of the Financial Reporting Entity

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.

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 operating revenues, \$9,709,301, as well as to incur the greatest operating expenses, \$9,123,388. Purchased power of \$6,881,742, was the largest single cost to the electric department.

There were operating gains in the electric, wastewater, and stormwater departments, and an operating loss in the water department, with overall operating income of \$1,051,985.



THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
Management's Discussion & Analysis (MD&A)
March 31, 2017

Long-Term Debt and Capital Projects

Lewes BPW does have authority to directly borrow money, but existing 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 \$9,487,760 in bond obligations at the end of the year. These monies have been or will be used for major capital renewal and expansion projects.

General Managers' Report

In the early 2000's the Lewes BPW invested heavily in renewing our electric system. We replaced poles and conductors to ensure that the system was as healthy as possible. We continue to reap the benefits from that capital expenditures. We had minimal outages in 2016-17. Those few outages we did have were mostly due to squirrels. We applaud our electric division and staff for their safe and reliable operation of our electric system.

The rates for our electric system have gone down by another 2% because of the decline of supply costs, and we anticipate that the rate will hold in 2018 with a plus or minus 1 ½%.

We will continue to have some of the lowest rates in Delaware.

The biggest project of the 2016-17 year was accomplished in our water and sewer department: The Highland Acres annexation into the City of Lewes required the construction of water and sewer infrastructure to each of the 53 homes. In addition, it necessitated coordination with Chesapeake Natural Gas and the repaving of the roads, bringing them up to City standards. GMB Engineering played a key role with our employees in communicating and coordinating with the citizens of Highland Acres. At the conclusion of the project a majority of the citizens were very pleased.

The Stormwater department strived to improve more of the difficult areas of the storm water system and created a systematic approach to maintaining our pipes and ditches. The reinforcement of ditch banks has proven to be effective for maintenance measures that have provided effective and economical repairs.

The administrative office has provided three separate efforts that created positive dividends for the BPW. First was the selection of a new operator for the Howard Seymour Waste Water Treatment Plant. Severn Trent services had served the BPW for more than a dozen years, but to ensure efficiencies, a new contract was let out to bid. The new contract was awarded to White Marsh, a subsidiary of Tidewater Utilities. To date, White Marsh Utilities has met all the requirements of the contract at their contracted price which has brought a greater than a 20% savings to the BPW. The key to this success has been strong communication and cooperation between the BPW staff and the White Marsh staff.

The second administrative effort was the completion of a rate study for the electric, water and sewer entities. This was most of the year in the making, and resulted in a net neutral change in the electric rates, a slight increase in the sewer rate beginning in 2018, and an equally slight increase in the water rates. We have significant capital projects on the horizon for both water and wastewater. These rate increases will help hold each of these utilities on sound financial footings as we accomplish the future projects.

THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
Management's Discussion & Analysis (MD&A)
March 31, 2017

General Managers' Report (continued)

The third administrative effort is attributed to the BPW Board of Directors. In approximately 2012, the Lewes BPW Reserve Fund was assigned to the Chesapeake Financial group for the management of that fund. The 2015-16 year had the total non-operating revenues at a negative \$360,000, due to fair market value adjustments. For the 2016-17 year the total non-operating revenues was a positive \$875,000. 50% of that came from the Reserve Fund investments of Chesapeake. The other 50% came from an agreement with Sussex County to begin treating effluent from their collection systems located outside of the City of Lewes.

The Budget for 2017-18

The Board of Public Works has budgeted to add a part-time summer employee to add to the storm water utility. Additional work and demand in the Stormwater and Water utility can be met by a single temporary full-time employee working through the busy tourist months.

We have also budgeted for a capital project to increase the capacity of the sewer system at lift station #4, Savannah Road, Gillsneck Road, and Front Street. We will be renewing both sewer and water utilities. The estimated project is \$3.2 million.

Another project which we have underway is to provide sewer to Savannah Place, Donovan Smith mobile home park and possibly Swaanendael Acres. We are working to have the same positive outcome as has occurred with Highland Acres.

The Board of Public Works is still committed to remembering that safety first, reliability and professionalism are the best attributes that each staff member must have to meet our goals in the coming year.

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, 2017

ASSETS

Current assets

Cash

Unrestricted	\$ 1,293,950
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Reserve fund investments

Unrestricted	8,159,291
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Restricted	5,084,629
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Accounts receivable, net of allowance	1,312,001
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Prepaid expenses	336
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Total current assets	<u>15,850,207</u>
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Noncurrent assets

Capital assets, net of accumulated depreciation	41,427,973
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Notes receivable	1,901,968
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Other assets	47,882
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Total noncurrent assets	<u>43,377,823</u>
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Total assets	<u><u>\$ 59,228,030</u></u>
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LIABILITIES

Current liabilities

Accounts payable	\$	872,476
Customer deposits		109,934
Accrued interest		33,142
Deferred revenue		2,024,848
Current maturities of bonds payable		668,036
Total current liabilities		<u>3,708,436</u>

Noncurrent liabilities

Bonds payable		8,819,724
Accrued compensated absences		166,444
Other		47,882
Total noncurrent liabilities		<u>9,034,050</u>

Total liabilities		<u>12,742,486</u>
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NET POSITION

Net investment in capital assets		31,940,213
Restricted		5,084,629
Unrestricted		<u>9,460,702</u>
Total net position	\$	<u><u>46,485,544</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 REVENUES, EXPENSES,
AND CHANGES IN NET POSITION**

YEAR ENDED MARCH 31, 2017

OPERATING REVENUES

Sales and assessments	\$ 13,620,502
Other	492,672
Total operating revenues	<u>14,113,174</u>

OPERATING EXPENSES

Purchased power	6,881,742
Payroll and employee related expenses	921,648
Utilities	22,910
Repairs and maintenance	715,644
Professional and contractual services	423,898
Other supplies and expenses	203,779
Administrative	1,427,205
In lieu of franchise	695,413
Bad debt	56,680
Depreciation and amortization	1,712,270
Total operating expenses	<u>13,061,189</u>

Operating income	<u>1,051,985</u>
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NON-OPERATING REVENUES (EXPENSES)

Reserve fund investment income	323,310
Interest expense	(228,765)
Impact fees	547,658
Gain on sale of assets	27,635
Changes in fair value of reserve fund investments	210,547
Grants	64,096
Capital projects pass-through revenue	106,516
Net non-operating revenues	<u>1,050,997</u>

Change in net position	<u>2,102,982</u>
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NET POSITION, BEGINNING OF YEAR	<u>44,382,562</u>
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NET POSITION, END OF YEAR	<u><u>\$ 46,485,544</u></u>
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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 CASH FLOWS

YEAR ENDED MARCH 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 13,517,880
Other receipts	492,672
Payments to suppliers	(10,189,399)
Payments to employees	(909,501)
Net cash provided by operating activities	<u>2,911,652</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Impact fees received	547,658
Capital projects pass-through revenue	106,516
Net cash provided by non-capital financing activities	<u>654,174</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchases of capital assets	(3,427,124)
Proceeds from long-term debt	602,336
Interest paid on long-term debt	(230,587)
Net cash used by capital and related financing activities	<u>(3,055,375)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(83,844)
Interest income	323,310
Net cash provided by investing activities	<u>239,466</u>

Net increase in cash	749,917
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CASH AT BEGINNING OF YEAR	<u>544,033</u>
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CASH AT END OF YEAR	<u><u>\$ 1,293,950</u></u>
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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 CASH FLOWS (Continued)

YEAR ENDED MARCH 30, 2017

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

Operating income	\$ 1,051,985
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization	1,712,270
Deferred revenue	112,353
Bad debt	56,680
(Increase) decrease in assets	
Accounts receivable	(222,542)
Prepaid expenses	33,027
Other assets	11,685
Increase (decrease) in liabilities	
Accounts payable	148,165
Customer deposits	7,567
Accrued compensated absences	12,147
Other liabilities	(11,685)
Net cash provided by operating activities	<u><u>\$ 2,911,652</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 FIDUCIARY NET POSITION
PENSION TRUST FUND**

MARCH 31, 2017

ASSETS

Investments	<u>\$ 2,058,161</u>
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NET POSITION

Assets - held in trust for retirement benefits	<u>2,058,161</u>
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Total net position	<u><u>\$ 2,058,161</u></u>
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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, 2017

ADDITIONS

Contributions	\$ 184,393
Investment earnings	
Interest	<u>23,616</u>
Total additions	<u>208,009</u>

DEDUCTIONS

Benefits	183,374
Administrative	<u>12,363</u>
Total deductions	<u>195,737</u>

Change in net position	12,272
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NET POSITION, BEGINNING	<u>2,045,889</u>
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NET POSITION, ENDING	<u><u>\$ 2,058,161</u></u>
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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**

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017

ORGANIZATION AND REPORTING ENTITY

Organization

The Board of Public Works of the City of Lewes, Delaware (the Board) is governed by five publicly elected directors. 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 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, 2017

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 non-operating 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 non-operating revenues and expenses.

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, 2017, the allowance account was \$16,000.

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

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 investment in capital assets, restricted and unrestricted and are further described as follows:

- *Investment in capital assets* – 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.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017

CASH AND DEPOSITS

Custodial credit risk

At year-end, the carrying amount of the Board's cash deposits was \$1,293,950 and the bank balance was \$1,759,506. 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, 2017, all of the Board's deposits (excluding the Bond Project Account) were either covered by FDIC insurance or collateralized.

RESERVE FUND 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 45% 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.
- Cash may not exceed 20% 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 31, 2017. The cash account is insured under FDIC.

PENSION TRUST FUND ASSETS

The pension trust fund has investments in the amount of \$2,058,161 as of March 31, 2017. 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.

EMPLOYEE WELFARE EXPENSE

The administrative cost of the employees' pension plan was \$8,383 for the year ended March 31, 2017 and 2016. As of March 31, 2017, the liability for accrued vacation pay and sick pay was \$166,444.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017**

CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2017 was as follows:

	Beginning Balance	Additions & Transfers	Deletions & Transfers	Ending Balance
<u>Electric</u>				
Capital assets not being depreciated:				
Land	\$ 211,160	\$	\$	\$ 211,160
Construction in progress	101,597	177,732	(191,405)	87,924
Total capital assets not being depreciated	312,757	177,732	(191,405)	299,084
Capital assets being depreciated:				
Infrastructure	11,253,979	182,430		11,436,409
Building and improvements	346,133	13,844		359,977
Furniture and equipment	510,521	11,428		521,949
Vehicles	1,117,910	32,104	(24,054)	1,125,960
Software	153,107			153,107
Total capital assets being depreciated	13,381,650	239,806	(24,054)	13,597,402
Less accumulated depreciation for:				
Infrastructure	4,627,517	324,115		4,951,632
Buildings and improvements	226,738	9,902		236,640
Furniture and equipment	431,568	16,145		447,713
Vehicles	881,473	27,960	24,054	885,379
Software	102,072	43,430		145,502
Total accumulated depreciation	6,269,368	421,552	24,054	6,666,866
Electric department, capital assets, net	7,425,039	417,538	(191,405)	7,229,620

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017**

CAPITAL ASSETS (Continued)

	Beginning Balance	Additions & Transfers	Deletions & Transfers	Ending Balance
<u>Water</u>				
Capital assets not being depreciated:				
Land	\$ 170,320	\$	\$	\$ 170,320
Construction in progress	1,680,828	1,244,643	(1,304,096)	1,621,375
Total capital assets not being depreciated	1,851,148	1,244,643	(1,304,096)	1,791,695
Capital assets being depreciated:				
Infrastructure	9,012,259	1,418,141		10,430,400
Building and improvements	527,150	1,157		528,307
Furniture and equipment	139,569	10,898		150,467
Vehicles	214,193	182,760		396,953
Software	82,890			82,890
Total capital assets being depreciated	9,976,061	1,612,956	-	11,589,017
Less accumulated depreciation for:				
Infrastructure	1,839,540	216,989		2,056,529
Buildings and improvements	208,111	13,410		221,521
Furniture and equipment	109,327	7,957		117,284
Vehicles	83,487	21,963		105,450
Software	55,260	39,610		94,870
Total accumulated depreciation	2,295,725	299,929	-	2,595,654
Water department, capital assets, net	9,531,484	2,557,670	(1,304,096)	10,785,058

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017**

CAPITAL ASSETS (Continued)

	Beginning Balance	Additions & Transfers	Deletions & Transfers	Ending Balance
<u>Wastewater</u>				
Capital assets not being depreciated:				
Land	\$ 378,794	\$	\$	\$ 378,794
Construction in progress	413,736	1,208,464	(1,138,441)	483,759
Total capital assets not being depreciated	792,530	1,208,464	(1,138,441)	862,553
Capital assets being depreciated:				
Infrastructure	22,973,498	1,133,877		24,107,375
Building and improvements	9,853,879	2,674		9,856,553
Furniture and equipment	679,925	15,614		695,539
Vehicles	397,540	155,198	(164,483)	388,255
Software	291,972			291,972
Total capital assets being depreciated	34,196,814	1,307,363	(164,483)	35,339,694
Less accumulated depreciation for:				
Infrastructure	6,736,438	648,732		7,385,170
Buildings and improvements	5,769,632	168,602		5,938,234
Furniture and equipment	369,998	28,132		398,130
Vehicles	316,007	16,807	145,977	186,837
Software	194,648	91,548		286,196
Total accumulated depreciation	13,386,723	953,821	145,977	14,194,567
Wastewater department, capital assets, net	21,602,621	1,562,006	(1,156,947)	22,007,680

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017**

CAPITAL ASSETS (Continued)

	Beginning Balance	Additions & Transfers	Deletions & Transfers	Ending Balance
<u>Stormwater</u>				
Capital assets not being depreciated:				
Land	\$ 17,063	\$ 800	\$	\$ 17,863
Construction in progress	176,772	266,251	(380,922)	62,101
Total capital assets not being depreciated	193,835	267,051	(380,922)	79,964
Capital assets being depreciated:				
Infrastructure	1,132,347	369,513		1,501,860
Building and improvements		168		168
Furniture and equipment	10,470	792		11,262
Vehicles	3,809	77,599		81,408
Software	12,905			12,905
Total capital assets being depreciated	1,159,531	448,072	-	1,607,603
Less accumulated depreciation for:				
Infrastructure	229,328	27,459		256,787
Furniture and equipment	5,020	864		5,884
Vehicles	1,431	2,945		4,376
Software	9,202	5,703		14,905
Total accumulated depreciation	244,981	36,971	-	281,952
Stormwater department, capital assets, net	1,108,385	678,152	(380,922)	1,405,615
Capital assets, net	<u>\$ 39,667,529</u>	<u>\$ 5,215,366</u>	<u>\$ (3,033,370)</u>	<u>\$ 41,427,973</u>

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017

NOTES RECEIVABLE – HIGHLAND ACRES

In 2017, residents within the Highland Acres development have agreed to pay a note to the Board for the cost of water and wastewater infrastructure setup for the development. The aggregate principal owed by Highland Acres residents is \$700,000 and \$1,423,401 for water and wastewater, respectively. Each resident has the option of paying the portion of the note that they owe in full immediately or a monthly payment over 30 years at 2% interest. Payments on this note receivable are used by the Board to pay notes payable due to the Delaware Drinking Water State Revolving Fund and the Delaware Water Pollution Control Revolving Fund, who funded the cost of Highland Acres infrastructure. The Board records income related to the receivable as deferred until paid and a note receivable for the amount unpaid. This income is considered non-operating income for the water and wastewater departments. The amount owed to the Board as of March 31, 2017 is \$642,026 and \$1,259,942 for water and wastewater, respectively.

LONG-TERM DEBT

The Board has the authority to borrow funds, but existing long-term debt has been borrowed through the City of Lewes. The long-term debt consists of general obligation bonds and funds borrowed through 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, 2017 are as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases and transfers</u>	<u>Ending Balances</u>
Water				
General Obligation Bonds	\$ 744,156	\$ 656,410	\$ (744,156)	\$ 656,410
Wastewater				
General Obligation Bonds	8,141,268	1,341,725	(651,643)	8,831,350
	<u>\$ 8,885,424</u>	<u>\$ 1,998,135</u>	<u>\$ (1,395,799)</u>	<u>\$ 9,487,760</u>

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017**

LONG TERM DEBT (Continued)

Principal
outstanding
at March 31,
2017

On January 20, 2005, 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.

\$ 7,489,625

On April 1, 2016, Lewes Board of Public Works issued \$1,423,401 of general obligation bonds due to the Delaware Water Pollution Control Revolving Fund. The funds are being used by the Board for the development project at Highland Acres. The loan will be amortized over thirty years at the annualized interest rate of 2.0% once the loan is drawn down in full. As of March 31, 2017, this loan has not been fully drawn down.

1,341,726

On April 1, 2016, the Lewes Board of Public Works issued \$700,000 of general obligation bonds due to the Delaware Drinking Water State Revolving Fund. The funds are being used by the Board for the development project at Highland Acres. The loan will be amortized over thirty years at the annualized interest rate of 2.0% once the loan is drawn down in full. As of March 31, 2017, this loan has not been fully drawn down.

656,409

Total long-term debt

9,487,760

Less: current portion of long-term debt

668,036

Total long-term debt, less current maturities

\$ 8,819,724

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017

LONG-TERM DEBT (Continued)

Debt service requirements

Principal and interest requirements to amortize the general obligation bonds as of March 31, 2017 are as follows:

Year Ending	Bonds Payable	
	Principal	Interest
2018	\$ 668,036	\$ 183,091
2019	684,841	166,286
2020	702,069	149,058
2021	719,730	131,397
2022	3,879,520	376,114
2023-2027	835,430	15,697
2028-2032	1,998,134	
	<u>\$ 9,487,760</u>	<u>\$ 1,021,643</u>

PURCHASE OF POWER

The Board purchases power from Delaware Municipal Electric Corporation (DEMEC) and the University of Delaware. 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 purchases 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, 2017, 98% of the power was purchased from DEMEC and 2% from the University.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS**

MARCH 31, 2017

DEFINED BENEFIT PENSION PLAN

Plan description

The Board of Public Works of Lewes, Delaware Employee Pension Trust 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, 2016, which is the latest actuarial report available.

Membership of the plan

The membership consisted of the following at December 1, 2016, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	19
Terminated plan members and beneficiaries entitled to, but not yet receiving benefits	10
Active plan members	<u>7</u>
Total members	<u><u>36</u></u>

The annual required contribution or normal cost for the current year was determined as part of the December 1, 2016 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.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017

DEFINED BENEFIT PENSION PLAN (Continued)

Membership of the plan (continued)

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 Beginning</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
12/1/2012	\$ 144,327	100%
12/1/2013	\$ 150,262	100%
12/1/2014	\$ 165,131	100%
12/1/2015	\$ 184,393	100%
12/1/2016	\$ 207,288	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 benefit is funded on a pay-as-you-go plan. For the year ended March 31, 2017, the recognized cost was \$14,736 for five retirees 65 or older.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017

OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

Prior to 2004, this plan was discontinued and in addition to the five 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 one current employee is eligible for the benefit, 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 bills 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, 2017, rent and in lieu of franchise fees paid to the City were \$141,797 and \$695,413, 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, 2017, 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, 2017

	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))	
12/1/2012	\$ 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	70.34%	N/A	N/A	*
12/1/2014	\$ 2,076,093	\$ 2,905,887	\$ 829,794	71.44%	N/A	N/A	*
12/1/2015	\$ 2,095,041	\$ 2,850,622	\$ 755,581	73.49%	N/A	N/A	*
12/1/2016	\$ 2,113,246	\$ 2,767,634	\$ 654,388	76.36%	N/A	N/A	*

* All benefit accruals were frozen beginning April 1, 2010. See the "Defined Benefit Pension Plan" note on pages 29 - 30.

GOVERNMENT AUDITING STANDARDS REPORT



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CERTIFIED PUBLIC ACCOUNTANTS

ALLINIAL GLOBAL

**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 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 of the Board of Public Works of the City of Lewes, Delaware ("the Board"), a component unit of the City of Lewes, as of and for the year ended March 31, 2017, 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 26, 2017.

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 Board of Public Works Lewes, Delaware'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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 over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiencies as items 17-01 through 17-03.

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 Response to Findings

The Board's response to the findings identified in our audit are 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 26, 2017

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

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED MARCH 31, 2017

Finding 17-01

Condition and cause – The accounts receivable sub ledger did not reconcile to the general ledger as of yearend.

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

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

Recommendation – Management should reconcile the subledger to the general ledger monthly. Subsequent collections should be recorded as of the date received and not the date due.

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

Finding 17-02

Condition and cause – Obsolete customer accounts which should no longer be billed are being billed and recorded as receivables and revenue.

Criteria – These customer accounts should be deemed obsolete in the accounting software and should not be billed.

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

Recommendation – Management should review the listing outstanding customer receivables monthly to determine if any are obsolete.

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

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

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED MARCH 31, 2017

Finding 17-03

Condition and cause – Invoices relating to goods received or services performed prior to the year-end date were not recorded as payables in the proper period.

Criteria – All bills should be recorded in accounts payable before approved by management and paid by the accounts payable department.

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

Recommendation – All bills received should be recorded as of the date the work was completed and not the invoice date or the date the invoice is paid.

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