

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

FINANCIAL STATEMENTS

MARCH 31, 2018 AND 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
The Board of Public Works
of the City of Lewes, Delaware

www.pkscpa.com

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, 2018 and 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 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 and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

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ALLINIAL GLOBAL

Auditors' Responsibility (continued)

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, 2018 and 2017, and the respective changes in its financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in the notes to the financial statements, in 2018 the Board adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

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 34) 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 40 through 41) dated August 22, 2018, 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
August 22, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
Management's Discussion & Analysis (MD&A)
March 31, 2018

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, 2018.

Financial Highlights

- The assets of the BPW exceed our liabilities at the close of the year by \$48,516,610 (net position). Of this amount, \$8,969,328 are unrestricted.
- BPW's total net position increased by \$2,501,061.
- As of the close of the current year, BPW reported combined ending cash balances totaling \$985,496 a decrease of \$308,454 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 decreased by \$1,215,223 during the reporting period due to \$597,200 in debt forgiveness and \$668,036 in principal payments.
- Deferred revenue decreased by \$321,821 during the reporting period due to the unearned revenue from the Highland Acres note receivable which was recognized as payments were made by customers and grant revenue received for capital projects that were completed.
- Grant income increased by \$724,826 during the year. Of this increase, \$597,200 is due to debt forgiveness which occurred.

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, 2018

Statements of Net Assets

	ASSETS	
	2018	2017
Current assets		
Cash		
Unrestricted	\$ 985,496	\$ 1,293,950
Reserve fund investments		
Unrestricted	9,111,925	8,159,291
Restricted	5,303,403	5,084,629
Accounts receivable, net of allowance	1,273,652	1,312,001
Prepaid expenses	3,605	336
Notes receivable	35,815	515,383
Total current assets	<u>16,713,896</u>	<u>16,365,590</u>
Noncurrent assets		
Capital assets, net of accumulated depreciation	42,516,416	41,427,973
Notes receivable	1,358,973	1,386,585
Other assets	57,525	47,882
Total non current assets	<u>43,932,914</u>	<u>42,862,440</u>
Total assets	<u>60,646,810</u>	<u>59,228,030</u>
Deferred outflow of resources		
Deferred retirement contributions	\$ 677	\$ 184,392
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable	\$ 913,975	\$ 872,476
Customer deposits	104,717	109,934
Accrued interest	33,142	33,142
Deferred revenue	344,054	638,263
Accrued liabilities	967	
Current maturities of bonds payable	723,077	668,036
Total current liabilities	<u>2,119,932</u>	<u>2,321,851</u>
Noncurrent liabilities		
Bonds payable	7,549,460	8,819,724
Accrued compensated absences	158,871	166,444
Deferred revenue	1,358,973	1,386,585
Other liabilities	57,525	47,882
Net pension liability	886,116	654,387
Total noncurrent liabilities	<u>10,010,945</u>	<u>11,075,022</u>
Total liabilities	<u>12,130,877</u>	<u>13,396,873</u>
Net position		
Net investment in capital assets	34,243,879	31,940,213
Restricted	5,303,403	5,084,629
Unrestricted	8,969,328	8,990,707
Total net position	<u>\$ 48,516,610</u>	<u>\$ 46,015,549</u>

THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
Management's Discussion & Analysis (MD&A)
March 31, 2018

Statements of Revenues, Expenses and Changes in Net Position

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Sales and assessments	\$ 13,768,000	\$ 13,620,502
Other	307,662	492,672
Total operating revenues	<u>14,075,662</u>	<u>14,113,174</u>
Operating Expenses		
Purchased power	6,769,567	6,881,742
Payroll and employee related expenses	1,336,360	921,648
Utilities	30,411	22,910
Repairs and maintenance	689,602	715,644
Professional and contractual services	375,117	423,898
Other supplies and expenses	200,538	203,779
Administrative	1,243,142	1,427,205
In lieu of franchise	711,207	695,413
Bad debt	2,670	56,680
Depreciation and amortization	1,617,746	1,712,270
Total operating expenses	<u>12,976,360</u>	<u>13,061,189</u>
Operating income	<u>1,099,302</u>	<u>1,051,985</u>
Non-operating revenues (expenses)		
Investment income	396,800	323,310
Interest expense	(198,185)	(228,765)
Impact fees	239,354	547,658
Gain (loss) on sale of assets	18,569	27,635
Change in fair value of investments	47,403	210,547
Grants	788,922	64,096
Capital projects pass-through revenue	108,896	106,516
Net non-operating revenues (expenses)	<u>1,401,759</u>	<u>1,050,997</u>
Change in net position	<u>2,501,061</u>	<u>2,102,982</u>
Net position, beginning of year, restated	<u>46,015,549</u>	<u>43,912,567</u>
Net position, end of year	<u>\$ 48,516,610</u>	<u>\$ 46,015,549</u>

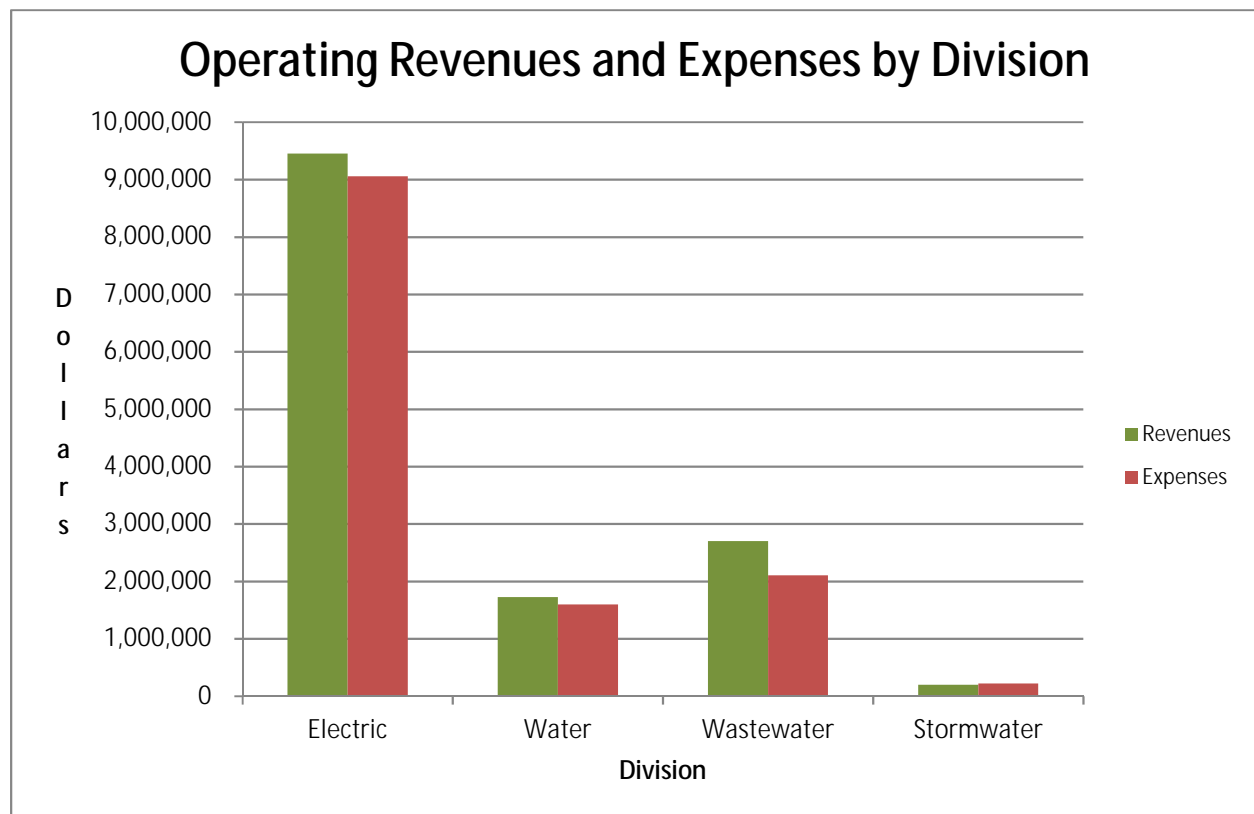
Summary of the Financial Reporting Entity

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, \$9,454,766, as well as to incur the greatest operating expenses, \$9,057,481. Purchased power of \$6,769,567, was the largest single cost to the electric department.

There were operating gains in all of the departments with overall operating income of \$1,099,302.



THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
Management's Discussion & Analysis (MD&A)
March 31, 2018

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 \$8,272,537 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

The 2017-2018 year was hallmarked with the construction of new utilities going into the ground at Savannah and Front Street and Gills Neck Road. BPW created a partnership with Sussex County utilities that has provided a connection with the county sewer from Gills Neck Road and the Wolfe Pointe lift station through the BPW sewer system to our Howard Seymour Wastewater Treatment plant. This connection will provide effluent to us, which we will treat in our waste water treatment plant. The county has been under scrutiny due to their winter irrigation program utilizing their effluent. The partnership is mutually beneficial for us- increasing our winter treatment flows to more closely resemble our summer flows, improving the treatment process and operations. This brings us closer to fully utilizing our waste water treatment plant, although we still have significant capacity left for the future build out of our sewer service area. The project renewed the existing sewer lines, increasing their diameter, which will assist in the plant meeting its future capacity requirements of 1.5 million gallons per day influent. We also replaced water lines that have been in the ground for well over 50 years. This is another step forward in meeting the goal of improving water quality throughout the system.

Our electric system continues to be both safe and reliable. The BPW reliability factors that measure the number of outages, the duration of outages and the number of customers affected were low enough to have earned us awards in the electric distribution industry. This is due to both the foresight of our Board in making the decision to invest in the assets of the electric grid and the dedication of our staff in operating and maintaining the system at its peak. Most outages that we have are due to outside influences, not our system.

This year we completed a major refurbishment of our water tank. The project included maintenance such as valves replacements, having the interior sandblasted and spot ground to clean metal, and refinishing the interior with a plastomeric spray coating that will last well over the next 25 years. This work was done with the tank out of service and our water treatment facility operated per design to maintain pressure and fire safety throughout our system while the tank was out of service. Staff were also on heightened alert to ensure the reliable delivery of water.

Fiscal year 2017-2018 found us in the second year of the operations contract with Whitmarsh as the operators of the BPW treatment plant. As we are reaching the 10-year mark of the retro fit of the plant to micro filtration, many of the pumps and motors that had 10-year life are needing to be replaced or have major repair or rebuilds. Due to this, we have seen a slight increase in the maintenance costs at the plant. One major asset that has outperformed the manufacturers estimated life are the Zenon micro filters. They are going on their 11th year and have shown no significant degradation in the effluent quality or increases due to filter loss. We are preparing to change out the Zenon filters in the next year or two. We are also exploring an improved technology that may serve us even better in the future.

THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
Management's Discussion & Analysis (MD&A)
March 31, 2018

General Managers' Report (continued)

Nationally, the last couple of years have yielded an improvement in the economy and the resulting confidence is being translated into new growth into our complete service areas. We have been working to complete the sewer system into Savannah Place. We had pushed to include it as a companion project with the Donovan Smith trailer park with the goal of these adjacent, developed properties being taken off their current septic and holding tank systems. Difficulties with the Donovan Smith trailer park made it more expedient to move forward with a Savannah Place project on its own. To provide the most economical and fair assessment for all our customers, including those we will be reaching out to in the future, we have made Board policy decisions that resulted in the reduced per capita cost in Savannah Place from over \$50,000 per home to under \$28,000 per home. We anticipate this will encourage other developed properties in our prescribed service area to more comfortably seek our utility services.

The BPW has worked throughout the year to improve the ability of the City to encourage annexation into the Lewes Municipal boundaries. The BPW supports this effort in being rate competitive, providing safe and reliable utilities and exceptional customer service. We previously experienced significant employee turnover, but the new and promoted staff have performed equal to and often above expectations. Of all the assets the BPW operates, we recognize the fact that our greatest asset is our BPW family.

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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets		
Cash		
Unrestricted	\$ 985,496	\$ 1,293,950
Reserve fund investments		
Unrestricted	9,111,925	8,159,291
Restricted	5,303,403	5,084,629
Accounts receivable, net of allowance	1,273,652	1,312,001
Prepaid expenses	3,605	336
Notes receivable	35,815	515,383
Total current assets	<u>16,713,896</u>	<u>16,365,590</u>
Noncurrent assets		
Capital assets, net of accumulated depreciation	42,516,416	41,427,973
Notes receivable	1,358,973	1,386,585
Other assets	57,525	47,882
Total noncurrent assets	<u>43,932,914</u>	<u>42,862,440</u>
Total assets	<u>60,646,810</u>	<u>59,228,030</u>
DEFERRED OUTFLOW OF RESOURCES		
Deferred retirement contributions	<u>\$ 677</u>	<u>\$ 184,392</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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 913,975	\$ 872,476
Customer deposits	104,717	109,934
Accrued interest	33,142	33,142
Deferred revenue	344,054	638,263
Accrued liabilities	967	
Current maturities of bonds payable	723,077	668,036
Total current liabilities	<u>2,119,932</u>	<u>2,321,851</u>
Noncurrent liabilities		
Bonds payable	7,549,460	8,819,724
Accrued compensated absences	158,871	166,444
Deferred revenue	1,358,973	1,386,585
Other liabilities	57,525	47,882
Net pension liability	886,116	654,387
Total noncurrent liabilities	<u>10,010,945</u>	<u>11,075,022</u>
Total liabilities	<u>12,130,877</u>	<u>13,396,873</u>
NET POSITION		
Net investment in capital assets	34,243,879	31,940,213
Restricted	5,303,403	5,084,629
Unrestricted	<u>8,969,328</u>	<u>8,990,707</u>
Total net position	<u>\$ 48,516,610</u>	<u>\$ 46,015,549</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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Sales and assessments	\$ 13,768,000	\$ 13,620,502
Other	307,662	492,672
Total operating revenues	<u>14,075,662</u>	<u>14,113,174</u>
OPERATING EXPENSES		
Purchased power	6,769,567	6,881,742
Payroll and employee related expenses	1,336,360	921,648
Utilities	30,411	22,910
Repairs and maintenance	689,602	715,644
Professional and contractual services	375,117	423,898
Other supplies and expenses	200,538	203,779
Administrative	1,243,142	1,427,205
In lieu of franchise	711,207	695,413
Bad debt	2,670	56,680
Depreciation and amortization	1,617,746	1,712,270
Total operating expenses	<u>12,976,360</u>	<u>13,061,189</u>
Operating income	<u>1,099,302</u>	<u>1,051,985</u>
NON-OPERATING REVENUES (EXPENSES)		
Reserve fund investment income	396,800	323,310
Interest expense	(198,185)	(228,765)
Impact fees	239,354	547,658
Gain on sale of assets	18,569	27,635
Changes in fair value of reserve fund investments	47,403	210,547
Grants	788,922	64,096
Capital projects pass-through revenue	108,896	106,516
Net non-operating revenues	<u>1,401,759</u>	<u>1,050,997</u>
Change in net position	<u>2,501,061</u>	<u>2,102,982</u>
NET POSITION, BEGINNING OF YEAR, RESTATED	<u>46,015,549</u>	<u>43,912,567</u>
NET POSITION, END OF YEAR	<u><u>\$ 48,516,610</u></u>	<u><u>\$ 46,015,549</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 CASH FLOWS

YEARS ENDED MARCH 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 13,476,638	\$ 15,419,848
Other receipts	307,662	492,672
Payments to suppliers	(9,981,354)	(10,189,399)
Payments to employees	<u>(927,522)</u>	<u>(909,501)</u>
Net cash provided by operating activities	<u>2,875,424</u>	<u>4,813,620</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Impact fees received	239,354	547,658
Capital projects pass-through revenue	108,896	106,516
Notes receivable payments received (loans made)	<u>507,180</u>	<u>(1,901,968)</u>
Net cash provided (used) by non-capital financing activities	<u>855,430</u>	<u>(1,247,794)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(2,712,663)	(3,491,220)
Proceeds from long-term debt	50,014	1,998,135
Principal payments on long-term debt	(1,265,236)	(1,395,799)
Interest paid on long-term debt	(198,185)	(230,587)
Grants received	<u>788,922</u>	<u>64,096</u>
Net cash used by capital and related financing activities	<u>(3,337,148)</u>	<u>(3,055,375)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(1,098,960)	(83,844)
Interest income	<u>396,800</u>	<u>323,310</u>
Net cash provided (used) by investing activities	<u>(702,160)</u>	<u>239,466</u>
Net increase (decrease) in cash	(308,454)	749,917
CASH AT BEGINNING OF YEAR	<u>1,293,950</u>	<u>544,033</u>
CASH AT END OF YEAR	<u><u>\$ 985,496</u></u>	<u><u>\$ 1,293,950</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 CASH FLOWS (Continued)

YEARS ENDED MARCH 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 1,099,302	\$ 1,051,985
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	1,617,746	1,712,270
Deferred revenue	(321,821)	2,014,321
Deferred financing outflow - pension	183,715	
Bad debt	2,670	56,680
(Increase) decrease in assets		
Accounts receivable	35,676	(222,542)
Prepaid expenses	(3,269)	33,027
Other assets	(9,643)	11,685
Increase (decrease) in liabilities		
Accounts payable	42,466	148,165
Customer deposits	(5,217)	7,567
Accrued compensated absences	(7,573)	12,147
Other liabilities	9,643	(11,685)
Net pension liability	231,729	
Net cash provided by operating activities	<u>\$ 2,875,424</u>	<u>\$ 4,813,620</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

NOVEMBER 30 2017 AND MARCH 31, 2017

As of Plan fiscal year ended:	November 30, 2017	March 31, 2017
ASSETS		
Investments	<u>\$ 1,930,854</u>	<u>\$ 2,058,161</u>
NET POSITION		
Assets - held in trust for retirement benefits	<u>1,930,854</u>	<u>2,058,161</u>
Total net position	<u><u>\$ 1,930,854</u></u>	<u><u>\$ 2,058,161</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**

NOVEMBER 30 2017 AND MARCH 31, 2017

Plan fiscal year ended:	November 30, 2017	March 31, 2017
ADDITIONS		
Contributions	\$ 677	\$ 184,393
Investment earnings		
Interest	77,375	23,616
Total additions	78,052	208,009
DEDUCTIONS		
Benefits	197,129	183,374
Administrative	8,230	12,363
Total deductions	205,359	195,737
Change in net position	(127,307)	12,272
NET POSITION, BEGINNING	2,058,161	2,045,889
NET POSITION, ENDING	\$ 1,930,854	\$ 2,058,161

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, 2018 AND 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.

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.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018 AND 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Fund (Continued)

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, 2018 and 2017, the allowance account was \$4,851.

Capital assets

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

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

Estimated useful lives are as follows:

<u>Category</u>	<u>Years</u>
Infrastructure	10 - 75
Buildings and improvements	10 - 50
Vehicles	10 - 50
Furniture and equipment	5 - 50

Accounting for compensated absences

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

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018 AND 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

- *Net investment in capital assets* – This category groups all capital assets including infrastructure into one component of net position, less any debt outstanding that was used to finance these assets. 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.

Deferred outflows of resources

The Board may report decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its statement of net position. The Board has one item that qualifies for reporting this category: deferred retirement contributions.

Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources related to pensions and pension expense, information about the fiduciary net position of the Board of Public Works of Lewes Delaware Pension Trust (BPWLDP), and additions to/deductions from BPWLDP's fiduciary net position have been determined on the same basis as they are reported by BPWLDP.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018 AND 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Change in accounting principle

During 2018, the Board implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which will require the Board to provide additional information in the financial statements related to its pension plan.

The net position at March 31, 2016 has been restated for the effect of changing to a new accounting principle as follows:

	<u>March 31, 2016</u>
Net position, beginning of year, as previously reported	\$ 44,382,562
Adjustment for net pension obligation	<u>(469,995)</u>
Net position, beginning of year, as restated	<u><u>\$ 43,912,567</u></u>

CASH AND DEPOSITS

Custodial credit risk

At year-end, the carrying amount of the Board's cash deposits was \$984,995 and the bank balance was \$1,484,379. 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, 2018 and 2017, all of the Board's deposits (excluding the Bond Project Account) were either covered by FDIC insurance or collateralized.

RESERVE FUND INVESTMENTS

Reserve fund investments are reported at fair value for investments with quoted market prices. All investment income including changes in the fair market value of investments, is reported as revenue in the statements of revenues, expenses, and changes in net position.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018 AND 2017

RESERVE FUND INVESTMENTS (Continued)

Fair value

The Board categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

All of the Board's investments are in mutual funds held by UBS Financial Services and Fulton Bank as of March 31, 2018 and 2017 are valued using market closing prices (Level 1 inputs).

Concentration of credit risk

All investments are carried in a third party managed portfolio of funds with guidelines as directed by the Investment Committee of the 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, 2018 and 2017. The cash account is insured under FDIC.

PENSION TRUST FUND ASSETS

The pension trust fund has investments in the amount of \$1,930,854 and \$2,113,246 as of November 30, 2017 and 2016. The fund is administered by Nationwide Investment Services Corporation and invested 100% in annuities held by Nationwide Investment Services Corporation. The Nationwide Investment Services Corporation is invested in a diversified portfolio of primarily publicly traded, fixed income securities and mortgages. The fund was previously administered by Great West Life and Annuity Insurance Company.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018 AND 2017

EMPLOYEE WELFARE EXPENSE

The administrative cost of the employees' pension plan was \$8,230 and \$8,383 for the years ended March 31, 2018 and 2017. As of March 31, 2018 and 2017, the liability for accrued vacation pay and sick pay was \$158,871 and \$166,444, respectively

NOTES RECEIVABLE

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. Each resident had 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 is considered non-operating income for the water and wastewater departments. The amount owed to the Board as of March 31, 2018 and 2017 is \$178,906 and \$1,207,678 and \$631,675 and \$1,259,942 for water and wastewater, respectively.

In 2013, some residents within the Savannah Place development to pay a note to the Board for the cost of impact fees they were assessed. The Board records income related to the receivable when payments are received. The amount owed to the Board as of March 31, 2018 and 2017 is \$8,204 and \$10,351, respectively.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017**

CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2018 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	87,924	16,447	(14,623)	89,748
Total capital assets not being depreciated	299,084	16,447	(14,623)	300,908
Capital assets being depreciated:				
Infrastructure	11,436,409	120,877	(362,749)	11,194,537
Building and improvements	359,977	791	(38,479)	322,289
Furniture and equipment	521,949	6,114	(18,682)	509,381
Vehicles	1,125,960	7,319	(65,795)	1,067,484
Software	153,107	8,196		161,303
Total capital assets being depreciated	13,597,402	143,297	(485,705)	13,254,994
Less accumulated depreciation for:				
Infrastructure	4,951,632	328,035	356,273	4,923,394
Buildings and improvements	236,640	9,987	38,479	208,148
Furniture and equipment	447,713	14,984	18,682	444,015
Vehicles	885,379	29,578	65,795	849,162
Software	145,502			145,502
Total accumulated depreciation	6,666,866	382,584	479,229	6,570,221
Electric department, capital assets, net	7,229,620	(222,840)	(21,099)	6,985,681

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018 AND 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	1,621,375	866,292	(875,154)	1,612,513
Total capital assets not being depreciated	1,791,695	866,292	(875,154)	1,782,833
Capital assets being depreciated:				
Infrastructure	10,430,400	901,742	(68,551)	11,263,591
Building and improvements	528,307	797	(40,421)	488,683
Furniture and equipment	150,467	24,442	(1,148)	173,761
Vehicles	396,953	7,365		404,318
Software	82,890	4,437		87,327
Total capital assets being depreciated	11,589,017	938,783	(110,120)	12,417,680
Less accumulated depreciation for:				
Infrastructure	2,056,529	241,907	68,551	2,229,885
Buildings and improvements	221,521	11,917	40,421	193,017
Furniture and equipment	117,284	12,545	1,148	128,681
Vehicles	105,450	31,750		137,200
Software	94,870			94,870
Total accumulated depreciation	2,595,654	298,119	110,120	2,783,653
Water department, capital assets, net	10,785,058	1,506,956	(875,154)	11,416,860

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018 AND 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	483,759	1,432,794	(1,408,392)	508,161
Total capital assets not being depreciated	862,553	1,432,794	(1,408,392)	886,955
Capital assets being depreciated:				
Infrastructure	24,107,375	1,457,977	(260,908)	25,304,444
Building and improvements	9,856,553	1,789	(1,711,062)	8,147,280
Furniture and equipment	695,539	24,398	(2,580)	717,357
Vehicles	388,255	16,556		404,811
Software	291,972	15,630		307,602
Total capital assets being depreciated	35,339,694	1,516,350	(1,974,550)	34,881,494
Less accumulated depreciation for:				
Infrastructure	7,385,170	671,755	260,908	7,796,017
Buildings and improvements	5,938,234	168,644	1,711,062	4,395,816
Furniture and equipment	398,130	31,736	2,580	427,286
Vehicles	186,837	20,664		207,501
Software	286,196			286,196
Total accumulated depreciation	14,194,567	892,799	1,974,550	13,112,816
Wastewater department, capital assets, net	22,007,680	2,056,345	(1,408,392)	22,655,633

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017**

CAPITAL ASSETS (Continued)

	Beginning Balance	Additions & Transfers	Deletions & Transfers	Ending Balance
<u>Stormwater</u>				
Capital assets not being depreciated:				
Land	\$ 17,863	\$	\$	\$ 17,863
Construction in progress	62,101	89,627	(26,724)	125,004
Total capital assets not being depreciated	79,964	89,627	(26,724)	142,867
Capital assets being depreciated:				
Infrastructure	1,501,860	26,378		1,528,238
Building and improvements	168	110		278
Furniture and equipment	11,262	5,791	(156)	16,897
Vehicles	81,408	1,000		82,408
Software	12,905	689		13,594
Total capital assets being depreciated	1,607,603	33,968	(156)	1,641,415
Less accumulated depreciation for:				
Infrastructure	256,787	34,846		291,633
Furniture and equipment	5,884		156	5,728
Vehicles	4,376	1,214		5,590
Software	14,905	8,184		23,089
Total accumulated depreciation	281,952	44,244	156	326,040
Stormwater department, capital assets, net	1,405,615	79,351	(26,724)	1,458,242
Capital assets, net	<u>\$ 41,427,973</u>	<u>\$ 3,419,812</u>	<u>\$ (2,331,369)</u>	<u>\$ 42,516,416</u>

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018 AND 2017

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. During the year, the State of Delaware forgave \$597,200 of the indebtedness incurred by the Water Fund in prior years. These loans are considered general obligation bonds and are collateralized by the full faith and credit the Board of Public Works of the City of Lewes, Delaware.

Changes in long-term debt for the year ended March 31, 2018 are as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases and transfers</u>	<u>Ending Balances</u>
Water				
General Obligation Bonds	\$ 656,410	\$ 43,590	\$ (597,200)	\$ 102,800
Wastewater				
General Obligation Bonds	8,831,350	6,423	(668,036)	8,169,737
	<u>\$ 9,487,760</u>	<u>\$ 50,013</u>	<u>\$ (1,265,236)</u>	<u>\$ 8,272,537</u>

Debt service requirements

Principal and interest requirements to amortize the general obligation bonds as of March 31, 2018 are as follows:

<u>Year Ending</u>	<u>Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 723,077	\$ 195,115
2019	741,047	177,118
2020	759,492	158,673
2021	778,396	139,769
2022	797,773	120,393
2023-2027	3,440,381	299,290
2028-2032	1,032,371	207,834
	<u>\$ 8,272,537</u>	<u>\$ 1,298,192</u>

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017**

LONG TERM DEBT (Continued)

	Principal balance outstanding at March 31, 2018	Principal balance outstanding at March 31, 2017
The general obligation bonds consist of the following:		
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.	\$ 6,821,590	\$ 7,489,625
On April 1, 2016, the City of Lewes 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. There was an additional draw down of \$6,423 in 2017. The loan will be amortized over thirty years at the annualized interest rate of 2.0%.	1,348,147	1,341,726
On April 1, 2016, the City of Lewes 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, 2018, the loan has been drawn down in full. The State of Delaware has also forgiven \$597,200 of the debt which has reduced the balance of debt and has been recognized as grant income.	102,800	656,409
Total debt	8,272,537	9,487,760
Less: current portion of long-term debt	(723,077)	(668,036)
Total long-term debt	\$ 7,549,460	\$ 8,819,724

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018 AND 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 November 30, 2017, which is the latest actuarial report available.

Membership of the plan

The membership consisted of the following at November 30, 2017, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	21
Terminated plan members and beneficiaries entitled to, but not yet receiving	10
Active plan members	<u>5</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, 2018 AND 2017

DEFINED BENEFIT PENSION PLAN (Continued)

Assumptions. The annual required contribution or normal cost for the current year was determined as part of the November 30, 2017 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.

Mortality rates were based on the 2017 Optional table for small plans from the IRS.

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. Therefore, projected salary increases are not an assumption applicable to the Plan.

Trend information

Fiscal Year <u>Beginning</u>	Annual Pension Cost (APC) <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>
11/30/2013	\$ 150,262	100%
11/30/2014	\$ 165,131	100%
11/30/2015	\$ 184,393	100%
11/30/2016	\$ 207,288	0.3%
11/30/2017	\$ 286,990	100%

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017**

DEFINED BENEFIT PENSION PLAN (Continued)

Interest rate. The interest rate used to measure the total pension liability was 4.00%. The projection of cash flows used to determine the interest rate assumed that the employee contributions will be made at the current contribution rate and that the Board contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a-b)
Changes for the year:			
Increase due to passage of time	\$ 106,801	\$	\$ 106,801
Additional benefits accumulated	139,664		139,664
Contributions - employer		677	(677)
Net investment income		22,290	(22,290)
Benefit payments, including refunds of employee contributions	(197,129)	(197,129)	
Administrative expense		(8,231)	8,231
Net increase (decrease)	49,336	(182,393)	231,729
Balances at November 30, 2016	2,767,634	2,113,247	654,387
Balances at November 30, 2017	<u>\$ 2,816,970</u>	<u>\$ 1,930,854</u>	<u>\$ 886,116</u>

Sensitivity of the Board's net pension liability to changes in the interest rate. The following presents the Board's share of the net pension liability calculated using the interest rate of 4%, as well as what the liability would be if it were calculated using an interest rate that is 1-percentage point lower (3%) or 1-percentage point higher (5%) than the current rate.

1% Decrease (3%)	\$ 914,286
Current rate (4%)	\$ 886,116
1% Increase (5%)	\$ 857,946

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018 AND 2017

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, 2018, the recognized cost was \$13,066 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.

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2018 AND 2017

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, 2018 and 2017, 98% of the power was purchased from DEMEC and 2% from the University.

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, 2018, rent and in lieu of franchise fees paid to the City were \$122,509 and \$711,207, respectively; and were \$141,797 and \$695,413 for the year ended March 31, 2017, 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, 2018, 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, 2018

	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))
11/30/2008	\$ 2,007,542	\$ 3,199,284	\$ 1,191,742	62.75%	\$ 774,495	153.87%
11/30/2009	2,137,608	3,280,742	1,143,134	65.16%	677,531	168.72%
11/30/2010	2,371,226	3,592,955	1,221,729	66.00%	521,473	234.28%
11/30/2011	2,381,717	3,443,499	1,061,782	69.17%	N/A	N/A *
11/30/2012	2,064,361	3,010,041	945,680	68.58%	N/A	N/A *
11/30/2013	2,069,760	2,942,686	872,926	68.58%	N/A	N/A *
11/30/2014	2,076,093	2,905,887	829,794	71.44%	N/A	N/A *
11/30/2015	2,095,041	2,850,622	755,581	73.49%	N/A	N/A *
11/30/2016	2,113,246	2,767,634	654,388	76.36%	N/A	N/A *
11/30/2017	1,930,854	2,816,970	886,116	68.54%	N/A	N/A *

* All benefit accruals were frozen beginning April 1, 2010. See the "Defined Benefit Pension Plan" note on pages 28 - 30.

SUPPLEMENTARY INFORMATION



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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

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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, 2018 and 2017, and our report thereon dated August 22, 2018, 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 36 through 39 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.

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Salisbury, Maryland
August 22, 2018

**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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Sale of electric energy		
Residential	\$ 4,456,934	\$ 4,305,273
Commercial	1,322,736	1,305,488
Industrial	3,436,083	3,632,842
Municipal	169,704	182,694
Board of Public Works	323,172	281,753
Board of Public Works contra-account	(323,172)	(281,753)
Other	69,309	283,004
Total operating revenues	<u>9,454,766</u>	<u>9,709,301</u>
OPERATING EXPENSES		
Purchased power	6,769,567	6,881,742
Payroll and employee related expenses	597,432	433,901
Utilities	4,057	6,322
Repairs and maintenance	222,560	195,718
Professional and contractual services	37,481	25,724
Other supplies and expenses	27,962	36,822
Administrative	518,870	586,916
In lieu of franchise	485,057	485,373
Bad debt	2,670	3,444
Depreciation and amortization	391,825	467,426
Total operating expenses	<u>9,057,481</u>	<u>9,123,388</u>
Operating income	<u>397,285</u>	<u>585,913</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	153,027	135,600
Impact fees	41,219	42,722
Gain on sale of assets	4,043	14,129
Changes in fair value of investments	19,910	88,430
Net non-operating revenue	<u>218,199</u>	<u>280,881</u>
Change in net position	615,484	866,794
NET POSITION, BEGINNING OF YEAR, RESTATED	<u>13,602,162</u>	<u>12,735,368</u>
NET POSITION, END OF YEAR	<u>\$ 14,217,646</u>	<u>\$ 13,602,162</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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Sale of water		
Residential	\$ 896,795	\$ 824,088
Commercial	186,559	115,872
Industrial	412,846	413,603
Municipal	9,268	8,612
Board of Public Works	3,012	1,586
Board of Public Works contra-account	(3,012)	(1,586)
Other	218,717	194,137
Total operating revenues	<u>1,724,185</u>	<u>1,556,312</u>
OPERATING EXPENSES		
Payroll and employee related expenses	523,805	392,894
Utilities	7,427	8,484
Repairs and maintenance	270,927	395,234
Professional and contractual services	20,883	27,226
Other supplies and expenses	67,003	67,749
Administrative	324,666	383,150
In lieu of franchise fee	82,225	68,219
Bad debt		50,343
Depreciation and amortization	298,974	306,272
Total operating expenses	<u>1,595,910</u>	<u>1,699,571</u>
Operating income (loss)	<u>128,275</u>	<u>(143,259)</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	126,987	84,395
Interest expense	(1,612)	(24,604)
Impact fees	135,321	87,600
Gain on sale of assets	6,512	8,746
Changes in fair value of investments	12,324	54,742
Grants	657,020	1,966
Capital projects pass-through revenue	52,605	24,734
Net non-operating revenues	<u>989,157</u>	<u>237,579</u>
Change in net position	1,117,432	94,320
NET POSITION, BEGINNING OF YEAR, RESTATED	<u>11,913,589</u>	<u>11,819,269</u>
NET POSITION, END OF YEAR	<u><u>\$ 13,031,021</u></u>	<u><u>\$ 11,913,589</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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Wastewater assessments		
Residential	\$ 2,102,579	\$ 2,065,824
Commercial	225,685	212,302
Industrial	338,884	349,177
Municipal	19,203	17,386
Board of Public Works	4,176	3,659
Board of Public Works contra-account	(4,176)	(3,659)
Other	13,224	12,940
Total operating revenues	<u>2,699,575</u>	<u>2,657,629</u>
OPERATING EXPENSES		
Payroll and employee related expenses	176,326	84,765
Utilities	18,778	7,630
Repairs and maintenance	184,708	94,011
Professional and contractual services	310,328	362,917
Other supplies and expenses	101,509	93,795
Administrative	299,544	343,020
In lieu of franchise	134,399	132,416
Bad debt		2,893
Depreciation and amortization	880,362	889,382
Total operating expenses	<u>2,105,954</u>	<u>2,010,829</u>
Operating income	<u>593,621</u>	<u>646,800</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	87,638	77,485
Interest expense	(196,573)	(204,161)
Impact fees	59,921	417,336
Gain on sale of assets	6,010	2,068
Changes in fair value of investments	11,377	50,532
Grants	131,902	62,130
Capital projects pass-through revenue	56,291	81,782
Net non-operating revenues	<u>156,566</u>	<u>487,172</u>
Change in net position	750,187	1,133,972
NET POSITION, BEGINNING OF YEAR, RESTATED	<u>18,688,920</u>	<u>17,554,948</u>
NET POSITION, END OF YEAR	<u><u>\$ 19,439,107</u></u>	<u><u>\$ 18,688,920</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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Stormwater assessments		
Residential	\$ 165,294	\$ 162,839
Commercial	16,910	16,232
Industrial	6,960	6,600
Municipal	1,560	1,670
Board of Public Works	850	760
Board of Public Works contra-account	(850)	(760)
Other	6,412	2,591
Total operating revenues	<u>197,136</u>	<u>189,932</u>
OPERATING EXPENSES		
Payroll and employee related expenses	38,797	10,088
Utilities	149	474
Repairs and maintenance	11,407	30,681
Professional and contractual services	6,425	8,031
Other supplies and expenses	4,064	5,413
Administrative	100,062	114,119
In lieu of franchise	9,526	9,405
Depreciation and amortization	46,585	49,190
Total operating expenses	<u>217,015</u>	<u>227,401</u>
Operating loss	<u>(19,879)</u>	<u>(37,469)</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	29,148	25,830
Impact fees	2,893	
Gain on sale of asset	2,004	2,692
Changes in fair value of investments	3,792	16,843
Grants		
Net non-operating revenues	<u>37,837</u>	<u>45,365</u>
Change in net position	17,958	7,896
NET POSITION, BEGINNING OF YEAR, RESTATED	<u>1,810,878</u>	<u>1,802,982</u>
NET POSITION, END OF YEAR	<u><u>\$ 1,828,836</u></u>	<u><u>\$ 1,810,878</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 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"), as of and for the year ended March 31, 2018, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated August 22, 2018.

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 of Public Works of the City of 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 significant deficiencies as items 18-01 through 18-02.

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
August 22, 2018

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

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED MARCH 31, 2018 AND 2017

Finding 18-01

Condition and cause – Notes receivable account balance are not being adequately maintained and recorded.

Criteria – Notes receivable balance should be billed in a timely manner and balances should be reduced as payments are received.

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

Recommendation – Management should implement practices for increased oversight over the billing and collection processes related to notes receivable balances.

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

Finding 18-02

Condition and cause – The accounts payable sub ledger did not reconcile to the general ledger as of year-end.

Criteria – The accounts payable sub ledger should be reconciled to the general ledger to properly safeguard the assets and ensure all liabilities are properly recorded.

Effect or Potential 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 quarterly. Subsequent payments should be recorded as of the date paid and not the date due.

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