

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

FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
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INDEPENDENT AUDITORS' REPORT



INDEPENDENT AUDITORS' REPORT

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

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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 years ended March 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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.

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In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Board of Public Works of the City of Lewes, Delaware, as of March 31, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years 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 33) 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 39 through 40) dated July 27, 2016, 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 27, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
Management's Discussion & Analysis (MD&A)
March 31, 2016

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, 2016.

Financial Highlights

- The assets of the BPW exceed our liabilities at the close of the year by \$44,382,562 (net position). Of this amount, \$9,123,285 are unrestricted.
- BPW's total net position increased by \$623,264.
- As of the close of the current year, BPW reported combined ending cash balances totaling \$544,033 a decrease of \$296,460 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 (73%) 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 \$719,080 during the reporting period.

Overview of the Financial Statements

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

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

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

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

THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
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March 31, 2016

Statements of Net Assets

	ASSETS	
	<u>2016</u>	<u>2015</u>
Current assets		
Cash		
Unrestricted	\$ 544,033	\$ 840,493
Investments		
Unrestricted	8,426,216	8,763,422
Restricted	4,477,172	4,113,559
Accounts receivable, net of allowance	1,146,139	1,500,083
Prepaid expenses	33,365	122,839
Total current assets	<u>14,626,925</u>	<u>15,340,396</u>
Noncurrent assets		
Capital assets, net of accumulated depreciation	39,667,529	39,321,961
Other assets	59,567	61,099
Total non current assets	<u>39,727,096</u>	<u>39,383,060</u>
Total assets	<u>\$ 54,354,021</u>	<u>\$ 54,723,456</u>
 LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable	\$ 724,311	\$ 1,013,987
Customer deposits	102,370	102,546
Accrued interest	34,963	39,101
Deferred revenue	10,527	11,593
Current maturities of bond payable	700,736	678,689
Total current liabilities	<u>1,572,907</u>	<u>1,845,916</u>
Noncurrent liabilities		
Bonds payable	8,184,688	8,925,815
Accrued compensated absences	154,297	131,328
Other liabilities	59,567	61,099
Total noncurrent liabilities	<u>8,398,552</u>	<u>9,118,242</u>
Total liabilities	<u>9,971,459</u>	<u>10,964,158</u>
Net position		
Invested in capital assets, net of related debt	30,782,105	29,717,457
Restricted	4,477,172	4,113,559
Unrestricted	9,123,285	9,928,282
Total net position	<u>\$ 44,382,562</u>	<u>\$ 43,759,298</u>

THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
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March 31, 2016

Statements of Revenues, Expenses and Changes in Net Postion

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Sales and assessments	\$ 13,565,125	\$ 13,630,383
Other	<u>303,965</u>	<u>270,366</u>
Total operating revenues	<u>13,869,090</u>	<u>13,900,749</u>
Operating Expenses		
Purchased power	7,008,628	7,364,848
Payroll and employee related expenses	870,796	775,652
Utilities	16,758	13,753
Repairs and maintenance	784,942	726,196
Professional and contractual services	426,519	440,480
Other supplies and expenses	217,957	160,432
Administrative	1,340,385	1,318,982
In lieu of franchise	694,241	688,016
Bad debt	11,497	11,889
Depreciation and amortization	<u>1,694,457</u>	<u>1,660,888</u>
Total operating expenses	<u>13,066,180</u>	<u>13,161,136</u>
Operating income	<u>802,910</u>	<u>739,613</u>
Non-operating revenues (expenses)		
Investment income	343,038	245,358
Interest expense	(231,578)	(465,600)
Impact fees	162,056	335,546
Loss on sale of assets	(161,593)	
Change in fair value of investments	(372,279)	93,888
Grants	<u>80,710</u>	<u>16,764</u>
Net non-operating revenues (expenses)	<u>(179,646)</u>	<u>225,956</u>
Change in net position	<u>623,264</u>	<u>965,569</u>
Net position, beginning of year	<u>43,759,298</u>	<u>42,793,729</u>
Net position, end of year	\$ <u><u>44,382,562</u></u>	\$ <u><u>43,759,298</u></u>

THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
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March 31, 2016

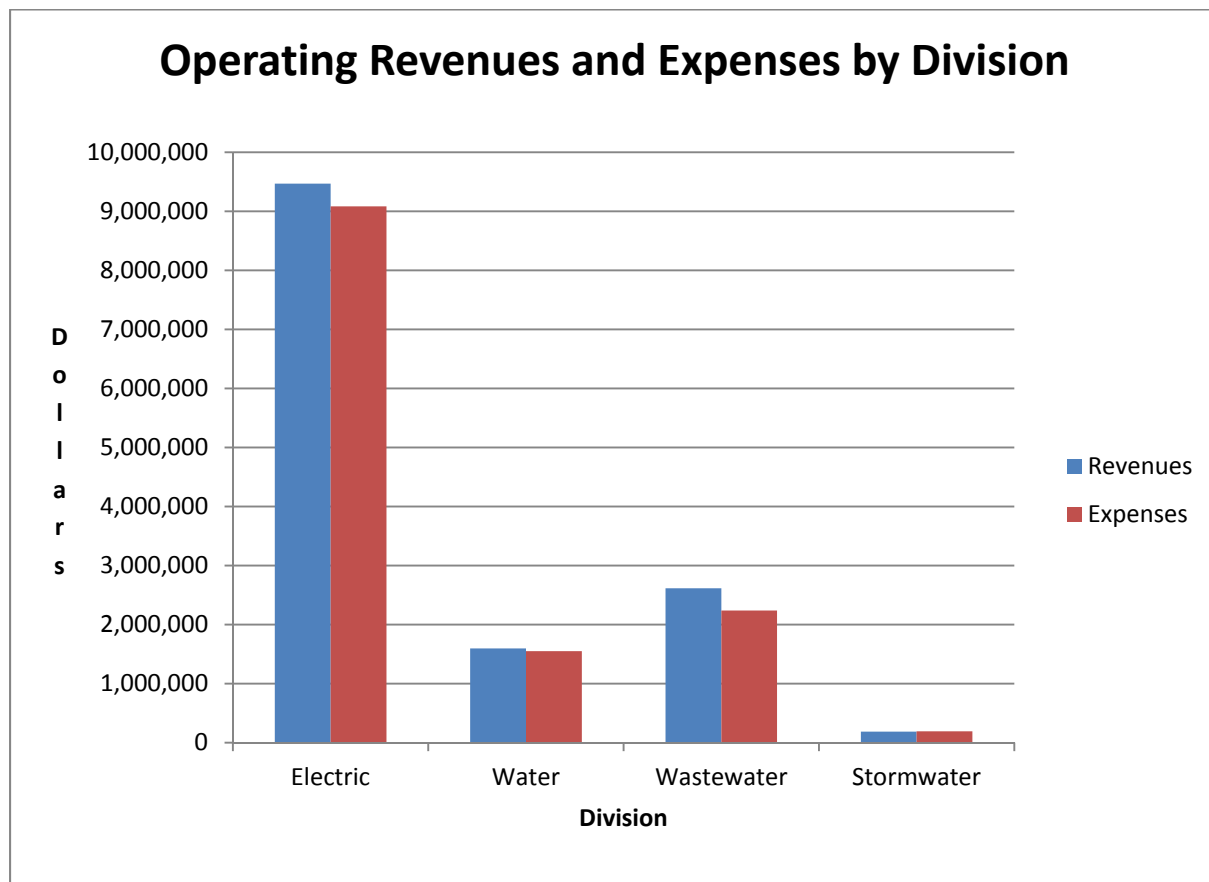
Summary of the Financial Reporting Entity

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, \$9,468,462, as well as to incur the greatest operating expenses, \$9,083,837. Purchased power of \$7,008,628, was the largest single cost to the electric department.

There were operating gains in the electric, water, and wastewater departments, and an operating loss in the stormwater department, with overall operating income of \$802,910.



THE BOARD OF PUBLIC WORKS
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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 \$8,885,424 in bond obligations at the end of the year. These monies have been or will be used for major capital renewal and expansion projects.

Economic Factors and Next Year's Budget

The 2015-2016 year has been full and presented some major challenges.

Our electric division has provided the financial backbone for the BPW once again. The national influence natural gas from fracking on the purchase power has been a very solid benefit to the BPW. The national natural gas supply has been estimated to be 50 to 100 years and has driven the cost of power down. Two years earlier we predicted increases in our power purchase to the mid \$.90 range. 2015 costs were in the \$.85 cent range and 2016 ended in the low \$.80 cent range. We have continued to be able to provide some of the lowest and at times the lowest electric prices in the State of Delaware. We are also able to maintain our system aggressively with a very lean workforce. Proper accolades need to be made to our electric department for their efforts.

Our water division took front stage and the most attention in 2015-16. We were completing the work of isolating some of the old original water mains in Savannah Road. We isolated the mains and replace valves, some which had been broken for years. The contract called for the work to be done prior to the summer tourist season. The contractor failed miserably. The work on Savannah Road which also included the Canal Crossing of a 12" inch water main from the Lewes Dairy to CH Masons Way was also part of the contract. Due to massive ineffectiveness of the contractor, disputes arose and litigation was able to be avoided through intensive negotiations. The cost of the project was held to budget but the cost to BPW manpower, time and community trust was high.

Our waste water division has finished the year at a financial plus. We experienced several flooding events, yet because of efforts of the BPW water/wastewater staff there were no peak in flows into the Howard Seymour wastewater treatment facility. We did discover that the amount of effluent able to be pushed to the canal after treatment has been decreasing overtime. After videoing the line going to the canal we determined that the outflow is in need of remediation in order to return it to its peak capacity. This project has been added to the next year capital projects.

Seven Trent has continued to be the operator of the wastewater treatment plant. They have done so this year with no violations of any kind, and kept our possible violations as safe as possible. We have had a significant increase in maintenance costs in the waste water division. Much of this is due to the WWTp reaching its 10-year anniversary from the major update built in 2006-2008.

Our storm water division operated in a financial deficit. With the assignment of Emmett Foraker as the new storm water division supervisor, scheduling of maintenance and increased concentration on our storm water system is occurring. Concerns that have been documented in a storm water study have been aggressively attended to. Major newly discovered have been aggressively tended to from engineering and design preparation, to excavating and ceiling broken pipes. We anticipate these efforts will continue, and that perhaps even more revenues will be required in the future.

THE BOARD OF PUBLIC WORKS
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Economic Factors and Next Year's Budget (continued)

The office staff of the BPW have operated with exceptional work ethic. The efforts of Suzanne Powell has reduced our needs for outside debt collection by using her spare time (rare) to go after the old debts due from nonpayment of bills. While we have budgeted for a little over \$10,000 in bad debt right-off next year, at the current pace, we will not come close to that amount. We have also been operating for most of the year without an assistant general manager. Other staff have stepped up and provided the additional support in the areas of the Assistant General Managers duties. A hiring attempt was made, but as of April 2016, but no suitable candidate had been found.

Safety of our employees is continuing to be stressed, and we had no work loss injuries for the year. Customer service is the backbone of our efforts to provide the best quality utilities in Delaware. We receive compliments on a weekly basis of the professional, kind and considerate interactions our employees have with our customers.

The Lewes BPW is an organization that provides services to its' rate payers and is not profit driven. If we remove the non-operational revenues and look at the return on assets, the BPW is running on a very tight margin. This is a point of pride as we have strived for excellence in hard work, efficient methods and planning, and a team spirit of communication as a business family. We anticipate a slightly larger payroll cost, but are striving that all other expenses be held at a modest increase. We have commissioned a rate study and anticipate it's results in August 2016. It will provide us a path for the next five years of being a healthy and robust organization into the future.

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
STATEMENTS OF NET POSITION
MARCH 31, 2016 AND 2015**

	2016				
	Department				Total
	Electric	Water	Wastewater	Stormwater	
ASSETS					
Current assets					
Cash					
Unrestricted	\$ 228,494	\$ 141,448	\$ 130,568	\$ 43,523	\$ 544,033
Investments					
Unrestricted	3,977,083	876,722	3,346,568	225,843	8,426,216
Restricted	1,077,626	1,648,596	1,750,950		4,477,172
Accounts receivable, net of allowance	474,709	307,835	272,696	90,899	1,146,139
Prepaid expenses	10,917	14,131	6,238	2,079	33,365
Total current assets	<u>5,768,829</u>	<u>2,988,732</u>	<u>5,507,020</u>	<u>362,344</u>	<u>14,626,925</u>
Noncurrent assets					
Capital assets, net of accumulated depreciation	7,425,039	9,531,484	21,602,621	1,108,385	39,667,529
Other assets	59,567				59,567
Total noncurrent assets	<u>7,484,606</u>	<u>9,531,484</u>	<u>21,602,621</u>	<u>1,108,385</u>	<u>39,727,096</u>
Total assets	<u>\$ 13,253,435</u>	<u>\$ 12,520,216</u>	<u>\$ 27,109,641</u>	<u>\$ 1,470,729</u>	<u>\$ 54,354,021</u>

	2015				
	Department				Total
	Electric	Water	Wastewater	Stormwater	
ASSETS					
Current assets					
Cash					
Unrestricted	\$ 353,007	\$ 218,528	\$ 201,719	\$ 67,239	\$ 840,493
Investments					
Unrestricted	3,680,637	2,278,490	2,103,221	701,074	8,763,422
Restricted	1,012,673	1,600,464	1,500,422		4,113,559
Accounts receivable, net of allowance	623,988	400,675	356,565	118,855	1,500,083
Prepaid expenses	51,592	31,938	29,482	9,827	122,839
Total current assets	<u>5,721,897</u>	<u>4,530,095</u>	<u>4,191,409</u>	<u>896,995</u>	<u>15,340,396</u>
Noncurrent assets					
Capital assets, net of accumulated depreciation	7,780,608	8,370,260	22,180,884	990,209	39,321,961
Other assets	61,099				61,099
Total noncurrent assets	<u>7,841,707</u>	<u>8,370,260</u>	<u>22,180,884</u>	<u>990,209</u>	<u>39,383,060</u>
Total assets	<u>\$ 13,563,604</u>	<u>\$ 12,900,355</u>	<u>\$ 26,372,293</u>	<u>\$ 1,887,204</u>	<u>\$ 54,723,456</u>

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

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE**
STATEMENTS OF NET POSITION (Continued)
MARCH 31, 2016 AND 2015

	2016				
	Department				
	Electric	Water	Wastewater	Stormwater	Total
LIABILITIES					
Current liabilities					
Accounts payable	\$ 583,533	\$ 63,109	\$ 58,262	\$ 19,407	\$ 724,311
Customer deposits	42,996	26,614	24,568	8,192	102,370
Accrued interest		2,928	32,035		34,963
Deferred revenue		10,527			10,527
Current maturities of bonds payable		58,687	642,049		700,736
Total current liabilities	<u>626,529</u>	<u>161,865</u>	<u>756,914</u>	<u>27,599</u>	<u>1,572,907</u>
Noncurrent liabilities					
Bonds payable		685,469	7,499,219		8,184,688
Accrued compensated absences	118,016	29,025	7,256		154,297
Other	59,567				59,567
Total noncurrent liabilities	<u>177,583</u>	<u>714,494</u>	<u>7,506,475</u>		<u>8,398,552</u>
Total liabilities	<u>804,112</u>	<u>876,359</u>	<u>8,263,389</u>	<u>27,599</u>	<u>9,971,459</u>
NET POSITION					
Invested in capital assets, net of related debt	7,425,039	8,787,328	13,461,353	1,108,385	30,782,105
Restricted	1,077,626	1,648,596	1,750,950		4,477,172
Unrestricted	3,946,658	1,207,933	3,633,949	334,745	9,123,285
Total net position	<u>\$ 12,449,323</u>	<u>\$ 11,643,857</u>	<u>\$ 18,846,252</u>	<u>\$ 1,443,130</u>	<u>\$ 44,382,562</u>

	2015				
	Department				
	Electric	Water	Wastewater	Stormwater	Total
LIABILITIES					
Current liabilities					
Accounts payable	\$ 800,695	\$ 95,615	\$ 88,267	\$ 29,410	\$ 1,013,987
Customer deposits	43,069	26,662	24,611	8,204	102,546
Accrued interest		3,369	35,732		39,101
Deferred revenue		11,593			11,593
Current maturities of bonds payable		58,480	620,209		678,689
Total current liabilities	<u>843,764</u>	<u>195,719</u>	<u>768,819</u>	<u>37,614</u>	<u>1,845,916</u>
Noncurrent liabilities					
Bonds payable		769,104	8,156,711		8,925,815
Accrued compensated absences	97,213	27,292	6,823		131,328
Other	61,099				61,099
Total noncurrent liabilities	<u>158,312</u>	<u>796,396</u>	<u>8,163,534</u>		<u>9,118,242</u>
Total liabilities	<u>1,002,076</u>	<u>992,115</u>	<u>8,932,353</u>	<u>37,614</u>	<u>10,964,158</u>
NET POSITION, RESTATED					
Invested in capital assets, net of related debt	7,780,608	7,542,676	13,403,964	990,209	29,717,457
Restricted	1,012,673	1,600,464	1,500,422		4,113,559
Unrestricted	<u>3,768,247</u>	<u>2,765,100</u>	<u>2,535,554</u>	<u>859,381</u>	<u>9,928,282</u>
Total net position	<u>\$ 12,561,528</u>	<u>\$ 11,908,240</u>	<u>\$ 17,439,940</u>	<u>\$ 1,849,590</u>	<u>\$ 43,759,298</u>

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

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEARS ENDED MARCH 31, 2016 AND 2015

	2016				
	Department				Total
	Electric	Water	Wastewater	Stormwater	
OPERATING REVENUES					
Sales and assessments	\$ 9,404,433	\$ 1,377,713	\$ 2,599,112	\$ 183,867	\$ 13,565,125
Other	64,029	219,732	15,886	4,318	303,965
Total operating revenues	<u>9,468,462</u>	<u>1,597,445</u>	<u>2,614,998</u>	<u>188,185</u>	<u>13,869,090</u>
OPERATING EXPENSES					
Purchased power	7,008,628				7,008,628
Payroll and employee related expenses	424,860	366,264	70,009	9,663	870,796
Utilities	7,165	6,401	2,479	713	16,758
Repairs and maintenance	135,732	385,584	235,245	28,381	784,942
Professional and contractual services	1,663	17,880	404,773	2,203	426,519
Other supplies and expenses	19,317	76,754	121,285	601	217,957
Administrative	561,558	349,309	320,283	109,235	1,340,385
In lieu of franchise	485,912	68,969	130,125	9,235	694,241
Bad debt	11,497				11,497
Depreciation and amortization	427,505	279,632	954,361	32,959	1,694,457
Total operating expenses	<u>9,083,837</u>	<u>1,550,793</u>	<u>2,238,560</u>	<u>192,990</u>	<u>13,066,180</u>
Operating income (loss)	<u>384,625</u>	<u>46,652</u>	<u>376,438</u>	<u>(4,805)</u>	<u>802,910</u>
NON-OPERATING REVENUES (EXPENSES)					
Investment income	144,078	89,190	82,326	27,444	343,038
Interest expense		(16,104)	(215,474)		(231,578)
Impact fees	58,720	28,600	74,736		162,056
Department transfers in (out)	(483,443)	(297,611)	1,178,505	(397,451)	
Loss on sale of assets	(59,828)	(56,182)	(34,187)	(11,396)	(161,593)
Change in fair value of investments	(156,357)	(96,793)	(89,347)	(29,782)	(372,279)
Grants		37,865	33,315	9,530	80,710
Net non-operating revenues (expenses)	<u>(496,830)</u>	<u>(311,035)</u>	<u>1,029,874</u>	<u>(401,655)</u>	<u>(179,646)</u>
Change in net position	<u>(112,205)</u>	<u>(264,383)</u>	<u>1,406,312</u>	<u>(406,460)</u>	<u>623,264</u>
NET POSITION, BEGINNING OF YEAR, RESTATED	<u>12,561,528</u>	<u>11,908,240</u>	<u>17,439,940</u>	<u>1,849,590</u>	<u>43,759,298</u>
NET POSITION, END OF YEAR	<u>\$ 12,449,323</u>	<u>\$ 11,643,857</u>	<u>\$ 18,846,252</u>	<u>\$ 1,443,130</u>	<u>\$ 44,382,562</u>

	2015				
	Department				
	Electric	Water	Wastewater	Stormwater	Total
OPERATING REVENUES					
Sales and assessments	\$ 9,570,251	\$ 1,328,134	\$ 2,548,709	\$ 183,289	\$ 13,630,383
Other	43,306	194,609	26,311	6,140	270,366
Total operating revenues	<u>9,613,557</u>	<u>1,522,743</u>	<u>2,575,020</u>	<u>189,429</u>	<u>13,900,749</u>
OPERATING EXPENSES					
Purchased power	7,364,848				7,364,848
Payroll and employee related expenses	384,954	323,957	54,346	12,395	775,652
Utilities	4,450	6,122	2,320	861	13,753
Repairs and maintenance	109,412	438,127	159,191	19,466	726,196
Professional and contractual services	13,133		426,420	927	440,480
Other supplies and expenses	17,785	60,763	80,061	1,823	160,432
Administrative	555,016	343,617	315,262	105,087	1,318,982
In lieu of franchise	484,245	67,105	127,485	9,181	688,016
Bad debt	11,889				11,889
Depreciation and amortization	436,546	238,951	956,029	29,362	1,660,888
Total operating expenses	<u>9,382,278</u>	<u>1,478,642</u>	<u>2,121,114</u>	<u>179,102</u>	<u>13,161,136</u>
Operating income	<u>231,279</u>	<u>44,101</u>	<u>453,906</u>	<u>10,327</u>	<u>739,613</u>
NON-OPERATING REVENUES (EXPENSES)					
Investment income	103,488	63,597	58,705	19,568	245,358
Interest expense	(134,289)	(87,695)	(221,545)	(22,071)	(465,600)
Impact fees	80,123	223,600	31,823		335,546
Department transfers in (out)	(864,795)	1,575,848	(1,338,525)	627,472	
Change in fair value of investments	39,433	24,411	22,533	7,511	93,888
Grants				16,764	16,764
Net non-operating revenues (expenses)	<u>(776,040)</u>	<u>1,799,761</u>	<u>(1,447,009)</u>	<u>649,244</u>	<u>225,956</u>
Change in net position	<u>(544,761)</u>	<u>1,843,862</u>	<u>(993,103)</u>	<u>659,571</u>	<u>965,569</u>
NET POSITION, BEGINNING OF YEAR, RESTATED	<u>13,106,289</u>	<u>10,064,378</u>	<u>18,433,043</u>	<u>1,190,019</u>	<u>42,793,729</u>
NET POSITION, END OF YEAR, RESTATED	<u>\$ 12,561,528</u>	<u>\$ 11,908,240</u>	<u>\$ 17,439,940</u>	<u>\$ 1,849,590</u>	<u>\$ 43,759,298</u>

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

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

**STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2016 AND 2015**

	2016				
	Department				Total
	Electric	Water	Wastewater	Stormwater	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 9,542,142	\$ 1,469,439	\$ 2,682,938	\$ 211,808	\$ 13,906,327
Other receipts	64,029	219,732	15,886	4,318	303,965
Payments to suppliers	(8,396,462)	(919,595)	(1,220,952)	(152,623)	(10,689,632)
Payments to employees	(404,057)	(364,531)	(69,576)	(9,663)	(847,827)
Net cash provided by operating activities	<u>805,652</u>	<u>405,045</u>	<u>1,408,296</u>	<u>53,840</u>	<u>2,672,833</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Impact fees received	58,720	28,600	74,736		162,056
Interfund borrowings (payments)	(906,804)	1,002,878	(145,719)	49,646	
Net cash provided (used) by non-capital financing activities	<u>(848,084)</u>	<u>1,031,478</u>	<u>(70,983)</u>	<u>49,646</u>	<u>162,056</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases of capital assets	(71,936)	(1,460,002)	(376,097)	(151,135)	(2,059,170)
Principal paid on long-term debt		(83,428)	(635,652)		(719,080)
Interest paid on long-term debt		(16,545)	(219,170)		(235,715)
Grants received		37,865	33,315	9,530	80,710
Net cash used by capital and related financing activities	<u>(71,936)</u>	<u>(1,522,110)</u>	<u>(1,197,604)</u>	<u>(141,605)</u>	<u>(2,933,255)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Redemption (purchase) of investments	(154,223)	(80,683)	(293,186)	(13,041)	(541,133)
Interest income	144,078	89,190	82,326	27,444	343,038
Net cash provided (used) by investing activities	<u>(10,145)</u>	<u>8,507</u>	<u>(210,860)</u>	<u>14,403</u>	<u>(198,095)</u>
Net decrease in cash	(124,513)	(77,080)	(71,151)	(23,716)	(296,461)
CASH AT BEGINNING OF YEAR	<u>353,007</u>	<u>218,528</u>	<u>201,719</u>	<u>67,239</u>	<u>840,493</u>
CASH AT END OF YEAR	<u>\$ 228,494</u>	<u>\$ 141,448</u>	<u>\$ 130,568</u>	<u>\$ 43,523</u>	<u>\$ 544,032</u>

	2015				
	Department				
	Electric	Water	Wastewater	Stormwater	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 9,477,664	\$ 1,265,641	\$ 2,502,597	\$ 167,919	\$ 13,413,821
Other receipts	43,306	194,609	26,311	6,140	270,366
Payments to suppliers	(8,540,126)	(835,544)	(1,042,074)	(126,900)	(10,544,644)
Payments to employees	(378,923)	(323,385)	(54,203)	(12,395)	(768,906)
Net cash provided by operating activities	<u>601,921</u>	<u>301,321</u>	<u>1,432,631</u>	<u>34,764</u>	<u>2,370,637</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Impact fees received	80,123	223,600	31,823		335,546
Interfund borrowings (payments)	(864,795)	1,575,848	(1,338,525)	627,472	
Net cash provided (used) by non-capital financing activities	<u>(784,672)</u>	<u>1,799,448</u>	<u>(1,306,702)</u>	<u>627,472</u>	<u>335,546</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases of capital assets	(62,417)	(817,752)	(102,253)	(65,377)	(1,047,799)
Principal paid on long-term debt	(1,717,860)	(1,151,686)	(3,962,073)	(93,701)	(6,925,320)
Interest paid on long-term debt	(160,778)	(104,093)	(236,681)	(27,117)	(528,669)
Note receivable from the City of Lewes	268,800	166,400	153,600	51,200	640,000
Grants received				16,764	16,764
Net cash used by capital and related financing activities	<u>(1,672,255)</u>	<u>(1,907,131)</u>	<u>(4,147,407)</u>	<u>(118,231)</u>	<u>(7,845,024)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Redemption (purchase) of investments	138,737	(1,263,986)	1,686,187	(739,456)	(178,518)
Interest income	114,509	62,170	101,834	20,757	299,270
Net cash provided (used) by investing activities	<u>253,246</u>	<u>(1,201,816)</u>	<u>1,788,021</u>	<u>(718,699)</u>	<u>120,752</u>
Net decrease in cash	(1,601,760)	(1,008,178)	(2,233,457)	(174,694)	(5,018,089)
CASH AT BEGINNING OF YEAR	<u>1,954,767</u>	<u>1,226,706</u>	<u>2,435,176</u>	<u>241,933</u>	<u>5,858,582</u>
CASH AT END OF YEAR	<u>\$ 353,007</u>	<u>\$ 218,528</u>	<u>\$ 201,719</u>	<u>\$ 67,239</u>	<u>\$ 840,493</u>

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

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

STATEMENTS OF CASH FLOWS (Continued)

YEARS ENDED MARCH 31, 2016 AND 2015

	2016				
	Department				Total
	Electric	Water	Wastewater	Stormwater	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 384,625	\$ 46,652	\$ 376,438	\$ (4,805)	\$ 802,910
Adjustments to reconcile operating income to net cash provided by operating activities					
Depreciation and amortization	427,505	279,632	954,361	32,959	1,694,457
Bad debt	11,497				11,497
(Increase) decrease in assets					
Accounts receivable	137,782	92,840	83,869	27,956	342,447
Prepaid expenses	40,675	17,807	23,244	7,748	89,474
Other assets	1,532				1,532
Increase (decrease) in liabilities					
Accounts payable	(217,162)	(32,505)	(30,006)	(10,003)	(289,676)
Customer deposits	(73)	(48)	(43)	(15)	(179)
Deferred revenue		(1,066)			(1,066)
Accrued compensated absences	20,803	1,733	433		22,969
Other liabilities	(1,532)				(1,532)
Net cash provided by operating activities	<u>\$ 805,652</u>	<u>\$ 405,045</u>	<u>\$ 1,408,296</u>	<u>\$ 53,840</u>	<u>\$ 2,672,833</u>

	2015				
	Department				Total
	Electric	Water	Wastewater	Stormwater	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income	\$ 231,279	\$ 44,101	\$ 453,906	\$ 10,327	\$ 739,613
Adjustments to reconcile operating income to net cash provided by operating activities					
Depreciation and amortization	436,546	238,951	956,029	29,362	1,660,888
Bad debt	11,889				11,889
(Increase) decrease in assets					
Accounts receivable	(46,782)	(35,997)	(19,939)	(6,647)	(109,365)
Inventory	(29,720)	41,330		1	11,611
Prepaid expenses	(1,927)	(1,193)	(1,102)	(366)	(4,588)
Other assets	(55,933)	5,953	38,312	282	(11,386)
Increase (decrease) in liabilities					
Accounts payable	96,343	34,100	31,455	10,528	172,426
Customer deposits	(45,805)	(28,356)	(26,173)	(8,723)	(109,057)
Deferred revenue		1,860			1,860
Accrued compensated absences	6,031	572	143		6,746
Net cash provided by operating activities	<u>\$ 601,921</u>	<u>\$ 301,321</u>	<u>\$ 1,432,631</u>	<u>\$ 34,764</u>	<u>\$ 2,370,637</u>

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

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
STATEMENTS OF FIDUCIARY NET POSITION
PENSION TRUST FUND
MARCH 31, 2016 AND 2015**

As of Plan fiscal year ended:	March 31, 2016	March 31, 2015
ASSETS		
Investments	<u>\$ 2,045,889</u>	<u>\$ 2,027,488</u>
NET POSITION		
Assets - held in trust for retirement benefits	<u>2,045,889</u>	<u>2,027,488</u>
Total net position	<u><u>\$ 2,045,889</u></u>	<u><u>\$ 2,027,488</u></u>

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

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

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

YEARS ENDED MARCH 31, 2016 AND 2015

Plan fiscal year ended:	March 31, 2016	March 31, 2015
	<hr/>	<hr/>
ADDITIONS		
Contributions	\$ 165,131	\$ 150,262
Investment earnings		
Interest	<hr/> 32,789	<hr/> 42,610
	<hr/>	<hr/>
Total additions	<hr/> 197,920	<hr/> 192,872
	<hr/>	<hr/>
DEDUCTIONS		
Benefits	174,469	179,654
Administrative	<hr/> 5,050	<hr/> 8,261
	<hr/>	<hr/>
Total deductions	<hr/> 179,519	<hr/> 187,915
	<hr/>	<hr/>
Change in net position	18,401	4,957
	<hr/>	<hr/>
NET POSITION, BEGINNING	<hr/> 2,027,488	<hr/> 2,022,531
	<hr/>	<hr/>
NET POSITION, ENDING	<hr/> <u>\$ 2,045,889</u>	<hr/> <u>\$ 2,027,488</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, 2016 AND 2015

ORGANIZATION AND REPORTING ENTITY

Organization

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

Reporting entity

The 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, 2016 AND 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Fund

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, 2016 and 2015, the allowance account was \$16,000 and \$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.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets (continued)

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:

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

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

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

CASH AND DEPOSITS

Custodial credit risk

At year-end, the carrying amount of the Board's cash deposits was \$543,533 and the bank balance was \$577,494. 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, 2016, all of the Board's deposits (excluding the Bond Project Account) were either covered by FDIC insurance or collateralized.

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 31, 2016. The cash account is insured under FDIC.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

INVESTMENTS (Continued)

The following is a listing of the investments:

Cash	
Cash- FDIC insured	\$ 250,000
Cash- uninsured	1,670,101
Subtotal	<u>1,920,101</u>
Equities:	
Ishares	442,933
Vanguard Total Stock MKT ETF	227,774
American Century Equity Income Fund A	749,152
Neuberger Berman Equity Income Fund Class A	502,308
Other	751,808
Subtotal	<u>2,673,975</u>
Fixed Income:	
Ishares Barclays Inter CR BD FD	767,304
Ishares IBOXX INVT Grade	973,255
Ishares MBB	406,828
Vanguard Bond Index Fund Inc	2,343,299
Loomis Sayles Investment Grade Bond Fund Class A	865,427
PIMCO Income Fund Class P	669,345
Virtus Multi-Sector Short Term Bond Fund Class A	1,371,674
Other	912,180
Subtotal	<u>8,309,312</u>
Total	<u>\$ 12,903,388</u>

PENSION TRUST FUND ASSETS

The pension trust fund has investments in the amount of \$2,095,041 and \$2,076,093 as of December 1, 2015 and 2014. The fund is administered by Great West Life and Annuity Insurance Company and invested 100% in annuities held by Great West Life and Annuity Insurance Company. The Great West Life and Annuity Insurance Company is invested in a diversified portfolio of primarily publicly traded, fixed income securities and mortgages.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

EMPLOYEE WELFARE EXPENSE

The administrative cost of the employees' pension plan was \$8,359 and \$8,261 for the years ended March 31, 2016 and 2015. As of March 31, 2016 and 2015, the liability for accrued vacation pay and sick pay was \$154,297 and \$131,328, respectively.

CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2016 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	33,646	68,636	(685)	101,597
Total capital assets not being depreciated	<u>244,806</u>	<u>68,636</u>	<u>(685)</u>	<u>312,757</u>
Capital assets being depreciated:				
Infrastructure	11,251,619	2,360		11,253,979
Building and improvements	346,133			346,133
Furniture and equipment	508,895	1,626		510,521
Vehicles	1,117,910			1,117,910
Software	153,107			153,107
Total capital assets being depreciated	<u>13,377,664</u>	<u>3,986</u>		<u>13,381,650</u>
Less accumulated depreciation for:				
Infrastructure	(4,303,916)	(323,601)		(4,627,517)
Building and improvements	(217,097)	(9,641)		(226,738)
Furniture and equipment	(414,689)	(16,879)		(431,568)
Vehicles	(855,124)	(26,349)		(881,473)
Software	(51,036)	(51,036)		(102,072)
Total accumulated depreciation	<u>(5,841,862)</u>	<u>(427,506)</u>		<u>(6,269,368)</u>
Electric department, capital assets, net	<u>7,780,608</u>	<u>(354,884)</u>	<u>(685)</u>	<u>7,425,039</u>

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

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	372,137	1,435,858	(127,167)	1,680,828
Total capital assets not being depreciated	<u>542,457</u>	<u>1,435,858</u>	<u>(127,167)</u>	<u>1,851,148</u>
Capital assets being depreciated:				
Infrastructure	8,884,426	127,833		9,012,259
Building and improvements	527,150			527,150
Furniture and equipment	138,267	1,302		139,569
Vehicles	257,608	22,176	(65,591)	214,193
Software	82,890			82,890
Total capital assets being depreciated	<u>9,890,341</u>	<u>151,311</u>	<u>(65,591)</u>	<u>9,976,061</u>
Less accumulated depreciation for:				
Infrastructure	(1,623,772)	(215,768)		(1,839,540)
Building and improvements	(194,709)	(13,402)		(208,111)
Furniture and equipment	(101,659)	(7,668)		(109,327)
Vehicles	(114,768)	(15,164)	46,445	(83,487)
Software	(27,630)	(27,630)		(55,260)
Total accumulated depreciation	<u>(2,062,538)</u>	<u>(279,632)</u>	<u>46,445</u>	<u>(2,295,725)</u>
Water department, capital assets, net	<u>8,370,260</u>	<u>1,307,537</u>	<u>(146,313)</u>	<u>9,531,484</u>

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

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	114,127	378,826	(79,217)	413,736
Total capital assets not being depreciated	<u>492,921</u>	<u>378,826</u>	<u>(79,217)</u>	<u>792,530</u>
Capital assets being depreciated:				
Infrastructure	22,900,329	73,169		22,973,498
Building and improvements	9,853,879			9,853,879
Furniture and equipment	676,606	3,319		679,925
Vehicles	422,608		(25,068)	397,540
Software	291,972			291,972
Total capital assets being depreciated	<u>34,145,394</u>	<u>76,488</u>	<u>(25,068)</u>	<u>34,196,814</u>
Less accumulated depreciation for:				
Infrastructure	(6,089,822)	(646,616)		(6,736,438)
Building and improvements	(5,601,268)	(168,364)		(5,769,632)
Furniture and equipment	(341,649)	(28,349)		(369,998)
Vehicles	(327,368)	(13,707)	25,068	(316,007)
Software	(97,324)	(97,324)		(194,648)
Total accumulated depreciation	<u>(12,457,431)</u>	<u>(954,360)</u>	<u>25,068</u>	<u>(13,386,723)</u>
Wastewater department, capital assets, net	<u>22,180,884</u>	<u>(499,046)</u>	<u>(79,217)</u>	<u>21,602,621</u>

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

CAPITAL ASSETS (Continued)

	Beginning Balance	Additions & Transfers	Deletions & Transfers	Ending Balance
<u>Stormwater</u>				
Capital assets not being depreciated:				
Land	\$ 17,063	\$	\$	\$ 17,063
Construction in progress	30,986	151,052	(5,266)	176,772
Total capital assets not being depreciated	<u>48,049</u>	<u>151,052</u>	<u>(5,266)</u>	<u>193,835</u>
Capital assets being depreciated:				
Infrastructure	1,127,162	5,185		1,132,347
Furniture and equipment	10,306	164		10,470
Vehicles	3,809			3,809
Software	12,905			12,905
Total capital assets being depreciated	<u>1,154,182</u>	<u>5,349</u>	<u></u>	<u>1,159,531</u>
Less accumulated depreciation for:				
Infrastructure	(201,976)	(27,352)		(229,328)
Furniture and equipment	(4,362)	(658)		(5,020)
Vehicles	(1,083)	(348)		(1,431)
Software	(4,601)	(4,601)		(9,202)
Total accumulated depreciation	<u>(212,022)</u>	<u>(32,959)</u>	<u></u>	<u>(244,981)</u>
Stormwater department, capital assets, net	<u>990,209</u>	<u>123,442</u>	<u>(5,266)</u>	<u>1,108,385</u>
Capital assets, net	\$ <u>39,321,961</u>	\$ <u>577,049</u>	\$ <u>(231,482)</u>	\$ <u>39,667,529</u>

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

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, 2016 are as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases and transfers</u>	<u>Ending Balances</u>
Water				
General Obligation Bonds	\$ 827,584	\$	\$ (83,428)	\$ 744,156
Wastewater				
General Obligation Bonds	8,776,920		(635,652)	8,141,268
	<u>\$ 9,604,504</u>	<u>\$</u>	<u>\$ (719,080)</u>	<u>\$ 8,885,424</u>

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

LONG TERM DEBT (Continued)

	Principal balance outstanding at March 31, 2016	Principal balance outstanding at March 31, 2015
The general obligation bonds consist of the following:		
On January 20, 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%.	\$ 566,397	\$ 635,911
On August 10, 2005, the City of Lewes issued \$716,000 of general obligation bonds due to the Delaware Safe Drinking Water Revolving Fund. The funds are being used by the Board for certain water capital projects. The loan is to be amortized over 20 years with principal and interest payments of \$9,272 every February and August 15 starting February 15, 2008. The interest rate is 2.46%.	177,759	191,673
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.	8,141,268	8,776,920
Total long-term debt	<u>\$ 8,885,424</u>	<u>\$ 9,604,504</u>

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

LONG-TERM DEBT (Continued)

Debt service requirements

Principal and interest requirements to amortize the general obligation bonds as of March 31, 2016 are as follows:

Year Ending	Bonds Payable	
	Principal	Interest
2017	\$ 700,736	\$ 210,849
2018	731,048	200,289
2019	749,431	181,904
2020	768,277	163,058
2021	787,598	143,737
2022-2026	4,245,248	411,794
2027-2031	903,086	17,172
	<u>\$ 8,885,424</u>	<u>\$ 1,328,803</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 years ended March 31, 2016 and 2015, 99% of the power was purchased from DEMEC and 1% from the University.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

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, 2015, which is the latest actuarial report available.

Membership of the plan

The membership consisted of the following at December 1, 2015, the date of the latest actuarial valuation:

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

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

DEFINED BENEFIT PENSION PLAN (Continued)

Membership of the plan (continued)

The annual required contribution or normal cost for the current year was determined as part of the December 1, 2015 actuarial valuation using the weighted average temporary annuity method, plus estimated expense. The actuarial assumptions included a 4% investment rate of return. The assumptions did not include post-retirement benefit increases. The actuarial value of assets was determined by the market value of investments.

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

Trend information

<u>Fiscal Year Beginning</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
12/1/2011	\$ 150,670	100%
12/1/2012	\$ 144,327	100%
12/1/2013	\$ 150,262	100%
12/1/2014	\$ 165,131	100%
12/1/2015	\$ 184,393	100%

OTHER POST EMPLOYMENT BENEFITS (OPEB)

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

The benefit is funded on a pay-as-you-go plan. For the year ended March 31, 2016, the recognized cost was \$16,992 for five retirees 65 or older.

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, 2016, rent and in lieu of franchise fees paid to the City were \$137,667 and \$694,241, respectively; and were \$133,591 and \$688,016 for the year ended March 31, 2015, 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, 2016, the Board is not aware of any repayment requests.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

PRIOR PERIOD ADJUSTMENTS

During the year ended March 31, 2016 management determined that inventory balances were an accumulation of supplies that were purchased for specific repairs to each utility and a large number of obsolete supplies that are no longer compatible with each utilities. Based on management's analysis of inventory the net position at the beginning of the year ended March 31, 2014 was restated to reflect the decrease in net position by \$303,642. There was no effect to the current year's change in net position.

As a result of a review of the Board's restricted net position it was determined that a liability related to the Delaware Municipal Green Energy Fund was not presented as a liability. The March 31, 2014 Restricted Fund Balance was restated to reflect a decrease of \$61,099.

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, 2016

	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))	
12/1/2011	2,381,717	3,443,499	1,061,782	69.17%	N/A	N/A	*
12/1/2012	2,064,361	3,010,041	945,680	68.58%	N/A	N/A	*
12/1/2013	2,069,760	2,942,686	872,926	68.58%	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	*

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

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DELAWARE SOCIETY OF
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PKF INTERNATIONAL

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

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

We have audited the financial statements of Board of Public Works of the City of Lewes, Delaware as of and for the years ended March 31, 2016 and 2015, and our report thereon dated July 27, 2016, which expressed an unmodified opinion on those financial statements, appears on pages one through three. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information presented on pages 35 through 38 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
July 27, 2016

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

**SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
ELECTRIC DEPARTMENT**

YEARS ENDED MARCH 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Sale of electric energy		
Residential	\$ 4,144,727	\$ 4,343,218
Commercial	1,301,696	1,359,734
Industrial	3,781,054	3,699,231
Municipal	176,956	168,068
Board of Public Works	316,520	364,500
Board of Public Works contra-account	(316,520)	(364,500)
Other	64,029	43,306
Total operating revenues	<u>9,468,462</u>	<u>9,613,557</u>
OPERATING EXPENSES		
Purchased power	7,008,628	7,364,848
Payroll and employee related expenses	424,860	384,954
Utilities	7,165	4,450
Repairs and maintenance	135,732	109,412
Professional and contractual services	1,663	13,133
Other supplies and expenses	19,317	17,785
Administrative	561,558	555,016
In lieu of franchise	485,912	484,245
Bad debt	11,497	11,889
Depreciation and amortization	427,505	436,546
Total operating expenses	<u>9,083,837</u>	<u>9,382,278</u>
Operating income	<u>384,625</u>	<u>231,279</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	144,078	103,488
Interest expense		(134,289)
Impact fees	58,720	80,123
Transfers out to other departments	(483,443)	(864,795)
Loss on sale of assets	(59,828)	
Changes in fair value of investments	(156,357)	39,433
Net non-operating expenses	<u>(496,830)</u>	<u>(776,040)</u>
Change in net position	(112,205)	(544,761)
NET POSITION, BEGINNING OF YEAR, RESTATED	<u>12,561,528</u>	<u>13,106,289</u>
NET POSITION, END OF YEAR	<u>\$ 12,449,323</u>	<u>\$ 12,561,528</u>

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

SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

WATER DEPARTMENT

YEARS ENDED MARCH 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Sale of water		
Residential	\$ 802,751	\$ 794,809
Commercial	110,883	102,661
Industrial	452,455	420,467
Municipal	11,624	10,197
Board of Public Works	1,831	1,249
Board of Public Works contra-account	(1,831)	(1,249)
Other	219,732	194,609
Total operating revenues	<u>1,597,445</u>	<u>1,522,743</u>
OPERATING EXPENSES		
Payroll and employee related expenses	366,264	323,957
Utilities	6,401	6,122
Repairs and maintenance	385,584	438,127
Professional and contractual services	17,880	
Other supplies and expenses	76,754	60,763
Administrative	349,309	343,617
In lieu of franchise	68,969	67,105
Depreciation and amortization	279,632	238,951
Total operating expenses	<u>1,550,793</u>	<u>1,478,642</u>
Operating income (loss)	<u>46,652</u>	<u>44,101</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	89,190	63,597
Interest expense	(16,104)	(87,695)
Impact fees	28,600	223,600
Transfers in from other departments	(297,611)	1,575,848
Loss on sale of assets	(56,182)	
Changes in fair value of investments	(96,793)	24,411
Grants	37,865	
Net non-operating revenues (expenses)	<u>(311,035)</u>	<u>1,799,761</u>
Change in net position	(264,383)	1,843,862
NET POSITION, BEGINNING OF YEAR, RESTATED	<u>11,908,240</u>	<u>10,064,378</u>
NET POSITION, END OF YEAR	<u><u>\$ 11,643,857</u></u>	<u><u>\$ 11,908,240</u></u>

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

**SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
WASTEWATER DEPARTMENT**

YEARS ENDED MARCH 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Wastewater assessments		
Residential	\$ 2,007,367	\$ 2,021,313
Commercial	222,354	214,050
Industrial	352,707	299,507
Municipal	16,684	13,839
Board of Public Works	3,643	1,880
Board of Public Works contra-account	(3,643)	(1,880)
Other	15,886	26,311
Total operating revenues	<u>2,614,998</u>	<u>2,575,020</u>
OPERATING EXPENSES		
Payroll and employee related expenses	70,009	54,346
Utilities	2,479	2,320
Repairs and maintenance	235,245	159,191
Professional and contractual services	404,773	426,420
Other supplies and expenses	121,285	80,061
Administrative	320,283	315,262
In lieu of franchise	130,125	127,485
Depreciation and amortization	954,361	956,029
Total operating expenses	<u>2,238,560</u>	<u>2,121,114</u>
Operating income	<u>376,438</u>	<u>453,906</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	82,326	58,705
Interest expense	(215,474)	(221,545)
Impact fees	74,736	31,823
Transfers out to other departments	1,178,505	(1,338,525)
Loss on sale of assets	(34,187)	
Changes in fair value of investments	(89,347)	22,533
Grants	33,315	
Net non-operating revenues (expenses)	<u>1,029,874</u>	<u>(1,447,009)</u>
Change in net position	1,406,312	(993,103)
NET POSITION, BEGINNING OF YEAR, RESTATED	<u>17,439,940</u>	<u>18,433,043</u>
NET POSITION, END OF YEAR	<u><u>\$ 18,846,252</u></u>	<u><u>\$ 17,439,940</u></u>

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

**SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
STORMWATER DEPARTMENT**

YEARS ENDED MARCH 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Stormwater assessments		
Residential	\$ 159,887	\$ 157,480
Commercial	15,820	17,649
Industrial	6,480	6,480
Municipal	1,680	1,680
Board of Public Works	850	870
Board of Public Works contra-account	(850)	(870)
Other	4,318	6,140
Total operating revenues	<u>188,185</u>	<u>189,429</u>
OPERATING EXPENSES		
Payroll and employee related expenses	9,663	12,395
Utilities	713	861
Repairs and maintenance	28,381	19,466
Professional and contractual services	2,203	927
Other supplies and expenses	601	1,823
Administrative	109,235	105,087
In lieu of franchise	9,235	9,181
Depreciation and amortization	32,959	29,362
Total operating expenses	<u>192,990</u>	<u>179,102</u>
Operating income (loss)	<u>(4,805)</u>	<u>10,327</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	27,444	19,568
Interest expense		(22,071)
Transfers in from other departments	(397,451)	627,472
Loss on sale of asset	(11,396)	
Changes in fair value of investments	(29,782)	7,511
Grants	9,530	16,764
Net non-operating revenues (expenses)	<u>(401,655)</u>	<u>649,244</u>
Change in net position	(406,460)	659,571
NET POSITION, BEGINNING OF YEAR, RESTATED	<u>1,849,590</u>	<u>1,190,019</u>
NET POSITION, END OF YEAR	<u><u>\$ 1,443,130</u></u>	<u><u>\$ 1,849,590</u></u>

GOVERNMENT AUDITING STANDARDS REPORT



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and aggregate remaining fund information of the Board of Public Works of the City of Lewes, Delaware ("the Board"), a component unit of the City of Lewes, Delaware, as of and for the year ended March 31, 2016, 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 27, 2016.

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. 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. However, material weaknesses may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify a deficiency in internal control, as described in the accompanying schedule of findings and responses that we consider to be a significant deficiency. We consider the deficiency described in 16-01 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

Purpose of this Report

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

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
July 27, 2016

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

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED MARCH 31, 2016

16-01 **Condition and cause** – The accounts receivable and accounts payable subledgers are not reconciled regularly to the general ledger. During fiscal year 2014, new accounting software was implemented. With the implementation, new controls and processes were created; however, the processes over accounts receivable and accounts payable no longer adequately safeguard these assets.

Criteria – The accounts receivable and accounts payable subledgers 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 subledgers to the general ledger monthly.

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