

KENT COUNTY, DELAWARE



**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
Year Ended June 30, 2012**

KENT COUNTY, DELAWARE
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012

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INDEPENDENT AUDITORS' REPORT

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March 4, 2013

**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, 2012, 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, 2012, 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 4, 2013, 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

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 11 and the pension funded status and funding progress and other post-employment benefits funded status and funding progress and status on page 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers them to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kent County, Delaware's financial statements as a whole. 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 financial statements. The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Barbacane, Thornton & Company LLP

BARBACANE, THORNTON & COMPANY LLP

KENT COUNTY, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
JUNE 30, 2012

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, 2012. 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 \$176,900,838 (net position), an increase of \$4,698,981 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 \$45,540,472 an increase of \$2,610,006 from the previous year. Of the current ending fund balances, General Fund reported \$35,048,646 as unassigned, \$153,412 as nonspendable, \$279,923 as restricted, \$161,640 as committed, and \$1,776,404 as assigned. In the Capital Projects Fund, \$8,091,538 is reported as restricted and in the Other Governmental Funds \$28,909 is reported as restricted.

Long-Term Debt

- At the end of the current fiscal year, the County had total bonded debt outstanding of \$49,496,091 a decrease of \$1,086,726 from the previous year. All of the bonded debt is backed by the full faith and credit of the County government. Governmental activities report \$5,222,372 and business-type activities report \$44,273,719 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, 2012, the County has invested \$138,507,807 net of accumulated depreciation, in a broad range of capital assets (see table below). Depreciation charges for Fiscal Year 2012 totaled \$6,600,968.

Kent County's Capital Assets as of June 30, 2012 and 2011
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 7,312,893	\$ 7,312,893	\$ 4,746,991	\$ 4,403,380	\$ 12,059,884	\$ 11,716,273
Construction in Progress	70,751	54,321	10,699,006	35,307,682	10,769,757	35,362,003
Site Improvements	3,701,714	3,923,750	1,175,735	1,459,014	4,877,449	5,382,764
Pipeline	-	-	44,564,622	37,980,638	44,564,622	37,980,638
Buildings	18,356,863	18,833,060	19,066,906	15,655,783	37,423,769	34,488,843
Equipment and Furniture	1,865,460	2,000,204	26,946,866	14,590,233	28,812,326	16,590,437
Total Capital Assets	\$ 31,307,681	\$ 32,124,228	\$ 107,200,126	\$ 109,396,730	\$ 138,507,807	\$ 141,520,958

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

- Addition of \$6,095 for a storage shed at Brecknock Park along with \$3,802 for fencing in the storage area.
- Addition of \$72,938 for donated vehicles at Public Safety. This includes a John Deere Gator for \$12,825, three Wells Cargo Trailers for \$14,946 each, a Haulmark Transport trailer for \$5,314, and a Grizzly Cargo trailer for \$9,961.
- Purchase of furniture and equipment to include one Public Safety vehicle for \$52,834, cardiac monitor for Public Safety for \$19,078, two Sheriff vehicles for \$27,574, two John Deere zero turn mowers for \$25,927 for the Parks Division, roller shades for the 1st Floor East windows of the Admin Complex for \$13,084, Web Marriage Software for the Clerk of the Peace for \$9,000, Deeds Imaging System hardware and software for \$107,023 and \$13,635 respectively, MaxEnterprise Software for Recreation for \$11,063, a new back up system for Information Technology for \$37,992 and a new server for Information Technology for \$7,331.
- Construction in Progress significant components are comprised of Emergency Operations Center Enhancements for \$9,846, Public Safety Building HVAC System Upgrade for \$13,803, and Public Safety Building Parking Lot Expansion for \$31,815.

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 PV Solar Project at the Wastewater Treatment Plant totaling \$8,228,986.
- Completion of the Passive Solar Project at the Wastewater Treatment Plant totaling \$4,538,041.
- Completion of the UV System at the Wastewater Treatment Plant totaling \$3,814,841.
- Completion of the Hartly sewer extension in the amount of \$7,801,863.
- Completion of the Southern Bypass project in the amount of \$2,146,895.
- Completion of HVAC upgrades on the administration and blower buildings totaling \$643,132.
- Purchase of a 2012 Barr International Crane Truck in the amount of \$175,745.
- Purchase of utility vehicle, fork lift, wheel loader, compost spreader, 2012 Ford cargo van and 2012 Chevy Silverado with crane for the Treatment Plant and 2011 Ford Ranger for Engineering in the amount of \$189,463.
- The remaining approximately \$234,000 of capital assets was made up of several minor pipeline and pump station repairs and repairs and upgrades to the Wastewater Treatment Plant.
- Construction in Progress' significant components is comprised of the sewer extensions for Pickering Beach, Kitts Hummock, East Dover Mobile Home Park and Polytech and the upgrade and addition of sewer lines for the Little Heaven Bypass, and Central Enhancement projects. Also included in construction in progress are the TMDL compliance project and the Treatment Plant capacity expansion and security system project.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Kent County'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 Position presents information on all of the County's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position 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).

Overview of the Financial Statements - Continued

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, 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 Position 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 Position and Changes in Fiduciary Net Position. 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 Position. A year-to-year comparison of net position is as follows:

Kent County's Net Position as of June 30, 2012 and 2011

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$ 62,311,588	\$ 59,174,526	\$ 46,694,289	\$ 43,572,633	\$ 109,005,877	\$ 102,747,159
Capital Assets	31,307,681	32,124,228	107,200,126	109,396,730	138,507,807	141,520,958
Total Assets	93,619,269	91,298,754	153,894,415	152,969,363	247,513,684	244,268,117
Long-Term Liabilities	5,976,340	6,045,091	42,823,386	43,827,200	48,799,726	49,872,291
Other Liabilities	14,542,919	13,959,677	7,270,201	8,234,292	21,813,120	22,193,969
Total Liabilities	20,519,259	20,004,768	50,093,587	52,061,492	70,612,846	72,066,260
Net Position:						
Invested in Capital Assets, net of Related Debt	26,191,732	27,059,292	63,138,398	64,425,631	89,330,130	91,484,923
Restricted	23,086	22,877	20,271,140	18,752,358	20,294,226	18,775,235
Unrestricted	46,885,192	44,211,817	20,391,290	17,729,882	67,276,482	61,941,699
Total Net Position	\$ 73,100,010	\$ 71,293,986	\$ 103,800,828	\$ 100,907,871	\$ 176,900,838	\$ 172,201,857

The largest components of the County's current and other assets of \$109,005,877 are cash and investments totaling \$87,069,650 of which \$27,028,075 is reported as restricted assets in the Sewer Fund. Of the total long-term liabilities \$48,799,726, bonds payable net of deferred charges accounts for \$47,550,858. Deferred revenue totaling \$15,323,493, accounts payables totaling \$1,281,385, and due to other governments totaling \$2,074,966 are the largest components in other liabilities \$21,813,120.

Kent County's Changes in Net Position

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
REVENUES						
Program Revenues:						
Charges for Services	\$ 8,375,526	\$ 7,776,123	\$ 18,776,912	\$ 17,554,807	\$ 27,152,438	\$ 25,330,930
Operating Grants and Contributions	3,144,797	3,508,723	-	-	3,144,797	3,508,723
Capital Grants and Contributions	38,050	32,992	4,154,892	7,164,748	4,192,942	7,197,740
General Revenues:						
Property Taxes	10,477,267	10,704,349	-	-	10,477,267	10,704,349
Real Estate Transfer Tax	3,021,612	2,605,293	-	-	3,021,612	2,605,293
Residential Telephone Surcharge	270,015	326,606	-	-	270,015	326,606
Investment Earnings	98,332	137,384	32,179	61,950	130,511	199,334
Other Revenue and Gains (Losses)	383,653	471,596	-	(11,064)	383,653	460,532
Total Revenues	25,809,252	25,563,066	22,963,983	24,770,441	48,773,235	50,333,507
EXPENSES						
General Government	2,686,660	1,840,974	-	-	2,686,660	1,840,974
Special Grants/Programs	1,502,929	1,692,586	-	-	1,502,929	1,692,586
Community Services	3,431,036	3,368,496	-	-	3,431,036	3,368,496
Planning Services	5,862,709	6,208,631	-	-	5,862,709	6,208,631
Public Safety	7,768,023	7,453,153	-	-	7,768,023	7,453,153
Row Offices	1,754,050	2,439,171	-	-	1,754,050	2,439,171
Economic Development	751,348	38,589	-	-	751,348	38,589
Debt Service	246,473	251,647	-	-	246,473	251,647
Sewer	-	-	16,714,840	14,989,176	16,714,840	14,989,176
Street Light	-	-	776,190	776,486	776,190	776,486
Trash	-	-	2,546,791	3,085,820	2,546,791	3,085,820
Landfill	-	-	33,205	39,052	33,205	39,052
Total Expenses	24,003,228	23,293,247	20,071,026	18,890,534	44,074,254	42,183,781
Increase in Net Position	\$ 1,806,024	\$ 2,269,819	\$ 2,892,957	\$ 5,879,907	\$ 4,698,981	\$ 8,149,726

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

The County's combined changes in net position increased \$4,698,981 over the course of this fiscal year's operations. The net changes in net position of the governmental activities increased \$1,806,024. This increase in net position was 20.43% lower than the increase in net position in Fiscal Year 2011. The decrease in net position in Fiscal Year 2012 over Fiscal Year 2011 was a result of expenditures being 3.05% higher in Fiscal Year 2012 as compared to Fiscal Year 2011. In Fiscal Year 2012 revenues related to real estate and land use related activity started to track upward. Real estate transfer tax was up 15.98% from Fiscal Year 2011 and inspection fees were up 9.33% from the prior fiscal year. The sheriff fees were up 13.65% in Fiscal Year 2012 as compared to Fiscal Year 2011.

The net position of the County's business-type activities increased by \$2,892,957. This increase in net position was 50.80% lower than the increase in net position in Fiscal Year 2011. This decrease of \$2,986,950 was primarily a net result of an increase in Charges for Services of \$1,222,105 and a decrease in Capital Grants and Contributions of \$3,009,856 and an increase in Sewer Fund expenses of \$1,725,664 and a decrease in Trash Fund expenses of \$539,029.

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 fund balance of \$37,420,025 of which \$35,048,646 as unassigned, \$153,412 as nonspendable, \$161,640 as committed, \$1,776,404 as assigned, and \$279,923 as restricted of which \$171,770 was for library tax, \$85,067 was for grants, \$22,685 was for recreational areas and \$401 was for APFO EMS.

Overall revenue increased \$627,105 from Fiscal Year 2011 to Fiscal Year 2012. Property tax revenue decreased \$199,136 in Fiscal Year 2012 due to a reduction of the tax rate by \$.01 (from \$.31 per \$100 to \$.30 per \$100). Fees for services increased \$464,146 primarily as a result of increases in Sheriff fees related to foreclosures, Recorder of Deeds fees, and Inspection fees. Grant revenue increased \$53,973 as a result of increases in the amount of revenue received from the Paramedic grant and an increase in Federal Grants. Interest and dividends decreased \$31,214 because of the low interest rates. Real estate transfer taxes increased \$416,319 due to the slight up-turn in the housing market and, telephone surcharge for emergency dispatch decreased \$56,591 but that was mainly due to a timing issue regarding the distribution of the fees. Other revenue decreased \$20,392 over Fiscal Year 2011.

General Fund expenditures increased \$334,667 in Fiscal Year 2012 when compared to Fiscal Year 2011. There was a slight increase in expenditures in all Departments and Programs except Special Grants and Programs and Row Offices. This was a result of the 1.8% pay increase in Fiscal Year 2012 and career ladder promotions, the County adding an Economic Development Office, and the County taking over Dog Licensing for a full year.

General Fund – Comparison to Budget. Overall revenue collections were higher than the final budget by 11.85%. Property taxes exceeded the final budget by \$246,742 or 2.42%. Real estate transfer tax came in over the final budget by \$221,612 or 7.91%. Grants came in under budget by \$48,836 or 2.83%. Fees for services exceeded the final budget by \$2,222,484 or 37.67%. Interest and dividends were under the final budget by \$85,158 or 47.31%. Other revenue was under the final budget by \$23,225 or 7.99%.

Overall, operating expenditures were under budget by 8.15% primarily due to strict cost controls imposed on County wide spending. Community Services were under the final budget by 3.52%. General Government was 7.73% under the final budget; Special Grants and Programs were 9.67% under the final budget; Planning Services were 5.42% under the final budget; Public Safety and Row Offices were 3.02% and 7.67% under final budget respectively.

Kent County's General Fund Budget to Actual Comparison

	<u>Original Budget</u>	<u>Final Budget</u>	<u>2012 Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES				
Property Taxes	\$ 10,260,300	\$ 10,190,300	\$ 10,437,042	\$ 246,742
Real Estate Transfer Tax	2,800,000	2,800,000	3,021,612	221,612
Telephone Surcharge	270,000	270,000	270,015	15
Grants	1,695,900	1,724,594	1,675,758	(48,836)
Fees for Services	5,899,100	5,899,100	8,121,584	2,222,484
Interest and Dividends	180,000	180,000	94,842	(85,158)
Rental Income	23,200	23,200	23,186	(14)
Other Revenues	232,300	290,700	267,475	(23,225)
Total Revenues	<u>21,360,800</u>	<u>21,377,894</u>	<u>23,911,514</u>	<u>2,533,620</u>
EXPENDITURES				
General Government	1,935,500	2,083,697	1,922,543	161,154
Special Grants and Programs	1,621,000	1,663,776	1,502,929	160,847
Community Services	3,164,400	3,198,989	3,086,349	112,640
Planning Services	4,060,100	4,094,477	3,872,757	221,720
Public Safety	7,504,700	7,573,898	7,344,813	229,085
Row Offices	1,762,500	1,803,810	1,665,541	138,269
Contingency	857,200	733,203	-	733,203
Debt Service				
Principal	150,400	150,400	150,347	53
Interest	243,200	243,200	243,149	51
Total Expenditures	<u>21,299,000</u>	<u>21,545,450</u>	<u>19,788,428</u>	<u>1,757,022</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>61,800</u>	<u>(167,556)</u>	<u>4,123,086</u>	<u>4,290,642</u>
OTHER FINANCING SOURCES (USES)				
Operating Transfer Out	(515,800)	(542,827)	(521,671)	21,156
Appropriated Fund Balance	454,000	710,383	-	(710,383)
Total Other Financing Sources (Uses)	<u>(61,800)</u>	<u>167,556</u>	<u>(521,671)</u>	<u>(689,227)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,601,415</u>	<u>\$ 3,601,415</u>

Capital Projects Fund. The revenue for this fund was down \$3,975 from Fiscal Year 2011 to Fiscal Year 2012. This 8.75% decrease in revenue was due to the net effect of an increase in grant revenue of \$5,059 in Fiscal Year 2012 over Fiscal Year 2011, a decrease in interest income from \$11,225 in Fiscal Year 2011 to \$3,394 in Fiscal Year 2012 and a decrease in other revenue of \$1,203 from Fiscal Year 2011 to Fiscal Year 2012. Overall the expenditures increased by \$999,154 from Fiscal Year 2011 to Fiscal Year 2012. The largest expenditure during Fiscal Year 2012 was \$750,000 for Economic Development for a contribution to the City of Dover Library. Capital outlay was \$44,557 in Fiscal Year 2011 as opposed to \$75,182 in Fiscal Year 2012, an increase of \$30,625.

Community Development Block Grant. The revenue for this fund in Fiscal Year 2012 was \$1,672,247 a decrease of \$390,469 from Fiscal Year 2011. The expenditures were \$1,954,591 a decrease of \$383,624 from Fiscal Year 2011. At the end of Fiscal Year 2009, the County was awarded \$2,500,000 grant funding for the Neighborhood Stabilization Program (NSP) and at the end of Fiscal Year 2011 the County was awarded \$767,017 for NSP 2. These programs were established by the federal government for the purpose of stabilizing communities that have suffered from foreclosures and abandonment. During Fiscal Year 2012, there was \$433,275 spent in relation to these grants as compared to \$785,646 in FY2011.

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 loss of \$365,237. Operating revenue was \$846,205 higher in Fiscal Year 2012 than in Fiscal Year 2011. User fee revenue was \$701,897 higher in Fiscal Year 2012. This was primarily a result of growth in district user revenue of approximately \$395,700 and contract user revenue being approximately \$300,000 higher in Fiscal Year 2012 than Fiscal Year 2011. The user fee uniform rates remained the same for Fiscal Year 2012 as Fiscal Year 2011. Sewer permits and other revenue were \$144,308 higher in FY 2012 as compared to Fiscal Year 2011. Operating expenses were \$1,262,242 higher in Fiscal Year 2012 than Fiscal Year 2011. This increase in operating expenses is primarily attributed to the net result between an increase of \$279,502 in contractual, an increase of \$253,656 in salaries and benefits, an increase of \$550,139 in depreciation expense, an increase of \$277,592 in maintenance, parts, and supplies, and a decrease of \$172,471 in utilities.

Trash Fund. The Trash Fund, another major enterprise fund, has the primary function of trash collection. This fund experienced an operating income of \$434,545 in Fiscal Year 2012. Revenues increased by \$330,700 from Fiscal Year 2011 to Fiscal Year 2012. The primary reason for the increase in revenue in Fiscal Year 2012 as compared to Fiscal Year 2011 is a result of a net increase in the trash user fee from \$224 in Fiscal Year 2011 to \$250 for those customers receiving yard waste pickup and a decrease to \$215 for those customers without yard waste pickup. During Fiscal Year 2012 there were 12,310 trash customers of which 80% had yard waste pickup. Another reason for the increase in revenue in Fiscal Year 2012 is directly related to the growth in the number of customers in the Trash Fund. Expenses decreased by \$539,029 from Fiscal Year 2011 to Fiscal Year 2012. During Fiscal Year 2011 the County purchased yard waste containers for their 9,900 yard waste customers. In Fiscal Year 2012 there were no additional trash cans purchased.

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 \$5,847 in Fiscal Year 2012. The Street Light Fund had operating income of \$62,846 in FY2012. Revenues were greater in Fiscal Year 2012 than Fiscal Year 2011 as a result of an increase in the street light customer base. Expenses in Fiscal Year 2012 were \$296 lower than Fiscal Year 2011 because one of the primary electric providers reduced their rates and another vendor has started replacing burned out street lights with energy efficient bulbs. Many of the rates were slightly reduced in Fiscal Year 2013 to reflect these savings.

Internal Service Fund. The internal service fund - Medical Trust Fund – had an operating income of \$5,961 in Fiscal Year 2012. This indicates that revenues basically matched expenses.

General Fund Budgetary Highlights

The County adopted its Fiscal Year 2012 budget on April 26, 2011, 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.

General Fund Budgetary Highlights - Continued

The final budget contained \$21,377,894 of revenues and \$710,383 of appropriated fund balance; \$21,545,450 of expenditures and \$542,827 of other financing uses. The actual results were revenues \$2,533,620 above budget and expenditures \$1,757,022 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 2012 was 7.4% which was .4% lower than the unemployment rate in June 2011 which was 7.8%. Per capita income has leveled out.

During Fiscal Year 2012 the County began to see slow growth in the housing market but the interest rates continued to decline. The General Fund costs were held tight to match the decline in revenue. The tax rate was reduced from \$.31 per \$100 of tax assessed value to \$.30 per \$100 of tax assessed value. Although revenue was \$627,105 higher in Fiscal Year 2012 than Fiscal Year 2011 it was a direct result of the significant increase in sheriff foreclosure fees and a small increase in realty transfer tax, recorder of deeds fees, and inspection fees. During Fiscal Year 2012 the County expenditures were \$334,667 higher than Fiscal Year 2011 and this was primarily related to a salary increase of 1.8% , career ladder promotions, the County adding an Economic Development Office, and the County taking over Dog Licensing for a full year.

When adopting the General Fund budget for Fiscal Year 2013, the County continued to keep a tight hold on the expenditures. There was a 2.2% cost of living allocation (COLA) budgeted for all employees. The County increased the budget for the volunteer fire company grants by \$134,150 an increase of 36.7% over Fiscal Year 2012. With the continued success of the County's strict purchasing policy and minimization of growth in staffing the County was able to maintain the tax rate of \$.30 for Fiscal Year 2013.

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, or Mary Karol, Assistant Director of Finance at 555 Bay Road, Dover, DE 19901. The Director of Finance can also be contacted via email at susan.durham@co.kent.de.us. The Assistant Director of Finance can be contacted via email at mary.karol@co.kent.de.us. Kent County's website address is www.co.kent.de.us.

KENT COUNTY, DELAWARE

**STATEMENT OF NET POSITION
JUNE 30, 2012**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Investments	\$ 47,904,016	\$ 12,137,559	\$ 60,041,575
Receivables	12,008,057	6,671,962	18,680,019
Internal Balances	396,929	(396,929)	-
Due from Other Governments	634,924	455,991	1,090,915
Inventory	-	113,243	113,243
Prepaid Expenses and Other Assets	153,412	37,216	190,628
Non Current Assets			
Restricted Assets:			
Cash and Investments	-	27,028,075	27,028,075
Receivables	-	166,553	166,553
Capital Assets, Net			
Land	7,312,893	4,746,991	12,059,884
Construction in Progress	70,751	10,699,006	10,769,757
Land and Site Improvements	3,701,714	1,175,735	4,877,449
Pipeline	-	44,564,622	44,564,622
Buildings	18,356,863	19,066,906	37,423,769
Equipment and Furniture	1,865,460	26,946,866	28,812,326
Deferred Charges - Bond Issue Costs	67,478	143,088	210,566
Other Assets	1,146,772	337,531	1,484,303
Total Assets	93,619,269	153,894,415	247,513,684
LIABILITIES			
Current Liabilities			
Accounts Payable	288,887	992,498	1,281,385
Accrued Expenses	540,538	523,483	1,064,021
Due to Other Governments	2,074,966	-	2,074,966
Construction Retainage Payable	-	165,102	165,102
Deferred Revenue	11,428,901	3,894,592	15,323,493
Deferred Liabilities	14,732	-	14,732
Compensated Absences	39,512	12,524	52,036
Bonds Payable, Net of Deferred Charges	155,383	1,682,002	1,837,385
Long Term Liabilities			
Compensated Absences	948,296	300,572	1,248,868
Bonds Payable, Net of Deferred Charges	5,028,044	42,522,814	47,550,858
Total Liabilities	20,519,259	50,093,587	70,612,846
NET POSITION			
Invested in Capital Assets, Net of Related Debt	26,191,732	63,138,398	89,330,130
Restricted for:			
Recreation Areas	22,685	-	22,685
APFO-EMS	401	-	401
Capital Projects - Equipment Replacement	-	328,749	328,749
Capital Projects - Expansion Sewer Facilities	-	19,942,391	19,942,391
Unrestricted	46,885,192	20,391,290	67,276,482
Total Net Position	\$ 73,100,010	\$ 103,800,828	\$ 176,900,838

KENT COUNTY, DELAWARE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes In Net Position		
		Charges for Services	Grants and Contributions		Primary Government		Total
			Operating	Capital	Governmental Activities	Business Type Activities	
Primary Government:							
Governmental Activities:							
General Government	\$ 2,688,660	\$ 254,311	\$ -	\$ -	\$ (2,432,349)	\$ -	\$ (2,432,349)
Special Grants/Programs	1,502,929	-	-	-	(1,502,929)	-	(1,502,929)
Community Services	3,431,036	361,137	176,783	-	(2,893,116)	-	(2,893,116)
Planning Services	5,862,709	1,506,644	1,488,315	-	(2,867,750)	-	(2,867,750)
Public Safety	7,768,023	93,183	1,479,699	38,050	(6,157,091)	-	(6,157,091)
Row Offices	1,754,050	6,160,251	-	-	4,406,201	-	4,406,201
Economic Development	751,348	-	-	-	(751,348)	-	(751,348)
Amortization	5,068	-	-	-	(5,068)	-	(5,068)
Interest on Long-Term Debt	241,405	-	-	-	(241,405)	-	(241,405)
Total Governmental Activities	24,003,228	8,375,526	3,144,797	38,050	(12,444,855)	-	(12,444,855)
Business-Type Activities:							
Sewer	16,714,840	14,956,540	-	4,154,892	-	2,396,592	2,396,592
Street Light	776,190	839,036	-	-	-	62,846	62,846
Trash	2,546,791	2,981,336	-	-	-	434,545	434,545
Landfill (Note J)	33,205	-	-	-	-	(33,205)	(33,205)
Total Business-Type Activities	20,071,026	18,776,912	-	4,154,892	-	2,860,778	2,860,778
Total Primary Government	\$ 44,074,254	\$ 27,152,438	\$ 3,144,797	\$ 4,192,942	(12,444,855)	2,860,778	(9,584,077)
General Revenues:							
Taxes:							
Property Taxes					10,477,287	-	10,477,287
Real Estate Transfer Tax					3,021,612	-	3,021,612
Residential Telephone Surcharge					270,015	-	270,015
Investment Earnings					98,332	32,179	130,511
Other Revenues including Capital Asset Sales Gains					383,653	-	383,653
Total General Revenues					14,250,979	32,179	14,283,058
Changes In Net Position					1,806,024	2,892,957	4,698,981
Net Position At Beginning Of Year					71,490,278	100,907,871	172,398,149
Prior Period Adjustment					(196,292)	-	(196,292)
Net Position At End Of Year					\$ 73,100,010	\$ 103,800,828	\$ 176,900,838

KENT COUNTY, DELAWARE

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	General Fund	Capital Projects Fund	Community Development Block Grant	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Investments	\$ 38,754,390	\$ 8,093,618	\$ 460,504	\$ 50,616	\$ 47,359,128
Receivables					
Accounts	54,512	-	4,025	-	58,537
Taxes	11,915,715	-	-	-	11,915,715
Due From Other Funds	803,084	-	-	-	803,084
Due from Other Governments	468,822	37,979	112,993	15,130	634,924
Prepaid Expenses and Other Assets	153,412	-	-	-	153,412
Total Assets	\$ 52,149,935	\$ 8,131,597	\$ 577,522	\$ 65,746	\$ 60,924,800
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 237,871	\$ 38,793	\$ 3,002	\$ -	\$ 279,666
Accrued Expenses	451,523	-	9,278	-	460,801
Due to Other Funds	13,052	1,266	355,000	36,837	406,155
Due to Other Governments	2,074,966	-	-	-	2,074,966
Deferred Revenue	11,937,766	-	210,242	-	12,148,008
Deferred Liabilities	14,732	-	-	-	14,732
Total Liabilities	14,729,910	40,059	577,522	36,837	15,384,328
Fund Balances:					
Nonspendable:					
Inventory	21,671	-	-	-	21,671
Prepaid Expenses	131,741	-	-	-	131,741
Restricted:					
Capital Projects Funds	-	8,091,538	-	28,909	8,120,447
Recreational Areas	22,685	-	-	-	22,685
APFO-EMS	401	-	-	-	401
Library Tax	171,770	-	-	-	171,770
Rodent Grant	16,117	-	-	-	16,117
LEPC Grant	18,138	-	-	-	18,138
Library Standards Grant	50,812	-	-	-	50,812
Committed:					
Encumbrances	161,640	-	-	-	161,640
Assigned:					
Operating Needs	600,200	-	-	-	600,200
Legal Contingency	950,000	-	-	-	950,000
Library	45,000	-	-	-	45,000
Deeds Maintenance Fees	60,000	-	-	-	60,000
Sheriff Auctioneer Fees	60,000	-	-	-	60,000
Local Government Fees	60,000	-	-	-	60,000
Donations	1,204	-	-	-	1,204
Unassigned	35,048,646	-	-	-	35,048,646
Total Fund Balances	37,420,025	8,091,538	-	28,909	45,540,472
Total Liabilities and Fund Balances	\$ 52,149,935	\$ 8,131,597	\$ 577,522	\$ 65,746	\$ 60,924,800

KENT COUNTY, DELAWARE

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2012

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

Total Fund Balances for Governmental Funds		\$ 45,540,472
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 Position.		31,307,681
Accumulated difference between actual pension contributions expensed in governmental funds and the actuarially determined annual pension costs.		1,146,772
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 Position. The increase is equal to the internal service fund net position.		569,472
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	<u>\$ 719,107</u>	719,107
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	\$ (987,808)	
Accrued Interest on Long Term Debt	(79,737)	
Deferred Charges - Bond Issuance Costs	67,478	
Bonds Payable	<u>(5,183,427)</u>	<u>(6,183,494)</u>
Total Net Position of Governmental Activities		<u>\$ 73,100,010</u>

KENT COUNTY, DELAWARE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Capital Projects Fund	Community Development Block Grant	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property Taxes	\$ 10,437,042	\$ -	\$ -	\$ -	\$ 10,437,042
Real Estate Transfer Tax	3,021,612	-	-	-	3,021,612
Residential Telephone Surcharge	270,015	-	-	-	270,015
Grants	1,675,758	38,051	1,439,979	29,060	3,182,848
Fees For Services	8,121,584	-	-	-	8,121,584
Investment Income	94,842	3,394	-	8	98,244
Rental Income	23,186	-	-	-	23,186
Other Revenues	267,475	-	232,268	18,377	518,120
Total Revenues	23,911,514	41,445	1,672,247	47,445	25,672,651
EXPENDITURES					
Current:					
General Government	1,922,543	239,231	-	-	2,161,774
Special Grants and Programs	1,502,929	-	-	-	1,502,929
Community Services	3,086,349	36,788	-	-	3,123,137
Planning Services	3,872,757	-	1,954,591	29,060	5,856,408
Public Safety	7,344,813	70,527	-	-	7,415,340
Row Offices	1,665,541	117,490	-	-	1,783,031
Economic Development	-	750,000	-	1,348	751,348
Debt Service:					
Principal	150,347	-	-	-	150,347
Interest and Fiscal Charges	243,149	-	-	-	243,149
Capital Outlay	-	75,182	-	-	75,182
Total Expenditures	19,788,428	1,289,218	1,954,591	30,408	23,062,645
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,123,086	(1,247,773)	(282,344)	17,037	2,610,006
OTHER FINANCING SOURCES (USES)					
Transfers In	-	239,327	282,344	-	521,671
Transfers Out	(521,671)	-	-	-	(521,671)
Total Other Financing Sources (Uses)	(521,671)	239,327	282,344	-	-
Net Change in Fund Balances	3,601,415	(1,008,446)	-	17,037	2,610,006
Fund Balances At Beginning of Year	33,818,610	9,099,984	-	11,872	42,930,466
Fund Balances At End Of Year	\$ 37,420,025	\$ 8,091,538	\$ -	\$ 28,909	\$ 45,540,472

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, 2012**

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

Net Change In Fund Balances - Total Governmental Funds **\$ 2,610,006**

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, 2012.

Capital Outlays	\$ 423,805	
Depreciation	<u>(1,240,352)</u>	(816,547)

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. (90,491)

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.

Property Taxes	<u>\$ 40,225</u>	40,225
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The repayment of principal is an expenditure in the governmental funds, but is a reduction to the liability in the Statement of Net Position.

Principal - Bonds Payable	<u>\$ 150,347</u>	150,347
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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.

Compensated Absences	\$ (90,241)	
Accrued interest on long-term debt	<u>1,744</u>	(88,497)

Deferred charges related to bonds is an expenditure in the governmental funds, but are assets and liabilities in the Statement of Net Position 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.

Deferred Charges - Bond Issuance Costs	\$ (3,214)	
Deferred Charges - Bond Discount	<u>(1,854)</u>	(5,068)

Internal service funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The net income of the Internal Service Fund is reported with governmental activities. 6,049

Change In Net Position of Governmental Activities	<u><u>\$ 1,806,024</u></u>
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KENT COUNTY, DELAWARE

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED
JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property Taxes	\$ 10,260,300	\$ 10,190,300	\$ 10,437,042	\$ 246,742
Real Estate Transfer Tax	2,800,000	2,800,000	3,021,612	221,612
Residential Telephone Surcharge	270,000	270,000	270,015	15
Grants	1,695,900	1,724,594	1,675,758	(48,836)
Fees For Services	5,899,100	5,899,100	8,121,584	2,222,484
Interest and Dividends	180,000	180,000	94,842	(85,158)
Rental Income	23,200	23,200	23,186	(14)
Other Revenues	232,300	290,700	267,475	(23,225)
Total Revenues	<u>21,360,800</u>	<u>21,377,894</u>	<u>23,911,514</u>	<u>2,533,620</u>
EXPENDITURES				
Current:				
General Government	1,935,500	2,083,697	1,922,543	161,154
Special Grants and Programs	1,621,000	1,663,776	1,502,929	160,847
Community Services	3,164,400	3,198,989	3,086,349	112,640
Planning Services	4,060,100	4,094,477	3,872,757	221,720
Public Safety	7,504,700	7,573,898	7,344,813	229,085
Row Offices	1,762,500	1,803,810	1,665,541	138,269
Contingency	857,200	733,203	-	733,203
Debt Service:				
Principal	150,400	150,400	150,347	53
Interest	243,200	243,200	243,149	51
Total Expenditures	<u>21,299,000</u>	<u>21,545,450</u>	<u>19,788,428</u>	<u>1,757,022</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>61,800</u>	<u>(167,556)</u>	<u>4,123,086</u>	<u>4,290,642</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(515,800)	(542,827)	(521,671)	21,156
Appropriated Fund Balance	454,000	710,383	-	(710,383)
Total Other Financing Sources (Uses)	<u>(61,800)</u>	<u>167,556</u>	<u>(521,671)</u>	<u>(689,227)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>3,601,415</u>	<u>\$ 3,601,415</u>
Fund Balance at Beginning of Year			<u>33,818,610</u>	
Fund Balance at End of Year			<u>\$ 37,420,025</u>	

KENT COUNTY, DELAWARE

STATEMENT OF NET
POSITION
PROPRIETARY FUNDS
JUNE 30, 2012

	Business-Type Activities - Enterprise Funds			Governmental	
	Sewer Fund	Trash Collection	Other Enterprise Funds	Internal Service Fund	
ASSETS					
Current Assets:					
Cash and Investments	\$ 10,142,074	\$ 762,163	\$ 1,233,322	\$ 12,137,559	\$ 544,888
Receivables					
Accounts	347,493	-	-	347,493	33,805
Fees and Services	2,335,681	3,077,453	911,335	6,324,469	-
Due from Other Funds	17,329	-	4,817	22,146	-
Due from Other Governments	455,991	-	-	455,991	-
Inventory	113,243	-	-	113,243	-
Prepaid Expenses and Other Assets	37,216	-	-	37,216	-
Total Current Assets	13,449,027	3,839,616	2,149,474	19,438,117	578,693
Non-Current Assets:					
Restricted Assets:					
Cash and Investments	27,028,075	-	-	27,028,075	-
Receivables					
Accounts	25	-	-	25	-
Interest	166,528	-	-	166,528	-
Capital Assets, Net					
Land	4,746,991	-	-	4,746,991	-
Construction in Progress	10,699,006	-	-	10,699,006	-
Land and Site Improvements	1,175,735	-	-	1,175,735	-
Pipeline	44,564,622	-	-	44,564,622	-
Buildings	19,066,906	-	-	19,066,906	-
Equipment and Furniture	26,946,866	-	-	26,946,866	-
Deferred Charges - Bond					
Issue Costs	143,088	-	-	143,088	-
Other Assets	337,531	-	-	337,531	-
Total Non-Current Assets	134,875,373	-	-	134,875,373	-
Total Assets	148,324,400	3,839,616	2,149,474	154,313,490	578,693
LIABILITIES					
Current Liabilities					
Accounts Payable	764,716	190,334	37,448	992,498	9,221
Accrued Expenses	523,483	-	-	523,483	-
Construction Retainage Payable	165,102	-	-	165,102	-
Due to Other Funds	381,824	19,494	17,757	419,075	-
Deferred Revenue	41,804	2,987,520	865,268	3,894,592	-
Compensated Absences	12,524	-	-	12,524	-
Bonds Payable, Net of Deferred Charges	1,682,002	-	-	1,682,002	-
Total Current Liabilities	3,571,455	3,197,348	920,473	7,689,276	9,221
Non-Current Liabilities:					
Compensated Absences	300,572	-	-	300,572	-
Bonds Payable, Net of Deferred Charges	42,522,814	-	-	42,522,814	-
Total Non-Current Liabilities	42,823,386	-	-	42,823,386	-
Total Liabilities	46,394,841	3,197,348	920,473	50,512,662	9,221
NET POSITION					
Invested in Capital Assets, Net of Related Debt	63,138,398	-	-	63,138,398	-
Restricted for:					
Capital Projects - Equipment Replacement	328,749	-	-	328,749	-
Capital Projects - Expansion Sewer Facilities	19,942,391	-	-	19,942,391	-
Unrestricted	18,520,021	642,268	1,229,001	20,391,290	569,472
Total Net Position	\$ 101,929,559	\$ 642,268	\$ 1,229,001	\$ 103,800,828	\$ 569,472

KENT COUNTY, DELAWARE

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities - Enterprise Funds				Governmental
	Sewer Fund	Trash Collection	Other Enterprise Funds	Total	Internal Service Fund
OPERATING REVENUES					
Fees for Services	\$ 14,364,975	\$ 2,978,536	\$ 839,036	\$ 18,182,547	\$ -
Permits	100,166	-	-	100,166	-
Other Revenue	491,399	2,800	-	494,199	-
Employer Contributions	-	-	-	-	3,476,864
Employee Contributions	-	-	-	-	459,506
Total Operating Revenues	14,956,540	2,981,336	839,036	18,776,912	3,936,370
OPERATING EXPENSES					
Salaries and Benefits	4,619,076	70,817	37,389	4,727,282	-
Contractual Services	537,892	2,365,911	28,564	2,932,367	-
Travel	2,362	-	-	2,362	-
Utilities	1,580,356	-	655,558	2,235,914	-
Maintenance, Parts and Supplies	1,726,922	22,701	121	1,749,744	-
Vehicle Expense	225,699	3,076	1,025	229,800	-
Operating Insurance and Indirect Costs	1,249,495	79,442	86,738	1,415,675	-
Miscellaneous Expenses	19,359	4,844	-	24,203	-
Depreciation Expense	5,360,616	-	-	5,360,616	-
Medical Insurance Premiums	-	-	-	-	3,730,723
Medical Claims	-	-	-	-	173,197
Trustee Fee and Wire Charges	-	-	-	-	26,489
Total Operating Expenses	15,321,777	2,546,791	809,395	18,677,963	3,930,409
Operating Income (Loss)	(365,237)	434,545	29,641	98,949	5,961
NON-OPERATING REVENUES (EXPENSES)					
Interest and Dividends	31,396	273	510	32,179	88
Interest and Fiscal Charges	(1,382,019)	-	-	(1,382,019)	-
Amortization	(11,044)	-	-	(11,044)	-
Total Non-Operating Revenues (Expenses)	(1,361,667)	273	510	(1,360,884)	88
Net Income (Loss) before Contributions	(1,726,904)	434,818	30,151	(1,261,935)	6,049
Capital Contributions:					
Capital Grant	1,924,285	-	-	1,924,285	-
Impact Fees	2,219,981	-	-	2,219,981	-
Developers Aid In Construction	10,626	-	-	10,626	-
Change In Net Position	2,427,988	434,818	30,151	2,892,957	6,049
Net Position At Beginning Of Year	99,501,571	207,450	1,198,850	100,907,871	563,423
Net Position At End Of Year	\$ 101,929,559	\$ 642,268	\$ 1,229,001	\$ 103,800,828	\$ 569,472

KENT COUNTY, DELAWARE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities - Enterprise Funds				Governmental
	Sewer Fund	Trash Collection	Other Enterprise Funds	Total	Activities - Internal Service Fund
Cash Flows From Operating Activities:					
Receipts from Customers and Users	\$ 15,027,099	\$ 2,989,932	\$ 831,531	\$ 18,848,562	\$ 4,194,243
Payments to Suppliers	(4,431,432)	(2,434,292)	(686,983)	(7,552,707)	(3,927,030)
Payments to Employees	(4,584,004)	(153,066)	-	(4,717,070)	-
Internal Activity - payments to other funds	(1,291,101)	-	(122,199)	(1,413,300)	-
Net Cash Provided by Operating Activities	4,740,562	402,574	22,349	5,165,485	267,213
Cash Flows From Capital and Related Financing Activities:					
Proceeds from Capital Grant	2,256,899	-	-	2,256,899	-
Proceeds from Bonded Indebtedness	3,397,234	-	-	3,397,234	-
Acquisition and Construction of Capital Assets	(3,789,899)	-	-	(3,789,899)	-
Interest/Fiscal Charges Paid on Bonds	(1,353,952)	-	-	(1,353,952)	-
Retirement of Debt	(1,583,434)	-	-	(1,583,434)	-
Developers Aid in Construction	10,626	-	-	10,626	-
Impact Fees Collected	2,219,981	-	-	2,219,981	-
Net Cash Provided by Capital and Related Financing Activities	1,157,455	-	-	1,157,455	-
Cash Flows From Investing Activities:					
Proceeds From Matures Investments	35,453	-	-	35,453	-
Interest and Dividends	84,923	273	510	85,706	88
Net Cash Provided By Investing Activities	120,376	273	510	121,159	88
Net Increase In Cash and Cash Equivalents	6,018,393	402,847	22,859	6,444,099	267,301
Cash and Cash Equivalents At Beginning Of Year	30,797,009	359,316	1,210,463	32,366,788	277,587
Cash and Cash Equivalents At End Of Year	\$ 36,815,402	\$ 762,163	\$ 1,233,322	\$ 38,810,887	\$ 544,888
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position					
Statement of Net Position					
Current Assets: Cash and Investments	\$ 10,142,074	\$ 762,163	\$ 1,233,322	\$ 12,137,559	\$ 544,888
Non Current Assets: Cash and Investments	27,028,075	-	-	27,028,075	-
Total Cash and Investments	37,170,149	762,163	1,233,322	39,165,634	544,888
Less: Long-term Investments	(354,747)	-	-	(354,747)	-
Cash and Cash Equivalents	\$ 36,815,402	\$ 762,163	\$ 1,233,322	\$ 38,810,887	\$ 544,888

KENT COUNTY, DELAWARE

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (Continued)
 FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities - Enterprise Funds				Governmental
	Sewer Fund	Trash Collection	Other Enterprise Funds	Total	Activities - Internal Service Fund
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities					
Operating Income (Loss)	\$ (365,237)	\$ 434,545	\$ 29,641	\$ 98,949	\$ 5,961
Adjustments to reconcile Operating Income (Loss) to Net Cash provided by Operating Activities:					
Depreciation	5,360,616	-	-	5,360,616	-
Change in Assets and Liabilities:					
(Increase) Decrease in Accounts Receivable	66,357	(56,239)	(44,287)	(34,169)	6,958
(Increase) Decrease in Due From Other Funds	7,062	-	(3,626)	3,436	250,915
Decrease in Prepaid Expenses & Other Assets	168,640	-	-	168,640	487
Increase (Decrease) in Accounts Payable	(507,482)	(37,553)	(1,715)	(546,750)	2,892
Increase in Accrued Expenses	18,339	-	-	18,339	-
Increase in Compensated Absences	36,733	-	-	36,733	-
Increase (Decrease) in Deferred Revenue	(2,860)	64,835	40,408	102,383	-
Increase (Decrease) in Due To Other Funds	(41,606)	(3,014)	1,928	(42,692)	-
Net Cash Provided by Operating Activities	\$ 4,740,562	\$ 402,574	\$ 22,349	\$ 5,165,485	\$ 267,213

KENT COUNTY, DELAWARE
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2012

	<u>Pension and Post Retiree Funds</u>	<u>Agency Fund</u>
ASSETS		
Restricted Assets:		
Cash and Short Term Investments	\$ 869	\$ 1,487,813
Receivables		
Interest	8,487	-
Investments	<u>37,100,063</u>	<u>-</u>
Total Assets	<u>37,109,419</u>	<u>\$ 1,487,813</u>
LIABILITIES		
Accounts Payable	25,853	\$ -
Due to Other Governments	-	879,111
Tax Sale Proceeds Payable	-	124,926
Deferred Liabilities	<u>-</u>	<u>483,776</u>
Total Liabilities	<u>25,853</u>	<u>\$ 1,487,813</u>
NET POSITION		
Held in Trust for:		
Pension Benefits	26,680,305	
Post Retiree Benefits	<u>10,403,261</u>	
Total Net Position	<u>\$ 37,083,566</u>	

KENT COUNTY, DELAWARE

**STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Pension And Post Retiree Funds</u>
ADDITIONS	
Employee Contributions	\$ 135,532
Employer Contributions	2,052,987
Interest and Dividends	388,089
Net Appreciation in Fair Value of Investments	<u>215,529</u>
Total Additions	<u>2,792,137</u>
DEDUCTIONS	
Pension Benefits	2,464,071
Administrative Expense	<u>174,695</u>
Total Deductions	<u>2,638,766</u>
Change In Net Position	153,371
Net Position - Beginning of Year	<u>36,930,195</u>
Net Position - End of Year	<u><u>\$ 37,083,566</u></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. 63 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, economic development, 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 position and the statement of activities) 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 And Post Retiree 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 Position 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 And Post Retiree 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, 2012 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 position 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 position. 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 Position and Fund Balances

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

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, prepaid expenses, endowments).

Restricted – amounts that can be spent only for specific purposes and are limited by the Delaware Code, state or federal laws, or externally imposed conditions by grantors or creditors - (e.g., grants or donations and constraints imposed through a debt covenant).

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Committed – amounts that can be used only for specific purposes determined by Levy Court ordinance, resolution, or 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. These decisions can be made by the Levy Court, County Administrator, or Finance Director.

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

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 County 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, 2012, 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.

NOTE B – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - CONTINUED

- 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	\$ 50,884,953	\$ 51,715,018
Uninsured Deposits - Collateral held by pledging financial institution or by its trust department or agent but not in the County's name	<u>58,820</u>	<u>66,836</u>
Total Deposits	<u>\$ 50,943,773</u>	<u>\$ 51,781,854</u>

<u>Investments</u>	<u>Market Value</u>
Money Market Mutual Funds	\$ 17,213,938
Certificates of Deposit	20,283,340
U.S. Agencies	9,406,693
U.S. Treasuries	145,320
U.S. Treasuries - Stripped	209,427
Corporate Stocks	17,008,746
DE Local Government Retirement Investment Pool	<u>10,403,261</u>
Total Investments	<u>\$ 74,670,725</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.

NOTE C – DEPOSITS AND INVESTMENTS - CONTINUED

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.

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, 2012, 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.S. Treasuries	\$ 145,320	\$ -	\$ 145,320
U.S. Treasuries Stripped	209,427	-	209,427
Total Investments	<u>\$ 354,747</u>	<u>\$ -</u>	<u>\$ 354,747</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, 2012, the pension plan did not have 5% or more of plan net position 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, 2012, the County had \$10,403,261 from its Retiree Benefits Fund invested with the Delaware Local Government Retirement Investment Pool (DERIP), see Note K. 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 Position.

Deposits	\$ 50,943,773
Investments	74,670,725
Petty Cash Amounts	2,700
Cash on Hand	41,197
Total	\$ 125,658,395
Unrestricted	\$ 60,041,575
Restricted	27,028,075
Fiduciary Funds	38,588,745
Total Cash and Investments	\$ 125,658,395

NOTE D – CAPITAL ASSETS

1. Primary Government

The capital asset activity for Governmental Activities for the year ended June 30, 2012, was as follows:

	July 1, 2011	Increases	Decreases	June 30, 2012
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated				
Land	\$ 7,312,893	\$ -	\$ -	\$ 7,312,893
Construction in Progress	54,321	196,039	(179,609)	70,751
Total Capital Assets Not Being Depreciated	<u>7,367,214</u>	<u>196,039</u>	<u>(179,609)</u>	<u>7,383,644</u>
Capital Assets Being Depreciated				
Site Improvements	4,990,378	3,802	-	4,994,180
Buildings	21,906,653	6,095	-	21,912,748
Equipment and Furniture	9,354,687	397,478	(1,324,715)	8,427,450
Total Capital Assets Being Depreciated	<u>36,251,718</u>	<u>407,375</u>	<u>(1,324,715)</u>	<u>35,334,378</u>
Less Accumulated Depreciation for:				
Site Improvements	1,066,628	225,838	-	1,292,466
Buildings	3,073,593	482,292	-	3,555,885
Equipment and Furniture	7,354,483	532,222	(1,324,715)	6,561,990
Total Accumulated Depreciation	<u>11,494,704</u>	<u>1,240,352</u>	<u>(1,324,715)</u>	<u>11,410,341</u>
Total Capital Assets Being Depreciated, Net	<u>24,757,014</u>	<u>(832,977)</u>	<u>-</u>	<u>23,924,037</u>
Governmental Activities Capital Assets, Net	<u>\$ 32,124,228</u>	<u>\$ (636,938)</u>	<u>\$ (179,609)</u>	<u>\$ 31,307,681</u>

NOTE D – CAPITAL ASSETS - CONTINUED

The capital asset activity for Business-Type Activities for the year ended June 30, 2012, was as follows:

	July 1, 2011	Increases	Decreases	June 30, 2012
Business-Type Activities:				
Capital Assets Not Being Depreciated				
Land	\$ 4,403,380	\$ 343,611	\$ -	\$ 4,746,991
Construction in Progress	35,307,682	3,135,416	(27,744,092)	10,699,006
Total Capital Assets Not Being Depreciated	<u>39,711,062</u>	<u>3,479,027</u>	<u>(27,744,092)</u>	<u>15,445,997</u>
Capital Assets Being Depreciated				
Site Improvements	5,936,520	-	-	5,936,520
Pipeline	70,246,036	8,268,626	-	78,514,662
Buildings	31,369,241	4,303,431	-	35,672,672
Equipment and Furniture	39,456,736	14,857,020	(18,521)	54,295,235
Total Capital Assets Being Depreciated	<u>147,008,533</u>	<u>27,429,077</u>	<u>(18,521)</u>	<u>174,419,089</u>
Less Accumulated Depreciation for:				
Site Improvements	4,477,506	283,279	-	4,760,785
Pipeline	32,265,398	1,684,642	-	33,950,040
Buildings	15,713,458	892,308	-	16,605,766
Equipment and Furniture	24,866,503	2,500,387	(18,521)	27,348,369
Total Accumulated Depreciation	<u>77,322,865</u>	<u>5,360,616</u>	<u>(18,521)</u>	<u>82,664,960</u>
Total Capital Assets Being Depreciated, Net	<u>69,685,668</u>	<u>22,068,461</u>	<u>-</u>	<u>91,754,129</u>
Business-Type Activities Capital Assets, Net	<u>\$ 109,396,730</u>	<u>\$ 25,547,488</u>	<u>\$(27,744,092)</u>	<u>\$ 107,200,126</u>

Depreciation expense was charged to the following activities:

Governmental Activities:		Business-Type Activities:	
General Government	\$ 469,410	Sewer Fund	<u>\$ 5,360,616</u>
Community Services	325,356		
Planning Services	5,695		
Public Safety	373,563		
Row Offices	66,328		
	<u>\$ 1,240,352</u>		

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, 2012, was as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Capital Projects Fund	\$ 312
	CDBG	355,000
	Non-Major Governmental Funds	36,837
	Sewer Fund	381,824
	Trash Collection Fund	13,880
	Non-Major Proprietary Funds	15,231
Sewer Fund	General Fund	8,235
	Capital Projects Fund	954
	Trash Collection Fund	5,614
	Non-Major Proprietary Funds	2,526
Non Major Proprietary Funds	General Fund	4,817
	Total	\$ 825,230

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>Capital Projects Fund</u>	<u>Community Development Block Grant</u>	
General Fund	\$ 239,327	\$ 282,344	\$ 521,671
Total Interfund Transfers	<u>\$ 239,327</u>	<u>\$ 282,344</u>	<u>\$ 521,671</u>

NOTE F – LONG-TERM DEBT

1. Changes in Long-Term Liabilities

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
Governmental Activities:					
Bonds Payable	\$ 5,372,719	\$ -	\$ (150,347)	\$ 5,222,372	\$ 157,237
Less: Deferred Charges	(40,799)	-	1,854	(38,945)	(1,854)
Total Bonds Payable	5,331,920	-	(148,493)	5,183,427	155,383
Compensated Absences	897,567	90,241	-	987,808	39,512
Governmental Activity Long-Term Liability	\$ 6,229,487	\$ 90,241	\$ (148,493)	\$ 6,171,235	\$ 194,895
Business-Type Activities:					
Bonds Payable	\$ 45,210,098	\$ 647,055	\$ (1,583,434)	\$ 44,273,719	\$ 1,694,392
Less: Deferred Charges	(84,867)	-	15,964	(68,903)	(12,390)
Total Bonds Payable	45,125,231	647,055	(1,567,470)	44,204,816	1,682,002
Compensated Absences	276,364	36,732	-	313,096	12,524
Business-Type Activity Long-Term Liabilities	\$ 45,401,595	\$ 683,787	\$ (1,567,470)	\$ 44,517,912	\$ 1,694,526

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, 2012:

<u>Date of Issue/ Maturity</u>	<u>Amount of Original Issue</u>	<u>Description</u>	<u>Interest Rates</u>	<u>Balance Outstanding June 30, 2012</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%	\$ 157,149
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%	146,170
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%	100,307
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%	1,325,100
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%	259,134
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%	287,628
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%	11,900,000
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%	656,879
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%	2,339,999

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, 2012</u>
2005 February 2049	3,545,202	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%	3,507,634
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%	245,998
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%	117,297
2010 September 2030	14,905,418	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%	14,905,418
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%	976,107
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%	2,146,895
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%	2,289,935
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%	110,065

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, 2012</u>
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%	992,227
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 2032	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		<u>49,496,091</u>
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.		<u>(107,848)</u>
		Total Long-Term Debt		<u><u>\$ 49,388,243</u></u>

NOTE F – LONG-TERM DEBT – CONTINUED

The annual debt service requirements to maturity for principal and interest for bonds payable as of June 30, 2012, are as follows:

Year Ending June 30	General Obligation Bonds			
	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 157,237	\$ 237,591	\$ 1,694,392	\$ 1,392,912
2014	161,522	231,585	2,414,228	1,341,297
2015	166,730	225,208	2,485,443	1,278,690
2016	175,762	218,366	2,193,733	1,220,913
2017	180,048	211,135	2,237,722	1,168,488
2018-2022	1,014,421	930,171	10,704,929	5,056,864
2023-2027	1,180,793	677,796	10,720,280	3,832,003
2028-2032	1,482,956	357,330	10,290,318	2,535,824
2033-2037	702,903	34,506	4,375,467	1,539,880
2038-2042	-	-	3,651,226	1,074,071
2043-2047	-	-	4,006,980	601,809
2048-2052	-	-	2,788,430	125,267
Total	5,222,372	\$ 3,123,688	57,563,148	\$ 21,168,018
Less:				
Funds Not Drawn	-		(13,289,429)	
Total	\$ 5,222,372		\$ 44,273,719	

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:

	Governmental Fund Financial Statements			Government- Wide Statements
	General	Community Development Block Grant	Total	Governmental Activities
Property Taxes	\$ 11,097,839	\$ -	\$ 11,097,839	\$ 10,436,490
Library Taxes	746,126	-	746,126	688,414
Suburban Park Taxes	15,683	-	15,683	15,637
Grants & Other	78,118	210,242	288,360	288,360
Total Deferred Revenue	\$ 11,937,766	\$ 210,242	\$ 12,148,008	\$ 11,428,901

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

	Enterprise Fund Financial Statements				Government- Wide Statements
	Sewer	Trash Collection	Non-Major Funds	Total	Business-Type Activities
Fees for Services	\$ -	\$ 2,987,520	\$ 865,268	\$ 3,852,788	\$ 3,852,788
Mortgage Note	3,079	-	-	3,079	3,079
Trnsmsn Debt Refinance	32,216	-	-	32,216	32,216
Bid Bond	6,509	-	-	6,509	6,509
Total Deferred Revenue	\$ 41,804	\$ 2,987,520	\$ 865,268	\$ 3,894,592	\$ 3,894,592

NOTE H – FUND BALANCES – GOVERNMENTAL FUNDS

GASB Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes fund balance categories that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Detailed information on fund balances of governmental funds is as follows:

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:				
Inventory	\$ 21,671	\$ -	\$ -	\$ 21,671
Prepaid Expenses	131,741	-	-	131,741
Total Nonspendable	153,412	-	-	153,412
Restricted:				
Capital Projects	-	8,091,538	28,909	8,120,447
Recreational	22,685	-	-	22,685
APFO-EMS	401	-	-	401
Library Tax	171,770	-	-	171,770
Rodent Grant	16,117	-	-	16,117
LEPC Grant	18,138	-	-	18,138
Library Standards Grant	50,812	-	-	50,812
Total Restricted	279,923	8,091,538	28,909	8,400,370
Committed:				
Encumbrances	161,640	-	-	161,640
Total Committed	161,640	-	-	161,640
Assigned:				
Operating Needs	600,200	-	-	600,200
Legal Contingency	950,000	-	-	950,000
Library	45,000	-	-	45,000
Recorder of Deeds Maintenance Fees	60,000	-	-	60,000
Sheriff Auctioneer Fees	60,000	-	-	60,000
Local Government Fees	60,000	-	-	60,000
Donations	1,204	-	-	1,204
Total Assigned	1,776,404	-	-	1,776,404
Unassigned	35,048,646	-	-	35,048,646
Total Fund Balances	\$ 37,420,025	\$ 8,091,538	\$ 28,909	\$ 45,540,472

NOTE I – CAPITAL IMPROVEMENT COMMITMENTS

The following is a summary of the significant capital improvement commitments of the County as of June 30, 2012:

Governmental Funds

<u>Project Name</u>	<u>Estimated Project Cost</u>	<u>Remaining Contract Commitments To Date</u>	<u>Costs Incurred To Date</u>
Wheatley Substation Generator	\$ 33,491	\$ 30,392	\$ 3,099
EOC Enhancements	19,691	9,845	9,846
EMS Parking Lot Exp/Drainage	5,950	5,950	-
	<u>\$ 59,132</u>	<u>\$ 46,187</u>	<u>\$ 12,945</u>

The Capital Projects Fund has incurred costs in the amount of \$57,806 that were not under a formal construction commitment as of June 30, 2012.

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/Pickering Beach	\$ 2,930,560	\$ 524,842	\$ 2,405,718
TMDL	694,802	446,689	248,113
General Labor & Equipment Contract	2,907,924	1,457,730	1,450,194
Spring Creek Land Conservation	1,375,000	1,374,000	1,000
	<u>\$ 7,908,286</u>	<u>\$ 3,803,261</u>	<u>\$ 4,105,025</u>

In addition, the Sewer Fund has incurred costs in the amount of \$6,593,981 that were not under a formal construction commitment as of June 30, 2012.

NOTE J – 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

NOTE J – CONTINGENCIES AND COMMITMENTS - CONTINUED

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.

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, 2012, 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.

In December 2012, the Respondents reached an agreement with DNREC and among themselves about the monitoring and maintenance plan. They entered into a memorandum of understanding under which the County would take over maintenance and monitoring responsibility for the site for 27 years, receive a lump sum payment of \$180,000 from the other Respondents and have the 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 County will assume the obligations under the O&M agreement once the Coalition members approve the agreement.

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 K – PENSION AND POST RETIREE FUNDS

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 K – PENSION AND POST RETIREE FUNDS - CONTINUED

An actuarial valuation of the pension plan prepared by Grant Thornton LLP, as of January 1, 2012, was based on the following membership data:

Active Employees	281
Retired	153
Survivors	18
Disabled	2
Deferred Vested	<u>99</u>
TOTAL	<u>553</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 position 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 Grant Thornton LLP. 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.

NOTE K – PENSION AND POST RETIREE FUNDS - CONTINUED

Total contribution to the pension plan in fiscal year 2012 was \$1,527,494 of which \$135,532 was the employee contribution and \$1,391,962 was the employer contribution. This contribution was based on the January 1, 2011 actuarial valuation by LECG, LLC.

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

KENT COUNTY, DELAWARE

STATEMENT OF FIDUCIARY NET POSITION

PENSION TRUST FUNDS

June 30, 2012

	<u>Pension Fund</u>	<u>Post Retiree Benefits Fund</u>
ASSETS		
Restricted Assets:		
Cash and Short Term Investments	\$ 869	\$ -
Receivables		
Interest	8,487	-
Investments	<u>26,696,802</u>	<u>10,403,261</u>
Total Assets	<u>26,706,158</u>	<u>10,403,261</u>
LIABILITIES		
Accounts Payable	<u>25,853</u>	-
Total Liabilities	<u>25,853</u>	<u>-</u>
NET POSITION		
Held in Trust for:		
Pension Benefits	26,680,305	-
Post Retiree Benefits	<u>-</u>	<u>10,403,261</u>
Total Net Position	<u>\$ 26,680,305</u>	<u>\$ 10,403,261</u>

NOTE K – PENSION AND POST RETIREE FUNDS – CONTINUED

KENT COUNTY, DELAWARE

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PENSION TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Pension Fund</u>	<u>Post Retiree Benefits Fund</u>
ADDITIONS		
Employee Contribution	\$ 135,532	\$ -
Employer Contributions	1,391,962	661,025
Interest and Dividends	155,683	232,406
Net Appreciation (Depreciation) in Fair Value of Investments	<u>299,146</u>	<u>(83,617)</u>
Total Additions	<u>1,982,323</u>	<u>809,814</u>
DEDUCTIONS		
Pension Benefits	1,894,207	569,864
Administrative Expense	<u>170,570</u>	<u>4,125</u>
Total Deductions	<u>2,064,777</u>	<u>573,989</u>
Change In Net Assets	(82,454)	235,825
Net Position - Beginning of Year	<u>26,762,759</u>	<u>10,167,436</u>
Net Position - End of Year	<u>\$ 26,680,305</u>	<u>\$ 10,403,261</u>

NOTE K – PENSION AND RETIREE FUNDS - CONTINUED

Annual Pension Cost and Net Pension Obligation

The County's annual pension cost and net pension obligation as of January 1, 2011, the date of the actuarial valuation used for fiscal year 2012 annual contribution, is as follows.

Annual required contribution (ARC)	\$ 1,527,494
Interest on net pension asset	(126,251)
Adjustment to annual required contribution	<u>220,090</u>
Annual pension cost	1,621,333
Contribution made	<u>1,527,494</u>
Decrease in net pension asset	93,839
Net pension asset at beginning of year	<u>(1,578,142)</u>
Net pension asset at end of year	<u>\$ (1,484,303)</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.

	<u>For Fiscal Year</u>	<u>Amount</u>
Annual Pension Cost (APC)	2010	\$ 2,223,174
	2011	1,629,773
	2012	1,621,333
Annual Required Contribution (ARC)	2010	2,133,498
	2011	1,539,554
	2012	1,527,494
Actual Contribution	2010	2,133,498
	2011	1,554,217
	2012	1,527,494
Percentage of APC Contributed	2010	95.97%
	2011	95.36%
	2012	94.21%
NPO (Asset)	2010	(1,653,698)
	2011	(1,578,142)
	2012	(1,484,303)

NOTE K – PENSION AND POST RETIREE FUNDS – CONTINUED

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]
1/1/2012	\$ 26,576,144	\$ 32,426,481	\$ 5,850,337	82.0%	\$ 12,687,170	46.11%

The Schedule of Funding Progress, presented as Required Supplemental Information (RSI) following the notes to the financial statements, presents multiyear information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial liability for benefits.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Annual Required Contribution	Amount Contributed	Percent Contributed
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	1,539,554	1,554,217	100.95%
2012	1,527,494	1,527,494	100.00%

NOTE K – PENSION AND POST RETIREE FUNDS – CONTINUED

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, 2012
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 L - OTHER POST RETIREMENT BENEFITS**1. Plan Description**

In addition to the pension benefits described in Note K, 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, 117 retirees meet these eligibility requirements, of which 105 retirees and 18 spouses receive health insurance benefits and 12 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 2012, expenditures of \$631,913 were recognized for post-retirement health care of which \$569,864 was paid out of the OPEB fund. The balance of \$62,049 was paid from the General Fund and Sewer Fund operating budgets.

NOTE L - OTHER POST RETIREMENT BENEFITS- CONTINUED

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 2012, the amount actually contributed to the plan, and changes in the County's net OPEB obligation (NOO):

Annual required contribution (ARC)	\$ 661,025
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
	<hr/>
Annual OPEB cost (expense)	661,025
Contribution made	661,025
	<hr/>
Increase in net OPEB obligation	-
Net OPEB obligation at beginning of year	-
	<hr/>
Net OPEB obligation at end of year	<u>\$ -</u>

NOTE L - OTHER POST RETIREMENT BENEFITS - CONTINUED

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 was as follows:

	For Fiscal Year	Amount
Annual OPEB Cost	2010	\$ 630,976
	2011	630,976
	2012	661,025
Annual Required Contribution (ARC)	2010	630,976
	2011	630,976
	2012	661,025
Actual Contribution	2010	630,976
	2011	630,976
	2012	661,025
Percentage of Annual OPEB Cost Contributed	2010	100.00%
	2011	100.00%
	2012	100.00%

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]
1/1/2011	\$ 9,705,468	\$ 11,197,634	\$ 1,492,166	86.7%	\$ 12,081,049	12.35%

The Schedule of Funding Progress, presented as required Supplemental Information (RSI) following the notes to the financial statements, presents multiyear information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial liability for benefits.

NOTE M - 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 2012 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.

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 N - RESTRICTED NET POSITION - SEWER FUND

Sewer Fund restricted net position 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, 2012, the balance of this reserve totaled \$328,749
- 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, 2012, the balance of this reserve totaled \$19,942,391 of which \$15,087,461 is for the main system capital improvement and \$4,854,930 is for district capital improvement.

Equipment Replacement Reserve	\$ 328,749
Expansion Reserve	<u>19,942,391</u>
Total Reserved Net Position	<u>\$ 20,171,140</u>

NOTE O- PRIOR PERIOD ADJUSTMENT

As part of its regular annual review of capital asset accounts, the County discovered items carried in Construction in Progress that should have been expensed because the projects were no longer going to move forward. Accordingly, an adjustment of (\$196,292) was made to decrease capital assets and to decrease the beginning balance of the Net Position of Governmental Activities in the Statement of Activities.

NOTE P – 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, 2012 the balances of the outstanding bonds were as follows:

<u>Bond</u>	<u>Issue Amount</u>	<u>Balance Outstanding June 30, 2012</u>
1984 Single Family Residential Mortgage	\$ 25,395,575	\$ 3,419,162
1997 Wesley College	3,500,000	1,542,398
1999 Wesley College	1,250,000	624,837
1999 Dover ALF, LLC "Heritage"	7,500,000	6,240,000
1999 Modern Maturity Center	500,000	105,397
2001 Wesley College	2,500,000	832,583
2004A DSU Student Housing, LLC	18,420,000	15,945,000
2004B,2004C DSU Student Housing, LLC	36,300,000	33,170,000
2005 Wesley College	2,900,000	1,768,912
2008A, 2008B Providence Creek Academy Charter School	13,150,000	6,835,000
2011 Charter School, Inc.	3,930,000	3,850,000
Total	\$ 115,345,575	\$ 74,333,289

NOTE Q – SUBSEQUENT EVENTS

On February 28, 2012, the Levy Court Commissioners adopted Ordinance 12-03 which authorized the issuance of up to \$633,000 of general obligation bonds for the Murderkill Wetland/Nutrient Reduction Project. The bond closing was on August 14, 2012 and is a Series 2012-SRF loan with a 2% interest rate.

On May 22, 2012, the Levy Court Commissioners accepted DNREC WPC-SRLF Bonding Commitment Letter providing a 0% loan of \$1,200,000 in addition to \$175,000 in Main System Capital Improvement Fees for the proposed land purchase, closing, and initial restoration costs. On June 26, 2012, the Levy Court Commissioners approved Ordinance 12-12 which authorized the issuance of up to \$1,200,000 of general obligation bonds for the purpose of purchasing land for the Spring Creek Land Conservation Project. The Series 2012-SRF general obligation bond was closed on August 14, 2012. The County went to settlement on the purchase of two parcels on Johnnycake Landing Road, Frederica for this project on August 17, 2012 for \$1,330,446.

On June 26, 2012, the Levy Court Commissioners adopted Ordinance 12-11 which authorized the issuance of up to \$1,098,107 of general obligation bonds for the East Dover Wastewater Construction Project. The bond closing was on August 14, 2012 and is a Series 2012-SRF loan with a 2% interest rate.

The County has evaluated all subsequent events through March 1, 2013, 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]
1/1/2010	\$ 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%
1/1/2012	26,576,144	32,426,481	5,850,337	82.0%	12,687,170	46.11%

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%

KENT COUNTY, DELAWARE

COMBINING BALANCE SHEET
NON-MAJOR
GOVERNMENTAL FUNDS
JUNE 30, 2012

	Special Revenue Fund <u>Farmer's Home Administration Grant</u>	Capital Project Fund <u>Aeropark Fund</u>	Total Non-Major Governmental Funds <u></u>
ASSETS			
Cash and Investments	\$ 20,852	\$ 29,764	\$ 50,616
Due from Other Governments	15,130	-	15,130
Total Assets	<u>\$ 35,982</u>	<u>\$ 29,764</u>	<u>\$ 65,746</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to Other Funds	\$ 35,982	\$ 855	\$ 36,837
Total Liabilities	<u>35,982</u>	<u>855</u>	<u>36,837</u>
Fund Balances:			
Restricted:			
Capital Projects	-	28,909	28,909
Total Fund Balances	<u>-</u>	<u>28,909</u>	<u>28,909</u>
Total Liabilities and Fund Balances	<u>\$ 35,982</u>	<u>\$ 29,764</u>	<u>\$ 65,746</u>

KENT COUNTY, DELAWARE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	<u>Total Non-Major Governmental Funds</u>
	<u>Farmer's Home Administration Grant</u>	<u>Aeropark Fund</u>	
REVENUES			
Grants	\$ 29,060	\$ -	\$ 29,060
Investment Income	-	8	8
Other Revenues	-	18,377	18,377
Total Revenues	<u>29,060</u>	<u>18,385</u>	<u>47,445</u>
EXPENDITURES			
Current:			
Planning Services	29,060	-	29,060
Economic Development	-	1,348	1,348
Total Expenditures	<u>29,060</u>	<u>1,348</u>	<u>30,408</u>
Excess of Revenues Over Expenditures	<u>-</u>	<u>17,037</u>	<u>17,037</u>
Net Change in Fund Balances	-	17,037	17,037
Fund Balances at Beginning of Year	-	11,872	11,872
Fund Balances at End of Year	<u>\$ -</u>	<u>\$ 28,909</u>	<u>\$ 28,909</u>

KENT COUNTY, DELAWARE
COMBINING STATEMENT OF NET POSITION
NON-MAJOR PROPRIETARY FUNDS
JUNE 30, 2012

	<u>Street Light</u>	<u>Landfill</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and Investments	\$ 617,220	\$ 616,102	\$ 1,233,322
Receivables			
Fees and Services	911,335	-	911,335
Due From Other Funds	-	4,817	4,817
	<u>1,528,555</u>	<u>620,919</u>	<u>2,149,474</u>
Total Assets			
LIABILITIES			
Current Liabilities			
Accounts Payable	31,045	6,403	37,448
Due to Other Funds	16,853	904	17,757
Deferred Revenue	865,268	-	865,268
	<u>913,166</u>	<u>7,307</u>	<u>920,473</u>
Total Liabilities			
NET POSITION			
Unrestricted	<u>615,389</u>	<u>613,612</u>	<u>1,229,001</u>
Total Net Position	<u>\$ 615,389</u>	<u>\$ 613,612</u>	<u>\$ 1,229,001</u>

KENT COUNTY, DELAWARE

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
NON-MAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Street Light</u>	<u>Landfill</u>	<u>Total</u>
OPERATING REVENUES			
Fees for Services	\$ 839,036	\$ -	\$ 839,036
Total Operating Revenues	<u>839,036</u>	<u>-</u>	<u>839,036</u>
OPERATING EXPENSES			
Salaries and Benefits	37,389	-	37,389
Contractual Services	199	28,365	28,564
Utilities	655,558	-	655,558
Maintenance, Parts & Supplies	116	5	121
Vehicle Expense	1,025	-	1,025
Operating Insurance and Indirect Costs	81,903	4,835	86,738
Total Operating Expenses	<u>776,190</u>	<u>33,205</u>	<u>809,395</u>
Operating Income (Loss)	<u>62,846</u>	<u>(33,205)</u>	<u>29,641</u>
NON-OPERATING REVENUES			
Interest and Dividends	252	258	510
Total Non-Operating Revenues	<u>252</u>	<u>258</u>	<u>510</u>
Net Income (Loss)	63,098	(32,947)	30,151
Net Position at Beginning of Year	<u>552,291</u>	<u>646,559</u>	<u>1,198,850</u>
Net Position at End of Year	<u>\$ 615,389</u>	<u>\$ 613,612</u>	<u>\$ 1,229,001</u>

KENT COUNTY, DELAWARE

**COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Street Light</u>	<u>Landfill</u>	<u>Total</u>
Cash Flows From Operating Activities:			
Receipts from Customers and Users	\$ 836,348	\$ (4,817)	\$ 831,531
Payments to Suppliers	(664,719)	(22,264)	(686,983)
Internal Activity - payments to other funds	(117,431)	(4,768)	(122,199)
Net Cash Provided (Used) by Operating Activities	<u>54,198</u>	<u>(31,849)</u>	<u>22,349</u>
Cash Flows From Investing Activities:			
Interest and Dividends	<u>252</u>	<u>258</u>	<u>510</u>
Net Cash Provided By Investing Activities	<u>252</u>	<u>258</u>	<u>510</u>
Net Increase (Decrease) In Cash and Cash Equivalents	54,450	(31,591)	22,859
Cash and Cash Equivalents at Beginning of Year	<u>562,770</u>	<u>647,693</u>	<u>1,210,463</u>
Cash and Cash Equivalents at End of Year	<u>\$ 617,220</u>	<u>\$ 616,102</u>	<u>\$ 1,233,322</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating Income (Loss)	\$ 62,846	\$ (33,205)	\$ 29,641
Adjustments to reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Change in Assets and Liabilities:			
(Increase) In Accounts Receivable	(44,287)	-	(44,287)
(Increase) Decrease In Due From Other Funds	1,191	(4,817)	(3,626)
Increase (Decrease) in Accounts Payable	(7,821)	6,106	(1,715)
Increase in Deferred Revenue	40,408	-	40,408
Increase in Due To Other Funds	<u>1,861</u>	<u>67</u>	<u>1,928</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 54,198</u>	<u>\$ (31,849)</u>	<u>\$ 22,349</u>



KENT COUNTY, DELAWARE
COMBINING STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2012

	<u>Pension Fund</u>	<u>Post Retiree Benefits Fund</u>	<u>Total</u>
ASSETS			
Restricted Assets:			
Cash and Short Term Investments	\$ 869	\$ -	\$ 869
Receivables			
Interest	8,487	-	8,487
Investments	<u>26,696,802</u>	<u>10,403,261</u>	<u>37,100,063</u>
Total Assets	<u>26,706,158</u>	<u>10,403,261</u>	<u>37,109,419</u>
LIABILITIES			
Accounts Payable	<u>25,853</u>	<u>-</u>	<u>25,853</u>
Total Liabilities	<u>25,853</u>	<u>-</u>	<u>25,853</u>
NET POSITION			
Held in Trust for:			
Pension Benefits	26,680,305	-	26,680,305
Post Retiree Benefits	<u>-</u>	<u>10,403,261</u>	<u>10,403,261</u>
Total Net Position	<u>\$ 26,680,305</u>	<u>\$ 10,403,261</u>	<u>\$ 37,083,566</u>

KENT COUNTY, DELAWARE

**COMBINING STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Pension Fund</u>	<u>Post Retiree Benefits Fund</u>	<u>Total</u>
ADDITIONS			
Employee Contributions	\$ 135,532	\$ -	\$ 135,532
Employer Contributions	1,391,962	661,025	2,052,987
Interest and Dividends	155,683	232,406	388,089
Net Appreciation (Depreciation) in Fair Value of Investments	<u>299,146</u>	<u>(83,617)</u>	<u>215,529</u>
Total Additions	<u>1,982,323</u>	<u>809,814</u>	<u>2,792,137</u>
DEDUCTIONS			
Pension Benefits	1,894,207	569,864	2,464,071
Administrative Expense	<u>170,570</u>	<u>4,125</u>	<u>174,695</u>
Total Deductions	<u>2,064,777</u>	<u>573,989</u>	<u>2,638,766</u>
Change In Net Position	<u>(82,454)</u>	<u>235,825</u>	<u>153,371</u>
Net Position - Beginning of Year	<u>26,762,759</u>	<u>10,167,436</u>	<u>36,930,195</u>
Net Position - End of Year	<u>\$ 26,680,305</u>	<u>\$ 10,403,261</u>	<u>\$ 37,083,566</u>



KENT COUNTY, DELAWARE

SINGLE AUDIT

JUNE 30, 2012

KENT COUNTY, DELAWARE
SINGLE AUDIT
JUNE 30, 2012

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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 4, 2013

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, 2012, and have issued our report thereon dated March 4, 2013. 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

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

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*.

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 4, 2013

Board of Commissioners
Kent County, Delaware
Dover, Delaware

Compliance

We have audited Kent County, Delaware's compliance 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, 2012. Kent County, Delaware's major federal programs are identified in the summary of auditor's 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 Non-Profit 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 of 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, 2012.

Internal Control Over Compliance

Management of Kent County, Delaware, is responsible for establishing and maintaining effective internal control over compliance with the 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 the requirements that could have a direct and

Board of Commissioners
Kent County, Delaware

material effect on a major federal program to determine the 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.

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.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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, 2012, and have issued our report thereon dated March 4, 2013, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, the Board of Commissioners, 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, 2012**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	SOURCE CODE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	GRANT PERIOD	EXPENDITURES
U.S. Department of the Interior					
Wildlife Refuge Direct Revenue Sharing:					
FY11	D	15.659	N/A	7/1/11-6/30/12	\$ 47,925
Total U.S. Department of the Interior					<u>47,925</u>
U.S. Department of Agriculture					
Rural Housing Preservation Grant:					
Grant HPG - 01-10	D	10.433	N/A	10/1/10-10/31/11	7,410
Grant HPG - 01-11	D	10.433	N/A	10/1/11-10/31/12	15,130
Total CFDA # 10.433					<u>22,540</u>
Water and Waste Disposal Systems for Rural Communities:					
Southern Bypass - Loan	D	10.760*	N/A		44,208
Kitts Hummock - Grant	D	10.760*	N/A		1,169,394
Kitts Hummock - Loan	D	10.760*	N/A		65,722
Wastewater Treatment Plant Upgrades - Loan	D	10.760*	N/A		491,924
Total CFDA # 10.760					<u>1,771,248</u>
Total U.S. Department of Agriculture					<u>1,793,788</u>
U.S. 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	01-10	7/1/10-12/31/11	389,692
Combined CDBG Grant	I	14.228	01-11	7/1/11-12/31/12	441,435
Combined CDBG Grant Program Income	I	14.228	N/A	N/A	7,151
Neighborhood Stabilization Program (NSP) Grant	I	14.228	01-08	3/23/09-9/20/13	-
Neighborhood Stabilization Program (NSP) Grant Program Income	I	14.228	N/A	N/A	225,117
Total CFDA # 14.228					<u>1,063,395</u>
HOME Investment Partnerships Program:					
Home Program	I	14.239	HM-01-10	7/1/10-9/30/11	26,378
Home Program	I	14.239	HM-01-11	7/1/11-9/30/12	147,198
Total CFDA # 14.239					<u>173,576</u>
Neighborhood Stabilization Program (NSP) Grant / Recovery Act Funded	I	14.256*	01-09	1/7/11-9/30/12	433,275
Total U.S. Department of Housing & Urban Development					<u>1,672,246</u>

**KENT COUNTY, DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	SOURCE CODE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	GRANT PERIOD	EXPENDITURES
U.S. Department of Homeland Security					
Passed through the State of Delaware, Department of Safety and Homeland Security / DE Emergency Management Agency					
Emergency Management Performance Grants:					
FY09	I	97.042	EMPG-09-001	10/108-9/1/12	6,902
FY11	I	97.042	EMPG-11-001	10/1/10-3/31/12	17,877
FY12	I	97.042	EMPG-12-001	10/1/11-9/30/12	53,564
					<u>78,343</u>
Total CFDA # 97.042					
State Homeland Security Grant Program:					
Emergency Preparedness & Hazmat Response Conference 10/30/11-11/2/11					
	I	97.067	N/A		1,026
International Association of Emergency Managers Conference 11/21/11-11/17/11					
	I	97.067	N/A		2,111
International School of Tactical Medicine (Courses A&B) 10/23/11-11/5/11					
	I	97.067	N/A		6,496
Tactical Medicine Training 12/4/11-12/10/11					
	I	97.067	N/A		3,576
National Hurricane Conference 3/25/12-3/30/12					
	I	97.067	N/A		3,216
Public Safety Exercise November 2011					
	I	97.067	N/A		3,469
Conference Room Interactive Whiteboard					
	I	97.067	FY08-016	5/16/12-8/31/12	5,973
Emergency Generator					
	I	97.067	FY08-020	6/21/12-8/31/12	3,099
					<u>28,966</u>
Total CFDA # 97.067					
Public Assistance Program - Hurricane Irene					
	I	97.036	FEMA-4037-DR-DE	9/30/11-3/31/12	7,802
					<u>115,111</u>
Total U.S. Department of Homeland Security					
U.S. Department of Transportation					
Passed through the State of Delaware, Department of Safety and Homeland Security / DE Emergency Management Agency					
Hazardous Materials Emergency Preparedness Training and Planning Grants					
HMEP 2011		20.703	N/A	10/1/10-9/30/11	2,800
HMEP 2012		20.703	N/A	10/1/11-9/30/12	2,800
					<u>5,600</u>
Total CFDA # 20.703					
Total U.S. Department of Transportation					
TOTAL EXPENDITURES OF FEDERAL AWARDS					
					<u>\$ 3,634,670</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 (cont'd)
YEAR ENDED JUNE 30, 2012

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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit 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, 2012.

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, 2012 was \$100,307.

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, 2012 was \$1,325,100 (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, 2012 was \$287,628 (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, 2012

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

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, 2012 was \$201,484 (83.33 percent federal funds; 16.67 percent state funds).

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, 2012 was \$57,650.

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, 2012 was \$656,879.

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, 2012 was \$363,295.

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. 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, 2012 was \$14,905,418 (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, 2012

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

During fiscal year 2010, the County was awarded \$2,289,935 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). As of June 30, 2012, this loan is fully drawn down, and expenditures in the amount of \$5,657 are reflected in the Schedule of Expenditures and Federal Awards. The loan balance at June 30, 2012 was \$2,289,935.

During fiscal year 2010, the County was awarded \$110,065 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). As of June 30, 2012, this loan is fully drawn down, and expenditures in the amount of \$60,065 are reflected in the Schedule of Expenditures and Federal Awards. The loan balance at June 30, 2012 was \$110,065.

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, 2012 was \$976,107.

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 Millford 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 \$44,208 are reflected in the Schedule of Expenditures of Federal Awards. The loan balance at June 30, 2012 was \$2,146,895.

During fiscal year 2011, the County was awarded \$5,000,000 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 \$491,924 are reflected in the Schedule of Expenditures of Federal Awards. The loan balance at June 30, 2012 was \$992,227.

During fiscal year 2011, the County was awarded \$6,442,000 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 no expenditures are reflected in the Schedule of Expenditures of Federal Awards. The loan balance at June 30, 2012 was \$113,449.

KENT COUNTY, DELAWARE
 SCHEDULE OF FINDINGS AND RECOMMENDATIONS
 YEAR ENDED JUNE 30, 2012

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

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? 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?

 Yes No

Identification of major program:

CFDA Numbers

14.256

10.760

Name of Federal Program or Cluster

Neighborhood Stabilization Program (NSP) Grant
Recovery Act Funded
Water and Waste Disposal System for Rural
Communities

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

 Yes No

KENT COUNTY, DELAWARE
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (cont'd)
YEAR ENDED JUNE 30, 2012

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

11-1 FEDERAL FINANCIAL REPORT (SF-425)

Condition

During our prior 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.

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.

KENT COUNTY, DELAWARE
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (cont'd)
YEAR ENDED JUNE 30, 2012

STATUS OF PRIOR YEAR FINDINGS

Recommendation

We recommended 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.

Status

During our current year audit, we noted that this grant was completed and no reports were filed. Our testing of other programs in the current year did not indicate any noncompliance in regards to reporting. This finding is no longer applicable.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.