

KENT COUNTY, DELAWARE



**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
Year Ended June 30, 2013**

KENT COUNTY, DELAWARE

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AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	16
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	19
Statement of Net Position – Proprietary Funds	20
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	21
Statement of Cash Flows – Proprietary Funds	22
Statement of Net Position – Fiduciary Funds	24
Statement of Changes in Net Position – Fiduciary Funds	25

KENT COUNTY, DELAWARE

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013**

TABLE OF CONTENTS (Continued)

	<u>Page</u>
Notes to the Financial Statements	
Note A – Summary of Significant Accounting Policies	26
Note B – Stewardship, Compliance, and Accountability	31
Note C – Deposits and Investments	32
Note D – Capital Assets	35
Note E – Interfund Receivables, Payables, and Transfers	37
Note F – Long-Term Debt	38
Note G – Deferred Inflows of Resources	42
Note H – Fund Balances – Governmental Funds	44
Note I – Capital Improvement Commitments	45
Note J – Contingencies and Commitments	46
Note K – Pension And Post Retiree Funds	47
Note L – Other Post-Retirement Benefits	52
Note M – Risk Management	55
Note N – Restricted Net Position – Sewer Fund	55
Note O – Restatement of Beginning of Year Net Position	55
Note P – Conduit Debt Obligation	56
Note Q – Subsequent Events	56
Required Supplementary Information	
Pension Funded Status and Funding Progress and Other Post Employment Benefits Funded Status and Funding Progress	57

KENT COUNTY, DELAWARE
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013

TABLE OF CONTENTS (Continued)

	<u>Page</u>
Supplemental Information	
Combining Fund Statements:	
Combining Balance Sheet – Non-Major Governmental Funds	59
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental Funds	60
Combining Statement of Net Position – Non-Major Proprietary Funds	61
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position – Non-Major Proprietary Funds	62
Combining Statement of Cash Flows – Non-Major Proprietary Funds	63
Combining Statement of Net Position – Fiduciary Funds	64
Combining Statement of Changes in Net Position – Fiduciary Funds	65

INDEPENDENT AUDITOR'S REPORT

March 12, 2014

Board of Commissioners
Kent County, Delaware
Dover, Delaware

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise Kent County, Delaware's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Kent County, Delaware, as of June 30, 2013, and the respective changes in its 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 12 and the pension funded status and the funding progress and other post-employment benefits funded status and funding progress on page 57 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.

Other Information

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 and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining 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 basic financial statements. Such 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 combining non-major fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Board of Commissioners
Kent County, Delaware

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2014, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* in considering Kent County, Delaware's internal control over financial reporting and compliance.

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

KENT COUNTY, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
JUNE 30, 2013

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, 2013. 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 and deferred outflows of resources of the County exceeded its liabilities and deferred inflows of resources by \$182,888,883 (net position), an increase of \$6,198,611 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 \$47,754,973 an increase of \$2,214,501 from the previous year. Of the current ending fund balances, General Fund reported \$37,664,227 as unassigned, \$95,870 as nonspendable, \$346,655 as restricted, \$334,640 as committed, and \$1,575,954 as assigned. In the Capital Projects Fund, \$7,683,993 is reported as restricted and \$6,589 is reported as nonspendable. In the Other Governmental Funds \$47,045 is reported as restricted.

Long-Term Debt

- At the end of the current fiscal year, the County had total bonded debt outstanding of \$49,087,371 a decrease of \$408,720 from the previous year. All of the bonded debt is backed by the full faith and credit of the County government. Governmental activities report \$5,065,136 and business-type activities report \$44,022,235 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, 2013, the County has invested \$138,275,776 net of accumulated depreciation, in a broad range of capital assets (see table below). Depreciation charges for Fiscal Year 2013 totaled \$7,321,086.

Kent County's Capital Assets as of June 30, 2013 and 2012
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 7,312,893	\$ 7,312,893	\$ 6,121,846	\$ 4,746,991	\$ 13,434,739	\$ 12,059,884
Construction in Progress	832,504	70,751	7,619,160	10,699,006	8,451,664	10,769,757
Site Improvements	3,513,834	3,701,714	901,203	1,175,735	4,415,037	4,877,449
Pipeline	-	-	46,391,670	44,564,622	46,391,670	44,564,622
Buildings	17,975,181	18,356,863	19,332,399	19,066,906	37,307,580	37,423,769
Equipment and Furniture	1,803,241	1,865,460	26,471,845	26,946,866	28,275,086	28,812,326
Total Capital Assets	\$ 31,437,653	\$ 31,307,681	\$ 106,838,123	\$ 107,200,126	\$ 138,275,776	\$ 138,507,807

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

- Additions to Big Oak Park for new ball field dugout shelters at \$11,373 and paving of the parking lot connector on the north side of the stream, including paving of the pedestrian stream crossing at \$15,286.
- Additions to Brown's Branch Park include new ball field dugout shelters for \$11,775, entrance road paving and striping for \$16,398, and paving three pedestrian walkways for \$6,848.
- Additions of \$82,630 for Public Safety. This includes replacement garage doors and a roof drainage system at the EMS Headquarters Building for \$15,519 and \$9,143 respectively, and a new generator and transfer switch at Wheatley Substation for \$57,968.
- Addition of \$113,113 for donated vehicles and cardiac monitors for Public Safety. This includes a Ford F350 Utility Body Truck for \$43,994, a John Deere Gator for \$9,200, a Homesteader Trailer for \$5,093, and three cardiac monitors for \$54,826.
- Purchase of furniture and equipment to include one Public Safety vehicle for \$62,022, one cardiac monitor for Public Safety for \$19,147, Emergency Operations Center conference room audio visual equipment for \$19,691, four additional workstation consoles in the 911 Dispatch Center for \$62,915, one Sheriff vehicle for \$16,384, a multifunction printer/plotter for Planning for \$9,219, Web Marriage Software for the Clerk of the Peace for \$16,500, ArcGIS Software for Geographic Information Systems for \$39,579, and four servers for Information Technology: three for GIS files at \$23,841 and one for mediasite audio visual at \$6,510.
- Construction in Progress significant components are comprised of Public Safety Building HVAC System Upgrade for \$693,586, Public Safety Building Phone System Upgrade for \$34,375, and Public Safety Building Parking Lot Expansion for \$94,487.

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 Kitts Hummock/Pickering Beach sewer extension in the amount of \$4,283,843.
- Completion of the Central Enhancement project in the amount of \$940,898.
- Purchase of land at Spring Creek in the amount of \$1,349,580.
- Completion of wet well expansion at pump station 2 in the amount of \$447,297.
- Completion of the Polytech sewer extension totaling \$311,688.
- Purchase and installation of a polymer dry feeder/wet delivery system totaling \$156,900.
- Purchase of a 2001 Ford F750 Diesel Bucket Truck and (2) 2013 Chevy Silverado trucks with cranes for the Treatment Plant in the amount of \$156,477.
- A security system was installed at the Treatment Plant with a grant from Homeland Security in the amount of \$116,096.
- Biosolids upgrades, which include roof replacement, serpentine conveyor system, induction lighting, new auger, totaling \$326,222.
- Completion of the Kenton Radio Tower and the elimination of chatterboxes at other pump stations totaling \$62,382.
- Purchase of a pellet mill, threading machine and vehicle lift for the Treatment Plant totaling \$31,123.
- Approximately \$255,000 was spent on pump station repairs and upgrades.
- Purchase of autocad software, a plotter/scanner and ArcGIS for the Engineering department totaling \$30,465.
- The remaining approximately \$61,000 of capital assets was made up of upgrades to the Wastewater Treatment Plant.
- Construction in Progress significant components is comprised of the sewer extension for East Dover Mobile Home Park and the upgrade and addition of sewer lines for the Little Heaven Bypass. Also included in construction in progress are the Murderkill wetland restoration, leachate project and TMDL compliance project and at the Treatment Plant the capacity expansion, stormwater management, spray irrigation and blower system upgrades.

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, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between the assets plus deferred outflows of resources and liabilities plus deferred inflows of resources 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).

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, registration of 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. The 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, 2013 and 2012

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Current and Other Assets	\$ 64,920,052	\$ 62,244,110	\$ 50,655,104	\$ 46,551,201	\$ 115,575,156	\$ 108,795,311
Capital Assets	31,437,653	31,307,681	106,838,123	107,200,126	138,275,776	138,507,807
Total Assets	96,357,705	93,551,791	157,493,227	153,751,327	253,850,932	247,303,118
Total Deferred Outflows of Resources	-	-	33,524	-	33,524	-
Long-Term Liabilities	5,897,806	5,976,340	41,619,889	42,823,386	47,517,695	48,799,726
Other Liabilities	3,720,835	3,114,018	8,359,519	7,228,397	12,080,354	10,342,415
Total Liabilities	9,618,641	9,090,358	49,979,408	50,051,783	59,598,049	59,142,141
Total Deferred Inflows of Resources	11,362,692	11,428,901	34,832	41,804	11,397,524	11,470,705
Net Position:						
Net Investment in Capital Assets	26,409,608	26,191,732	62,872,401	63,138,398	89,282,009	89,330,130
Restricted	23,671	23,086	22,219,615	20,271,140	22,243,286	20,294,226
Unrestricted	48,943,093	46,817,714	22,420,495	20,248,202	71,363,588	67,065,916
Total Net Position	\$ 75,376,372	\$ 73,032,532	\$ 107,512,511	\$ 103,657,740	\$ 182,888,883	\$ 176,690,272

The largest components of the County's current and other assets of \$115,575,156 are cash and investments totaling \$92,857,234 of which \$28,955,561 is reported as restricted assets in the Sewer Fund. Of the total long-term liabilities of \$47,517,695, bonds payable net of deferred charges accounts for \$46,175,617, accounts payables totaling \$1,435,678, and due to other governments totaling \$2,262,750 are the largest components in other liabilities of \$7,832,665. Total deferred inflows of resources are \$11,397,524 which primarily consists of unavailable property tax revenue totaling \$11,362,692.

Kent County's Changes in Net Position

	Governmental		Business-type		Totals	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
REVENUES						
Program Revenues:						
Charges for Services	\$ 7,853,719	\$ 8,375,526	\$ 19,632,681	\$ 18,776,912	\$ 27,486,400	\$ 27,152,438
Operating Grants and Contributions	2,653,780	3,144,797	-	-	2,653,780	3,144,797
Capital Grants and Contributions	215,350	38,050	4,858,524	4,154,892	5,073,874	4,192,942
General Revenues:						
Property Taxes	10,648,373	10,477,267	-	-	10,648,373	10,477,267
Real Estate Transfer Tax	3,541,753	3,021,612	-	-	3,541,753	3,021,612
Residential Telephone Surcharge	270,015	270,015	-	-	270,015	270,015
Investment Earnings	135,365	98,332	124,495	32,179	259,860	130,511
Other Revenue and Gains (Losses)	402,129	383,653	177,085	-	579,214	383,653
Total Revenues	25,720,484	25,809,252	24,792,785	22,963,983	50,513,269	48,773,235
EXPENSES						
General Government	2,567,923	2,686,660	-	-	2,567,923	2,686,660
Special Grants/Programs	1,641,823	1,502,929	-	-	1,641,823	1,502,929
Community Services	3,468,400	3,431,036	-	-	3,468,400	3,431,036
Planning Services	5,234,297	5,862,709	-	-	5,234,297	5,862,709
Public Safety	8,193,571	7,768,023	-	-	8,193,571	7,768,023
Row Offices	1,660,824	1,754,050	-	-	1,660,824	1,754,050
Economic Development	372,300	751,348	-	-	372,300	751,348
Debt Service	237,506	243,259	-	-	237,506	243,259
Sewer	-	-	17,363,894	16,857,928	17,363,894	16,857,928
Street Light	-	-	851,575	776,190	851,575	776,190
Trash	-	-	2,689,799	2,546,791	2,689,799	2,546,791
Landfill	-	-	32,746	33,205	32,746	33,205
Total Expenses	23,376,644	24,000,014	20,938,014	20,214,114	44,314,658	44,214,128
Increase in Net Position	\$ 2,343,840	\$ 1,809,238	\$ 3,854,771	\$ 2,749,869	\$ 6,198,611	\$ 4,559,107

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 \$6,198,611 over the course of this fiscal year's operations. The net changes in net position of the governmental activities increased \$2,343,840. This increase in net position was 29.55% higher than the increase in net position in Fiscal Year 2012. The increase in net position in Fiscal Year 2013 over Fiscal Year 2012 was a result of expenditures being 2.60% lower in Fiscal Year 2013 as compared to Fiscal Year 2012. In Fiscal Year 2013 revenues related to real estate and land use related activity continued to track upward. Real estate transfer tax was up 17.21% from Fiscal Year 2012 and inspection fees were up 22.15% from the prior fiscal year. The sheriff fees were down 41.54% in Fiscal Year 2013 as compared to Fiscal Year 2012.

The net position of the County's business-type activities increased by \$3,854,771. This increase in net position was 40.18% higher than the increase in net position in Fiscal Year 2012. The increase in net position of \$1,104,902 between Fiscal Year 2012 and Fiscal Year 2013 was primarily a result of an increase in Charges for Services of \$855,769 and an increase in Capital Grants and Contributions of \$703,632 which exceeded the increase of expenses of \$723,900.

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 \$40,017,346 of which \$37,664,228 as unassigned, \$95,869 as nonspendable, \$334,640 as committed, \$1,575,954 as assigned, and \$346,655 as restricted of which \$220,364 was for library tax, \$102,620 was for grants, \$22,736 was for recreational areas and \$935 was for APFO EMS.

Overall revenue increased \$242,918 from Fiscal Year 2012 to Fiscal Year 2013. Property tax revenue increased \$191,470 in Fiscal Year 2013 due to a small amount of growth in the tax assessment rolls and an increase in collection of delinquent taxes. Fees for services decreased \$562,132 primarily as a result of a decrease in Sheriff fees related to foreclosures. Grant revenue increased \$72,473 as a result of increases in the amount of revenue received from the Paramedic grant and an increase in Federal Grants. Interest and dividends increased \$24,158 because of a new banking services contract with increased interest rates. Real estate transfer taxes increased \$520,141 due to the slight up-turn in the housing market. Other revenue decreased \$3,192 over Fiscal Year 2012.

General Fund expenditures increased \$491,136 (2.48%) in Fiscal Year 2013 when compared to Fiscal Year 2012. There was a slight increase in expenditures with all Departments and Programs except Planning Services and Row Offices. Special Grants and Programs and Public Safety had the largest increases of 9.24% and 6.39% respectively. Public Safety's biggest increase was in salaries and benefits. Special Grants and Programs increase was the result of an increase in the contribution of \$134,153 to the volunteer fire companies.

General Fund – Comparison to Budget. Overall revenue collections were higher than the final budget by 10.18%. Property taxes exceeded the final budget by \$238,412 or 2.29%. Real estate transfer tax came in over the final budget by \$741,753 or 26.49%. Grants came in under budget by \$43,618 or 2.43%. Fees for services exceeded the final budget by \$1,256,222 or 19.93%. Interest and dividends were over the final budget by \$19,000 or 19.00%. Other revenue was over the final budget by \$19,083 or 7.78%.

Overall, operating expenditures were under budget by 9.18% primarily due to strict cost controls imposed on County wide spending. Community Services were under the final budget by 4.98%. General Government was 6.45% under the final budget; Special Grants and Programs were 17.64% under the final budget but their balances will be carried over into the next fiscal year; Planning Services were 6.05% under the final budget; Public Safety and Row Offices were 2.95% and 3.76% under final budget respectively.

Kent County's General Fund Budget to Actual Comparison

	Original Budget	Final Budget	2013 Actual	Variance with Final Budget - Positive (Negative)
REVENUES				
Property Taxes	\$ 10,390,100	\$ 10,390,100	\$ 10,628,512	\$ 238,412
Real Estate Transfer Tax	2,800,000	2,800,000	3,541,753	741,753
Telephone Surcharge	270,000	270,000	270,015	15
Grants	1,741,600	1,791,849	1,748,231	(43,618)
Fees for Services	6,253,000	6,303,230	7,559,452	1,256,222
Interest and Dividends	100,000	100,000	119,000	19,000
Rental Income	23,200	23,200	23,186	(14)
Other Revenues	244,500	245,400	264,283	18,883
Total Revenues	21,822,400	21,923,779	24,154,432	2,230,653
EXPENDITURES				
General Government	2,037,200	2,117,486	1,980,949	136,537
Special Grants and Programs	1,706,800	1,993,362	1,641,823	351,539
Community Services	3,229,000	3,298,195	3,133,891	164,304
Planning Services	3,856,800	3,960,230	3,720,581	239,649
Public Safety	7,973,100	8,051,719	7,814,267	237,452
Row Offices	1,654,200	1,655,556	1,593,225	62,331
Contingency	1,020,000	858,844	-	858,844
Debt Service				
Principal	157,300	157,300	157,236	64
Interest	237,600	237,600	237,592	8
Total Expenditures	21,872,000	22,330,292	20,279,564	2,050,728
Excess (Deficiency) of Revenues Over (Under) Expenditures	(49,600)	(406,513)	3,874,868	4,281,381
OTHER FINANCING SOURCES (USES)				
Operating Transfer Out	(550,600)	(1,285,650)	(1,277,547)	8,103
Appropriated Fund Balance	600,200	1,692,163	-	(1,692,163)
Total Other Financing Sources (Uses)	49,600	406,513	(1,277,547)	(1,684,060)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	\$ -	\$ -	\$ 2,597,321	\$ 2,597,321

Capital Projects Fund. The revenue for this fund increased \$192,545 from Fiscal Year 2012 to Fiscal Year 2013. This 464.58% increase in revenue was due to the increase in grant revenue of \$177,299 in Fiscal Year 2013 over Fiscal Year 2012, an increase in interest income from \$3,394 in Fiscal Year 2012 to \$16,120 in Fiscal Year 2013 and an increase in other revenue of \$2,520 from Fiscal Year 2012 to Fiscal Year 2013. Overall the expenditures increased by \$335,078 from Fiscal Year 2012 to Fiscal Year 2013. Some of the largest expenditures during Fiscal Year 2013 were \$300,000 for Economic Development for a \$250,000 contribution to the City of Dover Library and a \$50,000 contribution to the Food Bank of Delaware Building Expansion Project. Another major project during Fiscal Year 2013 was the HVAC System Upgrade at the Public Safety Building for a total of \$679,783. Capital outlay was \$75,182 in Fiscal Year 2012 as opposed to \$922,419 in Fiscal Year 2013, an increase of \$847,237.

Community Development Block Grant. The operating revenue for this fund in Fiscal Year 2013 was \$1,160,515 a decrease of \$511,732 from Fiscal Year 2012 primarily due to less grant funding. The expenditures were \$1,448,712 a decrease of \$505,879 from Fiscal Year 2012.

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 \$552,271. Operating revenue was \$737,419 higher in Fiscal Year 2013 than in Fiscal Year 2012. User fee revenue was \$191,672 higher in Fiscal Year 2013. This was primarily a net result of growth in district user revenue of approximately \$319,000 and contract user revenue being approximately \$188,000 lower in Fiscal Year 2013 than Fiscal Year 2012. The user fee uniform rates remained the same for Fiscal Year 2013 as Fiscal Year 2012. Sewer permits and other revenue were \$545,747 higher in FY 2013 as compared to Fiscal Year 2012. Operating expenses were \$924,453 higher in Fiscal Year 2013 than Fiscal Year 2012. This increase in operating expenses is primarily attributed to the net result between an increase of \$194,119 in salaries and benefits, an increase of \$794,385 in depreciation expense, an increase of \$47,559 in maintenance, parts, and supplies, a decrease of \$134,100 in contractual and a decrease of \$2,488 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 \$361,571 in Fiscal Year 2013. Revenues increased by \$70,034 from Fiscal Year 2012 to Fiscal Year 2013. During Fiscal Year 2013 there were 12,711 trash customers of which 79.16% had yard waste pickup. Another reason for the increase in revenue in Fiscal Year 2013 is directly related to the growth in the number of customers in the Trash Fund. Expenses increased by \$143,008 from Fiscal Year 2012 to Fiscal Year 2013. During Fiscal Year 2013 the County purchased 468 trash cans and 418 recycle cans. 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 \$459 in Fiscal Year 2013. The Street Light Fund had operating income of \$35,777 in FY2013. Revenues were greater in Fiscal Year 2013 than Fiscal Year 2012 as a result of an increase in the street light customer base. Expenses in Fiscal Year 2013 were \$75,385 higher than Fiscal Year 2012 because of an increase in the number of lights and an increase in utility rates.

Internal Service Fund. The internal service fund - Medical Trust Fund – had an operating loss of \$21,994 in Fiscal Year 2014. This indicates that revenues basically matched expenses.

General Fund Budgetary Highlights

The County adopted its Fiscal Year 2013 budget on April 24, 2012, 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 \$21,923,779 of revenues; \$22,330,292 of expenditures and \$1,285,650 of other financing uses. The actual results were revenues \$2,230,853 above budget and expenditures \$2,050,528 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 2013 was 7.9% which was .5% higher than the unemployment rate in June 2012 which was 7.4%. Per capita income has leveled out.

During Fiscal Year 2013 the County continued to see some growth in the housing market but the interest rates remained low. The General Fund costs were held tight. Revenue was \$242,918 higher in Fiscal Year 2013 than Fiscal Year 2012 which was a direct result of an increase in realty transfer tax, recorder of deeds fees, and inspection fees. During Fiscal Year 2013 the County expenditures were \$491,136 higher than Fiscal Year 2012 and this was primarily related to a salary increase of 2.2%, and career ladder promotions.

When adopting the General Fund budget for Fiscal Year 2014, the County continued to keep a tight hold on the expenditures. There was a 2.0% cost of living allocation (COLA) budgeted for all employees and a 1% step increase for employees with a satisfactory evaluation. 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 2014.

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, 2013

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Current Assets			
Cash and Investments	\$ 50,542,558	\$ 13,359,115	\$ 63,901,673
Receivables	12,259,962	7,307,857	19,567,819
Internal Balances	345,236	(345,236)	-
Due from Other Governments	594,533	809,631	1,404,164
Inventory	31,062	79,612	110,674
Prepaid Expenses and Other Assets	71,396	35,751	107,147
Non Current Assets			
Restricted Assets:			
Cash and Investments	-	28,955,561	28,955,561
Receivables	-	136,317	136,317
Capital Assets, Net			
Land	7,312,893	6,121,846	13,434,739
Construction in Progress	832,504	7,619,160	8,451,664
Land and Site Improvements	3,513,834	901,203	4,415,037
Pipeline	-	46,391,670	46,391,670
Buildings	17,975,181	19,332,399	37,307,580
Equipment and Furniture	1,803,241	26,471,845	28,275,086
Other Assets	1,075,305	316,496	1,391,801
Total Assets	96,357,705	157,493,227	253,850,932
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charges on Refunding	-	33,524	33,524
Total Deferred Outflows of Resources	-	33,524	33,524
LIABILITIES			
Current Liabilities			
Accounts Payable	531,741	903,937	1,435,678
Accrued Expenses	591,477	437,638	1,029,115
Due to Other Governments	2,262,750	-	2,262,750
Construction Retainage Payable	27,598	155,476	183,074
Other Liabilities	14,454	-	14,454
Compensated Absences	42,893	13,027	55,920
Bonds Payable, Net of Bond Discounts	159,667	2,692,007	2,851,674
Unearned Revenue	90,255	4,157,434	4,247,689
Long Term Liabilities			
Compensated Absences	1,029,428	312,650	1,342,078
Bonds Payable, Net of Bond Discounts	4,868,378	41,307,239	46,175,617
Total Liabilities	9,618,641	49,979,408	59,598,049
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	11,362,692	-	11,362,692
Unavailable Revenue - Other	-	34,832	34,832
Total Deferred Inflows of Resources	11,362,692	34,832	11,397,524
NET POSITION			
Net Investment in Capital Assets	26,409,608	62,872,401	89,282,009
Restricted for:			
Recreation Areas	22,736	-	22,736
APFO-EMS	935	-	935
Capital Projects - Equipment Replacement	-	329,401	329,401
Capital Projects - Expansion Sewer Facilities	-	21,890,214	21,890,214
Unrestricted	48,943,093	22,420,495	71,363,588
Total Net Position	\$ 75,376,372	\$ 107,512,511	\$ 182,888,883

KENT COUNTY, DELAWARE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Grants and Contributions		Governmental Activities	Primary Government	
			Operating	Capital		BusinessType Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 2,567,923	\$ 187,643	\$ -	\$ -	\$ (2,380,280)	\$ -	\$ (2,380,280)
Special Grants/Programs	1,641,823	-	-	-	(1,641,823)	-	(1,641,823)
Community Services	3,468,400	377,566	180,564	219	(2,910,051)	-	(2,910,051)
Planning Services	5,234,297	1,765,755	924,480	-	(2,544,062)	-	(2,544,062)
Public Safety	8,193,571	144,150	1,546,736	207,631	(6,293,054)	-	(6,293,054)
Row Offices	1,660,824	5,378,605	-	7,500	3,725,281	-	3,725,281
Economic Development	372,300	-	-	-	(372,300)	-	(372,300)
Amortization	1,854	-	-	-	(1,854)	-	(1,854)
Interest on Long-Term Debt	235,652	-	-	-	(235,652)	-	(235,652)
Total Governmental Activities	23,376,644	7,853,719	2,653,780	215,350	(12,653,795)	-	(12,653,795)
Business-Type Activities:							
Sewer	17,363,894	15,693,959	-	4,858,524	-	3,188,589	3,188,589
Street Light	851,575	887,352	-	-	-	35,777	35,777
Trash	2,689,799	3,051,370	-	-	-	361,571	361,571
Landfill (Note J)	32,746	-	-	-	-	(32,746)	(32,746)
Total Business-Type Activities	20,938,014	19,632,681	-	4,858,524	-	3,553,191	3,553,191
Total Primary Government	\$ 44,314,658	\$ 27,486,400	\$ 2,653,780	\$ 5,073,874	(12,653,795)	3,553,191	(9,100,604)
General Revenues:							
Taxes:							
Property Taxes					10,648,373	-	10,648,373
Real Estate Transfer Tax					3,541,753	-	3,541,753
Residential Telephone Surcharge					270,015	-	270,015
Investment Earnings					135,365	124,495	259,860
Other Revenues including Capital Asset Sales Gains					402,129	177,085	579,214
Total General Revenues					14,997,635	301,580	15,299,215
Changes in Net Position					2,343,840	3,854,771	6,198,611
Net Position At Beginning Of Year - Restated					73,032,532	103,657,740	176,690,272
Net Position At End Of Year					\$ 75,376,372	\$ 107,512,511	\$ 182,888,883

KENT COUNTY, DELAWARE

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General Fund	Capital Projects Fund	Community Development Block Grant	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Investments	\$ 41,531,491	\$ 7,930,104	\$ 454,995	\$ 74,563	\$ 49,991,153
Receivables					
Accounts	80,731	90	-	-	80,821
Taxes	12,178,083	-	-	-	12,178,083
Due From Other Funds	829,117	3,131	-	-	832,248
Due from Other Governments	432,247	26,225	127,481	8,580	594,533
Inventory	24,473	6,589	-	-	31,062
Prepaid Expenditures and Other Assets	71,396	-	-	-	71,396
Total Assets	\$ 55,147,538	\$ 7,966,139	\$ 582,476	\$ 83,143	\$ 63,779,296
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 224,423	\$ 247,899	\$ 51,754	\$ -	\$ 524,076
Accrued Expenses	504,445	-	9,235	-	513,680
Due to Other Funds	20,350	60	447,589	26,982	494,981
Due to Other Governments	2,262,750	-	-	-	2,262,750
Construction Retainage Payable	-	27,598	-	-	27,598
Unearned Revenue	2,108	-	73,898	9,116	85,122
Other Liabilities	14,454	-	-	-	14,454
Total Liabilities	3,026,422	275,557	582,476	36,098	3,922,661
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Property Taxes	12,101,662	-	-	-	12,101,662
Total Deferred Inflows of Resources	12,101,662	-	-	-	12,101,662
Fund Balances:					
Nonspendable:					
Inventory	24,473	6,589	-	-	31,062
Prepaid Expenses	71,396	-	-	-	71,396
Restricted:					
Capital Projects Funds	-	7,683,993	-	47,045	7,731,038
Recreational Areas	22,736	-	-	-	22,736
APFO-EMS	935	-	-	-	935
Library Tax	220,364	-	-	-	220,364
Rodent Grant	12,483	-	-	-	12,483
LEPC Grant	16,136	-	-	-	16,136
Library Standards Grant	74,001	-	-	-	74,001
Committed:					
Encumbrances	334,640	-	-	-	334,640
Assigned:					
Operating Needs	398,750	-	-	-	398,750
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	2,204	-	-	-	2,204
Unassigned	37,664,228	-	-	-	37,664,228
Total Fund Balances	40,017,346	7,690,582	-	47,045	47,754,973
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 55,147,538	\$ 7,966,139	\$ 582,476	\$ 83,143	\$ 63,779,296

KENT COUNTY, DELAWARE

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013**

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

Total Fund Balances for Governmental Funds		\$ 47,754,973
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.		31,437,653
Accumulated difference between actual pension contributions expensed in governmental funds and the actuarially determined annual pension costs.		1,075,305
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.		547,634
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 inflow of revenues in the governmental funds.		
Property Taxes	<u>\$ 738,969</u>	738,969
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	\$ (42,893)	
Accrued Interest on Long Term Debt	(77,797)	
Bonds Payable, Net of Bond Discounts	<u>(5,028,045)</u>	<u>(5,148,735)</u>
Total Net Position of Governmental Activities		<u><u>\$ 76,405,800</u></u>

KENT COUNTY, DELAWARE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Capital Projects Fund	Community Development Block Grant	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property Taxes	\$ 10,628,512	\$ -	\$ -	\$ -	\$ 10,628,512
Real Estate Transfer Tax	3,541,753	-	-	-	3,541,753
Residential Telephone Surcharge	270,015	-	-	-	270,015
Grants	1,748,231	215,350	887,098	18,450	2,869,129
Fees For Services	7,559,452	-	-	-	7,559,452
Investment Income	119,000	16,120	-	89	135,209
Rental Income	23,186	-	-	-	23,186
Other Revenues	264,283	2,520	273,417	18,377	558,597
Total Revenues	24,154,432	233,990	1,160,515	36,916	25,585,853
EXPENDITURES					
Current:					
General Government	1,980,949	25,525	-	-	2,006,474
Special Grants and Programs	1,641,823	-	-	-	1,641,823
Community Services	3,133,891	5,179	-	-	3,139,070
Planning Services	3,720,581	77,365	1,448,712	18,450	5,265,108
Public Safety	7,814,267	188,954	-	-	8,003,221
Row Offices	1,593,225	32,884	-	-	1,626,109
Economic Development	-	371,970	-	330	372,300
Debt Service:					
Principal	157,236	-	-	-	157,236
Interest and Fiscal Charges	237,592	-	-	-	237,592
Capital Outlay	-	922,419	-	-	922,419
Total Expenditures	20,279,564	1,624,296	1,448,712	18,780	23,371,352
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,874,868	(1,390,306)	(288,197)	18,136	2,214,501
OTHER FINANCING SOURCES (USES)					
Transfers In	-	989,350	288,197	-	1,277,547
Transfers Out	(1,277,547)	-	-	-	(1,277,547)
Total Other Financing Sources (Uses)	(1,277,547)	989,350	288,197	-	-
Net Change in Fund Balances	2,597,321	(400,956)	-	18,136	2,214,501
Fund Balances At Beginning of Year	37,420,025	8,091,538	-	28,909	45,540,472
Fund Balances At End Of Year	\$ 40,017,346	\$ 7,690,582	\$ -	\$ 47,045	\$ 47,754,973

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, 2013**

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

Net Change In Fund Balances - Total Governmental Funds **\$ 2,214,501**

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 capital outlays exceeded depreciation in the year ended June 30, 2013.

Capital Outlays	\$ 1,294,984	
Depreciation	<u>(1,165,012)</u>	129,972

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. (71,467)

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	\$ 19,863	19,863
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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	\$ 157,236	157,236
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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	\$ (84,513)	
Accrued interest on long-term debt	<u>1,940</u>	(82,573)

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 Discount	\$ (1,854)	(1,854)
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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. (21,838)

Change In Net Position of Governmental Activities	<u>\$ 2,343,840</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, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property Taxes	\$ 10,390,100	\$ 10,390,100	\$ 10,628,512	\$ 238,412
Real Estate Transfer Tax	2,800,000	2,800,000	3,541,753	741,753
Residential Telephone Surcharge	270,000	270,000	270,015	15
Grants	1,741,600	1,791,849	1,748,231	(43,618)
Fees For Services	6,253,000	6,303,230	7,559,452	1,256,222
Interest and Dividends	100,000	100,000	119,000	19,000
Rental Income	23,200	23,200	23,186	(14)
Other Revenues	244,500	245,400	264,283	18,883
Total Revenues	<u>21,822,400</u>	<u>21,923,779</u>	<u>24,154,432</u>	<u>2,230,653</u>
EXPENDITURES				
Current:				
General Government	2,037,200	2,117,486	1,980,949	136,537
Special Grants and Programs	1,706,800	1,993,362	1,641,823	351,539
Community Services	3,229,000	3,298,195	3,133,891	164,304
Planning Services	3,856,800	3,960,230	3,720,581	239,649
Public Safety	7,973,100	8,051,719	7,814,267	237,452
Row Offices	1,654,200	1,655,556	1,593,225	62,331
Contingency	1,020,000	858,844	-	858,844
Debt Service:				
Principal	157,300	157,300	157,236	64
Interest	237,600	237,600	237,592	8
Total Expenditures	<u>21,872,000</u>	<u>22,330,292</u>	<u>20,279,564</u>	<u>2,050,728</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(49,600)</u>	<u>(406,513)</u>	<u>3,874,868</u>	<u>4,281,381</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(550,600)	(1,285,650)	(1,277,547)	8,103
Appropriated Fund Balance	600,200	1,692,163	-	(1,692,163)
Total Other Financing Sources (Uses)	<u>49,600</u>	<u>406,513</u>	<u>(1,277,547)</u>	<u>(1,684,060)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>2,597,321</u>	<u>\$ 2,597,321</u>
Fund Balance at Beginning of Year			<u>37,420,025</u>	
Fund Balance at End of Year			<u>\$ 40,017,346</u>	

KENT COUNTY, DELAWARE

STATEMENT OF NET
POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Business-Type Activities - Enterprise Funds				Governmental Activities -
	Sewer Fund	Trash Collection	Other Enterprise Funds	Total	Internal Service Fund
ASSETS					
Current Assets:					
Cash and Investments	\$ 10,761,500	\$ 1,150,780	\$ 1,446,835	\$ 13,359,115	\$ 551,405
Receivables					
Accounts	304,340	-	-	304,340	1,058
Fees and Services	2,882,703	3,171,790	949,024	7,003,517	-
Due from Other Funds	66,592	-	-	66,592	7,969
Due from Other Governments	809,631	-	-	809,631	-
Inventory	79,612	-	-	79,612	-
Prepaid Expenses and Other Assets	35,751	-	-	35,751	-
Total Current Assets	14,940,129	4,322,570	2,395,859	21,658,558	560,432
Non-Current Assets:					
Restricted Assets:					
Cash and Investments	28,955,561	-	-	28,955,561	-
Receivables					
Accounts	8	-	-	8	-
Interest	136,309	-	-	136,309	-
Capital Assets, Net					
Land	6,121,846	-	-	6,121,846	-
Construction in Progress	7,619,160	-	-	7,619,160	-
Land and Site Improvements	901,203	-	-	901,203	-
Pipeline	46,391,670	-	-	46,391,670	-
Buildings	19,332,399	-	-	19,332,399	-
Equipment and Furniture	26,461,992	-	9,853	26,471,845	-
Other Assets	316,496	-	-	316,496	-
Total Non-Current Assets	136,236,644	-	9,853	136,246,497	-
Total Assets	151,176,773	4,322,570	2,405,712	157,905,055	560,432
DEFERRED OUTFLOWS OF RESOURCES					
Deferred Charges on Refunding	33,524	-	-	33,524	-
Total Deferred Outflows of Resources	33,524	-	-	33,524	-
LIABILITIES					
Current Liabilities					
Accounts Payable	663,974	200,314	39,649	903,937	7,665
Accrued Expenses	437,638	-	-	437,638	-
Construction Retainage Payable	155,476	-	-	155,476	-
Due to Other Funds	323,949	32,605	55,274	411,828	-
Compensated Absences	13,027	-	-	13,027	-
Unearned Revenue	-	3,081,780	1,075,654	4,157,434	5,133
Bonds Payable, Net of Bond Discounts	2,692,007	-	-	2,692,007	-
Total Current Liabilities	4,286,071	3,314,699	1,170,577	8,771,347	12,798
Non-Current Liabilities:					
Compensated Absences	312,650	-	-	312,650	-
Bonds Payable, Net of Bond Discounts	41,307,239	-	-	41,307,239	-
Total Non-Current Liabilities	41,619,889	-	-	41,619,889	-
Total Liabilities	45,905,960	3,314,699	1,170,577	50,391,236	12,798
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Other	34,832	-	-	34,832	-
Total Deferred Inflows Of Resources	34,832	-	-	34,832	-
NET POSITION					
Net Investment in Capital Assets	62,862,548	-	9,853	62,872,401	-
Restricted for:					
Capital Projects - Equipment Replacement	329,401	-	-	329,401	-
Capital Projects - Expansion Sewer Facilities	21,890,214	-	-	21,890,214	-
Unrestricted	20,187,342	1,007,871	1,225,282	22,420,495	547,634
Total Net Position	\$ 105,269,505	\$ 1,007,871	\$ 1,235,135	\$ 107,512,511	\$ 547,634

KENT COUNTY, DELAWARE

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2013

	Business-Type Activities - Enterprise Funds				Governmental
	Sewer Fund	Trash Collection	Other Enterprise Funds	Total	Internal Service Fund
OPERATING REVENUES					
Fees for Services	\$ 14,556,647	\$ 3,049,640	\$ 887,352	\$ 18,493,639	\$ -
Permits	120,398	-	-	120,398	-
Other Revenue	1,016,914	1,730	-	1,018,644	-
Employer Contributions	-	-	-	-	3,460,772
Employee Contributions	-	-	-	-	463,905
Total Operating Revenues	15,693,959	3,051,370	887,352	19,632,681	3,924,677
OPERATING EXPENSES					
Salaries and Benefits	4,813,195	82,552	70,503	4,966,250	-
Contractual Services	403,792	2,483,736	27,321	2,914,849	-
Travel	2,064	-	329	2,393	-
Utilities	1,577,868	-	696,561	2,274,429	-
Maintenance, Parts and Supplies	1,774,481	38,514	206	1,813,201	-
Vehicle Expense	229,813	3,335	1,112	234,260	-
Operating Insurance and Indirect Costs	1,255,288	79,817	87,058	1,422,163	-
Miscellaneous Expenses	34,728	1,845	158	36,731	-
Depreciation Expense	6,155,001	-	1,073	6,156,074	-
Medical Insurance Premiums	-	-	-	-	3,742,374
Medical Claims	-	-	-	-	174,279
Trustee Fee and Wire Charges	-	-	-	-	30,018
Total Operating Expenses	16,246,230	2,689,799	884,321	19,820,350	3,946,671
Operating Income (Loss)	(552,271)	361,571	3,031	(187,669)	(21,994)
NON-OPERATING REVENUES (EXPENSES)					
Interest and Dividends	117,360	4,032	3,103	124,495	156
Interest and Fiscal Charges	(1,117,664)	-	-	(1,117,664)	-
Gain on Easement	177,085	-	-	177,085	-
Total Non-Operating Revenues (Expenses)	(823,219)	4,032	3,103	(816,084)	156
Net Income (Loss) before Contributions	(1,375,490)	365,603	6,134	(1,003,753)	(21,838)
Capital Contributions:					
Capital Grant	1,401,586	-	-	1,401,586	-
Donated Capital Assets	350,739	-	-	350,739	-
Impact Fees	3,094,287	-	-	3,094,287	-
Developers Aid In Construction	11,912	-	-	11,912	-
Change in Net Position	3,483,034	365,603	6,134	3,854,771	(21,838)
Net Position At Beginning Of Year - Restated	101,786,471	642,268	1,229,001	103,657,740	569,472
Net Position At End Of Year	\$ 105,269,505	\$ 1,007,871	\$ 1,235,135	\$ 107,512,511	\$ 547,634

KENT COUNTY, DELAWARE

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2013

	Business-Type Activities - Enterprise Funds			Total	Governmental
	Sewer Fund	Trash Collection	Other Enterprise Funds		Internal Service Fund
Cash Flows From Operating Activities:					
Receipts from Customers and Users	\$ 15,133,083	\$ 3,051,293	\$ 1,064,866	\$ 19,249,242	\$ 3,954,588
Payments to Suppliers	(4,067,357)	(2,517,759)	(723,795)	(7,308,911)	(3,948,227)
Payments to Employees	(4,784,134)	(148,949)	-	(4,933,083)	-
Internal Activity - payments to other funds	(1,313,162)	-	(119,735)	(1,432,897)	-
Net Cash Provided by Operating Activities	4,968,430	384,585	221,336	5,574,351	6,361
Cash Flows From Capital and Related Financing Activities:					
Proceeds from Capital Grant	1,290,702	-	-	1,290,702	-
Proceeds from Bonded Indebtedness	1,355,940	-	-	1,355,940	-
Acquisition and Construction of Capital Assets	(5,264,156)	-	(10,926)	(5,275,082)	-
Interest/Fiscal Charges Paid on Bonds	(1,207,600)	-	-	(1,207,600)	-
Retirement of Debt	(1,850,182)	-	-	(1,850,182)	-
Developers Aid In Construction	11,912	-	-	11,912	-
Impact Fees Collected	3,094,287	-	-	3,094,287	-
Net Cash Used by Capital and Related Financing Activities	(2,569,097)	-	(10,926)	(2,580,023)	-
Cash Flows From Investing Activities:					
Proceeds From Matured Investments	33,182	-	-	33,182	-
Interest and Dividends	186,770	4,032	3,103	193,905	156
Net Cash Provided By Investing Activities	219,952	4,032	3,103	227,087	156
Net Increase In Cash and Cash Equivalents	2,619,285	388,617	213,513	3,221,415	6,517
Cash and Cash Equivalents At Beginning Of Year	36,815,402	762,163	1,233,322	38,810,887	544,888
Cash and Cash Equivalents At End Of Year	\$ 39,434,687	\$ 1,150,780	\$ 1,446,835	\$ 42,032,302	\$ 551,405
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position					
Statement of Net Position					
Current Assets: Cash and Investments	\$ 10,761,500	\$ 1,150,780	\$ 1,446,835	\$ 13,359,115	\$ 551,405
Non Current Assets: Cash and Investments	28,955,561	-	-	28,955,561	-
Total Cash and Investments	39,717,061	1,150,780	1,446,835	42,314,676	551,405
Less: Long-term Investments	(282,374)	-	-	(282,374)	-
Cash and Cash Equivalents	\$ 39,434,687	\$ 1,150,780	\$ 1,446,835	\$ 42,032,302	\$ 551,405

KENT COUNTY, DELAWARE

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (Continued)
 FOR THE YEAR ENDED JUNE 30, 2013

	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)	\$ (552,271)	\$ 361,571	\$ 3,031	\$ (187,669)	\$ (21,994)
Adjustments to reconcile Operating Income (Loss) to Net Cash provided by Operating Activities:					
Depreciation	6,155,001	-	1,073	6,156,074	-
Change in Assets and Liabilities:					
(Increase) Decrease in Accounts Receivable	(504,640)	(94,337)	(37,689)	(636,666)	32,747
(Increase) Decrease in Due From Other Funds	(49,264)	-	4,817	(44,447)	(7,969)
Decrease in Prepaid Expenses and Other Assets	56,131	-	-	56,131	-
Increase (Decrease) in Accounts Payable	(100,742)	9,980	2,201	(88,561)	(1,556)
Increase in Accrued Expenses	16,481	-	-	16,481	-
Increase in Compensated Absences	12,580	-	-	12,580	-
Increase (Decrease) in Deferred Inflows of Resources	(6,972)	94,260	210,386	297,674	5,133
Increase (Decrease) in Due To Other Funds	(57,874)	13,111	37,517	(7,246)	-
Net Cash Provided by Operating Activities	\$ 4,968,430	\$ 384,585	\$ 221,336	\$ 5,574,351	\$ 6,361
Non-Cash Investing, Capital, and Financing Activities:					
Non-Cash Donated Capital Assets	\$ 350,739	\$ -	\$ -	\$ 350,739	\$ -

KENT COUNTY, DELAWARE

STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

	<u>Pension and Post Retiree Funds</u>	<u>Agency Fund</u>
ASSETS		
Restricted Assets:		
Cash and Short Term Investments	\$ -	\$ 1,457,165
Receivables		
Interest	10,435	-
Investments	<u>40,949,644</u>	<u>-</u>
Total Assets	<u>40,960,079</u>	<u>\$ 1,457,165</u>
LIABILITIES		
Accounts Payable	\$ 28,628	\$ -
Due to Other Governments	-	806,602
Tax Sale Proceeds Payable	-	124,926
Deferred Liabilities	<u>-</u>	<u>525,637</u>
Total Liabilities	<u>28,628</u>	<u>\$ 1,457,165</u>
NET POSITION		
Held in Trust for:		
Pension Benefits	29,242,027	
Post Retiree Benefits	<u>11,689,424</u>	
Total Net Position	<u>\$ 40,931,451</u>	

KENT COUNTY, DELAWARE

STATEMENT OF CHANGES IN NET POSITION
 FIDUCIARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>Pension And Post Retiree Funds</u>
ADDITIONS	
Employee Contributions	\$ 144,012
Employer Contributions	1,995,667
Interest and Dividends	486,715
Net Appreciation in Fair Value of Investments	<u>3,799,410</u>
Total Additions	<u>6,425,804</u>
DEDUCTIONS	
Pension Benefits	2,397,891
Administrative Expense	<u>180,028</u>
Total Deductions	<u>2,577,919</u>
Change In Net Position	3,847,885
Net Position - Beginning of Year	<u>37,083,566</u>
Net Position - End of Year	<u>\$ 40,931,451</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. 65 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 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 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 WSFS Bank, Citizens Bank Governmental Fund Investments, Janney Montgomery Scott, CNB (Felton Bank), TD Bank, Artisans' Bank 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 inflows of resources. 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, 2013 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 Outflows/Inflows of Resources

The GASB has issued Statement 65, *Items Previously Reported as Assets and Liabilities*, to clarify the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The statement is effective for periods beginning after December 15, 2012. The County has elected early implementation with the Fiscal Year 2013 financial statements.

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The County currently has only one item that qualifies for reporting in this category – the deferred charge on refunding reported in the government-wide statement of net position, business-type activities and the statement of net position proprietary funds. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred over the shorter of the life of the refunded or refunding debt.

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and therefore will not be recognized as an inflow of resources (revenue) until that time. The County has two items that qualify for reporting in this category and they are unavailable revenue – property tax and unavailable revenue other. In the governmental fund financial statements and government-wide financial statements, deferred inflows of resources primarily include property taxes. 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 inflows of resources consists of service fees billed with the annual property tax billing for the subsequent fiscal year. There are two sources of unavailable revenues: property taxes and miscellaneous other and they are reported on the government-wide statement of net position, governmental funds balance sheet, and the statement of net position proprietary funds. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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 are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premiums and discounts.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 “Net Investment in Capital Assets,” 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).

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.

NOTE B – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - CONTINUED

- 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, 2013, and the budget as revised for budget amendments during the year are presented as part of the budget versus actual schedules presented in these financial statements.
- g. Appropriations lapse at fiscal year end for all funds except the capital projects funds and special revenue funds with extended contract years. The County legally adopts project-length budgets for its capital projects funds, wherein appropriations automatically carry forward to the next fiscal year and are not subject to annual cancellation and reappropriation.

NOTE C – DEPOSITS AND INVESTMENTS

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

NOTE C – DEPOSITS AND INVESTMENTS - CONTINUED

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	\$ 583,227	\$ 606,648
Uninsured Deposits - Collateral held by pledging financial institution or by its trust department or agent but not in the County's name	<u>92,383,244</u>	<u>93,258,292</u>
Total Deposits	<u>\$ 92,966,471</u>	<u>\$ 93,864,940</u>

<u>Investments</u>	<u>Market Value</u>
Money Market Mutual Funds	\$ 1,145,215
Certificates of Deposit	400,000
U.S. Agencies	8,784,191
U.S. Treasuries	143,925
U.S. Treasuries - Stripped	138,449
Corporate Stocks	19,882,219
DE Local Government Retirement Investment Pool	<u>11,689,424</u>
Total Investments	<u>\$ 42,183,423</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.

Custodial Credit Risk - Deposits – Custodial credit risk is the risk that in the event of a failure of a depository financial institution, the County may be unable to recover deposits or recover collateral deposits that are in the possession of an outside party. All County deposits are required by law to be federally insured through the Federal Deposit Insurance Corporation (FDIC) or, to the extent not insured, collateralized by direct obligations of the United States of America as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits.

The face value of the pooled collateral must equal at least 100 percent of the public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

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.

NOTE C – DEPOSITS AND INVESTMENTS - CONTINUED

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. Certificates of Deposit are held by the Landfill Fund. As of June 30, 2013, the Proprietary Funds 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	\$ 143,925	\$ -	\$ 143,925
U.S. Treasuries Stripped	138,449	-	138,449
Certificates of Deposit	400,000	100,000	300,000
Total Investments	<u>\$ 682,374</u>	<u>\$ 100,000</u>	<u>\$ 582,374</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, 2013, 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.

As of June 30, 2013, the County had \$11,689,424 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 McArde Building, 860 Silver Lake Blvd., Dover, Delaware 19904.

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

Deposits	\$ 92,966,471
Investments	42,183,423
Petty Cash Amounts	2,800
Cash on Hand	<u>111,349</u>
Total	<u>\$ 135,264,043</u>
Unrestricted	\$ 63,901,673
Restricted	28,955,561
Fiduciary Funds	<u>42,406,809</u>
Total Cash and Investments	<u>\$ 135,264,043</u>

NOTE D – CAPITAL ASSETS

1. Primary Government

The capital asset activity for Governmental Activities for the year ended June 30, 2013, was as follows:

	<u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2013</u>
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated				
Land	\$ 7,312,893	\$ -	\$ -	\$ 7,312,893
Construction in Progress	70,751	857,891	(96,138)	832,504
Total Capital Assets Not Being Depreciated	<u>7,383,644</u>	<u>857,891</u>	<u>(96,138)</u>	<u>8,145,397</u>
Capital Assets Being Depreciated				
Site Improvements	4,994,180	38,533	-	5,032,713
Buildings	21,912,748	105,778	-	22,018,526
Equipment and Furniture	8,427,450	388,920	(71,462)	8,744,908
Total Capital Assets Being Depreciated	<u>35,334,378</u>	<u>533,231</u>	<u>(71,462)</u>	<u>35,796,147</u>
Less Accumulated Depreciation for:				
Site Improvements	1,292,466	226,413	-	1,518,879
Buildings	3,555,885	487,460	-	4,043,345
Equipment and Furniture	6,561,990	451,139	(71,462)	6,941,667
Total Accumulated Depreciation	<u>11,410,341</u>	<u>1,165,012</u>	<u>(71,462)</u>	<u>12,503,891</u>
Total Capital Assets Being Depreciated, Net	<u>23,924,037</u>	<u>(631,781)</u>	<u>-</u>	<u>23,292,256</u>
Governmental Activities Capital Assets, Net	<u>\$ 31,307,681</u>	<u>\$ 226,110</u>	<u>\$ (96,138)</u>	<u>\$ 31,437,653</u>

NOTE D – CAPITAL ASSETS - CONTINUED

The capital asset activity for Business-Type Activities for the year ended June 30, 2013, was as follows:

	July 1, 2012	Increases	Decreases	June 30, 2013
Business-Type Activities:				
Capital Assets Not Being Depreciated				
Land	\$ 4,746,991	\$ 1,374,855	\$ -	\$ 6,121,846
Construction in Progress	10,699,006	4,745,064	(7,824,910)	7,619,160
Total Capital Assets Not Being Depreciated	<u>15,445,997</u>	<u>6,119,919</u>	<u>(7,824,910)</u>	<u>13,741,006</u>
Capital Assets Being Depreciated				
Site Improvements	5,936,520	6,848	-	5,943,368
Pipeline	78,514,662	3,708,892	-	82,223,554
Buildings	35,672,672	1,347,224	-	37,019,896
Equipment and Furniture	54,295,235	2,453,292	(39,312)	56,709,215
Total Capital Assets Being Depreciated	<u>174,419,089</u>	<u>7,516,256</u>	<u>(39,312)</u>	<u>181,896,033</u>
Less Accumulated Depreciation for:				
Site Improvements	4,760,785	281,380	-	5,042,165
Pipeline	33,950,040	1,881,844	-	35,831,884
Buildings	16,605,766	1,081,731	-	17,687,497
Equipment and Furniture	27,348,369	2,911,119	(22,118)	30,237,370
Total Accumulated Depreciation	<u>82,664,960</u>	<u>6,156,074</u>	<u>(22,118)</u>	<u>88,798,916</u>
Total Capital Assets Being Depreciated, Net	<u>91,754,129</u>	<u>1,360,182</u>	<u>(17,194)</u>	<u>93,097,117</u>
Business-Type Activities Capital Assets, Net	<u>\$ 107,200,126</u>	<u>\$ 7,480,101</u>	<u>\$ (7,842,104)</u>	<u>\$ 106,838,123</u>

Depreciation expense was charged to the following activities:

Governmental Activities:

General Government	\$ 466,676
Community Services	314,877
Planning Services	4,362
Public Safety	326,261
Row Offices	52,836
	<u>\$ 1,165,012</u>

Business-Type Activities:

Sewer Fund	\$ 6,155,001
Landfill	<u>1,073</u>
	<u>\$ 6,156,074</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, 2013, was as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Capital Projects Fund	\$ 60
	CDBG	447,589
	Non-Major Governmental Funds	26,982
	Sewer Fund	323,949
	Trash Collection Fund	14,471
	Non-Major Proprietary Funds	16,066
	General Fund	3,131
Capital Projects Fund	General Fund	9,250
Sewer Fund	Trash Collection Fund	18,134
	Non-Major Proprietary Funds	39,208
Internal Service Fund	General Fund	<u>7,969</u>
	Total	<u>\$ 906,809</u>

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	\$ 989,350	\$ 288,197	<u>\$ 1,277,547</u>
Total Interfund Transfers	<u>\$ 989,350</u>	<u>\$ 288,197</u>	<u>\$ 1,277,547</u>

NOTE F – LONG-TERM DEBT

1. Changes in Long-Term Liabilities

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Bonds Payable	\$ 5,222,372	\$ -	\$ (157,236)	\$ 5,065,136	\$ 161,523
Less: Bond Discounts	(38,945)	-	1,854	(37,091)	(1,856)
Total Bonds Payable	<u>5,183,427</u>	<u>-</u>	<u>(155,382)</u>	<u>5,028,045</u>	<u>159,667</u>
Compensated Absences	<u>987,808</u>	<u>84,513</u>	<u>-</u>	<u>1,072,321</u>	<u>42,893</u>
Governmental Activity Long-Term Liability	<u>\$ 6,171,235</u>	<u>\$ 84,513</u>	<u>\$ (155,382)</u>	<u>\$ 6,100,366</u>	<u>\$ 202,560</u>
Business-Type Activities:					
Bonds Payable	\$ 44,273,719	\$ 1,598,698	\$ (1,850,182)	\$ 44,022,235	\$ 2,690,610
Less: Bond Discounts	(21,592)	-	(1,397)	(22,989)	1,397
Total Bonds Payable	<u>44,252,127</u>	<u>1,598,698</u>	<u>(1,851,579)</u>	<u>43,999,246</u>	<u>2,692,007</u>
Compensated Absences	<u>313,096</u>	<u>12,581</u>	<u>-</u>	<u>325,677</u>	<u>13,027</u>
Business-Type Activity Long-Term Liabilities	<u>\$ 44,565,223</u>	<u>\$ 1,611,279</u>	<u>\$ (1,851,579)</u>	<u>\$ 44,324,923</u>	<u>\$ 2,705,034</u>

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

2. General Obligation Bonds

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

NOTE F –LONG-TERM DEBT – CONTINUED

The following is a summary of general obligation bonds outstanding at June 30, 2013:

<u>Date of Issue/ Maturity</u>	<u>Amount of Original Issue</u>	<u>Description</u>	<u>Interest Rates</u>	<u>Balance Outstanding June 30, 2013</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%	\$ 143,754
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%	137,525
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%	97,605
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%	1,102,542
2000 September 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%	234,638
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%	259,341
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%	11,560,000
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%	647,194
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%	1,890,000

NOTE F – LONG-TERM DEBT – CONTINUED

<u>Date of Issue/ Maturity</u>	<u>Amount of Original Issue</u>	<u>Description</u>	<u>Interest Rates</u>	<u>Balance Outstanding June 30, 2013</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%	3,431,820
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%	243,110
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%	115,949
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%	14,559,399
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%	964,743
2010 November 2050	3,900,000	Series 2010-RUS United States Dept. of Agriculture General Obligation Bond, Sewer Fund-Southern By Pass, Principal and Interest Due in Quarterly Installments Beginning November 2011	2.25%	2,094,088
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%	2,275,803
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%	109,131

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, 2013</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%	951,137
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%	195,677
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%	6,762,022
2012 August 2022	633,000	2012 Series, Delaware Water Pollution Control Revolving Fund General Obligation Note, Sewer Fund-Murderkill Wetland/Nutrient Reduction Principal and Interest Due In Semi Annual Installments	2.00%	46,350
2012 August 2030	1,200,000	2012 Series, Delaware Water Pollution Control Revolving Fund General Obligation Note, Sewer Fund-Spring Creek Land Conservation Principal Due In Semi Annual Installments	0.00%	1,166,667
2013 August 2033	1,423,107	2013 Series, Delaware Water Pollution Control Revolving Fund General Obligation Note, Sewer Fund-East Dover Wastewater Construction Principal Due In Semi Annual Installments	2.00%	98,876
	Subtotal			<u>49,087,371</u>
Less:	Unamortized bond discount on 2003 bond issues; and unamortized bond premiums on 2004 bond issues.			<u>(60,080)</u>
	Total Long-Term Debt			<u>\$ 49,027,291</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, 2013, are as follows:

Year Ending June 30	General Obligation Bonds			
	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2014	\$ 161,523	\$ 231,585	\$ 2,690,610	\$ 1,066,952
2015	166,730	225,208	2,578,926	1,223,223
2016	175,762	218,366	2,299,069	1,222,027
2017	180,048	211,135	2,344,545	1,165,329
2018	190,002	203,468	2,308,968	1,109,541
2019-2023	1,040,863	884,462	11,101,932	4,778,118
2024-2028	1,234,368	619,503	11,100,145	3,530,240
2029-2033	1,555,818	283,640	9,486,539	2,219,405
2034-2038	360,024	8,731	3,911,713	1,339,829
2039-2043	-	-	3,837,961	887,737
2044-2048	-	-	4,174,216	396,710
2049-2051	-	-	933,552	25,389
Total	5,065,136	\$ 2,886,098	56,768,174	\$ 18,964,500
Less:				
Funds Not Drawn	-		(12,745,939)	
Total	\$ 5,065,136		\$ 44,022,235	

NOTE G – DEFERRED INFLOWS OF RESOURCES – UNAVAILABLE REVENUE

Deferred inflows of resources consist 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 inflows of resources primarily include 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 inflows of resources consists of service fees billed with the annual property tax billing.

The difference between the deferred inflows of resources balance 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 INFLOWS OF RESOURCES - CONTINUED

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

	<u>Governmental Fund Financial Statements</u>	<u>Government- Wide Statements</u>
	<u>General</u>	<u>Governmental Activities</u>
Property Taxes	\$ 11,322,121	\$ 10,642,258
Library Taxes	763,751	704,771
Suburban Park Taxes	15,790	15,663
	<hr/>	<hr/>
Total Deferred Inflows Of Resources	<u>\$ 12,101,662</u>	<u>\$ 11,362,692</u>

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

	<u>Enterprise Fund Financial Statements</u>	<u>Government- Wide Statements</u>
	<u>Sewer</u>	<u>Business-Type Activities</u>
Mortgage Note	\$ 1,601	\$ 1,601
Trnsmsn Debt Refinance	30,751	30,751
Bid Bond	2,480	2,480
	<hr/>	<hr/>
Total Deferred Inflows Of Resources	<u>\$ 34,832</u>	<u>\$ 34,832</u>

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	\$ 24,473	\$ 6,589	\$ -	\$ 31,062
Prepaid Expenses	71,396	-	-	71,396
Total Nonspendable	95,869	6,589	-	102,458
Restricted:				
Capital Projects	-	7,683,993	47,045	7,731,038
Recreational	22,736	-	-	22,736
APFO-EMS	935	-	-	935
Library Tax	220,364	-	-	220,364
Rodent Grant	12,483	-	-	12,483
LEPC Grant	16,136	-	-	16,136
Library Standards Grant	74,001	-	-	74,001
Total Restricted	346,655	7,683,993	47,045	8,077,693
Committed:				
Encumbrances	334,640	-	-	334,640
Total Committed	334,640	-	-	334,640
Assigned:				
Operating Needs	398,750	-	-	398,750
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	2,204	-	-	2,204
Total Assigned	1,575,954	-	-	1,575,954
Unassigned	37,664,228	-	-	37,664,228
Total Fund Balances	\$ 40,017,346	\$ 7,690,582	\$ 47,045	\$ 47,754,973

NOTE I – CAPITAL IMPROVEMENT COMMITMENTS

The following is a summary of the significant capital improvement commitments of the County as of June 30, 2013:

Governmental Funds

Capital Project Fund:

<u>Project Name</u>	<u>Estimated Project Cost</u>	<u>Remaining Contract Commitments To Date</u>	<u>Costs Incurred To Date</u>
Public Safety-Phone System Upgrade	\$ 91,152	\$ 72,152	\$ 19,000
Public Safety-HVAC System Upgrade	746,000	213,051	532,949
EMS Parking Lot Expansion	7,200	2,695	4,505
DASEF CTF Paving/Lighting	225,425	225,425	-
	<u>\$ 1,069,777</u>	<u>\$ 513,323</u>	<u>\$ 556,454</u>

The Capital Projects Fund has incurred costs in the amount of \$276,050 that were not under a formal construction commitment as of June 30, 2013.

Enterprise Funds

Sewer Fund:

<u>Project Name</u>	<u>Estimated Project Cost</u>	<u>Remaining Contract Commitments To Date</u>	<u>Costs Incurred To Date</u>
TMDL	\$ 74,875	\$ 4,375	\$ 70,500
Hartly-Nickerson	15,800	15,800	-
Muderkill Restoration Project	44,810	7,575	37,235
Treatment Plant Stormwater Upgrade	156,563	11,039	145,524
Little Heaven Bypass	347,629	63,511	284,118
Leachate Project	150,000	64,367	85,633
Treatment Plant Expansion Upgrade	920,000	20,424	899,576
General Labor & Equipment Contract	1,098,425	490,640	607,785
	<u>\$ 2,808,102</u>	<u>\$ 677,731</u>	<u>\$ 2,130,371</u>

In the Capital Projects Fund, Kent County has incurred costs in the amount of \$5,488,789 that were not under a formal construction commitment as of June 30, 2013.

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 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.

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. The County received a lump sum payment of \$180,000 from the other Respondents. Said payment was received on March 18, 2013, and the County has now assumed the obligations under the O&M agreement. 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 is no longer a defendant in various lawsuits. On August 7, 2013, the Stipulation and Order of Dismissal was filed by the Attorney General's Office and the associated Docket sheet clocked in as "Fully Paid and Satisfied". The Order was effective immediately without signature by the presiding Judge effectively ending the legal action and any associated 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.

An actuarial valuation of the pension plan prepared by Grant Thornton LLP, as of January 1, 2013, was based on the following membership data:

Active Employees	285
Retired	157
Survivors	20
Disabled	1
Deferred Vested	<u>99</u>
TOTAL	<u><u>562</u></u>

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

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

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

2. Summary of Significant Accounting Policies and Plan Asset Matters

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

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

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

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

NOTE K – PENSION AND POST RETIREE FUNDS - CONTINUED

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.

Total contribution to the pension plan in fiscal year 2013 was \$1,478,654 of which \$144,012 was the employee contribution and \$1,334,642 was the employer contribution. This contribution was based on the January 1, 2012 actuarial valuation by Grant Thornton LLP.

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, 2013

	<u>Pension Fund</u>	<u>Post Retiree Benefits Fund</u>
ASSETS		
Restricted Assets:		
Receivables		
Interest	\$ 10,435	\$ -
Investments	<u>29,260,220</u>	<u>11,689,424</u>
Total Assets	<u>29,270,655</u>	<u>11,689,424</u>
LIABILITIES		
Accounts Payable	<u>28,628</u>	<u>-</u>
Total Liabilities	<u>28,628</u>	<u>-</u>
NET POSITION		
Held in Trust for:		
Pension Benefits	29,242,027	-
Post Retiree Benefits	<u>-</u>	<u>11,689,424</u>
Total Net Position	<u>\$ 29,242,027</u>	<u>\$ 11,689,424</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, 2013

	<u>Pension Fund</u>	<u>Post Retiree Benefits Fund</u>
ADDITIONS		
Employee Contribution	\$ 144,012	\$ -
Employer Contributions	1,334,642	661,025
Interest and Dividends	200,837	285,878
Net Appreciation in Fair Value of Investments	<u>2,992,586</u>	<u>806,824</u>
Total Additions	<u>4,672,077</u>	<u>1,753,727</u>
DEDUCTIONS		
Pension Benefits	1,934,388	463,503
Administrative Expense	<u>175,967</u>	<u>4,061</u>
Total Deductions	<u>2,110,355</u>	<u>467,564</u>
Change In Net Assets	2,561,722	1,286,163
Net Position - Beginning of Year	<u>26,680,305</u>	<u>10,403,261</u>
Net Position - End of Year	<u>\$ 29,242,027</u>	<u>\$ 11,689,424</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, 2012, the date of the actuarial valuation used for fiscal year 2013 annual contribution, is as follows.

Annual required contribution (ARC)	\$ 1,478,654
Interest on net pension asset	(118,744)
Adjustment to annual required contribution	<u>211,247</u>
Annual pension cost	1,571,157
Contribution made	<u>1,478,654</u>
Decrease in net pension asset	92,503
Net pension asset at beginning of year	<u>(1,484,303)</u>
Net pension asset at end of year	<u>\$ (1,391,800)</u>

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

	For Fiscal Year	Amount
Annual Pension Cost (APC)	2011	\$ 1,629,773
	2012	1,621,333
	2013	1,571,157
Annual Required Contribution (ARC)	2011	1,539,554
	2012	1,527,494
	2013	1,478,654
Actual Contribution	2011	1,554,217
	2012	1,527,494
	2013	1,478,654
Percentage of APC Contributed	2011	95.36%
	2012	94.21%
	2013	94.11%
NPO (Asset)	2011	(1,578,142)
	2012	(1,484,303)
	2013	(1,391,800)

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]
1/1/2013	\$ 28,139,969	\$ 34,348,336	\$ 6,208,367	81.9%	\$ 13,186,023	47.08%

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
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%
2013	1,478,654	1,478,654	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, 2013
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 Combined 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 which would need at least 8 years of service. Eligible retirees reaching Medicare age receive a County paid Medicare supplement including prescription coverage.

Currently, 109 retirees meet these eligibility requirements, of which 93 retirees and 17 spouses receive health insurance benefits and 16 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 2013, expenditures of \$525,344 were recognized for post-retirement health care of which \$463,503 was paid out of the OPEB fund. The \$61,841 balance of retiree benefits was paid from the operating budgets of General Fund in the amount of \$48,392 and Sewer Fund in the amount of \$13,449.

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 2013 was as follows:

	For Fiscal Year	Amount
Annual OPEB Cost	2011	\$ 630,976
	2012	661,025
	2013	661,025
Annual Required Contribution (ARC)	2011	630,976
	2012	661,025
	2013	661,025
Actual Contribution	2011	630,976
	2012	661,025
	2013	661,025
Percentage of Annual OPEB Cost Contributed	2011	100.00%
	2012	100.00%
	2013	100.00%
NOO (Net OPEB Obligation) (Asset)	2011	-
	2012	-
	2013	-

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]
1/1/2013	\$ 11,028,790	\$ 11,529,437	\$ 500,647	95.7%	\$ 13,186,023	3.80%

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 2013, 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, 2013, the balance of this reserve totaled \$329,401
- 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, 2013, the balance of this reserve totaled \$21,890,214 of which \$16,564,823 is for the main system capital improvement and \$5,325,391 is for district capital improvement.

Equipment Replacement Reserve	\$ 329,401
Expansion Reserve	<u>21,890,214</u>
Total Reserved Net Position	<u>\$ 22,219,615</u>

NOTE O - RESTATEMENT OF BEGINNING OF YEAR NET POSITION

The beginning of year net position in the governmental activities, business-type activities, and sewer fund were decreased by \$67,478, \$143,088, and \$143,088, respectively to properly account for expensing bond issue costs as per GASB 65 effective June, 30, 2012. These costs were originally amortized over the life of the bonds. With the implementation of GASB 65 this year the costs were fully expensed as of June 30, 2012 creating a restatement of last year’s ending net position.

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 2013, 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	\$ -
	<hr/> <hr/>

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, 2013, the balances of the outstanding bonds were as follows:

<u>Bond</u>	<u>Issue Amount</u>	<u>Balance Outstanding June 30, 2013</u>
1984 Single Family Residential Mortgage	\$ 25,395,575	\$ 2,449,162
1997 Wesley College	3,500,000	1,306,267
1999 Wesley College	1,250,000	554,954
1999 Dover ALF, LLC "Heritage"	7,500,000	6,070,000
1999 Modern Maturity Center	500,000	58,033
2001 Wesley College	2,500,000	646,642
2004A DSU Student Housing, LLC	18,420,000	15,540,000
2004B,2004C DSU Student Housing, LLC	36,300,000	32,435,000
2005 Wesley College	2,900,000	1,578,688
2008A, 2008B Providence Creek Academy Charter School	13,150,000	6,835,000
2011 Charter School, Inc.	3,930,000	3,785,000
Total	<u>\$ 115,345,575</u>	<u>\$ 71,258,746</u>

NOTE Q – SUBSEQUENT EVENTS

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. On August 20, 2013, the Levy Court Commissioners adopted Ordinance 13-11 which authorized the issuance of up to \$325,000 of additional general obligation bonds for the East Dover Wastewater Construction Project with an expected increase in loan forgiveness from \$676,000 to \$1,000,900.

On July 17, 2013, the County received notice that the principal loan forgiveness for the Delaware Water Pollution Control Revolving Fund – Renewable Energy Park and UV Disinfection Wastewater Projects Loan was increased by \$315,000 from \$621,878 to \$936,878.

On August 20, 2013, the Levy Court Commissioners voted to transfer ownership of \$13.18+/- acres of land in the Kent County Aeropark from Kent County to the State of Delaware. The transfer is for the sole and exclusive purpose of land consolidation and development of an expanded Civil Air Terminal.

On September 24, 2013, the Levy Court Commissioners adopted Ordinance 13-15 which authorized the issuance of up to \$725,000 of general obligation bonds for the Hilltop Mobile Home Wastewater Construction Project. The bond closing was on October 11, 2013 and is a Series 2013-SRF loan with a 1% interest rate.

The County has evaluated all subsequent events through March 12, 2014, 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]
1/1/2011	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%
1/1/2013	28,139,969	34,348,336	6,208,367	81.9%	13,186,023	47.08%

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, 2011, and 2013 covering three valuations.

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%
1/1/2013	11,028,790	11,529,437	500,647	95.7%	13,186,023	3.80%



KENT COUNTY, DELAWARE

COMBINING BALANCE SHEET
NON-MAJOR
GOVERNMENTAL FUNDS
JUNE 30, 2013

	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	<u>Total Non-Major Governmental Funds</u>
	Farmer's Home Administration Grant	Aeropark Fund	
ASSETS			
Cash and Investments	\$ 18,402	\$ 56,161	\$ 74,563
Due from Other Governments	8,580	-	8,580
Total Assets	<u>\$ 26,982</u>	<u>\$ 56,161</u>	<u>\$ 83,143</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to Other Funds	\$ 26,982	\$ -	\$ 26,982
Unearned Revenue	-	9,116	9,116
Total Liabilities	<u>26,982</u>	<u>9,116</u>	<u>36,098</u>
Fund Balances:			
Restricted:			
Capital Projects	-	47,045	47,045
Total Fund Balances	<u>-</u>	<u>47,045</u>	<u>47,045</u>
Total Liabilities and Fund Balances	<u>\$ 26,982</u>	<u>\$ 56,161</u>	<u>\$ 83,143</u>

KENT COUNTY, DELAWARE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	<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	\$ 18,450	\$ -	\$ 18,450
Investment Income	-	89	89
Other Revenues	-	18,377	18,377
Total Revenues	<u>18,450</u>	<u>18,466</u>	<u>36,916</u>
EXPENDITURES			
Current:			
Planning Services	18,450	-	18,450
Economic Development	-	330	330
Total Expenditures	<u>18,450</u>	<u>330</u>	<u>18,780</u>
Excess of Revenues Over Expenditures	<u>-</u>	<u>18,136</u>	<u>18,136</u>
Net Change in Fund Balances	-	18,136	18,136
Fund Balances at Beginning of Year	-	28,909	28,909
Fund Balances at End of Year	<u>\$ -</u>	<u>\$ 47,045</u>	<u>\$ 47,045</u>

KENT COUNTY, DELAWARE
COMBINING STATEMENT OF NET POSITION
NON-MAJOR PROPRIETARY FUNDS
JUNE 30, 2013

	<u>Street Light</u>	<u>Landfill</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and Investments	\$ 693,304	\$ 753,531	\$ 1,446,835
Receivables			
Fees and Services	949,024	-	949,024
	<u>1,642,328</u>	<u>753,531</u>	<u>2,395,859</u>
Total Current Assets			
Non-Current Assets:			
Capital Assets, Net			
Equipment and Furniture	-	9,853	9,853
	<u>-</u>	<u>9,853</u>	<u>9,853</u>
Total Non-Current Assets			
	<u>1,642,328</u>	<u>763,384</u>	<u>2,405,712</u>
Total Assets			
LIABILITIES			
Current Liabilities			
Accounts Payable	39,590	59	39,649
Due to Other Funds	54,020	1,254	55,274
Unearned Revenue	895,654	180,000	1,075,654
	<u>989,264</u>	<u>181,313</u>	<u>1,170,577</u>
Total Liabilities			
NET POSITION			
Net Investment in Capital Assets	-	9,853	9,853
Unrestricted	653,064	572,218	1,225,282
	<u>653,064</u>	<u>582,071</u>	<u>1,235,135</u>
Total Net Position	<u>\$ 653,064</u>	<u>\$ 582,071</u>	<u>\$ 1,235,135</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, 2013

	<u>Street Light</u>	<u>Landfill</u>	<u>Total</u>
OPERATING REVENUES			
Fees for Services	\$ 887,352	\$ -	\$ 887,352
Total Operating Revenues	<u>887,352</u>	<u>-</u>	<u>887,352</u>
OPERATING EXPENSES			
Salaries and Benefits	70,503	-	70,503
Contractual Services	962	26,359	27,321
Travel	-	329	329
Utilities	696,561	-	696,561
Maintenance, Parts and Supplies	200	6	206
Vehicle Expense	1,112	-	1,112
Operating Insurance and Indirect Costs	82,237	4,821	87,058
Miscellaneous Expense	-	158	158
Depreciation Expense	-	1,073	1,073
Total Operating Expenses	<u>851,575</u>	<u>32,746</u>	<u>884,321</u>
Operating Income (Loss)	<u>35,777</u>	<u>(32,746)</u>	<u>3,031</u>
NON-OPERATING REVENUES			
Interest and Dividends	1,898	1,205	3,103
Total Non-Operating Revenues	<u>1,898</u>	<u>1,205</u>	<u>3,103</u>
Net Income (Loss)	37,675	(31,541)	6,134
Net Position at Beginning of Year	<u>615,389</u>	<u>613,612</u>	<u>1,229,001</u>
Net Position at End of Year	<u>\$ 653,064</u>	<u>\$ 582,071</u>	<u>\$ 1,235,135</u>

KENT COUNTY, DELAWARE
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Street Light</u>	<u>Landfill</u>	<u>Total</u>
Cash Flows From Operating Activities:			
Receipts from Customers and Users	\$ 880,049	\$ 184,817	\$ 1,064,866
Payments to Suppliers	(690,599)	(33,196)	(723,795)
Internal Activity - Payment to Other Funds	(115,264)	(4,471)	(119,735)
Net Cash Provided by Operating Activities	<u>74,186</u>	<u>147,150</u>	<u>221,336</u>
Cash Flows From Capital and Related Financing Activities:			
Acquisition and Construction of Capital Assets	-	(10,926)	(10,926)
Net Cash (Used) by Capital and Related Financing Activities	<u>-</u>	<u>(10,926)</u>	<u>(10,926)</u>
Cash Flows From Investing Activities:			
Interest and Dividends	1,898	1,205	3,103
Net Cash Provided By Investing Activities	<u>1,898</u>	<u>1,205</u>	<u>3,103</u>
Net Increase In Cash and Cash Equivalents	76,084	137,429	213,513
Cash and Cash Equivalents at Beginning of Year	<u>617,220</u>	<u>616,102</u>	<u>1,233,322</u>
Cash and Cash Equivalents at End of Year	<u>\$ 693,304</u>	<u>\$ 753,531</u>	<u>\$ 1,446,835</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ 35,777	\$ (32,746)	\$ 3,031
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation	-	1,073	1,073
Change in Assets and Liabilities:			
(Increase) in Accounts Receivable	(37,689)	-	(37,689)
Decrease in Due From Other Funds	-	4,817	4,817
Increase (Decrease) in Accounts Payable	8,545	(6,344)	2,201
Increase in Deferred Revenue	30,386	180,000	210,386
Increase in Due To Other Funds	37,167	350	37,517
Net Cash Provided by Operating Activities	<u>\$ 74,186</u>	<u>\$ 147,150</u>	<u>\$ 221,336</u>

KENT COUNTY, DELAWARE

COMBINING STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

	<u>Pension Fund</u>	<u>Post Retiree Benefits Fund</u>	<u>Total</u>
ASSETS			
Restricted Assets:			
Receivables			
Interest	\$ 10,435	\$ -	\$ 10,435
Investments	29,260,220	11,689,424	40,949,644
Total Assets	<u>29,270,655</u>	<u>11,689,424</u>	<u>40,960,079</u>
LIABILITIES			
Accounts Payable	28,628	-	28,628
Total Liabilities	<u>28,628</u>	<u>-</u>	<u>28,628</u>
NET POSITION			
Held in Trust for:			
Pension Benefits	29,242,027	-	29,242,027
Post Retiree Benefits	-	11,689,424	11,689,424
Total Net Position	<u>\$ 29,242,027</u>	<u>\$ 11,689,424</u>	<u>\$ 40,931,451</u>

KENT COUNTY, DELAWARE

COMBINING STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Pension Fund</u>	<u>Post Retiree Benefits Fund</u>	<u>Total</u>
ADDITIONS			
Employee Contributions	\$ 144,012	\$ -	\$ 144,012
Employer Contributions	1,334,642	661,025	1,995,667
Interest and Dividends	200,837	285,878	486,715
Net Appreciation in Fair Value of Investments	<u>2,992,586</u>	<u>806,824</u>	<u>3,799,410</u>
Total Additions	<u>4,672,077</u>	<u>1,753,727</u>	<u>6,425,804</u>
DEDUCTIONS			
Pension Benefits	1,934,388	463,503	2,397,891
Administrative Expense	<u>175,967</u>	<u>4,061</u>	<u>180,028</u>
Total Deductions	<u>2,110,355</u>	<u>467,564</u>	<u>2,577,919</u>
Change In Net Position	2,561,722	1,286,163	3,847,885
Net Position - Beginning of Year	<u>26,680,305</u>	<u>10,403,261</u>	<u>37,083,566</u>
Net Position - End of Year	<u>\$ 29,242,027</u>	<u>\$ 11,689,424</u>	<u>\$ 40,931,451</u>



KENT COUNTY, DELAWARE



SINGLE AUDIT

Year Ended June 30, 2013

KENT COUNTY, DELAWARE
SINGLE AUDIT
JUNE 30, 2013

	<u>PAGE</u>
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1 - 2
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	3 - 5
Schedule of Expenditures of Federal Awards	6 - 7
Notes to Schedule of Expenditures of Federal Awards	8 - 11
Schedule of Findings and Recommendations	12 - 13

INDEPENDENT AUDITOR'S
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 12, 2014

Board of Commissioners
Kent County, Delaware
Dover, Delaware

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, 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, 2013, and have issued our report thereon dated March 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, 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. Accordingly, we do not express an opinion on the effectiveness of Kent County, Delaware's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

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

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

INDEPENDENT AUDITOR'S
REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133

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March 12, 2014

Board of Commissioners
Kent County, Delaware
Dover, Delaware

Report on Compliance for Each Major Federal Program

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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Kent County, Delaware's major federal programs based on our audit of the types of compliance requirements referred to above. 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 of America; 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Kent County, Delaware's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Kent County, Delaware, complied, in all material respects, with the types of 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, 2013.

Report on Internal Control Over Compliance

Management of Kent County, Delaware, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Kent County, Delaware's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program 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. *A significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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. However, material weaknesses may exist that have not been identified.

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, 2013, and have issued our report thereon dated March 12, 2014, 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

Board of Commissioners
Kent County, Delaware

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.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

**KENT COUNTY, DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

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 Agriculture					
Rural Housing Preservation Grant:					
Grant HPG - 01-11	D	10.433	N/A	10/1/11-10/31/12	\$ 9,870
Grant HPG - 01-12	I	10.433	N/A	10/1/12-10/31/13	8,580
Total CFDA #10.433					18,450
Water and Waste Disposal Systems for Rural Communities:					
Kitts Hummock - Grant	D	10.760*	N/A	N/A	1,215,957
Wastewater Treatment Plant Upgrades - Loan	D	10.760*	N/A	N/A	253,472
Total CFDA #10.760					1,469,429
Total U.S. Department of Agriculture					
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*	01-11	07/01/11-12/31/12	283,348
Combined CDBG Grant	I	14.228*	01-12	07/01/12-12/31/13	403,137
Combined CDBG Grant	I	14.228*	N/A	N/A	6,930
Neighborhood Stabilization Program (NSP) Grant	I	14.228*	01-08	03/23/09-09/20/13	-
Neighborhood Stabilization Program (NSP) Grant Program Income	I	14.228*	N/A	N/A	265,314
Total CFDA #14.228					958,729
HOME Investment Partnerships Program:					
Home Program	I	14.239	HM-01-11	07/01/11-09/30/12	52,802
Home Program	I	14.239	HM-01-12	07/01/12-09/30/13	116,319
Total CFDA #14.239					169,121
Neighborhood Stabilization Program (NSP) Grant / Recovery Act Funded NSP Grant / Recovery Act Funded Program Income	I	14.256	01-09	01/07/11-09/30/12	31,492
Total CFDA #14.256	I	14.256	N/A	N/A	1,173
Total U.S. Department of Housing & Urban Development					
U.S. Environmental Protection Agency					
Passed through the State of Delaware, Department of Natural Resources and Environmental Control, Division of Water Resources:					
Capitalization Grants for Clean Water State Revolving Funds:					
Delaware Water Pollution Control Revolving Fund Loan - East Dover	I	66.458	N/A	N/A	82,393
Delaware Water Pollution Control Revolving Fund Loan - Murderkill	I	66.458	N/A	N/A	38,623
Delaware Water Pollution Control Revolving Fund Loan - Spring Creek	I	66.458	N/A	N/A	999,960
Total CFDA #66.458					1,120,976
Total U.S. Environmental Protection Agency					
Total U.S. Department of Housing & Urban Development					
Total U.S. Environmental Protection Agency					
					1,120,976

**KENT COUNTY, DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

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	10/01/08-03/01/13	46,821
FY12	I	97.042	EMPG-12-001	10/01/11-06/30/13	85,218
					<u>132,039</u>
Total CFDA #97.042					
State Homeland Security Grant Program:					
Wastewater Facility Enhanced Situational Awareness					
International School of Tactical Medicine (Courses A&B) 1/27/13-2/9/13	I	97.067	FY10-006	02/06/12-10/31/13	116,096
STORM Training - October 2012	I	97.067	N/A	N/A	12,250
Tabletop Exercise - January 2013	I	97.067	N/A	N/A	2,914
Difficult Airway Training	I	97.067	N/A	N/A	585
Confined Space Rescue Exercise 3/28/13 Backfill/Overtime	I	97.067	N/A	N/A	14,000
First Net Meeting - May 2013	I	97.067	N/A	N/A	1,135
Conference Room Interactive Whiteboard	I	97.067	N/A	N/A	691
Console Fold-Down Project	I	97.067	FY08-016	05/16/12-08/31/12	5,972
Console Fold-Down Project	I	97.067	FY10-015	09/19/12-03/31/13	9,000
Emergency Generator	I	97.067	FY11-003	08/20/12-06/30/14	54,831
Emergency Generator	I	97.067	FY08-020	06/21/12-09/15/12	30,392
Emergency Generator	I	97.067	FY10-014	09/10/12-03/31/13	24,477
					<u>272,343</u>
Public Assistance Program - Hurricane Sandy	I	97.036	FEMA-4090-DR-DE	10/27/12-10/26/14	22,966
					<u>427,348</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 2012	I	20.703	N/A	10/01/11-09/30/12	2,000
HMEP 2013	I	20.703	N/A	10/01/12-09/30/13	1,600
					<u>3,600</u>
Total CFDA #20.703					
Total U.S. Department of Transportation					
TOTAL EXPENDITURES OF FEDERAL AWARDS					
					<u>\$ 4,200,318</u>

Source Code:

D = Direct Federal Funding

I = Indirect Federal Funding

* Denotes Major Program Tested

KENT COUNTY, DELAWARE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

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, 2013.

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, 2013 was \$97,605.

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, 2013 was \$1,102,542 (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, 2013 was \$259,341 (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, 2013

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, 2013 was \$182,663 (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, 2013 was \$51,975.

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, 2013 was \$647,194.

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, 2013 was \$359,059.

During fiscal year 2010, the County was awarded \$15,527,296 in loan proceeds (reduced to \$14,905,418 through loan forgiveness of \$621,878) 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, 2013 was \$14,559,399 (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, 2013

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). 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, 2013 was \$2,275,803.

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). 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, 2013 was \$109,131.

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, 2013 was \$964,743.

During fiscal year 2010, the County was awarded \$3,900,000 in loan proceeds from the U.S. Department of Agriculture, Farmers' Home Administration, for construction of the Southern Milford Bypass under the FmHA's Water and Waste Disposal System for Rural Communities Program (CFDA #10.760). This loan is not fully drawn down, and no expenditures related to it are reflected in the schedule of expenditures of federal awards. The loan balance at June 30, 2013 was \$2,094,088.

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 \$45,750 are reflected in the schedule of expenditures of federal awards. The loan balance at June 30, 2013 was \$951,137.

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 expenditures in the amount of \$207,722 are reflected in the schedule of expenditures of federal awards. The loan balance at June 30, 2013 was \$195,677.

KENT COUNTY, DELAWARE
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2013

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

During fiscal year 2013, the County was awarded \$1,200,000 in loan proceeds from the Delaware Department of Natural Resources and Environmental Control, Delaware Water Pollution Control Revolving Fund, for a land conservation project under the Capitalization Grants for Clean Water State Revolving Funds Program (CFDA #66.458). This loan is fully drawn down, and expenditures in the amount of \$999,960 are reflected in the schedule of expenditures of federal awards. The loan balance at June 30, 2013 was \$1,166,667 (83.33 percent federal funds; 16.67 percent state funds).

During fiscal year 2013, the County was awarded \$633,000 in loan proceeds from the Delaware Department of Natural Resources and Environmental Control, Delaware Water Pollution Control Revolving Fund, for the Murderkill wetland restoration project under the Capitalization Grants for Clean Water State Revolving Funds Program (CFDA #66.458). This loan is not fully drawn down, and expenditures in the amount of \$38,623 are reflected in the schedule of expenditures of federal awards. The loan balance at June 30, 2013 was \$46,350 (83.33 percent federal funds; 16.67 percent state funds).

During fiscal year 2013, the County was awarded \$1,098,107 in loan proceeds from the Delaware Department of Natural Resources and Environmental Control, Delaware Water Pollution Control Revolving Fund, for the East Dover sewer project under the Capitalization Grants for Clean Water State Revolving Funds Program (CFDA #66.458). This loan is not fully drawn down, and expenditures in the amount of \$82,393 are reflected in the schedule of expenditures of federal awards. The loan balance at June 30, 2013 was \$98,876 (83.33 percent federal funds; 16.67 percent state funds).

KENT COUNTY, DELAWARE
 SCHEDULE OF FINDINGS AND RECOMMENDATIONS
 YEAR ENDED JUNE 30, 2013

PART A - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued [*unmodified, qualified, adverse or disclaimer*]:

Unmodified

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

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

Type of auditor's report issued on compliance for major programs [*unmodified, qualified, adverse or disclaimer*]:

Unmodified

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

Identification of major program:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>10.760</u>	<u>Water and Waste Disposal System for Rural Communities</u>
<u>14.228</u>	<u>Community Development Block Grant</u>

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

Auditee qualified as low-risk auditee? Yes X No

KENT COUNTY, DELAWARE
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (cont'd)
YEAR ENDED JUNE 30, 2013

PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

PART C - FINDINGS RELATED TO FEDERAL AWARDS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.