

KENT COUNTY, DELAWARE



**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
Year Ended June 30, 2011**

KENT COUNTY, DELAWARE
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2011

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INDEPENDENT AUDITORS' REPORT

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March 13, 2012

Board of Commissioners
Kent County, Delaware
Dover, Delaware

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Kent County, Delaware ("Kent County"), as of and for the year ended June 30, 2011, which collectively comprise Kent County, Delaware's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Kent County, Delaware's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Kent County, Delaware, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable thereof, and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2012, on our consideration of Kent County, Delaware's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Commissioners
Kent County, Delaware

The Management's Discussion and Analysis on pages 3-11 and the pension and other post employment benefits funding progress and status on page 54 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kent County, Delaware's basic financial statements. The combining non-major governmental, proprietary and fiduciary fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP

**KENT COUNTY, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
JUNE 30, 2011**

The Levy Court Commissioners of Kent County, Delaware, are pleased to present to readers of the financial statements of Kent County this narrative overview and analysis of the financial activities of Kent County for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information furnished in the financial statements and notes to the financial statements.

Financial Highlights

Government-Wide

- The assets of the County exceeded its liabilities at the close of the fiscal year by \$172,398,149 (net assets), an increase of \$8,149,726 from the previous year.

Fund Level

- As of the close of the fiscal year, the County reported combined ending fund balances in governmental funds of \$42,930,466 an increase of \$3,300,344 from the previous year. Of the current ending fund balances, General Fund reported \$33,259,590 as unassigned, \$82,143 as nonspendable, \$454,000 as assigned, and \$22,877 as restricted of which \$22,677 was for recreational areas and \$200 was for APFO EMS. In the Capital Projects Fund, \$9,099,984 is reported as restricted and in the Other Governmental Funds \$11,872 is reported as restricted.

Long-Term Debt

At the end of the current fiscal year, the County had total bonded debt outstanding of \$50,582,818 an increase of \$23,714,416 from the previous year. All of the bonded debt is backed by the full faith and credit of the County government. Governmental activities report \$5,372,719 and business-type activities report \$45,210,099 of general obligation bonds.

The County maintains an Aaa rating from Moody's Investors Service for general obligation debt.

- Additional information on the County's long-term debt can be found in the notes to the financial statements.

Capital Assets. As of June 30, 2011, the County has invested \$141,717,250 net of accumulated depreciation, in a broad range of capital assets (see table below). Depreciation charges for Fiscal Year 2011 totaled \$6,233,409.

**Kent County's Capital Assets as of June 30, 2011 and 2010
(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 7,312,893	\$ 7,312,893	\$ 4,403,380	\$ 4,321,439	\$ 11,716,273	\$ 11,634,332
Construction in Progress	250,613	196,292	35,307,682	15,835,646	35,558,295	16,031,938
Site Improvements	3,923,750	4,145,102	1,459,014	1,730,405	5,382,764	5,875,507
Pipeline	-	-	37,980,638	36,659,274	37,980,638	36,659,274
Buildings	18,833,060	19,282,561	15,655,783	15,490,675	34,488,843	34,773,236
Equipment and Furniture	2,000,204	2,488,999	14,590,233	15,969,350	16,590,437	18,458,349
Total Capital Assets	\$ 32,320,520	\$ 33,425,847	\$ 109,396,730	\$ 90,006,789	\$ 141,717,250	\$ 123,432,636

Major capital asset events which continued through during the current fiscal year including current year expenditures for governmental activities included the following:

- Addition of \$26,173 for roof replacement at Manor House and addition of \$5,400 for a natural gas heat system in maintenance building both of which are located at Brecknock Park.
- Addition of \$4,280 for site improvement at entranceway at Kesselring Park.
- Addition of \$50,000 for playground equipment at Tidbury Park. This equipment was donated.
- Purchase of furniture and equipment to include two Public Safety vehicles for \$100,115, cardiac monitor for Public Safety for \$17,358, Sheriff vehicle for \$15,463, Cisco phone system for Sheriff for \$7,186, IBM AS400 Power 7 for \$18,824, Media Safe and two servers for \$5,500 and \$12,986 respectively for Information Technology.
- Construction in Progress significant components are comprised of Deeds Imaging System project for \$45,310, Public Safety parking lot expansion for \$4,902 and Brecknock Park fenced storage compound for \$3,802.

Major capital asset events which continued through the current fiscal year including current year expenses for business-type activities included the following:

- Completion of the main line repair on Rt. 13 at L&D Suzuki totaling \$375,722.
- Completion of the second half of the Meadowbrook sewer extension in the amount of \$903,317.
- Completion of the Brookdale sewer extension in the amount of \$1,987,797.
- Completion of the elevated water storage tank project at the Wastewater Treatment Plant in the amount of \$345,145. Purchase of a 2010 International 7444 sewer Vac Con Truck in the amount of \$315,437.
- Donated assets for FY11 totaled approximately \$330,806, and included pump station 21E, Tower Hill Estates in Felton for \$305,112, fence at PS4-Rising Sun for \$12,550, and 2005 Ford F150 for \$13,144.
- The remaining capital assets of approximately \$481,222 were comprised of several minor pipeline and pump station repairs.
- Construction in Progress' significant components is comprised of the sewer extensions for Hartly and Kitts Hummock, and the upgrade and addition of sewer lines for the Southern Bypass, Little Heaven Bypass, and Central Enhancement projects. Also included in construction in progress are the TMDL compliance project, and the ultraviolet disinfection project, the passive and PV solar project, HVAC upgrade in the administration building and the Treatment Plant capacity expansion project all at the wastewater treatment plant.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Kent County Levy Court's basic financial statements. The County's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of Kent County's finances, in a manner similar to a private-sector business.

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

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

- **Governmental Activities** – Most of the County's basic services are reported in this category. Taxes and intergovernmental revenues generally support these services. Services provided include general administration, special grants and programs, community services, planning services, public safety, tax collections, economic development, and constitutional row offices that provide the following services: recordation of deeds and wills, marriage licenses and ceremonies, internal audit, and sheriff sales.
- **Business-Type Activities** – The County charges fees to customers to help cover all or most of the cost of certain services it provides. The County provides sewer, street light, and trash collection services.

Fund Financial Statements. The fund financial statements provide detailed information about the major individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the County uses to keep track of specific sources of funding and spending for a particular purpose. In addition to the major funds, statements for non-major funds can be found as supplementary statements following the financial statement notes. All of the funds of the County can be divided into three categories: governmental, proprietary, and fiduciary.

- **Governmental Funds** – Most of the County's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending. The governmental fund financial statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, reconciliations are provided to reconcile between the Governmental Funds Balance Sheet and the Statement of Net Assets and between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Statement of Activities. These funds are reported using modified accrual accounting, which primarily measures cash and other financial assets usable in the short-term. Governmental funds include the General Fund, Special Revenue and Capital Project funds.
- **Proprietary Funds** – When the County charges for the services it provides, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting, the same method used by private-sector businesses. Enterprise funds report activities that provide supplies and services to the general public – sewer, street light, and trash services. Internal service fund reports activities that provide service for the County's health insurance fund. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.
- **Fiduciary Funds** – The County acts as a fiduciary to account for resources held for the benefit of parties outside the government. The County has an agency fund to collect and remit property taxes to various government agencies and pension funds comprised of the pension benefit fund and the OPEB (other post employment benefits) fund. These funds are reported in a separate Statement of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These funds are reported using accrual accounting. The government-wide statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and do not represent assets available to the County to finance its operations.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. Other information includes combining financial statements for non-major governmental funds, non-major proprietary funds, and fiduciary funds. These funds are added together, by fund type, and presented in single columns in the basic financial statements but unlike major funds are not reported individually on the governmental fund financial statements and on the proprietary fund financial statements.

Financial Analysis of the Government as a Whole

Net Assets. A year-to-year comparison of net assets is as follows:

Kent County's Net Assets as of June 30, 2011 and 2010

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Current and Other Assets	\$ 59,174,526	\$ 56,358,967	\$ 43,572,633	\$ 33,561,480	\$ 102,747,159	\$ 89,920,447
Capital Assets	32,320,520	33,425,847	109,396,730	90,006,789	141,717,250	123,432,636
Total Assets	91,495,046	89,784,814	152,969,363	123,568,269	244,464,409	213,353,083
Long-Term Liabilities	6,045,091	6,100,004	43,827,200	20,776,708	49,872,291	26,876,712
Other Liabilities	13,959,677	14,464,351	8,234,292	7,763,597	22,193,969	22,227,948
Total Liabilities	20,004,768	20,564,355	52,061,492	28,540,305	72,066,260	49,104,660
Net Assets:						
Invested in Capital Assets, net of Related Debt	27,059,292	28,024,547	64,425,631	68,925,330	91,484,923	96,949,877
Restricted	22,877	22,634	18,752,358	16,944,660	18,775,235	16,967,294
Unrestricted	44,408,109	41,173,278	17,729,882	9,157,974	62,137,991	50,331,252
Total Net Assets	\$ 71,490,278	\$ 69,220,459	\$ 100,907,871	\$ 95,027,964	\$ 172,398,149	\$ 164,248,423

The largest components of the County's current and other assets (\$102,747,159) are cash and investments totaling \$77,659,630 of which \$25,355,812 is reported as restricted assets in the Sewer Fund. Of the total long-term liabilities (\$49,872,291), bonds payable net of deferred charges accounts for \$48,745,318. Deferred revenue totaling \$14,837,615, accounts payables totaling \$1,871,533, and due to other governments totaling \$1,908,025 are the largest components in other liabilities (\$22,193,969).

Kent County's Changes in Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
REVENUES						
Program Revenues:						
Charges for Services	\$ 7,776,123	\$ 6,477,940	\$ 17,554,807	\$ 19,015,515	\$ 25,330,930	\$ 25,493,455
Operating Grants and Contributions	3,508,723	4,193,344	-	122,495	3,508,723	4,315,839
Capital Grants and Contributions	32,992	977,603	7,164,748	5,799,309	7,197,740	6,776,912
General Revenues:						
Property Taxes	10,704,349	10,588,984	-	-	10,704,349	10,588,984
Real Estate Transfer Tax	2,605,293	2,788,504	-	-	2,605,293	2,788,504
Residential Telephone Surcharge	326,606	257,270	-	-	326,606	257,270
Investment Earnings	137,384	196,105	61,950	85,834	199,334	281,939
Other Revenue and Gains (Losses)	471,596	280,872	(11,064)	14,085	460,532	294,957
Total Revenues	25,563,066	25,760,622	24,770,441	25,037,238	50,333,507	50,797,860
EXPENSES						
General Government	1,840,974	1,973,802	-	-	1,840,974	1,973,802
Special Grants/Programs	1,692,586	1,927,973	-	-	1,692,586	1,927,973
Community Services	3,368,496	3,564,687	-	-	3,368,496	3,564,687
Planning Services	6,208,631	6,822,174	-	-	6,208,631	6,822,174
Public Safety	7,453,153	7,526,098	-	-	7,453,153	7,526,098
Row Offices	2,439,171	2,546,828	-	-	2,439,171	2,546,828
Economic Development	38,589	107,009	-	-	38,589	107,009
Debt Service	251,647	256,288	-	-	251,647	256,288
Sewer	-	-	14,989,176	14,641,829	14,989,176	14,641,829
Street Light	-	-	776,486	705,241	776,486	705,241
Trash	-	-	3,085,820	2,459,084	3,085,820	2,459,084
Landfill	-	-	39,052	39,483	39,052	39,483
Total Expenses	23,293,247	24,724,859	18,890,534	17,845,637	42,183,781	42,570,496
Increase in Net Assets	\$ 2,269,819	\$ 1,035,763	\$ 5,879,907	\$ 7,191,601	\$ 8,149,726	\$ 8,227,364

Changes in Net Assets. A year-to-year comparison of changes in net assets is as follows:

The County's combined changes in net assets increased \$8,149,726 over the course of this fiscal year's operations. The net changes in net assets of the governmental funds increased \$2,269,819. This increase in net assets was 119.14% higher than the increase in net assets in FY10. The increase in net assets in Fiscal Year 2011 over FY10 was a result of expenditures being 5.79% lower in FY2011 as compared to FY2010. In FY11 revenues related to real estate and land use related activity continued to track downward. Real estate transfer tax was down 6.8% from FY10 and inspection fees were down 20.68% from the prior fiscal year. The sheriff fees were up 101.6% in FY11 as compared to FY10 which helped offset the fees that were down.

The net assets of the County's enterprise funds increased by \$5,879,907. This increase in net assets was 18.24% lower than the increase in net assets in FY10. This decrease of \$1,311,694 was primarily a result of a decrease in revenue for the sewer fund as the flows were more normal in comparison to exceedingly high flows in FY10.

Financial Analysis of the County's Funds

Governmental Funds

General Fund – Comparison to Prior Year. The General Fund is the chief operating fund of the County. At the end of the current fiscal year, General Fund reported \$33,259,590 as unassigned, \$82,143 as nonspendable, \$454,000 as assigned, and \$22,877 as restricted of which \$22,677 was for recreational areas and \$200 was for APFO EMS..

Overall revenue increased \$1,437,378 from Fiscal Year 2010 to Fiscal Year 2011. Property tax revenue increased \$189,850 in FY2011 due to a small amount of growth in the tax assessment rolls and an increase in collection of delinquent taxes. Fees for services increased \$1,410,654 primarily as a result of an increase in Sheriff fees related to foreclosures. Grant revenue decreased \$53,027 as a result in reduced grant funding. Interest and dividends decreased \$53,553 because of the low interest rates. Real estate transfer taxes decreased \$183,211 due to the decline in the housing market and, telephone surcharge for emergency dispatch increased \$69,336 but that was mainly due to a timing issue regarding the distribution of the fees. Other revenue increased \$57,329 over 2010.

General Fund expenditures decreased \$768,659 in FY2011 when compared to FY2010. All Departments and Programs except General Government had less expenditures in FY 2011. This was a result of very tight constraints on expenditures. There was a hiring freeze during FY2011 and the employees did not receive any pay increases or promotions for the most part. The increase of \$16,278 in General Government was primarily due to a significant increase in public entity management insurance.

General Fund – Comparison to Budget. Overall revenue collections were higher than the final budget by 9.58%. Property taxes exceeded the final budget by \$143,878 an increase of 1.37%. Real estate transfer tax came in under the final budget by \$394,707 a decrease of 13.16%. Telephone surcharge for emergency dispatch came in over the final budget by \$86,606, an increase of 36.09%. Grants came in under budget by \$81,257 a decrease of 4.77%. Fees for services exceeded the final budget by \$2,256,538 an increase of 41.78%. Interest and dividends were under the final budget by \$23,944 a decrease of 15.96%. Other revenue exceeded the final budget by \$47,572 an increase of 19.80%.

Overall, operating expenditures were under budget by 7.93% primarily due to strict cost controls imposed on County wide spending. Community Services were under the final budget by 9.29%. General Government was 17.40% under the final budget; Special Grants and Programs were 5.26% under the final budget; Planning Services were 3.35% under the final budget; Public Safety and Row Offices were 3.73% and 3.87% under final budget respectively.

Kent County's General Fund Budget to Actual Comparison

	Original Budget	Final Budget	2011 Actual	Variance with Final Budget - Positive (Negative)
REVENUES				
Property Taxes	\$ 10,492,300	\$ 10,492,300	\$ 10,636,178	\$ 143,878
Real Estate Transfer Tax	3,000,000	3,000,000	2,605,293	(394,707)
Telephone Surcharge	240,000	240,000	326,606	86,606
Grants	1,671,400	1,703,042	1,621,785	(81,257)
Fees for Services	5,400,900	5,400,900	7,657,438	2,256,538
Interest and Dividends	150,000	150,000	126,056	(23,944)
Rental Income	23,200	23,200	23,186	(14)
Other Revenues	197,200	240,295	287,867	47,572
Total Revenues	21,175,000	21,249,737	23,284,409	2,034,672
EXPENDITURES				
General Government	1,227,500	1,465,137	1,210,184	254,953
Special Grants and Programs	1,721,400	1,786,480	1,692,586	93,894
Community Services	3,219,900	3,300,174	2,993,561	306,613
Planning Services	3,938,700	3,962,897	3,830,079	132,818
Public Safety	7,214,700	7,223,111	6,953,792	269,319
Row Offices	2,437,400	2,475,984	2,380,268	95,716
Contingency	780,600	521,461		521,461
Debt Service				
Principal	145,100	145,100	145,140	(40)
Interest	248,200	248,200	248,151	49
Total Expenditures	20,933,500	21,128,544	19,453,761	1,674,783
Excess of Revenues Over Expenditures	241,500	121,193	3,830,648	3,709,455
OTHER FINANCING SOURCES (USES)				
Operating Transfer In	225,000	249,004	249,004	-
Operating Transfer Out	(466,500)	(1,469,700)	(1,445,999)	23,701
Appropriated Fund Balance	-	1,099,503	-	(1,099,503)
Total Other Financing (Uses)	(241,500)	(121,193)	(1,196,995)	(1,075,802)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING (USES)				
	\$ -	\$ -	\$ 2,633,653	\$ 2,633,653

Capital Projects Fund. The revenue for this fund was down \$1,086,328 from Fiscal Year 2010 to Fiscal Year 2011. This decrease in revenue was primarily due to a strong decline in grant revenue from \$977,603 in FY 2010 to \$32,992 in FY 2011. Overall the expenditures decreased by \$4,247,966 from Fiscal Year 2010 to Fiscal Year 2011. Capital outlay was \$4,357,481 in Fiscal Year 2010 as opposed to \$44,557 in Fiscal Year 2011, a decrease of \$4,312,924. There were no major expenditures during Fiscal Year 2011 as compared to the purchase of a Library and 53.75 acres of the Kesselring property in FY 2010.

Community Development Block Grant. The revenue for this fund in Fiscal Year 2011 was \$2,062,716 a decrease of \$471,586 over Fiscal Year 2010. The expenditures were \$2,338,215 a decrease of \$468,535 over Fiscal Year 2010. At the end of Fiscal Year 2009, the County was awarded \$2,500,000 grant funding for the Neighborhood Stabilization Program (NSP). This program was established by the federal government for the purpose of stabilizing communities that have suffered from foreclosures and abandonment. During Fiscal Year 2011, there was \$785,646 spent in relation to this grant as compared to \$1,581,777 in FY2010.

Non-Major Governmental Funds. The non-major funds consist of one special revenue fund – Farmer's Home Administration Grant and one capital project fund-Aeropark. Farmer's Home Administration Grant continues to be funded at \$25,000. Aeropark expenditures continue to decline because there are no major projects moving forward.

Proprietary Funds

Sewer Fund. This fund experienced an operating income of \$50,800. Operating revenue was \$1,567,262 lower in Fiscal Year 2011 than in Fiscal Year 2010. User fee revenue was \$1,603,203 lower in Fiscal Year 2011. This was a direct result of contract user flow revenue tracking at a normal rate as compared to FY 2010 when there was a significant increase in contract user flow revenue due to the extreme weather conditions in Fiscal Year 2010. Sewer permits, operating grants, and other revenue were \$35,941 higher in FY 2011 as compared to Fiscal Year 2010. Operating expenses were \$74,679 higher in Fiscal Year 2011 than Fiscal Year 2010. This increase in operating expenses is primarily attributed to the net result between an increase of \$134,073 in contractual, \$135,892 in operational insurance and indirect costs, an increase of \$145,357 in depreciation expense, a decrease of \$163,373 in maintenance, parts, and supplies, and a decrease of \$191,536 in utilities.

Trash Fund. The Trash Fund, another major enterprise fund, has the primary function of trash collection. This fund experienced an operating loss of \$435,184 in Fiscal Year 2011. Revenues increased by \$76,119 from Fiscal Year 2010 to Fiscal Year 2011. These increases are directly related to the addition of new trash customers and trash districts primarily as a result of the addition of new subdivisions. Expenses increased by \$626,736 from Fiscal Year 2010 to Fiscal Year 2011. This was directly related to the increase in service provided and the purchase of approximately \$517,595 for County-owned trash cans and an increase in the garbage collection contract for the addition of yard waste pickup which began in April 2011.

Non-Major Enterprise Funds. The non-major enterprise funds consist of the Street Light Fund and Landfill Fund. The landfill fund has not actively provided waste material disposal service since the 1970's. Costs associated with the Landfill Fund consist mainly of site monitoring costs and related legal expenses. These expenses went down \$431 in Fiscal Year 2011. The Street Light Fund had operating income of \$17,350 in FY2011. Revenues and expenses have increased for the Street Light Fund from Fiscal Year 2010 to Fiscal Year 2011. These increases are directly related to the addition of new customers and subdivisions. The annual bill per street light customer remained equal to FY2010 for most customers.

Internal Service Fund. The internal service fund - Medical Trust Fund – had an operating loss of \$1,193 in Fiscal Year 2011. This indicates that revenues basically matched expenses.

General Fund Budgetary Highlights

The County adopted its Fiscal Year 2011 budget on April 27, 2010, and amended it to meet operational needs during the year. The County's practice is to a) amend budgeted revenue only for grants and special programs or new revenue streams and b) amend budgeted expenditures primarily to approve new spending authority.

The final budget contained \$21,249,737 of revenues, \$249,004 of other financing sources, and \$1,099,503 of appropriated fund balance; \$21,128,544 of expenditures and \$1,469,700 of other financing uses. The actual results were revenues \$2,034,672 above budget and expenditures \$1,674,783 below budget.

Economic Factors and Next Year's Budget Rates

The significant economic sectors to the County are (1) state and local government, (2) federal government and military, (3) service related industries, (4) manufacturing and (5) agriculture. The prominent role of government and the military is related to the location of the State Capital and a major military base within the borders of the County. Economic projections utilized as a basis for the County's Master Development Plan show a continuation of the trend toward governmental, manufacturing, and service activities. Kent County's unemployment rate in June 2011 was 8.5% which was .3% lower than the unemployment rate in June 2010 which was 8.8%. Per capita income has leveled out.

During Fiscal Year 2011 the County continued to be on the receiving end of the impact of the slow down in growth from the housing market and the decline in interest rates. The General Fund costs were held tight to match the decline in revenue. Although revenue was \$1,437,378 higher in Fiscal Year 2011 than Fiscal Year 2010 it was a direct result of the significant increase in sheriff fees and a 1% employee contribution to pension. During Fiscal Year 2011 the County continued with the two extra major expenditures passed from the State. The State reduced the Paramedic Grant from 40% match to 30% match an impact of approximately \$362,400. The other additional cost passed to the County from the State was Dog Control, an impact of approximately \$809,000. The tax rate increase was a direct result of the loss of grant revenue and the additional expenditure of dog control. During Fiscal Year 2011 the General Fund expenditures decreased by \$768,659 in comparison to Fiscal Year 2010. This was a direct result of very significant cost constraints imposed by the County government.

When adopting the General Fund budget for Fiscal Year 2012, the County continued to keep a tight hold on the expenditures. There was a 1.8% pay increase and career ladder promotions were budgeted. With the continued success of the County's strict purchasing policy and minimization of growth in staffing the County was able to reduce the tax rate by \$.01 for Fiscal Year 2012.

Requests for Information

The financial report is designed to provide a general overview of Kent County Levy Court's finances to the citizens of Kent County, Delaware and other users of such data. Requests for additional copies of this report, questions concerning any of the information in this report, and requests for additional financial information should be addressed to Susan Durham, Director of Finance, and 555 Bay Road, Dover, DE 19901. The Director of Finance can also be contacted via email at susan.durham@co.kent.de.us. Kent County's website address is www.co.kent.de.us.

KENT COUNTY, DELAWARE

STATEMENT OF NET ASSETS
JUNE 30, 2011

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Current Assets			
Cash and Investments	\$ 44,877,360	\$ 7,426,458	\$ 52,303,818
Receivables	11,785,399	6,636,996	18,422,395
Internal Balances	436,185	(436,185)	-
Due from Other Governments	684,997	3,583,984	4,268,981
Inventory	-	125,520	125,520
Prepaid Expenses and Other Assets	82,630	190,231	272,861
Non Current Assets			
Restricted Assets:			
Cash and Investments	-	25,355,812	25,355,812
Receivables	-	194,806	194,806
Capital Assets, Net			
Land	7,312,893	4,403,380	11,716,273
Construction in Progress	250,613	35,307,682	35,558,295
Land and Site Improvements	3,923,750	1,459,014	5,382,764
Pipeline	-	37,980,638	37,980,638
Buildings	18,833,060	15,655,783	34,488,843
Equipment and Furniture	2,000,204	14,590,233	16,590,437
Deferred Charges - Bond			
Issue Costs	70,692	154,132	224,824
Other Assets	1,237,263	340,879	1,578,142
Total Assets	91,495,046	152,969,363	244,464,409
LIABILITIES			
Current Liabilities			
Accounts Payable	332,285	1,539,248	1,871,533
Accrued Expenses	475,111	493,042	968,153
Due to Other Governments	1,908,025	-	1,908,025
Construction Retainage Payable	-	835,398	835,398
Deferred Revenue	11,045,406	3,792,209	14,837,615
Deferred Liabilities	14,454	-	14,454
Compensated Absences	35,903	11,055	46,958
Bonds Payable, Net of Deferred Charges	148,493	1,563,340	1,711,833
Long Term Liabilities			
Compensated Absences	861,664	265,309	1,126,973
Bonds Payable, Net of Deferred Charges	5,183,427	43,561,891	48,745,318
Total Liabilities	20,004,768	52,061,492	72,066,260
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	27,059,292	64,425,631	91,484,923
Restricted for:			
Recreation Areas	22,677	-	22,677
APFO-EMS	200	-	200
Capital Projects - Equipment Replacement	-	328,620	328,620
Capital Projects - Expansion Sewer Facilities	-	18,423,738	18,423,738
Unrestricted	44,408,109	17,729,882	62,137,991
Total Net Assets	\$ 71,490,278	\$ 100,907,871	\$ 172,398,149

KENT COUNTY, DELAWARE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Grants and Contributions		Primary Government		Total
			Operating	Capital	Governmental Activities	Business-Type Activities	
Primary Government:							
Governmental Activities:							
General Government	\$ 1,840,974	\$ 108,312	\$ -	\$ -	\$ (1,732,662)	\$ -	\$ (1,732,662)
Special Grants/Programs	1,692,586	-	-	-	(1,692,586)	-	(1,692,586)
Community Services	3,368,496	349,117	191,348	-	(2,828,031)	-	(2,828,031)
Planning Services	6,208,631	1,376,389	1,896,939	-	(2,935,303)	-	(2,935,303)
Public Safety	7,453,153	95,535	1,420,436	32,992	(5,904,190)	-	(5,904,190)
Row Offices	2,439,171	5,828,393	-	-	3,389,222	-	3,389,222
Economic Development	38,589	18,377	-	-	(20,212)	-	(20,212)
Amortization	5,068	-	-	-	(5,068)	-	(5,068)
Interest on Long-Term Debt	246,579	-	-	-	(246,579)	-	(246,579)
Total Governmental Activities	23,293,247	7,776,123	3,508,723	32,992	(11,975,409)	-	(11,975,409)
Business-Type Activities:							
Sewer	14,989,176	14,110,335	-	7,164,748	-	6,285,907	6,285,907
Street Light	776,486	793,836	-	-	-	17,350	17,350
Trash	3,085,820	2,650,636	-	-	-	(435,184)	(435,184)
Landfill (Note I)	39,052	-	-	-	-	(39,052)	(39,052)
Total Business-Type Activities	18,890,534	17,554,807	-	7,164,748	-	5,829,021	5,829,021
Total Primary Government	\$ 42,183,781	\$ 25,330,930	\$ 3,508,723	\$ 7,197,740	(11,975,409)	5,829,021	(6,146,388)
General Revenues:							
Taxes:							
Property Taxes					10,704,349	-	10,704,349
Real Estate Transfer Tax					2,605,293	-	2,605,293
Residential Telephone Surcharge					326,606	-	326,606
Investment Earnings					137,384	61,950	199,334
Other Revenues including Capital Asset Sales Gains (Losses)					471,596	(11,064)	460,532
					<u>14,245,228</u>	<u>50,886</u>	<u>14,296,114</u>
					2,269,819	5,879,907	8,149,726
Net Assets At Beginning Of Year-Restated					<u>69,220,459</u>	<u>95,027,964</u>	<u>164,248,423</u>
Net Assets At End Of Year					<u>\$ 71,490,278</u>	<u>\$ 100,907,871</u>	<u>\$ 172,398,149</u>

KENT COUNTY, DELAWARE

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	General Fund	Capital Projects Fund	Community Development Block Grant	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Investments	\$ 36,209,806	\$ 8,009,605	\$ 345,640	\$ 34,722	\$ 44,599,773
Receivables					
Accounts	52,540	-	3,505	-	56,045
Taxes	11,688,591	-	-	-	11,688,591
Due From Other Funds	884,182	1,000,000	-	-	1,884,182
Due from Other Governments	390,309	126,237	157,381	11,070	684,997
Prepaid Expenses and Other Assets	82,143	-	-	-	82,143
Total Assets	\$ 49,307,571	\$ 9,135,842	\$ 506,526	\$ 45,792	\$ 58,995,731
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 278,719	\$ 35,856	\$ 9,812	\$ 1,569	\$ 325,956
Accrued Expenses	385,740	-	7,890	-	393,630
Due to Other Funds	1,265,612	2	400,947	32,351	1,698,912
Due to Other Governments	1,908,025	-	-	-	1,908,025
Deferred Revenue	11,636,411	-	87,877	-	11,724,288
Deferred Liabilities	14,454	-	-	-	14,454
Total Liabilities	15,488,961	35,858	506,526	33,920	16,065,265
Fund Balances:					
Nonspendable:					
Inventory	\$ 18,845	\$ -	\$ -	\$ -	\$ 18,845
Prepaid Expenses	63,298	-	-	-	63,298
Restricted:					
Capital Projects Funds	-	9,099,984	-	11,872	9,111,856
Recreational Areas	22,677	-	-	-	22,677
APFO-EMS	200	-	-	-	200
Assigned:					
Operating Needs	454,000	-	-	-	454,000
Unassigned	33,259,590	-	-	-	33,259,590
Total Fund Balances	33,818,610	9,099,984	-	11,872	42,930,466
Total Liabilities and Fund Balances	\$ 49,307,571	\$ 9,135,842	\$ 506,526	\$ 45,792	\$ 58,995,731

KENT COUNTY, DELAWARE

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

The Total Net Assets reported for governmental activities in the Statement of Net Assets is different because:

Total Fund Balances for Governmental Funds		\$ 42,930,466
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Capital assets net of accumulated depreciation as detailed in the footnotes are included in the Statement of Net Assets.		32,320,520
Accumulated difference between actual pension contributions expensed in governmental funds and the actuarially determined annual pension costs.		1,237,263
Internal service fund is used by management to manage health insurance costs including benefits provided by the County and dependent care paid for by the employees and retirees. The benefits provided by the County are allocated monthly to the individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets. The increase is equal to the internal service fund net assets.		563,423
Some of the County's taxes and other revenues will be collected after year-end, but are not available soon enough to pay the current year's expenditures and, therefore, are reported as deferred revenue in the funds.		
Property Taxes	\$ 678,882	678,882
Long-term liabilities applicable to the governmental activities are not due and payable in the current year and, accordingly are not reported as fund liabilities.		
Compensated Absences	\$ (897,567)	
Accrued Interest on Long Term Debt	(81,481)	
Deferred Charges - Bond Issuance Costs	70,692	
Bonds Payable	<u>(5,331,920)</u>	<u>(6,240,276)</u>
Total Net Assets of Governmental Activities		<u><u>\$ 71,490,278</u></u>

KENT COUNTY, DELAWARE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Capital Projects Fund	Community Development Block Grant	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property Taxes	\$ 10,636,178	\$ -	\$ -	\$ -	\$ 10,636,178
Real Estate Transfer Tax	2,605,293	-	-	-	2,605,293
Residential Telephone Surcharge	326,606	-	-	-	326,606
Grants	1,621,785	32,992	1,860,568	26,370	3,541,715
Fees For Services	7,657,438	-	-	-	7,657,438
Investment Income	126,056	11,225	-	51	137,332
Rental Income	23,186	-	-	-	23,186
Other Revenues	287,867	1,203	202,148	18,377	509,595
Total Revenues	23,284,409	45,420	2,062,716	44,798	25,437,343
EXPENDITURES					
Current:					
General Government	1,210,184	44,023	-	-	1,254,207
Special Grants and Programs	1,692,586	-	-	-	1,692,586
Community Services	2,993,561	8,451	-	-	3,002,012
Planning Services	3,830,079	-	2,338,215	26,370	6,194,664
Public Safety	6,953,792	109,972	-	-	7,063,764
Row Offices	2,380,268	73,061	-	-	2,453,329
Economic Development	-	10,000	-	28,589	38,589
Debt Service:					
Principal	145,140	-	-	-	145,140
Interest and Fiscal Charges	248,151	-	-	-	248,151
Capital Outlay	-	44,557	-	-	44,557
Total Expenditures	19,453,761	290,064	2,338,215	54,959	22,136,999
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,830,648	(244,644)	(275,499)	(10,161)	3,300,344
OTHER FINANCING SOURCES (USES)					
Transfers In	249,004	1,170,500	275,499	-	1,695,003
Transfers Out	(1,445,999)	(249,004)	-	-	(1,695,003)
Total Other Financing Sources (Uses)	(1,196,995)	921,496	275,499	-	-
Net Change in Fund Balances	2,633,653	676,852	-	(10,161)	3,300,344
Fund Balances At Beginning of Year	31,184,957	8,423,132	-	22,033	39,630,122
Fund Balances At End Of Year	\$ 33,818,610	\$ 9,099,984	\$ -	\$ 11,872	\$ 42,930,466

KENT COUNTY, DELAWARE

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Amounts reported for governmental activities in the Statement of Activities are different because:

Net Change in Fund Balances - Total Governmental Funds		\$ 3,300,344
<p>Governmental funds report capital outlays as expenditures. However in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the year ended June 30, 2011</p>		
Capital Outlays	\$ 317,605	
Depreciation	<u>(1,422,932)</u>	(1,105,327)
<p>The decrease in net pension asset resulting from contributions less than the annual pension cost is not a financial use at the governmental fund level and therefore is not reported in the governmental funds.</p>		
		(59,236)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. The following are the net changes in these non-current resources.</p>		
Property Taxes	<u>\$ 68,171</u>	68,171
<p>The repayment of principal is an expenditure in the governmental funds, but is a reduction to the liability in the Statement of Net Assets.</p>		
Principal - Bonds Payable	<u>\$ 145,140</u>	145,140
<p>Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. The following are the impact of the net changes in balances.</p>		
Compensated Absences	\$ (74,636)	
Accrued interest on long-term debt	<u>1,572</u>	(73,064)
<p>Deferred charges related to bonds is an expenditure in the governmental funds, but are assets and liabilities in the Statement of Net Assets and amortized over the life of the bond. Only the current year expenditure per the amortization schedules is recognized as an expense in the Statement of Activities.</p>		
Deferred Charges - Bond Issuance Costs	\$ (3,214)	
Deferred Charges - Bond Discount	<u>(1,854)</u>	(5,068)
<p>Internal service funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The net loss of the Internal Service Fund is reported with governmental activities.</p>		
		(1,141)
Change in Net Assets of Governmental Activities		<u>\$ 2,269,819</u>

KENT COUNTY, DELAWARE

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED
JUNE 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property Taxes	\$ 10,492,300	\$ 10,492,300	\$ 10,636,178	\$ 143,878
Real Estate Transfer Tax	3,000,000	3,000,000	2,605,293	(394,707)
Residential Telephone Surcharge	240,000	240,000	326,606	86,606
Grants	1,671,400	1,703,042	1,621,785	(81,257)
Fees For Services	5,400,900	5,400,900	7,657,438	2,256,538
Interest and Dividends	150,000	150,000	126,056	(23,944)
Rental Income	23,200	23,200	23,186	(14)
Other Revenues	197,200	240,295	287,867	47,572
Total Revenues	21,175,000	21,249,737	23,284,409	2,034,672
EXPENDITURES				
Current:				
General Government	1,227,500	1,465,137	1,210,184	254,953
Special Grants and Programs	1,721,400	1,786,480	1,692,586	93,894
Community Services	3,219,900	3,300,174	2,993,561	306,613
Planning Services	3,938,700	3,962,897	3,830,079	132,818
Public Safety	7,214,700	7,223,111	6,953,792	269,319
Row Offices	2,437,400	2,475,984	2,380,268	95,716
Contingency	780,600	521,461	-	521,461
Debt Service:				
Principal	145,100	145,100	145,140	(40)
Interest	248,200	248,200	248,151	49
Total Expenditures	20,933,500	21,128,544	19,453,761	1,674,783
Excess of Revenues Over Expenditures	241,500	121,193	3,830,648	3,709,455
OTHER FINANCING SOURCES (USES)				
Transfers In	225,000	249,004	249,004	-
Transfers out	(466,500)	(1,469,700)	(1,445,999)	23,701
Appropriated Fund Balance	-	1,099,503	-	(1,099,503)
Total Other Financing Sources (Uses)	(241,500)	(121,193)	(1,196,995)	(1,075,802)
Net Change in Fund Balance	\$ -	\$ -	2,633,653	\$ 2,633,653
Fund Balance at Beginning of Year			31,184,957	
Fund Balance at End of Year			\$ 33,818,610	

KENT COUNTY, DELAWARE

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 JUNE 30, 2011

	Business-Type Activities - Enterprise Funds				Governmental
	Sewer Fund	Trash Collection	Other Enterprise Funds	Total	Activities - Internal Service Fund
ASSETS					
Current Assets:					
Cash and Investments	\$ 5,856,679	\$ 359,316	\$ 1,210,463	\$ 7,426,458	\$ 277,587
Receivables					
Accounts	248,254	-	-	248,254	40,763
Fees and Services	2,500,480	3,021,214	867,048	6,388,742	-
Due from Other Funds	24,391	-	1,191	25,582	250,915
Due from Other Governments	3,583,984	-	-	3,583,984	-
Inventory	125,520	-	-	125,520	-
Prepaid Expenses and Other Assets	190,231	-	-	190,231	487
Total Current Assets	12,529,539	3,380,530	2,078,702	17,988,771	569,752
Non-Current Assets:					
Restricted Assets:					
Cash and Investments	25,355,812	-	-	25,355,812	-
Receivables					
Accounts	33	-	-	33	-
Interest	194,773	-	-	194,773	-
Capital Assets, Net					
Land	4,403,380	-	-	4,403,380	-
Construction in Progress	35,307,682	-	-	35,307,682	-
Land and Site Improvements	1,459,014	-	-	1,459,014	-
Pipeline	37,980,638	-	-	37,980,638	-
Buildings	15,655,783	-	-	15,655,783	-
Equipment and Furniture	14,590,233	-	-	14,590,233	-
Deferred Charges - Bond					
Issue Costs	154,132	-	-	154,132	-
Other Assets	340,879	-	-	340,879	-
Total Non-Current Assets	135,442,359	-	-	135,442,359	-
Total Assets	147,971,898	3,380,530	2,078,702	153,431,130	569,752
LIABILITIES					
Current Liabilities					
Accounts Payable	1,272,198	227,887	39,163	1,539,248	6,329
Accrued Expenses	493,042	-	-	493,042	-
Construction Retainage Payable	835,398	-	-	835,398	-
Due to Other Funds	423,430	22,508	15,829	461,767	-
Deferred Revenue	44,664	2,922,685	824,860	3,792,209	-
Compensated Absences	11,055	-	-	11,055	-
Bonds Payable	1,563,340	-	-	1,563,340	-
Total Current Liabilities	4,643,127	3,173,080	879,852	8,696,059	6,329
Non-Current Liabilities:					
Compensated Absences	265,309	-	-	265,309	-
Bonds Payable, Net of Deferred Charges	43,561,891	-	-	43,561,891	-
Total Non-Current Liabilities	43,827,200	-	-	43,827,200	-
Total Liabilities	48,470,327	3,173,080	879,852	52,523,259	6,329
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	64,425,631	-	-	64,425,631	-
Restricted for:					
Capital Projects - Equipment Replacement	328,620	-	-	328,620	-
Capital Projects - Expansion Sewer Facilities	18,423,738	-	-	18,423,738	-
Unrestricted	16,323,582	207,450	1,198,850	17,729,882	563,423
Total Net Assets	\$ 99,501,571	\$ 207,450	\$ 1,198,850	\$ 100,907,871	\$ 563,423

KENT COUNTY, DELAWARE

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2011

	Business-Type Activities - Enterprise Funds				Governmental
	Sewer Fund	Trash Collection	Other Enterprise Funds	Total	Activities - Internal Service Fund
OPERATING REVENUES					
Fees for Services	\$ 13,663,078	\$ 2,649,256	\$ 793,836	\$ 17,106,170	\$ -
Permits	112,031	-	-	112,031	-
Other Revenue	335,226	1,380	-	336,606	15
Employer Contributions	-	-	-	-	3,450,915
Employee Contributions	-	-	-	-	465,991
Total Operating Revenues	14,110,335	2,650,636	793,836	17,554,807	3,916,921
OPERATING EXPENSES					
Salaries and Benefits	4,365,420	73,011	32,853	4,471,284	-
Contractual Services	258,390	2,349,306	34,140	2,641,836	-
Travel	5,293	-	-	5,293	-
Utilities	1,752,827	-	660,734	2,413,561	-
Maintenance, Parts and Supplies	1,449,330	581,055	4,636	2,035,021	-
Vehicle Expense	169,549	3,235	914	173,698	-
Operating Insurance and Indirect Costs	1,234,070	77,616	82,261	1,393,947	-
Miscellaneous Expenses	14,179	1,597	-	15,776	-
Depreciation Expense	4,810,477	-	-	4,810,477	-
Medical Insurance Premiums	-	-	-	-	3,720,088
Medical Claims	-	-	-	-	168,078
Trustee Fee and Wire Charges	-	-	-	-	29,948
Total Operating Expenses	14,059,535	3,085,820	815,538	17,960,893	3,918,114
Operating Income (Loss)	50,800	(435,184)	(21,702)	(406,086)	(1,193)
NON-OPERATING REVENUES (EXPENSES)					
Interest and Dividends	57,839	1,823	2,288	61,950	52
Interest and Fiscal Charges	(918,596)	-	-	(918,596)	-
(Loss) on Retirement of Equipment	(11,064)	-	-	(11,064)	-
Amortization	(11,045)	-	-	(11,045)	-
Total Non-Operating Revenues (Expenses)	(882,866)	1,823	2,288	(878,755)	52
Net (Loss) before Contributions	(832,066)	(433,361)	(19,414)	(1,284,841)	(1,141)
Capital Contributions:					
Capital Grant	4,406,172	-	-	4,406,172	-
Donated Capital Assets	330,806	-	-	330,806	-
Impact Fees	2,408,127	-	-	2,408,127	-
Developers Aid In Construction	19,643	-	-	19,643	-
Change in Net Assets	6,332,682	(433,361)	(19,414)	5,879,907	(1,141)
Net Assets At Beginning Of Year-Restated	93,168,889	640,811	1,218,264	95,027,964	564,564
Net Assets At End Of Year	\$ 99,501,571	\$ 207,450	\$ 1,198,850	\$ 100,907,871	\$ 563,423

KENT COUNTY, DELAWARE

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2011

	Business-Type Activities - Enterprise Funds			Governmental
	Sewer Fund	Trash Collection	Other Enterprise Funds	Internal Service Fund
Cash Flows From Operating Activities:				
Receipts from Customers and Users	\$ 14,063,203	\$ 2,639,355	\$ 793,970	\$ 17,496,528
Payments to Suppliers	(5,248,151)	(2,889,255)	(704,126)	(8,841,532)
Payments to Employees	(4,332,799)	(148,281)	-	(4,481,080)
Internal Activity - payments to other funds	(1,419,230)	-	(114,638)	(1,533,868)
Net Cash Provided (Used) by Operating Activities	3,063,023	(398,181)	(24,794)	2,640,048
Cash Flows From Capital and Related Financing Activities:				
Proceeds from Capital Grant	5,471,926	-	-	5,471,926
Proceeds from Bonded Indebtedness	25,757,723	-	-	25,757,723
Acquisition and Construction of Capital Assets	(23,450,288)	-	-	(23,450,288)
Interest/Fiscal Charges Paid on Bonds	(700,614)	-	-	(700,614)
Retirement of Debt	(753,742)	-	-	(753,742)
Developers Aid In Construction	31,271	-	-	31,271
Impact Fees Collected	2,408,127	-	-	2,408,127
Net Cash Provided by Capital and Related Financing Activities	8,764,403	-	-	8,764,403
Cash Flows From Investing Activities:				
Proceeds From Matured Investments	38,459	-	-	38,459
Interest and Dividends	107,040	1,823	2,288	111,151
Net Cash Provided By Investing Activities	145,499	1,823	2,288	149,610
Net Increase (Decrease) In Cash and Cash Equivalents	11,972,925	(396,358)	(22,506)	11,554,061
Cash and Cash Equivalents At Beginning Of Year	18,824,084	755,674	1,232,969	20,812,727
Cash and Cash Equivalents At End Of Year	\$ 30,797,009	\$ 359,316	\$ 1,210,463	\$ 32,366,788
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets				
Statement of Net Assets				
Current Assets: Cash and Investments	\$ 5,856,679	\$ 359,316	\$ 1,210,463	\$ 7,426,458
Non Current Assets: Cash and Investments	25,355,812	-	-	25,355,812
Total Cash and Investments	31,212,491	359,316	1,210,463	32,782,270
Less: Long-term Investments	(415,482)	-	-	(415,482)
Cash and Cash Equivalents	\$ 30,797,009	\$ 359,316	\$ 1,210,463	\$ 32,366,788

KENT COUNTY, DELAWARE

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (Continued)
 FOR THE YEAR ENDED JUNE 30, 2011

	Business-Type Activities - Enterprise Funds			Total	Governmental Activities - Internal Service Fund
	Sewer Fund	Trash Collection	Other Enterprise Funds		
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss)	\$ 50,800	\$ (435,184)	\$ (21,702)	\$ (406,086)	\$ (1,193)
Adjustments to reconcile Operating Income to Net Cash provided (used) by Operating Activities:					
Depreciation	4,810,477	-	-	4,810,477	-
Change in Assets and Liabilities:					
(Increase) in Accounts Receivable	(102,162)	(342,958)	(54,805)	(499,925)	(36,455)
(Increase) Decrease in Due From Other Funds	11,651	-	(1,191)	10,460	(9,918)
Decrease in Operating Grants Receivable	11,135	-	-	11,135	-
(Increase) Decrease in Prepaid Expenses & Other Assets	(140,281)	-	-	(140,281)	1,420
Increase (Decrease) in Accounts Payable	(1,458,302)	45,938	(3,702)	(1,416,066)	4,716
Increase in Accrued Expenses	10,760	-	-	10,760	-
Increase in Compensated Absences	21,861	-	-	21,861	-
Increase (Decrease) in Deferred Revenue	32,244	331,677	56,130	420,051	(770)
Increase (Decrease) in Due To Other Funds	(185,160)	2,346	476	(182,338)	-
Net Cash Provided (Used) by Operating Activities	\$ 3,063,023	\$ (398,181)	\$ (24,794)	\$ 2,640,048	\$ (42,200)
Non-Cash Investing, Capital, and Financing Activities:					
Non-Cash Donated Capital Assets	\$ 330,806	\$ -	\$ -	\$ 330,806	\$ -

KENT COUNTY, DELAWARE

STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011

	<u>Pension Funds</u>	<u>Agency Fund</u>
ASSETS		
Restricted Assets:		
Cash and Short Term Investments	\$ 612	\$ 2,084,544
Receivables		
Interest	7,316	-
Investments	<u>36,963,286</u>	<u>-</u>
Total Assets	<u>36,971,214</u>	<u>\$ 2,084,544</u>
LIABILITIES		
Accounts Payable	41,019	\$ -
Due to Other Governments	-	822,714
Tax Sale Proceeds Payable	-	124,926
Deferred Liabilities	<u>-</u>	<u>1,136,904</u>
Total Liabilities	<u>41,019</u>	<u>\$ 2,084,544</u>
NET ASSETS		
Held in Trust for:		
Pension Benefits	<u>36,930,195</u>	
Total Net Assets	<u>\$ 36,930,195</u>	

KENT COUNTY, DELAWARE

STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Pension Funds</u>
ADDITIONS	
Employee Contributions	\$ 119,964
Employer Contributions	2,065,229
Interest and Dividends	381,518
Net Appreciation in Fair Value of Investments	<u>6,273,035</u>
Total Additions	<u>8,839,746</u>
DEDUCTIONS	
Pension Benefits	2,444,021
Administrative Expense	<u>179,558</u>
Total Deductions	<u>2,623,579</u>
Change In Net Assets	6,216,167
Net Assets - Beginning of Year	<u>30,714,028</u>
Net Assets - End of Year	<u>\$ 36,930,195</u>

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the County conform in all material respects to generally accepted accounting principles (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification). The County has adopted all GASB Statements through No. 62 as required. The following summarizes the County's significant accounting policies.

1. Financial Reporting Entity

Kent County Levy Court, the governing body of Kent County, Delaware, consists of seven elected commissioners and operates under the laws of the State of Delaware. The following significant services are provided by the County: community services, planning services, public safety, tax collections, sewer operations, street lights, trash collection, general administrative services and constitutional row offices which provide services that include issuing marriage and civil union licenses, recordation of deeds and wills, internal audit, and sheriff sales. The County does not have any component units.

2. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the County. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the last are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are aggregated and reported as non-major funds.

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**Government-Wide, Proprietary, and Fiduciary Fund Financial Statements**

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary and fiduciary fund statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items (non-exchange transactions) are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied. Agency funds report only assets and liabilities as they do not have a measurement focus, but do use the accrual basis of accounting.

Government Fund Financial Statements

The government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the period they become both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For governmental fund types, the County considers all revenues to be available if they are

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

collected within 60 days after fiscal year-end. Revenues considered susceptible to accrual include property taxes, interest and dividends and grants associated with the current fiscal year. All other revenue items are considered measurable and available only when cash is received by the County.

Expenditures are recorded when the related fund liability is incurred (upon receipt of goods or services), except for principal and interest on general long-term debt and compensated absences, which are recognized as expenditures to the extent they have matured. General capital assets acquisitions are reported as expenditures in governmental funds. Long-term debt and acquisitions under capital leases are reported as other financing sources.

The County reports the following major governmental funds:

The **General Fund** is the primary operating fund of the County. It accounts for all financial resources of the County except those resources required to be accounted for in another fund. The general tax revenues of the County, as well as other resources received and not designated for a specified purpose, are accounted for in the General Fund.

The **Capital Projects Fund** is used to account for financial resources to be used for the acquisition and construction, including construction period debt service, of major capital facilities or projects (other than those financed by Proprietary Funds).

The **Community Development Block Grant** program provides annual grants to finance housing rehabilitation, community facilities and public works improvements, which serve low to moderate-income persons in Kent County. These are federal funds allocated through the Delaware State Housing Authority.

The County reports the following major enterprise funds:

The **Sewer Fund** accounts for the sewage and wastewater service operations and is intended to be self-supporting through user charges. The Sewer Fund operates and maintains sewage collection and treatment systems.

The **Trash Collection Fund** accounts for the collection of garbage within garbage collection districts in Kent County as authorized by the State, under Title 9, Chapter 47, of the Delaware Code. The fund is intended to be self-supporting through user charges. Garbage collection fee rates are uniform for all districts and are based on the contractual cost of collection and a small administrative fee.

The County also reports the following funds:

The **Internal Service Fund** (proprietary type) is used to account for the financing of health and dental insurance provided by the County to other funds of the County on a cost-reimbursement basis. In addition, employee contributions to the health insurance plan and related expenses are accounted for within this fund.

The **Pension Funds** (fiduciary type) account for the activities of the Kent County Levy Court Pension Plan and OPEB (other post employment benefits) Plan which accumulates resources for pension benefit payments and other post employment benefits to qualified Kent County Levy Court employees and their beneficiaries.

The **Agency Fund** accounts for assets held by the County in a custodial capacity (assets equal liabilities) and does not present results of operations or have a measurement focus.

With limited exceptions, the effects of interfund activity have been eliminated from the government-wide financial statements. Exceptions include charges by one government function to another where services have been provided. Elimination of these charges would distort the direct costs and program revenues reported for the various functions.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. The sewer fund recognizes as operating revenues the portion of connection fees related to the cost to connect customers to the system. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

4. Assets, Liabilities and Net Assets or Equity**Cash and Cash Equivalents, Deposits, and Investments**

The County's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Separate bank deposits are maintained for each fund. The County also maintains an investments pool available for use by all funds. Deposits and investments are stated at fair value. Income earned by the investment pool is allocated to each fund in proportion to its contribution to the pool. Collateral for deposits in excess of FDIC Insurance are held at Citizens Bank, M&T Bank and WSFS (Wilmington Savings Fund Society).

The County is authorized by statute to invest in: 1) Certificates of Deposits from financial institutions which are insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, or, to the extent not insured, collateralized by U.S. government securities; 2) U.S. government securities; 3) Obligations issued or guaranteed by any agency controlled by or acting as an instrumentality of the United States of America; 4) Fully collateralized repurchase agreements; 5) U.S. Government securities mutual funds. These funds must invest exclusively in a portfolio of securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities and repurchase agreements with any member bank of the Federal Reserve System or primary dealer in U.S. Government Securities; 6) Investment portfolios in the State of Delaware Investment Pool.

During the fiscal year the County invested with the Merrill Lynch Government Fund, Citizens Bank Governmental Fund Investments, WSFS Bank, Janney Montgomery Scott, and DE Local Government OPEB Pool. These institutions invest funds in U.S. Government Securities, obligations issued or guaranteed by agencies controlled by or acting as an instrumentality of the United States, and Repurchase Agreements.

The Pension Fund is authorized by statute to invest in U.S. Treasury Bonds and Notes, corporate obligations and common stocks.

Receivables and Payables**Property taxes**

The County property tax year runs from June 1 – May 31. Tax rates are set in late April during the adoption of the annual budget. Taxes are due and payable by September 30. After the due date, interest is charged on the delinquent portion at one and one half percent per month. Property taxes on real estate become an enforceable lien on the property as of October 1 if unpaid.

The County bills and collects its own property taxes, and revenues are recognized in the government funds in the period in which they become susceptible to accrual, that is, when they become measurable and available. Outstanding tax levies are offset on the government fund balance sheet by deferred revenues in the liabilities section. Annual, interim and delinquent real estate taxes as yet uncollected are included as deferred revenue. The amounts expected to be collected within the first 60 days after the fiscal year ended June 30, 2011, are recorded as revenue. Delinquent taxes are considered fully collectible; and, therefore, no allowance for uncollectible taxes is provided.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Sewer charges, street light charges, and trash collection charges are recorded when billed.

Due to/from Other Funds which are recorded in the fund financial statements is the year-end outstanding balance of a variety of transactions among funds to finance operations, service debt and otherwise meet obligations as they become due.

Internal Balances are the residual balances outstanding between governmental activities and business-type activities as reported in the government-wide statements.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in, first-out (FIFO) method. Inventories of the Enterprise Fund consist of expendable supplies held for consumption, which are recorded as expenditures or expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Restricted Assets

Assets obtained from impact fees and sewer district equipment replacement (SDER) fees are classified as restricted assets on the statement of net assets because they are maintained in separate cash and investment accounts and their use is limited by ordinance. Impact fees and related investment income are restricted for projects that will increase capacity of the sewer facilities. SDER, sewer district equipment replacement, fee was discontinued after the June 15, 2005 quarterly billing. SDER is restricted for the purpose of replacing sewer equipment when it becomes worn or ineffective.

Capital Assets

Capital assets including property, plant, and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The County has defined capital assets as assets with a minimum cost of \$5,000 and an estimated useful life in excess of one year. Capital assets may be purchased or constructed and are recorded at cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Capital assets of the County are depreciated using the straight-line method over the estimated useful lives of the related assets. The County records three months', six months', nine months', or twelve months depreciation depending on acquisition date in the year the asset is acquired. The County generally uses the following estimated useful lives unless an asset's life has been adjusted based on actual experience:

<u>Asset Class</u>	<u>Years</u>
Land and Site Improvements	10 - 25
Pipeline	25 - 50
Buildings	20 - 50
Building Improvements	20
Carpeting	10
Vehicles, Equipment	4 - 10
Computer Software, Hardware	3 - 5
Emergency Equipment	10 - 20

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**Deferred Revenue**

Deferred revenue consists of revenues that have not met all requirements of revenue recognition. In the governmental fund financial statements and government-wide financial statements, deferred revenue primarily includes property taxes that are not available resources. Deferred items also consist of reimbursement-type grants where costs have not been incurred. In the enterprise funds (street light fund and trash fund), deferred revenue consists of service fees billed with the annual property tax billing for the subsequent fiscal year.

Compensated Absences

Compensated absences are those earned but unused absences for which employees will be paid, such as vacation and sick leave. Employees are granted vacation and sick leave in varying amounts. It is the County's policy to permit employees to accumulate up to six months of earned but unused sick leave and up to 30 days of vacation leave for hourly employees and 60 days for exempt employees. The County pays 50 percent of accumulated sick leave up to 45 days to those employees retiring. The accumulated sick leave liability is based on the amount that is expected to be paid out upon retirement.

For governmental activities, changes in vested or accumulated vacation leave and eligible sick leave are reported as an expenditure in the statement of activities. Vested or accumulated vacation leave that is expected to be liquidated within one year is reported as a current liability in the government-wide financial statements. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources within one year are reported in the government-wide financial statements as a long-term liability.

In the proprietary funds, vested or accumulated vacation leave and sick leave of those employees eligible to retire are recorded as an expense and liability of those funds as the benefits accrue to employees.

Long-Term Liabilities

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond deferred charges. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums, discounts, and bond issuance costs during the current financial period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets and Fund Balances

The difference between assets and liabilities is "Net Assets" on the government-wide, proprietary, and fiduciary fund statements and as "Fund Balance" on governmental fund statements. Net Assets are classified as "Invested in Capital Assets, Net of Related Debt," legally "Restricted" for a specific purpose or "Unrestricted".

As of June 30, 2011, fund balances of the governmental funds are classified, if applicable, as follows:

Nonspendable – amounts that cannot be spent because they are in nonspendable form (e.g., inventory) or legally or contractually required to be maintained intact (e.g., inventory and prepaid expenses).

Restricted – amounts limited by external parties or legislation (e.g., grants or donations and constraints imposed through a debt covenant).

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Committed – amounts limited by Levy Court policy (e.g. future anticipated costs). These constraints can be removed or changed by equal levels of action. Action or constraint resources should occur prior to fiscal year end.

Assigned – amounts that are intended for a particular purpose such as future benefits funding or segregation of an amount intended to be used at some time in the future.

Unassigned – amounts available for consumption or not restricted in any manner.

As of June 30, 2011, fund balances are composed of the following:

	General Fund	Capital Projects Fund	Community Development Block Grant	Other Governmental Funds	Total Governmental Funds
Nonspendable:					
Inventory	\$ 18,845	\$ -	\$ -	\$ -	\$ 18,845
Prepaid Expenses	63,298	-	-	-	63,298
Restricted:					
Capital Projects	-	9,099,984	-	11,872	9,111,856
Recreational	22,677	-	-	-	22,677
APFO-EMS	200	-	-	-	200
Assigned:					
Operating Needs	454,000	-	-	-	454,000
Unassigned	33,259,590	-	-	-	33,259,590
Total Fund Balances	\$ 33,818,610	\$ 9,099,984	\$ -	\$ 11,872	\$ 42,930,466

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the County considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned or unassigned fund balances are available, the County considers amounts to have been spent first out of committed funds, then assigned funds and, finally, unassigned funds, as needed, unless the Levy Court has provided otherwise in its commitment or assignment actions.

NOTE B – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

1. Budgetary Accounting and Control

The County follows these procedures in establishing the budgetary data reflected in the basic financial statements:

- a. Formal budgetary integration is employed as a management control device during the year for the Governmental Fund Types. These budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- b. As of November 1 of each year, County department and division heads are required to submit to the County Administrator preliminary operating budgets for the fiscal year commencing the following July 1. The operating budgets submitted include proposed expenditures and the means of financing them as well as narrative justification for increases of operating expenditures. Mission statements and goals and objectives are also submitted.
- c. The submitted budgets are then subjected to a detailed review by the budget review committee which consists of the County Administrator, the Finance Director, and the Budget Supervisor. This review process, which continues through January, includes meetings with the department and division heads making comparisons with prior years' spending patterns and forecasting future needs.
- d. On March 1 the County Administrator submits a budget to the Levy Court Commissioners entitled "The County Administrator's Proposed Budget."
- e. Throughout the month of March there are several public committee meetings for discussion of the proposed budget. As required by County Ordinance, the proposed budget is made available for public inspection for at least 14 days prior to the date of adoption, with adoption required by April 30. Simultaneous with the budget adoption, the tax rates for the next fiscal year are adopted.
- f. After the legal adoption of the budget, all supplemental budget appropriations are presented at the bi-weekly Commissioners' meetings for approval. The County's legal level of budgetary control is at the departmental level. Management may only make budget amendments within their respective departments in accordance with the County's budget amendment policies. All amendments above the departmental level, i.e., interdepartmental and functional, require the formal approval of the County Administrator and/or the County Commissioners. The original budget adopted for the fiscal year ended June 30, 2011, and the budget as revised for budget amendments during the year are presented as part of the budget versus actual schedules presented in these financial statements.
- g. Appropriations lapse at fiscal year end for all funds except the capital projects funds and special revenue funds with extended contract years. The County legally adopts project-length budgets for its capital projects funds, wherein appropriations automatically carry forward to the next fiscal year and are not subject to annual cancellation and reappropriation.

NOTE C – DEPOSITS AND INVESTMENTS

The County maintains separate bank accounts for each fund. There is an investment pool available for use by all funds. Each fund type's portion of the investment pool and their individual bank accounts are displayed on the combined balance sheet under the caption "Cash and Investments." Restricted cash and investments represents deposits and investments that are held by the County subject to specific grant or loan imposed restrictions or their use is limited by ordinance. The pension funds cash and investments are held separately.

The summary below identifies the investment type of the deposits and investments of the County.

<u>Deposits</u>	<u>Carrying Value</u>	<u>Bank Balance</u>
Insured Deposits	\$ 1,208,249	\$ 1,302,905
Uninsured Deposits - Collateral held by pledging financial institution or by its trust department or agent but not in the County's name	<u>48,242,755</u>	<u>48,661,815</u>
Total Deposits	<u>\$ 49,451,004</u>	<u>\$ 49,964,720</u>

<u>Investments</u>	<u>Market Value</u>
Money Market Mutual Funds	\$ 20,049,072
Certificates of Deposit	10,203,974
U.S. Agencies	9,200,215
U.S. Treasuries	203,535
U.S. Treasuries - Stripped	211,947
Corporate Stocks	<u>27,388,325</u>
Total Investments	<u>\$ 67,257,068</u>

Credit Risk

All money market funds have a Moody's rating of Aaa. A bank sponsored collateral pool for governmental entities is 102% collateralized with U.S. Treasury and federal agency securities. All bonds are pension plan assets and had a S&P rating of A or better at purchase.

Custodial Credit Risk - Deposits – Custodial credit risk is the risk that in the event of a failure of a depository financial institution, the County may be unable to recover deposits or recover collateral deposits that are in the possession of an outside party. All County deposits are required by law to be federally insured through the Federal Deposit Insurance Corporation (FDIC) or, to the extent not insured, collateralized by direct obligations of the United States of America as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 100 percent of the public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

NOTE C – DEPOSITS AND INVESTMENTS - CONTINUED

Custodial Credit Risk – Investments — Custodial credit risk for investments exists when in the event of the failure of the counterparty, the County will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The County does not have a formal policy for custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The County limits its interest rate risk by structuring the investment portfolio so that the securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. It is the County's policy to hold investments until maturity unless there is an economic reason to do otherwise. U.S. Treasury and U.S. Treasury – Stripped Investments are held by the Sewer Fund. As of June 30, 2011, the Sewer Fund had the following investments and maturities stated at fair value.

<u>Investments</u>	<u>Fair Value</u>	<u>Less Than One Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>
U.S. Treasuries	\$ 203,535	\$ 67,120	\$ 69,174	\$ 67,241
U.S. Treasuries Stripped	211,947	-	211,947	-
Total Investments	<u>\$ 415,482</u>	<u>\$ 67,120</u>	<u>\$ 281,121</u>	<u>\$ 67,241</u>

U.S. Agencies (government and other) investments are held by the pension plan in a commingled fund. The investment breakdown and maturities are not available.

Concentration of Credit Risk

In addition to the above disclosures, as of June 30, 2011 the pension plan did not have 5% or more of plan net assets invested in any one issuer. The pension plan investments consist of U.S. Agencies, mutual fund investments, and corporate bonds of which only the corporate bonds are included in the concentration of credit risk disclosure. The corporate bonds had a S&P rating of A or better at purchase.

As of June 30, 2011, the County had \$10,167,436 from its Retiree Benefits Fund invested with the Delaware Local Government Retirement Investment Pool (DERIP), see Note J. DERIP is an external investment pool operated by the Delaware Public Employees' Benefit System and participation in the pool is voluntary. The financial statements and further information on the investment pool can be obtained from the State Board of Pensions McArdle Building, 860 Silver Lake Blvd., Dover, Delaware 19904.

NOTE C – DEPOSITS AND INVESTMENTS - CONTINUED

The following provides a reconciliation between the amounts disclosed in the above footnote and the amounts presented in the Statement of Net Assets.

Deposits	\$ 49,282,813
Investments	67,257,068
Petty Cash Amounts	2,700
Cash on Hand	165,491
	<u>116,708,072</u>
Total	\$ 116,708,072
Unrestricted	\$ 52,303,818
Restricted	25,355,812
Fiduciary Funds	39,048,442
	<u>116,708,072</u>
Total Cash and Investments	\$ 116,708,072

NOTE D – CAPITAL ASSETS**1. Primary Government**

The capital asset activity for Governmental Activities for the year ended June 30, 2011 was as follows:

	<u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2011</u>
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated				
Land	\$ 7,312,893	\$ -	\$ -	\$ 7,312,893
Construction in Progress	196,292	54,321	-	250,613
Total Capital Assets Not Being Depreciated	<u>7,509,185</u>	<u>54,321</u>	<u>-</u>	<u>7,563,506</u>
Capital Assets Being Depreciated				
Site Improvements	4,986,098	4,280	-	4,990,378
Buildings	21,875,080	31,573	-	21,906,653
Equipment and Furniture	9,293,953	227,431	(166,697)	9,354,687
Total Capital Assets Being Depreciated	<u>36,155,131</u>	<u>263,284</u>	<u>(166,697)</u>	<u>36,251,718</u>
Less Accumulated Depreciation for:				
Site Improvements	840,996	225,632	-	1,066,628
Buildings	2,592,519	481,074	-	3,073,593
Equipment and Furniture	6,804,954	716,226	(166,697)	7,354,483
Total Accumulated Depreciation	<u>10,238,469</u>	<u>1,422,932</u>	<u>(166,697)</u>	<u>11,494,704</u>
Total Capital Assets Being Depreciated, Net	<u>25,916,662</u>	<u>(1,159,648)</u>	<u>-</u>	<u>24,757,014</u>
Governmental Activities Capital Assets, Net	<u>\$ 33,425,847</u>	<u>\$ (1,105,327)</u>	<u>\$ -</u>	<u>\$ 32,320,520</u>

NOTE D – CAPITAL ASSETS - CONTINUED

The capital asset activity for Business-Type Activities for the year ended June 30, 2011, was as follows:

	July 1, 2010	Increases	Decreases	June 30, 2011
Business-Type Activities:				
Capital Assets Not Being Depreciated				
Land	\$ 4,321,439	\$ 81,941	\$ -	\$ 4,403,380
Construction in Progress	15,835,646	23,254,221	(3,782,185)	35,307,682
Total Capital Assets Not Being Depreciated	<u>20,157,085</u>	<u>23,336,162</u>	<u>(3,782,185)</u>	<u>39,711,062</u>
Capital Assets Being Depreciated				
Site Improvements	5,921,029	15,491	-	5,936,520
Pipeline	67,358,799	2,887,237	-	70,246,036
Buildings	30,399,819	969,422	-	31,369,241
Equipment and Furniture	38,697,414	785,355	(26,033)	39,456,736
Total Capital Assets Being Depreciated	<u>142,377,061</u>	<u>4,657,505</u>	<u>(26,033)</u>	<u>147,008,533</u>
Less Accumulated Depreciation for:				
Site Improvements	4,190,624	286,882	-	4,477,506
Pipeline	30,699,525	1,565,873	-	32,265,398
Buildings	14,909,144	804,314	-	15,713,458
Equipment and Furniture	22,728,064	2,153,408	(14,969)	24,866,503
Total Accumulated Depreciation	<u>72,527,357</u>	<u>4,810,477</u>	<u>(14,969)</u>	<u>77,322,865</u>
Total Capital Assets Being Depreciated, Net	<u>69,849,704</u>	<u>(152,972)</u>	<u>(11,064)</u>	<u>69,685,668</u>
Business-Type Activities Capital Assets, Net	<u>\$ 90,006,789</u>	<u>\$ 23,183,190</u>	<u>\$ (3,793,249)</u>	<u>\$ 109,396,730</u>

Depreciation expense was charged to the following activities:

Governmental Activities:

General Government	\$ 542,580
Community Services	348,302
Planning Services	11,542
Public Safety	474,651
Row Offices	45,857

\$ 1,422,932

Business-Type Activities:

Sewer Fund	<u>\$ 4,810,477</u>
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NOTE E – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances arise primarily from the General Fund’s role as receiver, investor, and disbursing agent of cash. All payments arise from transactions that are short term. The composition of interfund balances as of June 30, 2011, was as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Capital Projects Fund	\$ 2
	CDBG	400,947
	Non-Major Governmental Funds	32,351
	Sewer Fund	422,239
	Trash Collection Fund	14,303
	Non-Major Proprietary Funds	14,340
Capital Projects Fund	General Fund	1,000,000
Sewer Fund	General Fund	14,697
	Trash Collection Fund	8,205
	Non-Major Proprietary Funds	1,489
Internal Service Fund	General Fund	250,915
	Non Major Proprietary Funds	1,191
Total		<u>\$ 2,160,679</u>

The Paying Fund is combined with the General Fund for reporting purposes and this amount is included as a due from and due to other funds within the General Fund.

Interfund transfers from the General Fund consist of operating transfers to fund projects in the Capital Projects Fund and to fund the County’s share of grant-funded, special revenue programs.

<u>Transfers Out</u>	<u>Transfers In</u>			<u>Total</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Community Development Block Grant</u>	
General Fund	\$ -	\$ 1,170,500	\$ 275,499	\$ 1,445,999
Capital Projects Fund	249,004	-	-	249,004
Total Interfund Transfers	<u>\$ 249,004</u>	<u>\$ 1,170,500</u>	<u>\$ 275,499</u>	<u>\$ 1,695,003</u>

NOTE F – LONG-TERM DEBT

1. Changes in Long-Term Liabilities

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due Within One Year
Governmental Activities:					
Bonds Payable	\$ 5,517,859	\$ -	\$ (145,140)	\$ 5,372,719	\$ 150,347
Less: Deferred Charges	(42,653)	-	1,854	(40,799)	(1,854)
Total Bonds Payable	5,475,206	-	(143,286)	5,331,920	148,493
Compensated Absences	822,931	74,636	-	897,567	35,903
Governmental Activity Long-Term Liability	<u>\$ 6,298,137</u>	<u>\$ 74,636</u>	<u>\$ (143,286)</u>	<u>\$ 6,229,487</u>	<u>\$ 184,396</u>
Business-Type Activities:					
Bonds Payable	\$ 21,350,543	\$ 24,613,297	\$ (753,742)	\$ 45,210,098	\$ 1,579,305
Less: Deferred Charges	(103,907)	-	19,040	(84,867)	(15,965)
Total Bonds Payable	21,246,636	24,613,297	(734,702)	45,125,231	1,563,340
Compensated Absences	254,503	21,861	-	276,364	11,055
Business-Type Activity Long-Term Liabilities	<u>\$ 21,501,139</u>	<u>\$ 24,635,158</u>	<u>\$ (734,702)</u>	<u>\$ 45,401,595</u>	<u>\$ 1,574,395</u>

The fund responsible for incurring the long-term liability pays the obligation. The primary governmental user is the General Fund and the primary Business-Type user is the Sewer Fund.

2. General Obligation Bonds

Kent County issues general obligation bonds to provide funds for the acquisition and construction of major capital assets. General obligation bonds have been issued for both governmental and business-type activities; they are direct obligations and pledge the full faith and credit of the government. These bonds are generally issued as 20 to 30 year serial bonds with varying amounts of principal due each year. There are certain limitations and restrictions contained in the various bond indentures including call provisions. The County is in compliance with the limitations and restrictions.

NOTE F –LONG-TERM DEBT – CONTINUED

The following is a summary of general obligation bonds outstanding at June 30, 2011:

<u>Date of Issue/ Maturity</u>	<u>Amount of Original Issue</u>	<u>Description</u>	<u>Interest Rates</u>	<u>Balance Outstanding June 30, 2011</u>
1981 August 2021	\$ 362,900	1981 Farmers Home Administration Bond, Sewer Fund-Dykes Branch District, Due in Annual Installments with Interest Due Semi-Annually	5.00%	\$ 169,792
1984 July 2024	273,700	1984 Farmers Home Administration Bond, Sewer Fund-Bowers District, Due in Annual Installments with Interest Due Semi-Annually	5.00%	154,441
1994 August 2034	132,700	1994 Farmers Home Administration Bond, Sewer Fund-Little Creek District, Due in Annual Installments with Interest Due Semi-Annually	4.50%	102,891
1996 September 2017	3,914,918	1996 Series, Delaware Water Pollution Control Revolving Fund General Obligation Note, Sewer Fund, Principal and Interest Due in Semi-Annual Installments	3.49%	1,540,090
2000 October 2021 March 2022	475,000	2000 Series, Delaware Water Pollution Control Revolving Fund General Obligation Note, Sewer Fund-Kenton \$375,000/NESSD \$100,000, Principal and Interest Due In Semi Annual Installments	1.50%	283,266
2001 June 2021	392,400	2001 Series, Delaware Water Pollution Control Revolving Fund General Obligation Note, Sewer Fund-Bowers, Principal and Interest Due in Semi-Annual Installments Beginning December 2006	3.00%	315,084
2003 September 2033	14,000,000	2003 Series General Obligation Bonds Sewer Fund-57.14%/General Fund-42.86%, Due in Annual Installments with Interest Due Semi-Annually	1.75%-4.85%	12,225,000
2004 April 2044	720,900	2004 USDA Rural Utilities Service Bond, Sewer Fund-Northeast Sewer District, Due in Quarterly Installments with Interest Due Quarterly	4.375%	666,152
2004 September 2020	4,225,000	2004 Series, General Obligation Bonds, Sewer Fund-95.5%/General Fund-4.5%, Due in Annual Installments with Interest Due Semi-Annually	3.50%-4.35%	2,775,000

NOTE F – LONG-TERM DEBT – CONTINUED

<u>Date of Issue/ Maturity</u>	<u>Amount of Original Issue</u>	<u>Description</u>	<u>Interest Rates</u>	<u>Balance Outstanding June 30, 2011</u>
2005 February 2049	3,500,000	Series 2005 21st Century Fund General Obligation Bond, Sewer Fund-Hartly Principal and Interest Due in Semi-Annual Installments Beginning February 2012 Cash Draws will be made periodically through December 2011.	1.20%	3,500,000
2009 April 2049	254,000	Series 2009A-RUS United States Dept. of Agriculture General Obligation Bond, Sewer Fund-Bakers Choice Principal and Interest Due in Quarterly Installments Beginning July 2009	4.125%	248,776
2009 April 2049	121,000	Series 2009B-RUS United States Dept. of Agriculture General Obligation Bond, Sewer Fund-Bakers Choice Principal and Interest Due in Quarterly Installments Beginning July 2009	4.25%	118,584
2010 September 2030	15,527,296	Series 2010-ARRA/SRF, Delaware Water Pollution Control Revolving Fund General Fund Obligation Note, Sewer Fund-Renewable Energy Project, Principal and Interest Due in Semi-Annual Installments Beginning March 2011	2.00%	15,527,296
2010 March 2050	1,000,000	Series 2010-RUS United States Dept. of Agriculture General Obligation Bond, Sewer Fund-Brookdale Heights and Hideaway Acres, Principal and Interest Due in Quarterly Installments Beginning June 2010	4.00%	987,028
2010 November 2050	3,900,000	Series 2010-RUS United States Dept. of Agriculture General Obligation Bond, Sewer Fund-Southern ByPass, Principal and Interest Due in Quarterly Installments Beginning November 2011	2.25%	2,102,687
2010 November 2050	2,289,935	Series 2010A-RUS United States Dept. of Agriculture General Obligation Bond, Sewer Fund-Kitts Hummock, Principal and Interest Due in Quarterly Installments Beginning November 2011	3.75%	2,284,278
2010 November 2050	110,065	Series 2010B-RUS United States Dept. of Agriculture General Obligation Bond, Sewer Fund-Kitts Hummock, Principal and Interest Due in Quarterly Installments Beginning November 2011	2.25%	50,000

NOTE F – LONG-TERM DEBT – CONTINUED

2010 December 2050	5,000,000	Series 2010A-RUS United States Dept. of Agriculture General Obligation Bond, Sewer Fund-WTP Expansion & Nutrient Rmvl Principal and Interest Due in Quarterly Installments Beginning March 2013	2.25%	500,303
2010 December 2050	6,442,000	Series 2010A-RUS United States Dept. of Agriculture General Obligation Bond, Sewer Fund-WTP Expansion & Nutrient Rmvl Principal and Interest Due in Quarterly Installments Beginning March 2013	2.25%	113,449
2010 December 2030	6,918,700	Series 2010-ARRA/SRF, Delaware Water Pollution Control Revolving Fund General Fund Obligation Note, Sewer Fund- WWTP Expansion & Nutrient Removal Principal and Interest Due in Semi-Annual Installments Beginning September 2011	3.61%	6,918,700
	Subtotal			50,582,817
Less;		Unamortized loss on advance refunding of 1991, 1994, and 1998 bond issues; unamortized bond discount on 2003 bond issues; and unamortized bond premiums on 2004 bond issues.		(125,666)
		Total Long-Term Debt		\$ 50,457,151

NOTE F – LONG-TERM DEBT – CONTINUED

The annual debt service requirements to maturity for principal and interest for bonds payable as of June 30, 2011, are as follows:

Year Ending June 30	General Obligation Bonds			
	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 150,347	\$ 243,148	\$ 1,579,305	\$ 1,385,629
2013	157,237	237,591	1,945,530	1,580,003
2014	161,523	231,585	2,274,388	1,499,637
2015	166,729	225,208	2,351,945	1,430,690
2016	175,762	218,366	2,066,903	1,366,244
2017-2021	986,598	973,679	10,365,637	5,928,512
2022-2026	1,131,504	733,172	10,278,578	4,466,928
2027-2031	1,414,380	427,591	10,872,647	2,904,577
2032-2036	1,028,640	76,497	4,549,718	1,672,177
2037-2041	-	-	3,564,082	1,161,616
2042-2046	-	-	3,949,397	698,067
2047-2051	-	-	3,605,792	205,915
Total	5,372,720	\$ 3,366,837	57,403,922	\$ 24,299,995
Less:				
Funds Not Drawn	-		(12,193,824)	
Total	\$ 5,372,720		\$ 45,210,098	

NOTE G – DEFERRED REVENUE

Deferred revenue consists of revenues that have not met all requirements of revenue recognition. In the governmental fund financial statements and in governmental activities in the government-wide financial statements, deferred revenue primarily includes property taxes that are levied to finance the subsequent fiscal year. Deferred items also consist of reimbursement-type grants where costs have not been incurred. In the enterprise funds (street light fund and trash fund), deferred revenue consists of service fees billed with the annual property tax billing.

The difference between the deferred revenue balances in the governmental fund financial statements and in governmental activities in the government-wide financial statements is a result of the governmental fund financial statements being reported on a modified accrual basis and the government-wide financial statements being reported on a full accrual basis.

NOTE G – DEFERRED REVENUE - CONTINUED

Deferred revenue as of year-end arising from the County’s major and non-major governmental funds is as follows:

	<u>Governmental Fund Financial Statements</u>				<u>Government- Wide Statements</u>
	<u>General</u>	<u>Capital Projects</u>	<u>Community Development Block Grant</u>	<u>Total</u>	<u>Governmental Activities</u>
Property Taxes	\$ 10,864,940	\$ -	\$ -	\$ 10,864,940	\$ 10,242,159
Library Taxes	727,643	-	-	727,643	671,681
Suburban Park Taxes	15,749	-	-	15,749	15,610
Grants	28,079	-	87,877	115,956	115,956
Total Deferred Revenue	\$ 11,636,411	\$ -	\$ 87,877	\$ 11,724,288	\$ 11,045,406

Deferred revenue as of year-end arising from the County’s major and non-major enterprise funds is as follows:

	<u>Enterprise Fund Financial Statements</u>				<u>Government- Wide Statements</u>
	<u>Sewer</u>	<u>Trash Collection</u>	<u>Non-Major Funds</u>	<u>Total</u>	<u>Business-Type Activities</u>
Fees for Services	\$ -	\$ 2,922,685	\$ 824,860	\$ 3,747,545	\$ 3,747,545
Mortgage Note	4,475	-	-	4,475	4,475
Trnsmsn Debt Refinance	33,680	-	-	33,680	33,680
Bid Bond	6,509	-	-	6,509	6,509
Total Deferred Revenue	\$ 44,664	\$ 2,922,685	\$ 824,860	\$ 3,792,209	\$ 3,792,209

NOTE H – CAPITAL IMPROVEMENT COMMITMENTS

The following is a summary of the significant capital improvement commitments of the County as of June 30, 2011:

Governmental Funds

<u>Project Name</u>	<u>Estimated Project Cost</u>	<u>Remaining Contract Commitments To Date</u>	<u>Costs Incurred To Date</u>
Deeds Imaging Project	\$ 120,308	\$ 74,998	\$ 45,310

The Capital Projects Fund has incurred costs in the amount of \$205,303 that were not under a formal construction commitment as of June 30, 2011.

Enterprise Funds

<u>Project Name</u>	<u>Estimated Project Cost</u>	<u>Remaining Contract Commitments To Date</u>	<u>Costs Incurred To Date</u>
Kitts Hummock	\$ 2,505,500	\$ 1,053,118	\$ 1,452,382
Hartly	2,460,713	211,038	2,249,675
TMDL	284,347	1,953	282,394
Ultraviolet Disinfection	2,383,627	170,799	2,212,828
Southern Bypass	610,558	252,112	358,446
General Labor & Equipment Contract	1,206,499	452,135	754,364
Passive Solar Project	1,668,660	166,866	1,501,794
PV Solar Project	7,872,500	417,375	7,455,125
HVAC System Conversion-TP Admn	465,000	144,554	320,446
	<u>\$ 19,457,404</u>	<u>\$ 2,869,950</u>	<u>\$ 16,587,454</u>

In addition, the Sewer Fund has incurred costs in the amount of \$18,720,228 that were not under a formal construction commitment as of June 30, 2011.

NOTE I – CONTINGENCIES AND COMMITMENTS**Contingencies**

In August 1990, the Environmental Protection Agency (EPA) placed the Houston Landfill site, which was operated by the County in the 1970s for the disposal of residential and commercial solid waste, on EPA's National Priorities List (NPL) pursuant to section 105 of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. § 9605. (The Houston Landfill has not actively provided waste material disposal service since the 1970's). The County appealed the listing of the site by the EPA on technical grounds. Despite the pendency of the appeal, the County along with six other potentially responsible parties (PRPs) entered into an administrative consent order with EPA in September 1991 to conduct a Remedial Investigation and Feasibility Study (RI/FS) for the purpose of examining the extent of contamination, if any, from the site. The other PRPs were Reichhold Chemicals, PPG Industries, DuPont, Eastern Waste Industries, Playtex and the United States Air Force.

NOTE I – CONTINGENCIES AND COMMITMENTS - CONTINUED

In May 1992, the U.S. Court of Appeals for the District of Columbia Circuit ruled that EPA had acted in an arbitrary and capricious manner in placing the Houston Landfill on the NPL. As a result, EPA advised the County in August 1992 that it did not intend to repropose the site to the NPL and released the County and the other PRPs from their obligations under the consent order.

In May 1993, the Delaware Department of Natural Resources and Environmental Control (DNREC) indicated its intent to address the site under the Delaware Hazardous Substance Cleanup Act (HSCA). The County and nine other PRPs (which now include Johnson Controls, General Metalcraft and the Delaware Department of Transportation) negotiated a judicial consent decree with DNREC requiring the PRPs to conduct a more limited RI/FS under HSCA. The RI/FS consent decree was executed in June 1994 and entered by the Superior Court in September 1994. The RI/FS has been completed and was submitted to DNREC in September 1996. As of June 30, 2011, the County had paid approximately \$250,000 to the Houston Landfill escrow account and had received a partial settlement payment from the Delaware Department of Transportation for \$85,453.

The RI/FS recommended continued monitoring of the site, the establishment of groundwater management zones, and deed restrictions but no active remediation. In June 1997, DNREC approved the RI/FS and issued a "Proposed Plan of Remedial Action for the Houston Landfill Site" which is consistent with the recommendations in RI/FS. A final plan consistent with the proposed plan was issued by DNREC on February 27, 1998. On April 28, 1998, the County and the other Respondents to the RI/FS Consent Decree filed a termination petition with DNREC requesting DNREC's concurrence that all requirements under the Consent Decree have been satisfied. DNREC's legal counsel has stated that the RI/FS Consent Decree should be dismissed and replaced with another Consent Decree that addresses monitoring and maintenance for the Houston Landfill site. On November 28, 1998, the Respondents submitted a draft monitoring and maintenance plan for the site to DNREC which was approved by DNREC on July 9, 1999. The Respondents conducted additional monitoring during 2009 and reached a tentative agreement with DNREC and among themselves about the monitoring and maintenance plan and a proposed memorandum of understanding under which the County would take over maintenance and monitoring responsibility for the site for 38 years, receive a lump sum payment of \$120,000 from the other Respondents and have the pending consent decree terminated.

Presently, it is anticipated that there will be sufficient funds in the Houston Landfill Fund to cover long term operation and maintenance costs. The Houston Landfill Conservation Coalition ("HLCC") escrow account will be turned over to the County once the amendment is approved by all coalition members.

The County is also a defendant in various lawsuits. Although the outcomes of these lawsuits are not presently determinable, it is the opinion of the County's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The County cannot determine the amount, if any, of claims that may be disallowed by the grantors, although the County expects such amounts, if any, to be immaterial.

NOTE J – PENSION TRUST FUND**1. Plan Description**

All full-time employees are eligible for coverage under the Kent County pension plan, a single-employer defined benefit pension plan established by ordinance of the Kent County Levy Court in accordance with state statutes. The County's financial report reflecting the pension plan financial activity may be obtained at the County's Administrative Offices during regular business hours.

NOTE J – PENSION TRUST FUND - CONTINUED

An actuarial valuation of the pension plan prepared by LECG, LLC, as of January 1, 2010, was based on the following membership data:

Active Employees	273
Retired	172
Disabled	0
Deferred Vested	100
Deferred Disabled	<u>1</u>
TOTAL	<u><u>546</u></u>

The plan provides pension benefits and death and disability benefits. Normal retirement is age 62; early retirement is after 30 years of service, or age 55 with 20 years of service, or age 60 with 15 years of service. Benefits vest after five years of service; or, at least three years of service and age plus service equals at least 50. For employees hired after June 29, 2010, benefits vest after eight years of service. For disability, the vested benefit is payable under the same years of service requirements as normal and early retirement with the period of disability being included in years of service. The death benefit is 50 percent of the deceased employee's vested accrued benefit at date of death payable when the deceased would first have been eligible to retire. The benefit is 2 percent of average compensation for each year of service (average compensation is compensation averaged over the three consecutive years of service which produces the highest average). For employees hired after December 21, 2010, the benefit is 1.85 percent of average compensation for each year of service.

Effective July 2009, employees are required to contribute one percent (1%) of their base salary to the plan, and employees hired after December 21, 2010 are required to contribute 3 percent (3%) of their base salary to the plan. Employees may make voluntary contributions of up to 10 percent of their annual salary.

The County's annual contribution to the pension plan is determined by an annual actuarial valuation. The contribution recommended in the actuarial valuation is budgeted for the next fiscal year following the date of the actuarial valuation.

2. Summary of Significant Accounting Policies and Plan Asset Matters

The Kent County Pension Fund financial statements are prepared on the accrual basis of accounting. Employer contributions are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investments in securities are presented at fair value. Fair value was determined from quotations for investments traded in active securities markets.

No investment in any one organization represents 5 percent or more of the net assets available for pension benefits.

There are no investments in, loans to, or leases with parties related to the pension plan.

3. Contributions Required and Contributions Made

Periodic employer contributions to the pension plan are determined on an actuarial basis using the frozen entry age actuarial cost method. Normal cost is funded on a current basis. The unfunded actuarial accrued liability is funded over a 30-year period. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the recommendations of the actuarial firm LECG, LLC. The funding strategy for normal cost and the unfunded actuarial accrued liability should provide sufficient resources to pay employee pension benefits on a timely basis.

Total contribution to the pension plan in fiscal year 2011 was \$1,554,217 of which \$119,964 was the employee contribution and \$1,434,253 was the employer contribution. This contribution was based on the January 1, 2010 actuarial valuation by LECG, LLC.

NOTE J – PENSION TRUST FUND - CONTINUED

Separate pension funds financial statements are presented below as required by GASB Statement No. 34.

KENT COUNTY DELAWARE

STATEMENT OF FIDUCIARY NET ASSETS
PENSION TRUST FUNDS

June 30, 2011

	<u>Pension Fund</u>	<u>Post Retiree Benefits Fund</u>
ASSETS		
Restricted Assets:		
Cash and Short Term Investments	\$ 612	\$ -
Receivables		
Interest	7,316	-
Investments	<u>26,795,850</u>	<u>10,167,436</u>
Total Assets	<u>26,803,778</u>	<u>10,167,436</u>
LIABILITIES		
Accounts Payable	<u>41,019</u>	<u>-</u>
Total Liabilities	<u>41,019</u>	<u>-</u>
NET ASSETS		
Held in Trust for:		
Pension Benefits	<u>26,762,759</u>	<u>10,167,436</u>
Total Net Assets	<u>\$ 26,762,759</u>	<u>\$ 10,167,436</u>

NOTE J – PENSION TRUST FUND – CONTINUED

KENT COUNTY DELAWARE

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Pension Fund</u>	<u>Post Retiree Benefits Fund</u>
ADDITIONS		
Employee Contribution	\$ 119,964	\$ -
Employer Contributions	1,434,253	630,976
Interest and Dividends	127,335	254,183
Net Appreciation in Fair Value of Investments	4,909,081	1,363,954
Total Additions	<u>6,590,633</u>	<u>2,249,113</u>
DEDUCTIONS		
Pension Benefits	1,857,410	586,611
Administrative Expense	174,690	4,868
Total Deductions	<u>2,032,100</u>	<u>591,479</u>
Change In Net Assets	4,558,533	1,657,634
Net Assets - Beginning of Year	<u>22,204,226</u>	<u>8,509,802</u>
Net Assets - End of Year	<u>\$ 26,762,759</u>	<u>\$ 10,167,436</u>

NOTE J – PENSION TRUST FUND - CONTINUED

Annual Pension Cost and Net Pension Obligation

The County's annual pension cost and net pension obligation as of January 1, 2010, the date of the actuarial valuation used for fiscal year 2011 annual contribution, is as follows.

Annual required contribution (ARC)	\$	1,539,554
Interest on net pension obligation		(132,296)
Adjustment to annual required contribution		<u>222,515</u>
Annual pension cost		1,629,773
Contribution made		<u>1,554,217</u>
Increase in net pension obligation		75,556
Net pension obligation at beginning of year		<u>(1,653,698)</u>
Net pension obligation (asset) at end of year	\$	<u><u>(1,578,142)</u></u>

Employer annual pension costs (APC), actual contributions and the net pension obligation (asset) (NPO) are as follows. The NPO (asset) is the cumulative difference between the annual required contribution (ARC) and the contributions actually made.

	For Fiscal Year	Amount
Annual Pension Cost (APC)	2009	\$ 1,301,283
	2010	2,223,174
	2011	1,629,773
Annual Required Contribution (ARC)	2009	1,221,003
	2010	2,133,498
	2011	1,539,554
Actual Contribution	2009	\$ 1,530,881
	2010	2,133,498
	2011	1,554,217
Percentage of APC Contributed	2009	117.64%
	2010	95.97%
	2011	95.36%
NPO (Asset)	2009	\$ (1,743,374)
	2010	(1,653,698)
	2011	(1,578,142)

NOTE J – PENSION TRUST FUND - CONTINUED

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Annual Required Contribution	Amount Contributed	Percent Contributed
2006	831,025	831,025	100.00%
2007	831,025	831,025	100.00%
2008	1,221,003	1,221,003	100.00%
2009	1,221,003	1,530,881	125.38%
2010	2,133,498	2,133,498	100.00%
2011	1,423,215	1,434,253	100.78%

The information presented in schedules above was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date:	January 1, 2010
Actuarial Cost Method:	Projected Unit Credit Actuarial Cost Method
Asset Valuation Method:	An actuarial value of assets is used. On each valuation date, the expected assets are determined by increasing the previous actuarial value of assets and the net receipts and disbursements at the valuation interest rate. This expected value is used but is limited to within 10% of the market value.
Form of Payment:	Life Annuity
Investment Rate of Return:	8% compounded annually
Projected Salary Increases:	3.5% per annum
Mortality Table:	RP-2000 Combine Healthy Table
Amortization Method:	Level Dollar Method, Closed
Amortization Period:	30 Years

NOTE K - OTHER POST-EMPLOYMENT BENEFITS

1. Plan Description

In addition to the pension benefits described in Note J, the County provides post-employment health care benefits to former employees retiring from active service. This is all employees who retire from the County after 30 years of service or after attaining age 55 with at least 20 years of service, age 60 with at least 15 years of service, or age 62 with at least 5 years of service unless hired after June 29, 2010 and then you would need at least 8 years of service. Eligible retirees reaching Medicare age receive a County paid medicare supplement including prescription coverage.

Currently, 107 retirees meet these eligibility requirements, of which 96 retirees and 15 spouses receive health insurance benefits and 11 retirees waived benefits. The County has a premium based health insurance plan which provides up to 100 percent coverage of validated claims (depending on the plan chosen) for medical, dental, and hospitalization costs incurred by pre-Medicare retirees. Expenditures for post-retirement health care benefits are based on monthly premiums charged by the medical insurance provider and estimated annual coverage for the County's self-insured dental plan. In fiscal year 2009 the County began payment of the post-retirement health care from the Other Post Employment Benefits (OPEB) Fund. During fiscal year 2011, expenditures of \$731,276 were recognized for post-retirement health care of which \$586,611 was paid out of the OPEB fund. This figure represents total expenses of \$624,906 less the Medicare Part D credit of \$38,295 for a net expense of \$586,611. The balance of \$106,370 was paid from the General Fund and Sewer Fund operating budgets.

2. Funding Policy

The County has implemented GASB No 43 and 45 starting with the 2009 fiscal year. Beginning with 2011 the cost method used to determine the funded status of the Plan and the annual contribution requirements is the Projected Unit Credit Actuarial Cost Method. Projected Unit Credit is consistent with the method used for the Pension Plan of Kent County. This is an individual type cost method that directly defines an actuarial accrued liability and normal cost. It is consistent with the method mandated for financial disclosure of private sector obligations for other post-employment benefits. The unfunded liability is determined as the difference between the actuarial accrued liability determined under the cost method and the market value of assets. This amount is amortized and added to the normal cost to determine the recommended contribution.

3. Annual OPEB Cost and Net OPEB Obligation

The County's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the County's annual OPEB cost for fiscal year 2011, the amount actually contributed to the plan, and changes in the County's net OPEB obligation (NOO):

Annual required contribution (ARC)	\$ 630,976
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
	<hr/>
Annual OPEB cost (expense)	630,976
Contribution made	630,976
	<hr/>
Increase in net OPEB obligation	-
Net OPEB obligation at beginning of year	-
	<hr/>
Net OPEB obligation at end of year	<u>\$ -</u>

NOTE K - OTHER POST-EMPLOYMENT BENEFITS – CONTINUED

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 was as follows:

	For Fiscal Year	Amount
Annual OPEB Cost	2009	\$ 475,000
	2010	630,976
	2011	630,976
Annual Required Contribution (ARC)	2009	\$ 475,000
	2010	630,976
	2011	630,976
Actual Contribution	2009	\$ 475,000
	2010	630,976
	2011	630,976
Percentage of Annual OPEB Cost Contributed	2009	100.00%
	2010	100.00%
	2011	100.00%

NOTE L - RISK MANAGEMENT**1. Health Insurance**

The County contracts with Blue Cross Blue Shield of Delaware to provide health insurance for the County's active employees and retirees. During fiscal year 2011 the County provided 100% of the monthly premiums for employee health benefit costs and contributed 60% or \$175 (whichever is greater) monthly toward dependent health care.

The County is self-insured for dental care benefits. The dental care benefits employees receive are \$1,000 per calendar year for eligible dental services. The County provides 100% of dental care benefit premium costs. Family coverage is offered to each active employee and retiree. The participants of family coverage are responsible for 100% of the additional premium cost. The payments of dental-related claims are processed through a third-party administrator. Liabilities for unpaid claims are estimated using the actual cost of claims within sixty days after fiscal year-end.

Health care benefits and dental benefits are provided through the Medical Trust Internal Service Fund. Interfund charges with the County are recorded as revenue in the Medical Trust Fund and as an expenditure/expense to the benefiting department.

NOTE L - RISK MANAGEMENT - CONTINUED

2. Other Insurance

Kent County is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. In the past three fiscal years, the County has had no settlements exceeding the insurance coverage.

NOTE M - RESTRICTED NET ASSETS - SEWER FUND

Sewer Fund restricted net assets is comprised of the following:

- a) Prior to FY06 there was an annual charge per edu (equivalent dwelling unit) to the residents of Sanitary Sewer Districts for the purpose of replacing sewer equipment when it becomes worn or ineffective. At June 30, 2011, the balance of this reserve totaled \$328,620
- b) Impact fees collected from customers and interest earned. By ordinance, impact fees and related investment income are restricted for projects that will increase capacity of the sewer facilities. At June 30, 2011, the balance of this reserve totaled \$18,423,738 of which \$14,230,577 is for the main system capital improvement and \$4,193,161 is for district capital improvement.

Equipment Replacement Reserve	\$ 328,620
Expansion Reserve	<u>18,423,738</u>
 Total Reserved Net Assets	 <u>\$ 18,752,358</u>

NOTE N – RESTATEMENT OF BEGINNING OF YEAR NET ASSETS

The beginning of year net assets in the governmental activities, business-type activities, and sewer fund were increased by \$1,296,499, \$357,199, and \$357,199, respectively to properly account for the net pension asset.

NOTE O – CONDUIT DEBT OBLIGATION

Kent County has participated in the issuance of several private activity revenue bonds for the purpose of capital financing to unrelated third parties. Kent County has no obligation for such debt beyond the resources provided by related loan agreements on whose behalf the bonds were issued. In each case Kent County has assigned the loan agreements to the bondholders, and has not included the bonds or the loans receivable in its financial statements.

On June 30, 2011 the balances of the outstanding bonds were as follows:

<u>Bond</u>	<u>Issue Amount</u>	<u>Balance Outstanding June 30, 2011</u>
1984 Single Family Residential Mortgage	\$ 25,395,575	\$ 3,419,162
1990 Modern Maturity Center	1,000,000	-
1997 Wesley College	3,500,000	1,766,528
1999 Wesley College	1,250,000	691,168
1999 Dover ALF, LLC "Heritage"	7,500,000	6,400,000
1999 Modern Maturity Center	500,000	146,816
2001 Wesley College	2,500,000	1,056,878
2004A DSU Student Housing, LLC	18,420,000	16,335,000
2004B,2004C DSU Student Housing, LLC	36,300,000	33,870,000
2005 Wesley College	2,900,000	1,951,374
2008A, 2008B Providence Creek Academy Charter School	13,150,000	6,835,000
2011 Charter School, Inc.	3,930,000	3,930,000
Total	<u>\$ 116,345,575</u>	<u>\$ 76,401,926</u>

NOTE P – SUBSEQUENT EVENTS

The County has evaluated all subsequent events through March 13, 2012, the date the financial statements were available to be issued.

Pension Funded Status and Funding Progress

The following required supplementary information is provided with regard to the pension funding progress. The County has annual valuations of the pension fund. The schedule presents the last three completed valuations covering three years.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Frozen Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a) / c]
1/1/2009	\$ 21,577,386	\$ 22,831,006	\$ 1,253,620	94.5%	\$ 12,645,748	9.91%
1/1/2010	23,116,843	29,270,573	6,153,730	79.0%	12,031,063	51.15%
1/1/2011	25,098,216	30,482,965	5,384,749	82.3%	12,081,049	44.57%

Other Post Employment Benefits Funded Status and Funding Progress

The following required supplementary information is provided with regard to the OPEB funding progress. The County has a valuation of the other post employment benefits performed every two years. Since fiscal year 2009 was the first year for implementation of GASB 43 and 45, the schedule presents the valuation completed in fiscal years 2009 and 2011 covering three years.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Frozen Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a) / c]
1/1/2009	\$ 7,047,685	\$ 9,831,188	\$ 2,783,503	71.7%	\$ 12,645,748	22.01%
1/1/2011	9,705,468	11,197,634	1,492,166	86.7%	12,081,049	12.35%



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KENT COUNTY, DELAWARE

COMBINING BALANCE SHEET
NON-MAJOR
GOVERNMENTAL FUNDS
JUNE 30, 2011

	Special Revenue Fund	Capital Project Fund	Total Non-Major Governmental Funds
	Farmer's Home Administration Grant	Aeropark Fund	
ASSETS			
Cash and Investments	\$ 19,912	\$ 14,810	\$ 34,722
Due from Other Governments	11,070	-	11,070
Total Assets	<u>\$ 30,982</u>	<u>\$ 14,810</u>	<u>\$ 45,792</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ -	\$ 1,569	\$ 1,569
Due to Other Funds	30,982	1,369	32,351
Total Liabilities	<u>30,982</u>	<u>2,938</u>	<u>33,920</u>
Fund Balances:			
Restricted:			
Capital Projects	-	11,872	11,872
Total Fund Balances	<u>-</u>	<u>11,872</u>	<u>11,872</u>
Total Liabilities and Fund Balances	<u>\$ 30,982</u>	<u>\$ 14,810</u>	<u>\$ 45,792</u>

KENT COUNTY, DELAWARE

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue Fund	Capital Project Fund	Total Non-Major Governmental Funds
	Farmer's Home Administration Grant	Aeropark Fund	
REVENUES			
Grants	\$ 26,370	\$ -	\$ 26,370
Investment Income	-	51	51
Other Revenues	-	18,377	18,377
Total Revenues	<u>26,370</u>	<u>18,428</u>	<u>44,798</u>
EXPENDITURES			
Current:			
Planning Services	26,370	-	26,370
Economic Development	-	28,589	28,589
Total Expenditures	<u>26,370</u>	<u>28,589</u>	<u>54,959</u>
(Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>(10,161)</u>	<u>(10,161)</u>
Net Change in Fund Balances	-	(10,161)	(10,161)
Fund Balances at Beginning of Year	<u>-</u>	<u>22,033</u>	<u>22,033</u>
Fund Balances at End of Year	<u>\$ -</u>	<u>\$ 11,872</u>	<u>\$ 11,872</u>

KENT COUNTY, DELAWARE

COMBINING STATEMENT OF NET ASSETS
NON-MAJOR PROPRIETARY FUNDS
JUNE 30, 2011

	<u>Street Light</u>	<u>Landfill</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and Investments	\$ 562,770	\$ 647,693	\$ 1,210,463
Receivables			
Fees and Services	867,048	-	867,048
Due From Other Funds	1,191	-	1,191
	<u>1,431,009</u>	<u>647,693</u>	<u>2,078,702</u>
Total Assets			
LIABILITIES			
Current Liabilities			
Accounts Payable	38,866	297	39,163
Due to Other Funds	14,992	837	15,829
Deferred Revenue	824,860	-	824,860
	<u>878,718</u>	<u>1,134</u>	<u>879,852</u>
Total Liabilities			
NET ASSETS			
Unrestricted	<u>552,291</u>	<u>646,559</u>	<u>1,198,850</u>
Total Net Assets	<u>\$ 552,291</u>	<u>\$ 646,559</u>	<u>\$ 1,198,850</u>

KENT COUNTY, DELAWARE

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
NON-MAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Street Light</u>	<u>Landfill</u>	<u>Total</u>
OPERATING REVENUES			
Fees for Services	\$ 793,836	\$ -	\$ 793,836
Total Operating Revenues	<u>793,836</u>	<u>-</u>	<u>793,836</u>
OPERATING EXPENSES			
Salaries and Benefits	32,853	-	32,853
Contractual Services	478	33,662	34,140
Utilities	660,734	-	660,734
Maintenance, Parts & Supplies	4,223	413	4,636
Vehicle Expense	914	-	914
Operating Insurance and Indirect Costs	77,284	4,977	82,261
Total Operating Expenses	<u>776,486</u>	<u>39,052</u>	<u>815,538</u>
Operating Income (Loss)	<u>17,350</u>	<u>(39,052)</u>	<u>(21,702)</u>
NON-OPERATING REVENUES			
Interest and Dividends	1,051	1,237	2,288
Total Non-Operating Revenues	<u>1,051</u>	<u>1,237</u>	<u>2,288</u>
Net Income (Loss)	18,401	(37,815)	(19,414)
Net Assets at Beginning of Year	<u>533,890</u>	<u>684,374</u>	<u>1,218,264</u>
Net Assets at End of Year	<u>\$ 552,291</u>	<u>\$ 646,559</u>	<u>\$ 1,198,850</u>

KENT COUNTY, DELAWARE

COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Street Light	Landfill	Total
Cash Flows From Operating Activities:			
Receipts from Customers and Users	\$ 793,970	\$ -	\$ 793,970
Payments to Suppliers	(664,896)	(39,230)	(704,126)
Internal Activity - payments to other funds	(109,659)	(4,979)	(114,638)
Net Cash Provided (Used) by Operating Activities	<u>19,415</u>	<u>(44,209)</u>	<u>(24,794)</u>
Cash Flows From Investing Activities:			
Interest and Dividends	1,051	1,237	2,288
Net Cash Provided By Investing Activities	<u>1,051</u>	<u>1,237</u>	<u>2,288</u>
Net Increase (Decrease) In Cash and Cash Equivalents	20,466	(42,972)	(22,506)
Cash and Cash Equivalents at Beginning of Year	<u>542,304</u>	<u>690,665</u>	<u>1,232,969</u>
Cash and Cash Equivalents at End of Year	<u>\$ 562,770</u>	<u>\$ 647,693</u>	<u>\$ 1,210,463</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating Income (Loss)	\$ 17,350	\$ (39,052)	\$ (21,702)
Adjustments to reconcile Operating Income to Net Cash provided (used) by Operating Activities:			
Change in Assets and Liabilities:			
(Increase) in Accounts Receivable	(54,805)	-	(54,805)
(Increase) in Due From Other Funds	(1,191)	-	(1,191)
Increase (Decrease) in Accounts Payable	1,453	(5,155)	(3,702)
Increase in Deferred Revenue	56,130	-	56,130
Increase (Decrease) in Due To Other Funds	478	(2)	476
Net Cash Provided (Used) by Operating Activities	<u>\$ 19,415</u>	<u>\$ (44,209)</u>	<u>\$ (24,794)</u>



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KENT COUNTY, DELAWARE

COMBINING STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011

	<u>Pension Fund</u>	<u>Post Retiree Benefits Fund</u>	<u>Total</u>
ASSETS			
Restricted Assets:			
Cash and Short Term Investments	\$ 612	\$ -	\$ 612
Receivables			
Interest	7,316	-	7,316
Investments	<u>26,795,850</u>	<u>10,167,436</u>	<u>36,963,286</u>
Total Assets	<u>26,803,778</u>	<u>10,167,436</u>	<u>36,971,214</u>
LIABILITIES			
Accounts Payable	<u>41,019</u>	-	<u>41,019</u>
Total Liabilities	<u>41,019</u>	-	<u>41,019</u>
NET ASSETS			
Held in Trust for:			
Pension Benefits	<u>26,762,759</u>	<u>10,167,436</u>	<u>36,930,195</u>
Total Net Assets	<u>\$ 26,762,759</u>	<u>\$ 10,167,436</u>	<u>\$ 36,930,195</u>

KENT COUNTY, DELAWARE

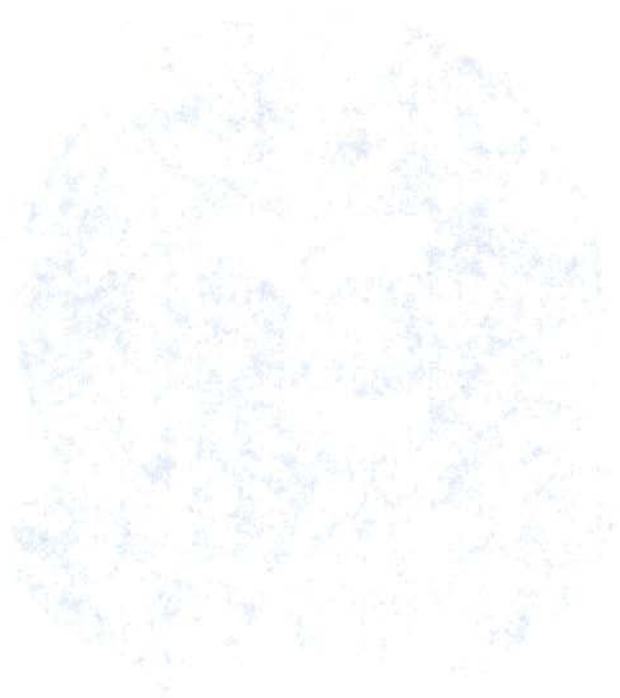
COMBINING STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Pension Fund</u>	<u>Post Retiree Benefits Fund</u>	<u>Total</u>
ADDITIONS			
Employee Contributions	\$ 119,964	\$ -	\$ 119,964
Employer Contributions	1,434,253	630,976	2,065,229
Interest and Dividends	127,335	254,183	381,518
Net Appreciation in Fair Value of Investments	4,909,081	1,363,954	6,273,035
Total Additions	<u>6,590,633</u>	<u>2,249,113</u>	<u>8,839,746</u>
DEDUCTIONS			
Pension Benefits	1,857,410	586,611	2,444,021
Administrative Expense	174,690	4,868	179,558
Total Deductions	<u>2,032,100</u>	<u>591,479</u>	<u>2,623,579</u>
Change In Net Assets	4,558,533	1,657,634	6,216,167
Net Assets - Beginning of Year	<u>22,204,226</u>	<u>8,509,802</u>	<u>30,714,028</u>
Net Assets - End of Year	<u>\$ 26,762,759</u>	<u>\$ 10,167,436</u>	<u>\$ 36,930,195</u>

KENT COUNTY, DELAWARE

COMBINING STATEMENT OF CHANGES IN NET ASSETS
 FIDUCIARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2011

	<u>Pension Fund</u>	<u>Post Retiree Benefits Fund</u>	<u>Total</u>
ADDITIONS			
Employee Contributions	\$ 119,964	\$ -	\$ 119,964
Employer Contributions	1,434,253	630,976	2,065,229
Interest and Dividends	127,335	254,183	381,518
Net Appreciation in Fair Value of Investments	4,909,081	1,363,954	6,273,035
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Pension Benefits	1,857,410	586,611	2,444,021
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Net Assets - Beginning of Year	<u>22,204,226</u>	<u>8,509,802</u>	<u>30,714,028</u>
Net Assets - End of Year	<u>\$ 26,762,759</u>	<u>\$ 10,167,436</u>	<u>\$ 36,930,195</u>



KENT COUNTY, DELAWARE

SINGLE AUDIT

JUNE 30, 2011

KENT COUNTY, DELAWARE

SINGLE AUDIT

JUNE 30, 2011

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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

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March 13, 2012

Board of Commissioners
Kent County, Delaware
Dover, Delaware

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Kent County, Delaware as of and for the year ended June 30, 2011, and have issued our report thereon dated March 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kent County, Delaware's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kent County, Delaware's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Kent County, Delaware's internal control over financial reporting.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Kent County, Delaware's financial statements will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Commissioners
Kent County, Delaware

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kent County, Delaware's financial statements are free of 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*.

We noted certain matters that we reported to the management of Kent County, Delaware, in a separate letter dated March 13, 2012.

This report is intended solely for the information and use of management, the Board of Commissioners and federal awarding agencies and pass-through entities; and is not intended to be and should not be used by anyone other than these specified parties.

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP

REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE
A DIRECT AND MATERIAL EFFECT ON EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

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March 13, 2012

Board of Commissioners
Kent County, Delaware
Dover, Delaware

Compliance

We have audited the compliance of Kent County, Delaware with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Kent County, Delaware's major federal programs for the year ended June 30, 2011. Kent County, Delaware's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and recommendations. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Kent County, Delaware's management. Our responsibility is to express an opinion on Kent County, Delaware's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kent County, Delaware's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Kent County, Delaware's compliance with those requirements.

In our opinion, Kent County, Delaware complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and recommendations as item #11-1.

Internal Control Over Compliance

Management of Kent County, Delaware, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Kent County, Delaware's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Kent County, Delaware's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and recommendations as item #11-1 to be a significant deficiency.

Kent County, Delaware's response to the finding identified in our audit is described in the accompanying schedule of findings and recommendations. We did not audit Kent County, Delaware's response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Kent County, Delaware as of and for the year ended June 30, 2011 and have issued our report thereon dated March 13, 2012. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise Kent County, Delaware's basic financial statements. The accompanying

Board of Commissioners
Kent County, Delaware

Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Commissioners and federal awarding agencies and pass-through entities; and is not intended to be and should not be used by anyone other than these specified parties.

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP

KENT COUNTY, DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Source Code	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	GRANT PERIOD	EXPENDITURES
US Department of the Interior					
Wildlife Refuge Direct Revenue Sharing:					
FY10	D	15.659	N/A	7/1/10-6/30/11	\$ 43,994 43,994
Total US Department of the Interior					
US Department of Energy					
Energy Efficiency and Conservation Block Grant Program/Recovery Act Funded					
	D	81.128 *	N/A	11/13/09-11/12/12	356,496 356,496
Total US Department of Energy					
US Department of Agriculture					
Rural Housing Preservation Grant:					
Grant HPG - 01-09	D	10.433	N/A	10/01/09-10/31/10	15,300
Grant HPG - 01-10	D	10.433	N/A	10/01/10-10/31/11	11,070 26,370
Total CFDA #10.433					
Water and Waste Disposal Systems for Rural Communities:					
Southern Bypass - Loan	D	10.760	N/A		2,102,687
Brookdale Heights - Grant	D	10.760	N/A		260,090
Kittis Hummock - Loan	D	10.760	N/A		2,038,768
Wastewater Treatment Plant Upgrades - Loan	D	10.760	N/A		613,752 5,015,297
Total CFDA #10.760					
Total US Department of Agriculture					
US Department of Housing and Urban Development					
Passed through the State of Delaware, Division of Community Affairs, Division of Housing and Community Development Community Development Block Grants/State's Program:					
Combined CDBG Grant	I	14.228	01-09	7/1/09-12/31/10	345,155
Combined CDBG Grant	I	14.228	01-10	7/1/10-12/31/11	498,512 18,359
Program Income					
Neighborhood Stabilization Program (NSP)	I	14.228	01-08	3/23/09-9/20/13	785,646
NSP Grant	I				183,789
Program Income					
Total CFDA #14.228					
Total US Department of Housing and Urban Development					
1,831,461					

KENT COUNTY, DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Source Code	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	GRANT PERIOD	EXPENDITURES
HOME Investment Partnerships Program:					
Home Program	I	14.239	HM-01-09	7/1/09-9/30/10	34,351
	I	14.239	HM-01-10	7/1/10-9/30/11	71,622
Total CFDA #14.239					105,973
Community Development Block Grant/State's Program/Recovery Act Funded NSP Grant/Recovery Act Funded					
	I	14.255	N/A	9/1/09-3/31/11	123,032
	I	14.256	01-09	1/7/11-9/30/12	2,250
Total US Department of Housing & Urban Development					2,062,716
Institute of Museum and Library Services					
Passed through the State of Delaware, Division of Libraries	I	45.310	N/A	7/1/10-6/30/11	2,000
Total Institute of Museum and Library Services					2,000
US Environmental Protection Agency					
Passed through State of Delaware, Department of Natural Resources & Environmental Control, Division of Water Resources					
Capitalization Grants for Clean Water State Revolving Funds:					
Delaware Water Pollution Control Revolving Fund Loan	I	66.458 *	N/A	N/A	10,042,799
Delaware Water Pollution Control Revolving Fund Loan/Recovery Funded	I	66.458 *	N/A	N/A	1,259,538
Total CFDA #66.458					11,302,337
Total US Environmental Protection Agency					11,302,337
US Department of Homeland Security					
Passed through State of Delaware, Department of Safety and Homeland Security/DE Emergency Management Agency					
Emergency Management Performance Grants:					
FY10	I	97.042	EMPG-10-001	10/01/09-09/30/10	15,825
FY11	I	97.042	EMPG-11-001	10/01/10-09/30/11	53,417
Total CFDA #97.042					69,242
Tactical Medicine Training 4/25/11-5/6/11 DHS 2267	I	97.067	N/A	7/1/07-12/31/11	6,678
Total US Department of Homeland Security					75,920

Continued on next page.

KENT COUNTY, DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Source Code	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	GRANT PERIOD	EXPENDITURES
US Department of Transportation					
Passed through State of Delaware, Department of Safety and Homeland Security/DE Emergency Management Agency					
Hazardous Materials Emergency Preparedness Training and Planning Grants					
HMEP 2010	I	20.703	N/A	10/1/09-9/30/10	6,400
HMEP 2011	I	20.703	N/A	10/1/10-9/30/11	1,600
Total CFDA #20.703					<u>8,000</u>
Total US Department of Transportation					
					<u>\$ 18,893,130</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS					
CDBG - ENTITLEMENT GRANTS CLUSTER CFDA #14.228 & CFDA #14.255					<u>\$ 1,954,493</u>

Source Code:

- D = Direct Federal Funding
- I = Indirect Federal Funding

* Denotes Major Program Tested

KENT COUNTY, DELAWARE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes all the federal grant activity of the County and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 FISCAL PERIOD AUDITED

Single audit testing procedures were performed for program transactions occurring during the fiscal year ended June 30, 2011.

NOTE 3 LOAN BALANCES INVOLVING FEDERAL FUNDS

During fiscal year 1994, the County received \$132,700 in loan proceeds from the U.S. Department of Agriculture, Farmers' Home Administration ("FmHA"), for construction of the Little Creek Sanitary Sewer District Project under the FmHA's Water and Waste Disposal System for Rural Communities Program (CFDA #10.760). This loan is fully drawn down, and no expenditures related to it are reflected in the Schedule of Expenditures of Federal Awards. The loan balance at June 30, 2011 was \$102,891.

During fiscal year 1996, the County was awarded \$3,914,918 in loan proceeds from the Delaware Department of Natural Resources and Environmental Control, Delaware Water Pollution Control Revolving Fund, for construction of the Northern Conveyance System Upgrade under the Capitalization Grants for Clean Water State Revolving Funds Program (CFDA #66.458). This loan is fully drawn down, and no expenditures related to it are reflected in the Schedule of Expenditures of Federal Awards. The loan balance at June 30, 2011 was \$1,540,090 (83.33 percent federal funds; 16.67 percent state funds).

During fiscal year 2001, the County was awarded \$392,400 in loan proceeds (with capitalized interest costs of \$48,346) from the Delaware Department of Natural Resources and Environmental Control, Delaware Water Pollution Control Revolving Fund, for construction of the Bowers Sanitary Sewer District Project under the Capitalization Grants for Clean Water State Revolving Funds Program (CFDA #66.458). This loan is fully drawn down, and no expenditures related to it are reflected in the Schedule of Expenditures of Federal Awards. The loan balance at June 30, 2011 was \$315,084 (83.33 percent federal funds; 16.67 percent state funds).

During fiscal year 2001, the County was awarded \$375,000 in loan proceeds from the Delaware Department of Natural Resources and Environmental Control, Delaware Water Pollution Control Revolving Fund, for construction of the Kenton Sanitary Sewer District Project under the Capitalization Grants for Clean Water State Revolving Funds Program (CFDA #66.458). This loan is fully drawn down, and no expenditures related to it are reflected in the Schedule of Expenditures of Federal Awards. The loan balance at June 30, 2011 was \$220,026 (83.33 percent federal funds; 16.67 percent state funds).

KENT COUNTY, DELAWARE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (cont'd)
YEAR ENDED JUNE 30, 2011

NOTE 3 LOAN BALANCES INVOLVING FEDERAL FUNDS (cont'd)

During fiscal year 2001, the County was awarded \$100,000 in loan proceeds from the Delaware Department of Natural Resources and Environmental Control, Delaware Water Pollution Control Revolving Fund, for construction of the Northeast Sanitary Sewer District Project under the Capitalization Grants for Clean Water State Revolving Funds Program (CFDA #66.458). This loan is fully drawn down, and no expenditures related to it are reflected in the Schedule of Expenditures of Federal Awards. The loan balance at June 30, 2011 was \$63,240.

During fiscal year 2004, the County was awarded \$720,900 in loan proceeds from the U.S. Department of Agriculture, Farmers' Home Administration, for construction of the Northeast Sanitary Sewer District Project under the FmHA's Water and Waste Disposal Systems for Rural Communities Program (CFDA #10.760). This loan is fully drawn down, and no expenditures related to it are reflected in the Schedule of Expenditures of Federal Awards. The loan balance at June 30, 2011 was \$666,152.

During fiscal years 2006 and 2008, the County was awarded \$254,000 and \$121,000 in loan proceeds, respectively, from the U.S. Department of Agriculture, for an extension of sewer to the Baker's Choice Community under the Rural Utilities Service's Water and Waste Disposal Systems for Rural Communities Program (CFDA #10.760). This loan is fully drawn down, and no expenditures related to it are reflected in the Schedule of Expenditures of Federal Awards. The loan balance at June 30, 2011 was \$367,360.

During fiscal year 2010, the County was awarded \$15,527,296 in loan proceeds from the Delaware Department of Natural Resources and Environmental Control, Delaware Water Pollution Control Revolving Fund, for construction of the Renewable Energy Park and UV Disinfection Water Projects under the Capitalization Grants for Clean Water State Revolving Funds Program (CFDA #66.458). A portion of this loan, \$1,259,538, is funded through the American Recovery and Reinvestment Act of 2009. As of June 30, 2011, this loan is fully drawn down, and expenditures in the amount of \$11,302,337 are reflected in the Schedule of Expenditures and Federal Awards. The loan balance at June 30, 2011 was \$15,527,296 (83.33 percent federal funds; 16.67 percent state funds).

During fiscal year 2010, the County was awarded \$2,400,000 in loan proceeds from the U.S. Department of Agriculture, Farmers' Home Administration, for construction of Kitts Hummock under the FmHA's Water and Waste Disposal System for Rural Communities Program (CFDA #10.760). This loan is not fully drawn down, and expenditures in the amount of \$2,038,768 are reflected in the Schedule of Expenditures of Federal Awards. The loan balance at June 30, 2011 was \$2,334,278.

During fiscal year 2010, the County was awarded \$1,000,000 in loan proceeds from the U.S. Department of Agriculture, Farmers' Home Administration, for construction of Brookdale Heights under the FmHA's Water and Waste Disposal System for Rural Communities Program (CFDA #10.760). This loan is fully drawn down, and no expenditures related to it are reflected in the Schedule of Expenditures of Federal Awards. The loan balance at June 30, 2011 was \$987,028.

KENT COUNTY, DELAWARE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (cont'd)
YEAR ENDED JUNE 30, 2011

NOTE 3 LOAN BALANCES INVOLVING FEDERAL FUNDS (cont'd)

During fiscal year 2010, the County was awarded \$3,900,000 in loan proceeds from the U.S. Department of Agriculture, Farmers' Home Administration, for construction of the Southern Milford Bypass under the FmHA's Water and Waste Disposal System for Rural Communities Program (CFDA #10.760). This loan is not fully drawn down, and expenditures in the amount of \$2,102,687 are reflected in the Schedule of Expenditures of Federal Awards. The loan balance at June 30, 2011 was \$2,102,687.

During fiscal year 2010, the County was awarded \$11,442,000 in loan proceeds from the U.S. Department of Agriculture, Farmers' Home Administration, for the Wastewater Treatment Plant upgrades under the FmHA's Water and Waste Disposal System for Rural Communities Program (CFDA #10.760). This loan is not fully drawn down, and expenditures in the amount of \$613,752 are reflected in the Schedule of Expenditures of Federal Awards. The loan balance at June 30, 2011 was \$613,752.

KENT COUNTY, DELAWARE
 SCHEDULE OF FINDINGS AND RECOMMENDATIONS
 YEAR ENDED JUNE 30, 2011

PART A - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued [*unqualified, qualified, adverse or disclaimer*]:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported
- Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? X Yes None reported

Type of auditors' report issued on compliance for major programs [*unqualified, qualified, adverse or disclaimer*]:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? X Yes No

Identification of major program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
<u>81.128</u>	<u>Energy Efficiency and Conservation Block Grant</u>
<u>66.458</u>	<u>Capitalization Grants for Clean Water State Revolving Funds</u>

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

KENT COUNTY, DELAWARE
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2011

PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

PART C - FINDINGS RELATED TO FEDERAL AWARDS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

11-1 FEDERAL FINANCIAL REPORT (SF-425)

Condition

During our current year audit of the Energy Efficiency and Conservation Grant (CFDA #81.128), we noted that the Federal Financial Reports (SF-425) for the quarters ended December 31, 2010 and June 30, 2011 were not submitted in a timely manner. Federal Financial Reports (SF-425) are due 30 days after the ending of each quarter, but the County submitted the Federal Financial Reports (SF-425) for the aforementioned quarters after the due dates.

Criteria

According to the OMB Federal Financial Report Instructions, the Federal Financial Report (SF-425) is required to be submitted 30 days after the end of each reporting period.

KENT COUNTY, DELAWARE
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2011

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Effect

The County did not comply with reporting requirements pertaining to the submission of the Federal Financial Report (SF-425).

Cause

Late submission of the Federal Financial Report (SF-425) was due to management oversight.

Recommendation

We recommend that the County establish procedures to ensure that the Federal Financial Report (SF-425) is submitted in a timely manner.

Corrective Action Plan

Report schedule has been reviewed with appropriate staff so reports will be filed on time.