

TOWN OF GEORGETOWN
FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2013

**TOWN OF GEORGETOWN
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FOR THE YEAR ENDED APRIL 30, 2013**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Council
Town of Georgetown
Georgetown, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Georgetown as of and for the year ended April 30, 2013, and the related notes to the financial statements, which collectively comprise the Town'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the 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, and each major fund of the Town of Georgetown as of April 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note M to the financial statements, in 2013 the Town adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and early implemented GASB Statement No. 65, *Items Previously Recognized as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it 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 the Town of Georgetown's basic financial statements. The accompanying supplementary information on pages 39 through 43 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for 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 also not a required part of the basic financial statements.

The accompanying supplementary information and the schedule of expenditures of federal awards 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 basic 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2013, on our consideration of the Town of Georgetown's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Georgetown's internal control over financial reporting and compliance.

Georgetown, Delaware
October 3, 2013

Jefferson, Urian, Doane & Sterner, P.A.

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

THE TOWN OF GEORGETOWN

MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)

FOR FISCAL YEAR ENDED APRIL 30, 2013

This section of the report gives an overview and analysis of the financial activity of the Town of Georgetown for the year ended April 30, 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis introduces the Town's basic financial statements. Town of Georgetown's basic financial statements include (1) Government-wide Financial Statements, (2) Fund Financial Statements, and (3) Notes to the Financial Statements. Supplementary information, in addition to the basic financial statements, is also included.

FINANCIAL HIGHLIGHTS

GOVERNMENT-WIDE STATEMENTS

As of April 30, 2013, assets exceeded liabilities by \$ 28,268,943. Of this amount, the Town had unrestricted assets of \$ 768,162. The Town's total net position increased by \$ 2,622,214 during the year. The net increase was mainly caused by capital grants and contributions.

FUND FINANCIAL STATEMENTS

As of April 30, 2013, the Town's governmental funds reported an ending fund balance of \$ 2,257,305. This increased \$ 714,058 from the preceding year, and was approximately 24% of budgeted expenditures.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Government-wide Financial Statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private sector business. This Government-wide Financial Reporting includes two statements: the Statement of Net Position and the Statement of Activities.

The Statement of Net Position presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the Town of Georgetown is improving or deteriorating. The Town implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* in 2013. This statement reclassified some items as deferred outflows or inflows of resources that were previously reported as assets and liabilities. The Town also implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. With the implementation of these two GASB statements, the Statement of Net Position replaced the Statement of Net Assets in the Basic Financial Statements section. In the tables on pages 5 and 6, the Town has restated 2012 financial information in order to make comparisons. See more detailed information in Note M of the financial statements.

The Statement of Activities presents information showing how the Town's net position changed during the current fiscal year. Changes in net position are reported when the underlying event occurs, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will not impact cash flows until future fiscal periods.

Both the Statement of Net Position and Statement of Activities account separately for governmental activities and business-type activities.

Governmental activities include General Administration, Public Safety, Planning and Zoning, and Streets and Grounds. These activities are mostly supported by taxes, user fees and operating grants.

Business-type activities include water and sewer services, funded primarily by user fees, connection fees, and impact fees.

The Government-wide Financial Statements in this report immediately follow this MD&A report.

FUND FINANCIAL STATEMENTS

The next group of financial statements is Fund Financial Statements. These statements provide additional information.

A fund is an accounting category used to maintain control over resources that have been segregated for specific activities or objectives. These help us comply with finance-related legal requirements. The Town's funds are divided into two categories: Governmental Funds and Proprietary Funds.

GOVERNMENTAL FUNDS

Governmental Funds account for essentially the same functions as Governmental Activities in the Government-wide Financial Statements. Governmental Fund Financial Statements do focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a government's near-term financial requirements. Because of the focus of governmental funds is for the current period, it is useful to compare this information with similar information presented for governmental activities in the Government-wide Financial Statements. Readers may then better understand the long-term impact of the government's current financing decisions. The Governmental Fund Balance Sheet and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance include reconciliations to the Government-wide Statements. The basic financial statements include a budgetary comparison statement for the General Fund. Town of Georgetown adopts an annual appropriated budget for its General Fund.

PROPRIETARY FUNDS

Town of Georgetown's Proprietary funds are solely enterprise funds that operate in a manner similar to private business enterprises. The Town uses Enterprise Funds for the water and sewer systems, which separates operating revenues and expenses from non-operating items. The operating expenses include the cost of service, administrative expenses and depreciation on capital assets.

FIDUCIARY FUNDS

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

MAJOR AND NON-MAJOR FUNDS

Georgetown does not have non-major funds. All activities are classified as Major Funds.

NOTES TO THE FINANCIAL STATEMENTS

Notes to the Financial Statements provide additional information that is essential to a reader's complete understanding of the data provided in the Government-wide and Fund Financial statements.

SUPPLEMENTARY INFORMATION

The supplementary information contains detailed information regarding the General Fund budget versus actual revenues and expenditures and historical property assessments.

SINGLE AUDIT SUPPLEMENT

The Town of Georgetown received federal funding through grants and loans that require certain schedules and reports to be included in this section.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following table is a summary of the government-wide statement of net position:

**TOWN OF GEORGETOWN'S SCHEDULE OF NET POSITION
As of April 30, 2013 and 2012**

| | Governmental Activities | | Business-type Activities | | Total Government | |
|--|-------------------------|---------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Current and Other Assets | \$ 3,182,609 | \$ 2,489,321 | \$ 2,752,049 | \$ 2,348,876 | \$ 5,934,658 | \$ 4,838,197 |
| Capital Assets | 7,299,088 | 5,545,842 | 33,211,315 | 30,771,149 | 40,510,403 | 36,316,991 |
| Total Assets | <u>10,481,697</u> | <u>8,035,163</u> | <u>35,963,364</u> | <u>33,120,025</u> | <u>46,445,061</u> | <u>41,155,188</u> |
| Deferred outflows of resources | - | - | 260,864 | 291,255 | 260,864 | 291,255 |
| Current and Other Liabilities | 864,035 | 685,492 | 1,261,708 | 699,439 | 2,125,743 | 1,384,931 |
| Long-term Liabilities Outstanding | 269,961 | 173,400 | 16,041,278 | 14,241,383 | 16,311,239 | 14,414,783 |
| Total Liabilities | <u>1,133,996</u> | <u>858,892</u> | <u>17,302,986</u> | <u>14,940,822</u> | <u>18,436,982</u> | <u>15,799,714</u> |
| Net Position: | | | | | | |
| Invested in Capital Assets, Net of Related Debt | 7,239,519 | 5,545,842 | 17,331,655 | 16,958,291 | 24,571,174 | 22,504,133 |
| Restricted | 1,081,991 | 793,261 | 1,847,616 | 1,655,756 | 2,929,607 | 2,449,017 |
| Unrestricted | 1,026,191 | 837,168 | (258,029) | (143,589) | 768,162 | 693,579 |
| Total Net Position | <u>\$ 9,347,701</u> | <u>\$ 7,176,271</u> | <u>\$ 18,921,242</u> | <u>\$ 18,470,458</u> | <u>\$ 28,268,943</u> | <u>\$ 25,646,729</u> |

(Note that 2012 has been restated to account for GASB No. 63 and GASB No. 65 statement changes.)

The Governmental Activities Schedule of Net Position is made up of cash, taxes receivable, restricted cash, annexation and other receivables, land improvements and other capital assets. Restricted net position consists of cash and investments, which are restricted as to their use by outside agencies and Town ordinances.

In the Business-type Activities, 92% of the net position is invested in the water and sewer systems. Restricted net position consists of cash and investments held by the Town for infrastructure outlays and debt service.

The following schedule reflects the breakdown of changes in net position for Governmental and Business-type Activities for fiscal years 2013 and 2012.

TOWN OF GEORGETOWN'S CHANGES IN NET POSITION
For the Years Ended April 30, 2013 and 2012

| | Governmental Activities | | Business-type Activities | | Total Government | |
|-------------------------------------|-------------------------|---------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Revenues | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | \$ 1,253,237 | \$ 1,228,922 | \$ 3,096,277 | \$ 3,157,693 | \$ 4,349,514 | \$ 4,386,615 |
| Operating Grants and Contributions | 883,011 | 723,338 | 263,671 | 222,482 | 1,146,682 | 945,820 |
| Capital Grants and Contributions | 1,853,699 | 504,909 | 566,625 | 30,000 | 2,420,324 | 534,909 |
| General Revenues | | | | | | |
| Property Taxes and Penalties | 1,454,499 | 1,486,464 | - | - | 1,454,499 | 1,486,464 |
| Realty Transfer Taxes | 146,258 | 144,914 | - | - | 146,258 | 144,914 |
| Investment Income | 612 | 3,414 | - | - | 612 | 3,414 |
| Total Revenues | <u>5,591,316</u> | <u>4,091,961</u> | <u>3,926,573</u> | <u>3,410,175</u> | <u>9,517,889</u> | <u>7,502,136</u> |
| Program Expenses | | | | | | |
| General Administration | 522,182 | 540,654 | - | - | 522,182 | 540,654 |
| Public Safety | 1,824,271 | 1,788,783 | - | - | 1,824,271 | 1,788,783 |
| Planning and Zoning | 105,162 | 149,914 | - | - | 105,162 | 149,914 |
| Streets and Grounds | 1,279,706 | 1,263,391 | - | - | 1,279,706 | 1,263,391 |
| Sewer Facility | - | - | 2,152,361 | 2,163,817 | 2,152,361 | 2,163,817 |
| Water Facility | - | - | 1,011,993 | 1,010,289 | 1,011,993 | 1,010,289 |
| Total Expenses | <u>3,731,321</u> | <u>3,742,742</u> | <u>3,164,354</u> | <u>3,174,106</u> | <u>6,895,675</u> | <u>6,916,848</u> |
| Increase in Net Position before | | | | | | |
| Transfers | 1,859,995 | 349,219 | 762,219 | 236,069 | 2,622,214 | 585,288 |
| Transfers | 311,435 | 396,283 | (311,435) | (396,283) | - | - |
| Increase (Decrease) in Net Position | <u>2,171,430</u> | <u>745,502</u> | <u>450,784</u> | <u>(160,214)</u> | <u>2,622,214</u> | <u>585,288</u> |
| Net Position - Beginning | | | | | | |
| (Restated for 2012) | <u>7,176,271</u> | <u>6,430,769</u> | <u>18,470,458</u> | <u>18,630,672</u> | <u>25,646,729</u> | <u>25,061,441</u> |
| Net Position - Ending | <u>\$ 9,347,701</u> | <u>\$ 7,176,271</u> | <u>\$ 18,921,242</u> | <u>\$ 18,470,458</u> | <u>\$ 28,268,943</u> | <u>\$ 25,646,729</u> |

(Note that 2012 has been restated to account for GASB No. 63 and GASB No. 65 statement changes.)

In the Governmental Activities, revenues increased from the prior year due the Town being deeded infrastructure by a developer during the year. Expenses decreased in General Administration due to a loss from an impairment of assets in the prior year. Expenses in Public Safety, Planning and Zoning and Streets and Grounds are comparable to the prior year.

In the Business-type Activities, Capital Grants and Contributions increased from the prior year due to grant funds received from USDA for improvements to the sewer system. The expenses were comparable to prior years for the water and the sewer funds. The Town was not deeded infrastructure during the current year.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

In the General Fund, on the fund basis, the actual revenues were comparable to the budget except for transfer taxes and courthouse fees that generated \$ 204,619 over the budget, intergovernmental grants that generated \$ 410,099 over the budget, construction related services which were \$ 130,189 over budget, and miscellaneous income which includes a \$ 125,000 insurance settlement. The overall increase over budgeted revenues was \$ 1,049,971 on the Fund Financial Statements. Expenses consist of General Administrative, Planning and Zoning, and Streets and Grounds and were comparable to budget. The capital outlay budget did not include several Public Safety purchases, which were funded with grants received after the beginning of the fiscal year.

The Town's Proprietary funds provide the same type of information found in the Government-wide Financial Statements, but in more detail.

OTHER FACTORS

The economic slowdown, currently in its 6th year, continues to present significant budget challenges at the State, County and Municipal levels. We are slowly seeing an increase in commercial activity; however, the residential component continues to remain very sluggish.

During FY 2013 the Town neared completion of the Water Service Line Replacement Project (\$ 2,199,410) – it is anticipated this loan will be removed from Loans Payable as the terms were 0% interest and 100% principal forgiveness at the completion of the project. Other major water infrastructure projects underway include South Railroad Avenue Well & Treatment (\$ 1,595,590) and King Street Water Treatment Enhancement & Upgrade (\$ 3,300,000). These projects are funded through the Office of Drinking Water, State Revolving Fund (DWSRF) with one hundred percent (100%) principle forgiveness and a zero percent (0%) interest rate.

Additionally, during FY 2013, the Spray Disposal Expansion (\$ 2,600,000) project was 98% complete. Repayment on this loan has begun. The Inflow and Infiltration (\$ 1,705,000) project remains in the planning stages as analysis has been completed. Both of these projects are funded through a combination of grants and loans from the United States Department of Agriculture (USDA).

BASIC FINANCIAL STATEMENTS

**TOWN OF GEORGETOWN
STATEMENT OF NET POSITION
APRIL 30, 2013**

- 8 -

| | Primary Government | | |
|---|------------------------------------|-------------------------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Cash and cash equivalents | \$ 602,271 | \$ 151 | \$ 602,422 |
| Receivables: | | | |
| Taxes | 30,083 | - | 30,083 |
| Trash | 64,152 | - | 64,152 |
| Service water and sewer | - | 368,165 | 368,165 |
| Miscellaneous | 167,722 | 173,332 | 341,054 |
| Prepaid items | 47,699 | 46,316 | 94,015 |
| Due from other government agencies | 50,101 | 186,165 | 236,266 |
| Noncurrent assets: | | | |
| Loan receivable | 31,500 | - | 31,500 |
| Restricted assets: | | | |
| Cash and cash equivalents | 2,189,081 | 1,801,518 | 3,990,599 |
| Investments | - | 176,402 | 176,402 |
| Capital assets: | | | |
| Land and construction in progress | 544,080 | 5,221,733 | 5,765,813 |
| Other capital assets, net of depreciation | 6,755,008 | 27,989,582 | 34,744,590 |
| TOTAL ASSETS | 10,481,697 | 35,963,364 | 46,445,061 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred amounts on refunding | - | 260,864 | 260,864 |
| LIABILITIES | | | |
| Accounts payable | 121,604 | 841,692 | 963,296 |
| Accrued liabilities | 75,444 | 144,723 | 220,167 |
| Construction project deposit | 593,173 | - | 593,173 |
| Unearned revenue | 73,814 | 275,293 | 349,107 |
| Long-term liabilities: | | | |
| Due within one year | 239,309 | 1,052,222 | 1,291,531 |
| Due in more than one year | 30,652 | 14,989,056 | 15,019,708 |
| TOTAL LIABILITIES | 1,133,996 | 17,302,986 | 18,436,982 |
| NET POSITION | | | |
| Invested in capital assets, net of related debt | 7,239,519 | 17,331,655 | 24,571,174 |
| Restricted for: | | | |
| Construction and debt service | - | 1,847,616 | 1,847,616 |
| Grants, emergency services, recreation and transfer tax | 1,081,991 | - | 1,081,991 |
| Unrestricted | 1,026,191 | (258,029) | 768,162 |
| TOTAL NET POSITION | \$ 9,347,701 | \$ 18,921,242 | \$ 28,268,943 |

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

TOWN OF GEORGETOWN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED APRIL 30, 2013

- 9 -

| Function/Programs | Expenses | Program Revenues | | | Net Revenue (Expense) and Changes in Net Position | | |
|--|---------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|----------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| PRIMARY GOVERNMENT | | | | | | | |
| GOVERNMENTAL ACTIVITIES | | | | | | | |
| General administration | \$ 522,182 | \$ 428,524 | \$ 298,596 | \$ - | \$ 204,938 | \$ - | \$ 204,938 |
| Public safety | 1,824,271 | 190,888 | 439,289 | 107,174 | (1,086,920) | - | (1,086,920) |
| Streets and grounds | 1,279,706 | 455,504 | 145,126 | 1,746,525 | 1,067,449 | - | 1,067,449 |
| Planning and zoning | 105,162 | 178,321 | - | - | 73,159 | - | 73,159 |
| TOTAL GOVERNMENTAL ACTIVITIES | 3,731,321 | 1,253,237 | 883,011 | 1,853,699 | 258,626 | - | 258,626 |
| BUSINESS-TYPE ACTIVITIES | | | | | | | |
| Sewer facility | 2,152,361 | 1,953,388 | 201,438 | 566,625 | - | 569,090 | 569,090 |
| Water facility | 1,011,993 | 1,142,889 | 62,233 | - | - | 193,129 | 193,129 |
| TOTAL BUSINESS-TYPE ACTIVITIES | 3,164,354 | 3,096,277 | 263,671 | 566,625 | - | 762,219 | 762,219 |
| TOTAL PRIMARY GOVERNMENT | \$ 6,895,675 | \$ 4,349,514 | \$ 1,146,682 | \$ 2,420,324 | 258,626 | 762,219 | 1,020,845 |
| GENERAL REVENUES | | | | | | | |
| Taxes: Property and penalties | | | | | 1,454,499 | - | 1,454,499 |
| Realty transfer | | | | | 146,258 | - | 146,258 |
| Unrestricted investment earnings | | | | | 612 | - | 612 |
| TRANSFERS | | | | | 311,435 | (311,435) | - |
| TOTAL GENERAL REVENUES AND TRANSFERS | | | | | | | |
| | | | | | 1,912,804 | (311,435) | 1,601,369 |
| CHANGE IN NET POSITION | | | | | | | |
| | | | | | 2,171,430 | 450,784 | 2,622,214 |
| NET POSITION - BEGINNING, AS RESTATED | | | | | | | |
| | | | | | 7,176,271 | 18,470,458 | 25,646,729 |
| NET POSITION - ENDING | | | | | | | |
| | | | | | \$ 9,347,701 | \$ 18,921,242 | \$ 28,268,943 |

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

**TOWN OF GEORGETOWN
BALANCE SHEET - GOVERNMENTAL FUND
APRIL 30, 2013**

- 10 -

| | <u>General Fund</u> |
|--|----------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 602,271 |
| Receivables: | |
| Taxes | 30,083 |
| Trash | 64,152 |
| Miscellaneous | 167,722 |
| Prepaid items | 47,699 |
| Due from other government agencies | 50,101 |
| Noncurrent assets: | |
| Loan receivable | 31,500 |
| Restricted assets: | |
| Cash and cash equivalents | 2,189,081 |
| | <u>2,189,081</u> |
| TOTAL ASSETS | <u><u>\$ 3,182,609</u></u> |
| LIABILITIES | |
| Accounts payable | \$ 121,604 |
| Accrued liabilities | 75,444 |
| Construction project deposit | 593,173 |
| Unearned revenue | 73,814 |
| | <u>73,814</u> |
| TOTAL LIABILITIES | <u>864,035</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Unavailable revenues: | |
| Grant revenue | 1,424 |
| Loan receivable | 31,500 |
| Property taxes | 28,345 |
| | <u>28,345</u> |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>61,269</u> |
| FUND BALANCES | |
| Nonspendable: | |
| Prepaid items | 47,699 |
| Restricted for: | |
| Emergency services and recreation services | 148,338 |
| Grant funds | 526,318 |
| Realty transfer tax | 375,836 |
| Assigned for: | |
| Health benefits | 174,761 |
| Unassigned | 984,353 |
| | <u>984,353</u> |
| TOTAL FUND BALANCES | <u>2,257,305</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | <u><u>\$ 3,182,609</u></u> |

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

**TOWN OF GEORGETOWN
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION
APRIL 30, 2013**

- 11 -

| | |
|--|----------------------------|
| FUND BALANCES OF GOVERNMENTAL FUND | \$ 2,257,305 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund statements. | 7,299,088 |
| Certain revenues are not available to pay for current period expenditures and therefore are reported as unavailable in the governmental funds. | 61,269 |
| Long-term liabilities are not due and payable in the current period and accordingly are not reported in the governmental fund financial statements. Interest and fees on long-term debt are not accrued in governmental funds, but rather are recognized as an expenditure when due. | <u>(269,961)</u> |
| NET POSITION OF GOVERNMENTAL ACTIVITIES | <u><u>\$ 9,347,701</u></u> |

**TOWN OF GEORGETOWN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND
FOR THE YEAR ENDED APRIL 30, 2013**

- 12 -

| | <u>General Fund</u> |
|---|-----------------------------------|
| REVENUES | |
| Taxes and fees | \$ 1,823,424 |
| Intergovernmental | 686,961 |
| Charges for services | 812,325 |
| Fines and parking | 187,199 |
| Miscellaneous | <u>342,726</u> |
| TOTAL REVENUES | <u>3,852,635</u> |
| EXPENDITURES | |
| Current: | |
| General administration | 366,062 |
| Public safety | 1,668,721 |
| Streets and grounds | 981,895 |
| Planning and zoning | 104,423 |
| Debt service | 32,491 |
| Capital outlay | <u>388,480</u> |
| TOTAL EXPENDITURES | <u>3,542,072</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | <u>310,563</u> |
| OTHER FINANCING SOURCES | |
| Proceeds from debt | 92,060 |
| Transfers in, net | <u>311,435</u> |
| TOTAL OTHER FINANCING SOURCES | <u>403,495</u> |
| NET CHANGE IN FUND BALANCE | 714,058 |
| FUND BALANCE - BEGINNING | <u>1,543,247</u> |
| FUND BALANCE - ENDING | <u><u>\$ 2,257,305</u></u> |

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

TOWN OF GEORGETOWN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED APRIL 30, 2013

- 13 -

| | | |
|--|------------------|----------------------------|
| NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND | | \$ 714,058 |
| 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 (\$ 388,480) was less than disposal of assets (\$ 8,167) and depreciation (\$ 396,500) in the current period. | | (16,187) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. The net change is as follows: | | |
| Grants | \$ (54,009) | |
| Miscellaneous | (4,500) | |
| Property taxes | (4,304) | |
| Contributed property and supplies | <u>1,769,433</u> | 1,706,620 |
| Expenditures reported in the statement of activities that do not require the use of current financial resources and, therefore, are not reported expenditures in the governmental fund. | | |
| Bad debt | | (136,500) |
| Debt proceeds are recognized as financing sources in governmental funds, but are not revenue in the government-wide statement of activities, net of principal payments on debt, forgiveness of debt and accrued interest on debt not yet due. | | (59,569) |
| Compensated absence increases reported in the statement of activities do require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | | <u>(36,992)</u> |
| CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES | | <u><u>\$ 2,171,430</u></u> |

TOWN OF GEORGETOWN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED APRIL 30, 2013

- 14 -

| | Budgeted Amounts Original and Final | Actual | Variance with Budget - Positive (Negative) |
|---|--|---------------------|---|
| REVENUES | | | |
| Taxes and fees | \$ 1,601,503 | \$ 1,823,424 | \$ 221,921 |
| Intergovernmental | 276,862 | 686,961 | 410,099 |
| Charges for services | 645,000 | 812,325 | 167,325 |
| Fines and parking | 155,000 | 187,199 | 32,199 |
| Miscellaneous | 124,299 | 342,726 | 218,427 |
| TOTAL REVENUES | 2,802,664 | 3,852,635 | 1,049,971 |
| EXPENDITURES | | | |
| Current: | | | |
| General administration | 277,467 | 366,062 | (88,595) |
| Public safety | 1,661,534 | 1,668,721 | (7,187) |
| Streets and grounds | 913,308 | 981,895 | (68,587) |
| Planning and zoning | 99,273 | 104,423 | (5,150) |
| Debt service | 6,951 | 32,491 | (25,540) |
| Capital outlay | 25,000 | 388,480 | (363,480) |
| TOTAL EXPENDITURES | 2,983,533 | 3,542,072 | (558,539) |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (180,869) | 310,563 | 491,432 |
| OTHER FINANCING SOURCES | | | |
| Proceeds from debt | - | 92,060 | 92,060 |
| Transfers in, net | 204,496 | 311,435 | 106,939 |
| TOTAL OTHER FINANCING SOURCES | 204,496 | 403,495 | 198,999 |
| NET CHANGE IN FUND BALANCE | 23,627 | 714,058 | 690,431 |
| FUND BALANCE - BEGINNING | 1,543,247 | 1,543,247 | - |
| FUND BALANCE - ENDING | \$ 1,566,874 | \$ 2,257,305 | \$ 690,431 |

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

TOWN OF GEORGETOWN
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
APRIL 30, 2013

- 15 -

| ASSETS | Business-type Activities - Enterprise Funds | | |
|--|---|---------------------|----------------------|
| | Sewer Fund | Water Fund | Total |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | \$ - | \$ 151 | \$ 151 |
| Receivables, net of allowance for doubtful accounts: | | | |
| Service charges | 166,845 | 201,320 | 368,165 |
| Miscellaneous | 142,993 | 30,339 | 173,332 |
| Due from other government agencies | 186,165 | - | 186,165 |
| TOTAL CURRENT ASSETS | 496,003 | 231,810 | 727,813 |
| NONCURRENT ASSETS | | | |
| Prepaid items | 11,856 | 34,460 | 46,316 |
| Restricted assets: | | | |
| Cash and cash equivalents | 1,395,837 | 405,681 | 1,801,518 |
| Investments | 176,402 | - | 176,402 |
| Capital assets: | | | |
| Land and construction in progress | 3,041,346 | 2,180,387 | 5,221,733 |
| Other capital assets, net of depreciation | 22,294,990 | 5,694,592 | 27,989,582 |
| TOTAL NONCURRENT ASSETS | 26,920,431 | 8,315,120 | 35,235,551 |
| TOTAL ASSETS | 27,416,434 | 8,546,930 | 35,963,364 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred amounts on refunding | 111,905 | 148,959 | 260,864 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable | 304,458 | 537,234 | 841,692 |
| Accrued liabilities | 93,001 | 51,722 | 144,723 |
| Unearned revenue | 275,293 | - | 275,293 |
| Current portion of long-term liabilities | 636,558 | 415,664 | 1,052,222 |
| TOTAL CURRENT LIABILITIES | 1,309,310 | 1,004,620 | 2,313,930 |
| LONG-TERM LIABILITIES, LESS CURRENT PORTION | 9,867,248 | 5,121,808 | 14,989,056 |
| TOTAL LIABILITIES | 11,176,558 | 6,126,428 | 17,302,986 |
| NET POSITION | | | |
| Invested in capital assets, net of related debt | 14,930,519 | 2,401,136 | 17,331,655 |
| Restricted for: | | | |
| Construction and debt service | 1,478,686 | 368,930 | 1,847,616 |
| Unrestricted | (57,424) | (200,605) | (258,029) |
| TOTAL NET POSITION | \$ 16,351,781 | \$ 2,569,461 | \$ 18,921,242 |

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

TOWN OF GEORGETOWN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUNDS
FOR THE YEAR ENDED APRIL 30, 2013

- 16 -

| | Business-type Activities - Enterprise Funds | | |
|--|--|-----------------------|----------------------|
| | Sewer Fund | Water Fund | Total |
| OPERATING REVENUES | | | |
| Charges for services | \$ 1,894,752 | \$ 1,128,189 | \$ 3,022,941 |
| Other operating revenue | 43,155 | 360 | 43,515 |
| TOTAL OPERATING REVENUES | 1,937,907 | 1,128,549 | 3,066,456 |
| OPERATING EXPENSES | | | |
| Chemicals | 53,776 | 66,057 | 119,833 |
| Depreciation | 843,220 | 225,101 | 1,068,321 |
| Employee benefits | 78,280 | 70,053 | 148,333 |
| Gasoline and oil | 11,496 | 8,360 | 19,856 |
| Insurance | 28,815 | 14,803 | 43,618 |
| Maintenance and repairs | 45,704 | 133,574 | 179,278 |
| Service charges | 145 | - | 145 |
| Payroll taxes | 23,740 | 18,126 | 41,866 |
| Professional services | 168,823 | 4,440 | 173,263 |
| Salaries | 313,495 | 285,793 | 599,288 |
| Sludge disposal fees | 110,063 | - | 110,063 |
| Supplies | 17,311 | 11,619 | 28,930 |
| Telephone | 3,201 | 4,458 | 7,659 |
| Utilities | 156,732 | 54,180 | 210,912 |
| TOTAL OPERATING EXPENSES | 1,854,801 | 896,564 | 2,751,365 |
| OPERATING INCOME | 83,106 | 231,985 | 315,091 |
| NON-OPERATING REVENUES (EXPENSES) | | | |
| Impact fees, net | 201,438 | 62,233 | 263,671 |
| Investment income (loss) | (7,230) | (69) | (7,299) |
| Penalties | 22,711 | 14,409 | 37,120 |
| Interest expense | (297,560) | (115,429) | (412,989) |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | (80,641) | (38,856) | (119,497) |
| INCOME BEFORE CONTRIBUTIONS AND TRANSFERS | 2,465 | 193,129 | 195,594 |
| CAPITAL CONTRIBUTIONS | 566,625 | - | 566,625 |
| TRANSFERS OUT | (162,974) | (148,461) | (311,435) |
| CHANGE IN NET POSITION | 406,116 | 44,668 | 450,784 |
| NET POSITION - BEGINNING, AS RESTATED | 15,945,665 | 2,524,793 | 18,470,458 |
| NET POSITION - ENDING | \$ 16,351,781 | \$ 2,569,461 | \$ 18,921,242 |

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

**TOWN OF GEORGETOWN
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED APRIL 30, 2013**

- 17 -

| | Business-type Activities - Enterprise Funds | | |
|--|--|-----------------------|---------------------|
| | Sewer Fund | Water Fund | Total |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | \$ 1,880,181 | \$ 1,128,969 | \$ 3,009,150 |
| Payments to suppliers for goods and services | (550,591) | (279,629) | (830,220) |
| Payments to employees for services | (477,611) | (370,907) | (848,518) |
| Other operating receipts | 43,155 | 360 | 43,515 |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | 895,134 | 478,793 | 1,373,927 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Transfers from (to) other funds, net | (162,974) | (148,461) | (311,435) |
| NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | (162,974) | (148,461) | (311,435) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Bond and loan proceeds | 1,886,186 | 1,509,651 | 3,395,837 |
| Acquisition of capital assets | (1,508,185) | (1,401,390) | (2,909,575) |
| Retirement of bonds and related costs | (1,177,729) | (347,801) | (1,525,530) |
| Impact fees | 194,889 | 60,844 | 255,733 |
| Intergovernmental capital grant | 342,960 | - | 342,960 |
| Interest paid | (297,722) | (105,201) | (402,923) |
| NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | (559,601) | (283,897) | (843,498) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisition of investments | (27,293) | - | (27,293) |
| Proceeds from investments | 47,535 | - | 47,535 |
| Investment income and penalties | 29,149 | 14,340 | 43,489 |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | 49,391 | 14,340 | 63,731 |
| NET INCREASE IN CASH | 221,950 | 60,775 | 282,725 |
| CASH AND CASH EQUIVALENTS - BEGINNING | 1,173,887 | 345,057 | 1,518,944 |
| CASH AND CASH EQUIVALENTS - ENDING | \$ 1,395,837 | \$ 405,832 | \$ 1,801,669 |
| CASH AND CASH EQUIVALENTS AS PRESENTED IN THE ACCOMPANYING STATEMENTS OF NET POSITION | | | |
| Cash and cash equivalents | \$ - | \$ 151 | \$ 151 |
| Restricted cash and cash equivalents | 1,395,837 | 405,681 | 1,801,518 |
| TOTAL CASH AND CASH EQUIVALENTS | \$ 1,395,837 | \$ 405,832 | \$ 1,801,669 |

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

**TOWN OF GEORGETOWN
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - CONTINUED
FOR THE YEAR ENDED APRIL 30, 2013**

- 18 -

| | Business-type Activities - Enterprise Funds | | |
|---|--|-----------------------|---------------------|
| | Sewer Fund | Water Fund | Total |
| RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Operating income | \$ 83,106 | \$ 231,985 | \$ 315,091 |
| Adjustments to reconcile operating income to net cash flows from operating activities: | | | |
| Depreciation and amortization | 843,220 | 225,101 | 1,068,321 |
| Changes in assets, deferred outflows and liabilities: | | | |
| Receivables | (5,013) | 780 | (4,233) |
| Prepaid items | 17,403 | 8,616 | 26,019 |
| Accounts payable and accrued liabilities | (34,024) | 12,311 | (21,713) |
| Unearned revenue | (9,558) | - | (9,558) |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | \$ 895,134 | \$ 478,793 | \$ 1,373,927 |

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

**TOWN OF GEORGETOWN
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUND
APRIL 30, 2013**

- 19 -

| | |
|---------------------------------------|-----------------------------|
| ASSETS | |
| Cash | <u><u>\$ 10,200</u></u> |
| NET POSITION HELD IN TRUST | <u><u>\$ 10,200</u></u> |

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

**TOWN OF GEORGETOWN
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - FIDUCIARY FUND
FOR THE YEAR ENDED APRIL 30, 2013**

- 20 -

| | |
|---|-------------------------|
| ADDITIONS | |
| Investment income | \$ 139 |
| DEDUCTIONS | |
| Support | <u>(5,000)</u> |
| CHANGE IN NET POSITION | (4,861) |
| NET POSITION HELD IN TRUST - BEGINNING | <u>15,061</u> |
| NET POSITION HELD IN TRUST - ENDING | <u><u>\$ 10,200</u></u> |

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Georgetown, Delaware (the "Town") was incorporated in 1791 under the provisions of the State of Delaware. The Town operates under a Mayor-Council form of government and provides the following services: public safety, streets and grounds, planning and zoning, water and sewer service, and general administrative services.

The Town's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Town are discussed below.

1. Reporting Entity

The accompanying financial statements include police, streets, water and sewer service, recreation and general administrative services that are legally controlled by or dependent on the Town Council (the primary government). The Town's financial reporting entity is required to consist of all organizations for which the Town is financially accountable or for which there is a significant relationship. The Water & Supply Company, previously the sole provider of water services to the Town's citizens, was purchased by the Town of Georgetown in 1991 and is an integral component of the Town's water system. Its activities are blended with the Water Fund.

2. Basic Financial Statements - Government-wide Statements

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The Town's governmental activities consist of general administration, public safety, recreation, and street maintenance. The Town's water and sewer services are classified as business-type activities.

In the government-wide statement of net position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

The government-wide statement of activities reports both the gross and net cost of each of the Town's functions and business-type activities. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. Direct expenses are those that are clearly identifiable with a specific function. The net costs (by function or business-type activity) are normally covered by general revenue (property taxes, interest income, etc.).

This government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net position resulting from the current year's activities.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Basic Financial Statements - Fund Financial Statements

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the Town:

Governmental Fund

The focus of the governmental fund's measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income. The following is a description of the governmental fund of the Town:

General fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position and cash flows. The accounting principles generally accepted in the United States of America applicable are those similar to businesses in the private sector.

Proprietary funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs. The following is a description of the proprietary funds of the Town:

Enterprise funds are used to account for the provision of water and sewer services to customers in the Town's Water and Sewer Districts. Activities of the enterprise funds include administration, operations and maintenance of the water and sewer system, and billing and collection activities.

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 are charges to customers for providing services. Operating expenses include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting the above criteria are reported as non-operating revenues and expenses.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Basic Financial Statements - Fund Financial Statements - Continued

Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Town programs. The reporting focus is on net position and changes in net position, reported using accounting principles similar to proprietary funds. The Private-Purpose Trust Fund is used to account for assets to benefit the Boy and Girl Scouts of America. The Town's fiduciary fund is presented in the fiduciary fund financial statement. Since by definition these assets are being held for the benefit of a third party (private parties) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

Major and Nonmajor Funds

The funds of the financial reporting entity are further classified as major or nonmajor. The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASBS No. 34 sets forth minimum criteria for the determination of major funds. The Town does not have a nonmajor fund.

4. Basis of Accounting/Measurement Focus

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services, which are accrued. Expenses are recognized at the time the liability is incurred. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Accounting/Measurement Focus - Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Town considers property taxes as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, except for interest payable accrued at the debt issuance date for which cash is received with the debt proceeds, as well as expenditures related to compensated absences are recorded only when payment has matured and will be payable shortly after year-end. The revenues susceptible to accrual are property taxes, annexation fees, charges for service, interest income and intergovernmental revenues.

5. Cash and Cash Equivalents

The Town has defined cash and cash equivalents to include cash on hand, demand deposits and all liquid investments (including restricted assets) with a maturity of three months or less when purchased. Restricted cash mainly consists of amounts held by the Town arising from grant programs, retirement, health and impact fee funds.

6. Receivables

Receivables of other than miscellaneous are reported at their gross value. All service and property tax receivables are considered fully collectible. Miscellaneous receivables are reported net of a reserve for bad debts of \$ 10,110. A bad debt expense of \$ 136,500 was recorded during the year related to an annexation fee outstanding that is not considered collectible.

7. Capital Assets

Equipment purchased or acquired with an original cost of \$ 5,000 or more, and land improvements, buildings, storm drains, and sewer and water infrastructure purchased or acquired with an original cost of \$ 25,000 or more are reported at historical cost or estimated historical cost. Capital assets are reviewed on an ongoing basis for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the excess of the asset's carrying amount over the fair value of the asset. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Capital Assets - Continued

The Town has elected to only report infrastructure as capital assets if acquired after May 1, 2004. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

| | |
|--------------------------------|--------------|
| Sewer and water infrastructure | 5 - 50 years |
| Streets and storm drains | 40 years |
| Buildings and improvements | 7 - 40 years |
| Machinery and equipment | 3 - 10 years |

8. Unearned Revenue

Unearned income represents monies held or currently owed to the Town that will be recognized as revenue in future periods.

9. Investments

All investments are stated at fair value. Fair values are determined by quoted market prices, where available. Restricted investments represent amounts held by the Town for construction and debt service.

10. Equity Classifications

Government-wide and Proprietary Fund Net Position

Net position is classified and displayed in three components:

- a. Invested in capital assets, net of related debt - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Governmental Fund Balances

In the governmental fund financial statements, fund balances are reported using five classifications based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (1) not in spendable form such as prepaid items or inventories; or (2) legally or contractually required to be maintained intact.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Equity Classifications - Continued

The spendable portion of the fund balance comprises the remaining four classifications:

- a. Restricted fund balance - This classification reflects the constraints imposed on resources either (1) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.
- b. Committed fund balance - These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the Town Council, the government's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Town Council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
- c. Assigned fund balance - This classification reflects the amounts constrained by the Town's "intent" to be used for specific purposes, but are neither restricted nor committed. The Town Manager has the authority to assign amounts to be used for specific purposes.
- d. Unassigned fund balance - This fund balance is the residual classification for the general fund.

Use of Restricted Resources

It is the Town's policy to maintain a diversified and stable revenue stream to protect it from problematic fluctuations in any single revenue source and provide stability to ongoing services. The Town's policy is to segregate restricted resources for both restricted and assigned funds. Town Council specifically authorizes expenditures from those restricted resources and they are approved on a transaction-by-transaction basis in accordance with the specified provisions imposed by those resources. When an expenditure is incurred for purposes for which both nonsegregated restricted and unrestricted net position are available, it is the policy of the Town to consider nonsegregated restricted net position to have been reduced first.

11. Property Assessment

The Town's property tax year runs from May 1 to April 30. Property taxes are recorded and attached as an enforceable lien on property on May 31, the date levied. Taxes are payable under the following terms: May 1 through May 31, face amount; after May 31, a 1.5% penalty per month is charged on the unpaid balance due. Property taxes are recognized as revenue in the budget year for which they are levied.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

12. Compensated Absences

Employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation days. In the event of retirement, an employee is paid for accumulated vacation days, and dependent on years of service could be paid part or all of sick leave accumulated. The Town accrues accumulated unpaid vacation and sick leave when earned (or estimated to be earned) by the employee. Sick leave is only payable to an employee at retirement and is accrued once an employee attains ten years of Town service. The governmental funds compensated absences are maintained separately and represent a reconciling item between the fund and government-wide presentations.

13. Interfund Activity

Interfund activity is reported as either loans or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. All other interfund transactions are treated as transfers and are not required to be repaid by the funds. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements. Transferred funds are used for operational purposes by the recipient fund. The general fund received \$ 162,974 of net transfers from the sewer fund and \$ 148,461 of net transfers from the water fund during the year.

14. Budgets and Budgetary Accounting

The budget in these financial statements is presented on a basis consistent with accounting principles generally accepted in the United States of America. Final budgeted amounts are as amended at April 30, 2013. Unexpected appropriations lapse at year end.

Prior to March 1, the Town Manager, in conjunction with the Finance Officer, distributes budget request forms to each department.

These budgets are prepared by March 1. The Town Manager, with the assistance of the Finance Officer, then develops an annual operating budget, using these department budgets to evaluate the priority and costs of various services. The recommended annual operating budget is then presented to Council by the Town Manager. The Town is limited by Resolution 2010-6 to appropriate only 98% of estimated revenues for the budget year.

The Council legally adopts an annual budget not later than April 30 for the subsequent year.

15. Use of Estimates

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

16. Interest Costs

Interest costs incurred by a proprietary fund for the acquisition and/or construction of capital assets are subject to capitalization. The amount of interest cost to be capitalized is based on the weighted-average amount of accumulated expenditures for the period multiplied by the proprietary fund's interest rate for the obligation incurred specifically to finance the construction of the capital asset. No interest was capitalized during the year. Interest expensed in the Business-type Activities totaled \$ 412,989 for the year.

17. Water & Supply Company

The Water & Supply Company (a Delaware corporation) is governed by a board appointed by the Town Council. Although it is legally separate from the Town, the Water & Supply Company is reported as if it were part of the proprietary fund because its sole purpose is to provide water service to the Town's citizens. Intra-entity transactions have been eliminated.

18. Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until then. The Town has only one item that qualifies for reporting in this category. It is the deferred amount on refunding reported in the proprietary fund statement of net position. A deferred amount on refunding results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized, using the straight-line method, over the shorter of the life or the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has three types of items, which arises under the modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported in the governmental fund balance sheet. The governmental fund reports unavailable revenues from property taxes, grant revenue, and other receivables. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

NOTE B - CASH AND INVESTMENTS

All deposits are in various financial institutions and are carried at cost. Transactions are made directly with the banks and securities dealers. At April 30, 2013, the carrying amount of the Town's deposits was \$ 4,603,221 and the bank balance was \$ 4,614,632, of which \$ 184,752 was uninsured and uncollateralized.

NOTE B - CASH AND INVESTMENTS - CONTINUED

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Town will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. In regards to investments, custodial credit risk is in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Town's investment. The Town's primary objective of its investment activities is the safety of principal in order to mitigate interest rate risk. The Town does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Investments in U.S. government securities earn interest at a stated fixed rate and are normally held until maturity when the full principal and interest is paid to the Town.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town stresses safety of principal as investments are made with judgment and care. U.S. government securities are not considered to have credit risk and, therefore, their credit risk is not disclosed. Investments issued by Federal Home Loan Mortgage Corporation and Federal National Mortgage Association have an AAA credit rating at year end. The Town does not have any other investments that are credit quality rated.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The Town has no formal policy to address the concentration of credit risk attributed to a single issuer.

The Town has authorized the following investments:

Bonds or other obligations of which the faith and credit of the United States of America are pledged; obligations of federal governmental agencies issued pursuant to Acts of Congress; repurchase agreements that are secured by any bond or other obligation for the payment of which the faith and credit of the United States are pledged; certificates of deposit and other evidences of deposit of financial institutions; money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist of dollar-denominated securities; and local government investment pools administered by the State of Delaware.

The Town had the following investments at April 30, 2013:

| Investment Type | Fair Value | Investment Maturities (in Years) | | | |
|---|-------------------|----------------------------------|------------------|-----------------|-------------------|
| | | Less than 1 | 1 - 5 | 6 - 10 | More than 10 |
| U.S. Treasuries | \$ 73,353 | \$ 14,177 | \$ 32,748 | \$ - | \$ 26,428 |
| Federal Home Loan Mortgage Corporation | 59,011 | - | - | 4,146 | 54,865 |
| Federal National Mortgage Association | 44,038 | - | 2,041 | - | 41,997 |
| Total Investments | \$ 176,402 | \$ 14,177 | \$ 34,789 | \$ 4,146 | \$ 123,290 |

NOTE B - CASH AND INVESTMENTS - CONTINUED

Reconciliation of cash and investments to the government-wide statement of net position:

| | |
|--|----------------------------|
| Cash on hand | \$ 1,000 |
| Carrying amount of deposits | 4,602,221 |
| Carrying amount of investments | <u>176,402</u> |
| TOTAL | <u>\$ 4,779,623</u> |
| | |
| Cash and cash equivalents | \$ 602,422 |
| Cash and cash equivalents - restricted | 3,990,599 |
| Investments - restricted | 176,402 |
| Fiduciary fund cash (not included in government-wide statements) | <u>10,200</u> |
| TOTAL | <u>\$ 4,779,623</u> |

NOTE C - CAPITAL ASSETS

Capital asset activity for the year ended April 30, 2013 was as follows:

| | <u>Balance at April 30, 2012</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance at April 30, 2013</u> |
|--|--------------------------------------|----------------------------|------------------------|--------------------------------------|
| Governmental Activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land and parks | \$ 508,571 | \$ - | \$ - | \$ 508,571 |
| Construction in progress | <u>-</u> | <u>35,509</u> | <u>-</u> | <u>35,509</u> |
| Total capital assets, not being depreciated | <u>508,571</u> | <u>35,509</u> | <u>-</u> | <u>544,080</u> |
| Other capital assets: | | | | |
| Buildings and improvements | 1,514,232 | - | - | 1,514,232 |
| Equipment | 1,676,839 | 368,898 | 242,717 | 1,803,020 |
| Streets and storm drains | <u>4,584,401</u> | <u>1,753,506</u> | <u>-</u> | <u>6,337,907</u> |
| Total other capital assets | <u>7,775,472</u> | <u>2,122,404</u> | <u>242,717</u> | <u>9,655,159</u> |
| Less accumulated depreciation for other capital assets | | | | |
| Building and improvements | 861,203 | 54,305 | - | 915,508 |
| Equipment | 1,292,925 | 119,635 | 234,550 | 1,178,010 |
| Streets and storm drains | <u>584,073</u> | <u>222,560</u> | <u>-</u> | <u>806,633</u> |
| Total accumulated depreciation | <u>2,738,201</u> | <u>396,500</u> | <u>234,550</u> | <u>2,900,151</u> |
| Other capital assets, net | <u>5,037,271</u> | <u>1,725,904</u> | <u>8,167</u> | <u>6,755,008</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 5,545,842</u> | <u>\$ 1,761,413</u> | <u>\$ 8,167</u> | <u>\$ 7,299,088</u> |

NOTE C - CAPITAL ASSETS - CONTINUED

| | Balance at April 30, 2012 | Increases | Decreases | Balance at April 30, 2013 |
|--|------------------------------|---------------------|------------------|------------------------------|
| Business-type Activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1,074,327 | \$ - | \$ - | \$ 1,074,327 |
| Construction in progress | 728,441 | 3,418,965 | - | 4,147,406 |
| Total capital assets, not being depreciated | <u>1,802,768</u> | <u>3,418,965</u> | <u>-</u> | <u>5,221,733</u> |
| Other capital assets: | | | | |
| Plant equipment and extensions | 43,242,201 | 101,563 | 120,496 | 43,223,268 |
| Less accumulated depreciation for other capital assets | <u>14,273,820</u> | <u>1,068,321</u> | <u>108,455</u> | <u>15,233,686</u> |
| Other capital assets, net | <u>28,968,381</u> | <u>(966,758)</u> | <u>12,041</u> | <u>27,989,582</u> |
| Business-type Activities Capital Assets, Net | <u>\$ 30,771,149</u> | <u>\$ 2,452,207</u> | <u>\$ 12,041</u> | <u>\$ 33,211,315</u> |

Depreciation expense was charged to functions as follows:

| | | |
|--|--|---------------------|
| Governmental Activities: | | |
| General government | | \$ 14,394 |
| Public safety | | 84,951 |
| Streets and grounds | | <u>297,155</u> |
| Total Governmental Activities Depreciation Expense | | <u>\$ 396,500</u> |
| Business-type Activities: | | |
| Water | | \$ 225,101 |
| Sewer | | <u>843,220</u> |
| Total Business-type Activities Depreciation Expense | | <u>\$ 1,068,321</u> |

NOTE D - PROPERTY TAXES

Taxes are levied on May 1 and a lien attaches to the property on May 31. Taxes are levied on November 1 for increased property valuations to that date at one-half the tax rate. The Town bills and collects its own property taxes. The tax rate for the year ended April 30, 2013 was \$ 3.14 per \$ 100 of assessed valuation for all real property and improvements, except for utility poles and wires, which were assessed at \$ 3.66 per \$ 100 of assessed valuation, with a total taxable valuation of \$ 45,214,117. Real property and improvements that are exempt from taxation due to State, Town or other tax-exempt ownership total \$ 15,115,650.

NOTE E - PENSION PLANS

The Town participates in two State of Delaware administered multi-employer Town and municipal pension plans (PERS). All full-time employees are eligible to participate in the defined benefit plans. Benefits vest after 5 years of service. Police employees may retire when they have 10 years of credited service and are 62, or their age plus credited service equals 75, or they have 20 years of credited service. Non-police employees may retire if they have 5 years of credited service and are 62, or they have 15 years of credited service and are 60, or they have 30 years of credited service. The State of Delaware General Assembly is responsible for setting benefits and contributions and amending plan provisions. The Board of Pension Trustees issues a publicly available report that includes financial statements and required supplementary information for the plans. That report may be obtained by writing to the State of Delaware, Office of Pensions, 860 Silver Lake Boulevard, Dover, Delaware 19904 or by calling 1-800-722-7300.

Employees of the Town are required to contribute 3% of their gross earnings over \$ 6,000 to the pension plan. Police employees are required to contribute 7% of their base pay to the police pension plan. The Town makes monthly contributions as required by state statutes. During the year ended April 30, 2013, the Town was required to contribute 6.84% and 14.75% of its gross payroll to the regular plan and police plan, respectively. Employee wages covered by the plans in 2013 totaled \$ 1,706,480 out of total wages paid of \$ 1,928,633. Total contributions by the Town and the employees made during the fiscal years 2013, 2012 and 2011 were \$ 251,960, \$ 235,500, and \$ 267,302, respectively, equal to the required contributions each year. There were 34 active participants at April 30, 2013 between the two plans. The State periodically grants funds to municipalities to provide police pensions. These monies are used by the Town to fund the pension plan for police employees.

NOTE F - GENERAL OBLIGATION BONDS AND NOTES PAYABLE

Included in the proprietary fund are the following bonds at April 30, 2013.

| | <u>Business-type</u> |
|---|----------------------|
| Sewer system bonds, Series 2011B, issued August 17, 2011, interest rate at 1.5%, semi-annual interest only installments at November 15 and May 15 of \$ 2,438 until 2014 when the principal balance is due, general obligation of the Town. | \$ 325,000 |
| Bond payable to the United States of America, interest at 3.25%, principal and interest payments of \$ 4,592 are payable quarterly until 2039, general obligation of the Town. | 326,854 |
| Bond payable to the United States of America, Department of Agriculture, Rural Utilities Service, interest at 4.5%, principal and interest payments of \$ 6,147 are payable quarterly until 2043, general obligation of the Town. | 405,111 |
| Bond payable to the United States of America, Department of Agriculture, Rural Utilities Service, interest at 4.5%, principal and interest payments of \$ 17,626 are payable quarterly until 2043, general obligation of the Town. | 1,161,702 |
| Bond payable to the State of Delaware, interest at 2.66%, principal and interest payments of \$ 154,995 are payable semi-annually until 2026, general obligation of the Town. | 3,496,598 |

NOTE F - GENERAL OBLIGATION BONDS AND NOTES PAYABLE - CONTINUED

| | <u>Business-type</u> |
|--|-----------------------------|
| Water and Sewer bonds, Series 2011A, issued August 17, 2011, interest rate ranges from 1% to 4%, variable semi-annual installments at November 15 and May 15 until 2021, general obligation of the Town. | \$ 6,150,000 |
| Bond payable to the United States of America, Department of Agriculture, Rural Utilities Service, interest at 2.125%, principal and interest payments of \$ 14,761 are payable quarterly until 2052, general obligation of the Town. | 1,533,605 |
| Bond payable to the State of Delaware, interest at 0%, with loan forgiveness at completion of project, general obligation of the Town. Total bonds authorized were \$ 3,300,000. Total advanced \$ 47,532. | 47,532 |
| Bond payable to the State of Delaware, interest at 2.39%, semi-annual payments until 2029, general obligation of the Town. Total bonds authorized were \$ 556,500. Total advanced \$ 93,062, remaining funds not utilized. | 76,800 |
| Bond payable to the United States of America, Department of Agriculture, Rural Utilities Service, interest at 2.25%, annual interest only through December 2012, quarterly payments until 2050, general obligation of the Town. Total bonds authorized were \$ 866,000. Total advanced \$ 394,570. | 388,264 |
| Bond payable to the State of Delaware, interest at 0%, with loan forgiveness at completion of project, general obligation of the Town. Total bonds authorized were \$ 2,199,410. Total advanced \$ 1,384,637. | 1,384,637 |
| Bond payable to the State of Delaware, interest at 0%, with loan forgiveness at completion of project, general obligation of the Town. Total bonds authorized were \$ 1,595,590. Total advanced \$ 194,020. | 194,020 |
| Bond payable to the State of Delaware, interest at 2%, semi-annual payments until 2030, general obligation of the Town. Total bonds authorized were \$ 490,000. Total advanced \$ 398,795. | <u>389,537</u> |
| TOTAL | 15,879,660 |
| ADD: Unamortized bond premium | <u>84,869</u> |
| TOTAL BOND INDEBTEDNESS | <u><u>\$ 15,964,529</u></u> |

NOTE F - GENERAL OBLIGATION BONDS AND NOTES PAYABLE - CONTINUED

The total debt service payments for the ensuing years are as follows:

| <u>Years Ending April 30</u> | <u>Business-type Activities - General Obligation</u> | | |
|------------------------------|--|---------------------|----------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2014 | \$ 975,473 | \$ 385,141 | \$ 1,360,614 |
| 2015 | 1,009,227 | 366,620 | 1,375,847 |
| 2016 | 1,026,518 | 345,823 | 1,372,341 |
| 2017 | 1,050,835 | 323,755 | 1,374,590 |
| 2018 | 1,145,418 | 298,596 | 1,444,014 |
| 2019 - 2023 | 5,465,730 | 966,746 | 6,432,476 |
| 2024 - 2028 | 1,990,021 | 496,617 | 2,486,638 |
| 2029 - 2033 | 890,167 | 340,945 | 1,231,112 |
| 2034 - 2038 | 897,798 | 235,782 | 1,133,580 |
| 2039 - 2043 | 955,563 | 117,037 | 1,072,600 |
| 2044 - 2048 | 292,537 | 34,256 | 326,793 |
| 2049 - 2053 | 180,373 | 6,611 | 186,984 |
| TOTAL | \$ 15,879,660 | \$ 3,917,929 | \$ 19,797,589 |

At April 30, 2013, governmental activities long-term liabilities were as follows:

| | <u>Governmental</u> |
|--|---------------------|
| Note payable to Ford Motor Credit, interest payable at 6.00%, principal and interest payments due annually until 2015, general obligation of the Town. | <u>\$ 59,569</u> |

The total debt service payments for the ensuing years are as follows:

| <u>Years Ending April 30</u> | <u>Governmental Activities - General Obligation</u> | | |
|------------------------------|---|-----------------|------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2014 | \$ 28,917 | \$ 3,574 | \$ 32,491 |
| 2015 | 30,652 | 1,839 | 32,491 |
| TOTAL | \$ 59,569 | \$ 5,413 | \$ 64,982 |

NOTE F - GENERAL OBLIGATION BONDS AND NOTES PAYABLE - CONTINUED

Long-term Liability Activity

Long-term liability activity for the year ended April 30, 2013 was as follows:

| | <u>April 30, 2012</u> | <u>Increases</u> | <u>Decreases</u> | <u>April 30, 2013</u> | <u>Due Within One Year</u> |
|--|-----------------------|---------------------|---------------------|-----------------------|--------------------------------|
| Governmental Activities: | | | | | |
| Compensated absences | \$ 173,400 | \$ 117,546 | \$ 80,554 | \$ 210,392 | \$ 210,392 |
| Notes payable | - | 92,060 | 32,491 | 59,569 | 28,917 |
| Total Governmental Activities | <u>\$ 173,400</u> | <u>\$ 209,606</u> | <u>\$ 113,045</u> | <u>\$ 269,961</u> | <u>\$ 239,309</u> |
| Business-type Activities: | | | | | |
| General obligation bonds | \$ 14,009,353 | \$ 3,395,837 | \$ 1,525,530 | \$ 15,879,660 | \$ 975,473 |
| Unamortized bond (discount)/ premium | 94,757 | - | 9,888 | 84,869 | - |
| Total bonds payable | 14,104,110 | 3,395,837 | 1,535,418 | 15,964,529 | 975,473 |
| Compensated absences | 137,273 | 16,882 | 77,406 | 76,749 | 76,749 |
| Total Business-type Activities | <u>\$ 14,241,383</u> | <u>\$ 3,412,719</u> | <u>\$ 1,612,824</u> | <u>\$ 16,041,278</u> | <u>\$ 1,052,222</u> |

Compensated absences do not have a fixed repayment date, but are due to employees if they terminate employment and are reflected as a currently due liability on the statement of net position.

NOTE G - COMMITMENTS AND CONTINGENCIES

In June of 2010, the Town experienced a loss of property due to a fire in which the claim for reimbursement was denied by the insurance company. The Town entered into litigation seeking damages for loss of property, court and attorney fees. Mediation of the case was settled in 2013, the Town was awarded an additional \$ 125,000 from the parties named under the suit. The Town collected \$ 250,000 in total monies from their litigation on this matter. The Town does not expect to collect additional funds from this loss.

NOTE H - OPERATING LEASES

The Town leases various equipment under operating leases in the general fund. The Town rents land for the sewer plant's spray irrigation system. Minimum rental payments are due on various contracts until 2023. The land leases contain renewal options. Future minimum rental payments are as follows:

| <u>Years Ending April 30</u> | <u>General Fund</u> | <u>Proprietary Fund</u> | <u>Total</u> |
|------------------------------|---------------------|-------------------------|-------------------|
| 2014 | \$ 9,394 | \$ 71,082 | \$ 80,476 |
| 2015 | 3,914 | 36,500 | 40,414 |
| 2016 | - | 38,300 | 38,300 |
| 2017 | - | 40,200 | 40,200 |
| 2018 | - | 42,200 | 42,200 |
| 2019-2024 | - | 90,800 | 90,800 |
| TOTAL | <u>\$ 13,308</u> | <u>\$ 319,082</u> | <u>\$ 332,390</u> |

NOTE I - FIDUCIARY FUND

The Town administers a private-purpose trust fund for the benefit of the Boy and Girl Scouts of America from assets originally conveyed to the Town in 1973 by James and Mildred Tunnell. At April 30, 2013, the fund contained \$ 10,200 of assets available for benefits.

NOTE J - OTHER LIABILITIES

In 1999, the Town loaned the Historic Georgetown Association, Inc. \$ 90,000 that is secured by a mortgage on the railroad depot property. The loan will be forgiven at a rate of \$ 4,500 per year for 20 years as long as the property is not conveyed to another owner. A loan receivable and other liability for \$ 90,000 was established to record the loan and the related deferred loan forgiveness. At April 30, 2013, the loan receivable and corresponding liability of \$ 31,500 were on the fund financial statements.

NOTE K - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions for which the government carries commercial insurance. There have been no significant reductions in coverage from the prior year end. Settlements have not exceeded coverage in the last three years except for a damaged building described in Note G, which exceeded coverage by \$ 150,000.

NOTE L - UTILITY PROJECTS

The Town has received funding through USDA and Delaware Office of Drinking Water for various wastewater and water projects. Total expenditures related to these projects are expected to total \$ 11,400,000. The funding for these projects will come from grants (\$ 1,877,000), loans to be forgiven (\$ 7,095,000) and loans to be repaid (\$ 2,428,000). The Town has drawn \$ 3,582,759 down on the loans as of April 30, 2013.

**NOTE M- CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF PRIOR PERIOD
 NET POSITION**

The Town has adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and has early adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASBS No. 63 and GASBS No. 65 establish accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Furthermore, these Statements provide guidance for deferred outflows of resources and deferred inflows of resources and their applicability to consumption or acquisition of net position, previously referred to as net assets, by the Town. As of April 30, 2012, the beginning net position of the sewer and water proprietary funds in the business-type activities were restated for bond issuance costs incurred prior to 2012. Under GASBS No. 65, these costs should be expensed as incurred.

| | Sewer Fund | Water Fund | Total Business- type Activities |
|---|----------------------|---------------------|------------------------------------|
| Net Position, beginning of year as previously reported | \$ 16,052,603 | \$ 2,596,332 | \$ 18,648,935 |
| Debt issuance costs | (106,938) | (71,539) | (178,477) |
| Net Position, Beginning of Year, as Restated | <u>\$ 15,945,665</u> | <u>\$ 2,524,793</u> | <u>\$ 18,470,458</u> |

NOTE N - EMPLOYEE HEALTH PLAN

The Town is exposed to the risk of loss related to employee medical expenses. During fiscal year 2013, the Town maintained a self-insured plan for employee medical expenses in which expenses per employee were covered annually (\$ 37,500 and \$ 37,500 for 2013 and 2012, respectively). The Town has an estimated maximum aggregate exposure of \$ 380,502 and \$ 369,556 for the calendar years 2013 and 2012, respectively. The employee health plan is administered by an outside agency.

Contributions from the Town and employee withholdings are deposited into a reserve fund to pay prior and current-year claims and premiums. Estimated risks and losses are based upon historical costs, financial analyses and estimated effects of plan changes. The claims liability reported in the fund at April 30, 2013 is based on the requirements of GASBS No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The liability is included in the accrued liabilities total on the balance sheet. Changes in the Fund's claims liability during the year were as follows:

| Year | Balance at Beginning of Year | Current-Year Premiums, Claims and Changes in Estimates | Premiums and Claims Payments | Balance at End of Year |
|------|------------------------------------|--|---------------------------------|---------------------------|
| 2013 | \$ 70,997 | \$ 351,996 | \$ (388,457) | \$ 34,536 |
| 2012 | 23,372 | 509,201 | (461,576) | 70,997 |

NOTE O - PENDING GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS (GASB)

GASB has issued the following statements, which may impact the Town's financial reporting requirements in the future.

- GASBS No. 67, *Financial reporting for Pension Plans, an Amendment of GASB Statement No. 25*, effective for the fiscal year beginning May 1, 2014.
- GASBS No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*, effective for the fiscal year beginning May 1, 2015.

SUPPLEMENTARY INFORMATION

TOWN OF GEORGETOWN
SCHEDULE OF GENERAL FUND REVENUES AND OTHER FINANCING SOURCES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED APRIL 30, 2013

- 39 -

| | Original and Final Budget | Actual | Variance with Budget Positive (Negative) |
|---|--|---------------------|---|
| TAXES AND FEES | | | |
| Courthouse municipality fees | \$ 160,000 | \$ 218,361 | \$ 58,361 |
| Property and capitation taxes | 1,426,503 | 1,429,810 | 3,307 |
| Realty transfer tax | - | 146,258 | 146,258 |
| Penalties | 15,000 | 28,995 | 13,995 |
| TOTAL TAXES AND FEES | 1,601,503 | 1,823,424 | 221,921 |
| INTERGOVERNMENTAL | | | |
| Street grants | 116,471 | 200,560 | 84,089 |
| Police grants | 89,691 | 424,955 | 335,264 |
| Police pension | 70,700 | 61,446 | (9,254) |
| TOTAL INTERGOVERNMENTAL | 276,862 | 686,961 | 410,099 |
| CHARGES FOR SERVICES | | | |
| Trash pickup | 440,000 | 449,531 | 9,531 |
| Business and rental licenses | 160,000 | 187,605 | 27,605 |
| Permits and variances | 35,000 | 121,382 | 86,382 |
| Planning and zoning fees | 10,000 | 53,807 | 43,807 |
| TOTAL CHARGES FOR SERVICES | 645,000 | 812,325 | 167,325 |
| FINES AND PARKING | | | |
| Parking meters and fines | 55,000 | 44,675 | (10,325) |
| Court fines | 100,000 | 142,524 | 42,524 |
| TOTAL FINES AND PARKING | 155,000 | 187,199 | 32,199 |
| MISCELLANEOUS | | | |
| State and local in lieu of taxes | 57,206 | 80,236 | 23,030 |
| Franchise fees | 37,628 | 44,021 | 6,393 |
| Investment income | 1,000 | 612 | (388) |
| Miscellaneous | 28,465 | 217,857 | 189,392 |
| TOTAL MISCELLANEOUS | 124,299 | 342,726 | 218,427 |
| TOTAL REVENUES | 2,802,664 | 3,852,635 | 1,049,971 |
| OTHER FINANCING SOURCES | | | |
| Proceeds from debt | - | 92,060 | 92,060 |
| Transfers in | 204,496 | 311,435 | 106,939 |
| TOTAL OTHER FINANCING SOURCES | 204,496 | 403,495 | 198,999 |
| TOTAL REVENUES AND OTHER FINANCING SOURCES | \$ 3,007,160 | \$ 4,256,130 | \$ 1,248,970 |

**TOWN OF GEORGETOWN
SCHEDULE OF GENERAL FUND EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED APRIL 30, 2013**

- 40 -

| | Original and Final Budget | Actual | Variance with Budget Positive (Negative) |
|-------------------------------------|--|------------------|---|
| GENERAL ADMINISTRATION | | | |
| Dues and donations | \$ 12,000 | \$ 35,998 | \$ (23,998) |
| Employee benefits | 26,478 | 20,456 | 6,022 |
| Gasoline and oil | 1,500 | 1,652 | (152) |
| Insurance | 8,468 | 11,586 | (3,118) |
| Meetings and conferences | - | 180 | (180) |
| Office | 11,900 | 17,160 | (5,260) |
| Payroll taxes | 8,292 | 7,851 | 441 |
| Pension expense | 7,327 | 11,437 | (4,110) |
| Professional services | 74,000 | 109,010 | (35,010) |
| Repairs and maintenance | 250 | 10,819 | (10,569) |
| Salaries | 108,402 | 111,598 | (3,196) |
| Special projects | 1,100 | 10,046 | (8,946) |
| Utilities | 17,750 | 18,269 | (519) |
| | <u>277,467</u> | <u>366,062</u> | <u>(88,595)</u> |
| TOTAL GENERAL ADMINISTRATION | | | |
| PUBLIC SAFETY | | | |
| Employee benefits | 279,845 | 217,758 | 62,087 |
| Gasoline and oil | 45,000 | 54,290 | (9,290) |
| Insurance | 62,601 | 56,974 | 5,627 |
| Office | 25,000 | 42,818 | (17,818) |
| Payroll taxes | 70,795 | 72,909 | (2,114) |
| Pension expense | 119,848 | 114,345 | 5,503 |
| Professional services | 84,015 | 41,366 | 42,649 |
| Maintenance, supplies and materials | 24,000 | 41,837 | (17,837) |
| Salaries | 925,430 | 998,538 | (73,108) |
| Special events | 4,000 | - | 4,000 |
| Utilities | 21,000 | 27,886 | (6,886) |
| | <u>1,661,534</u> | <u>1,668,721</u> | <u>(7,187)</u> |
| TOTAL PUBLIC SAFETY | | | |
| STREETS AND GROUNDS | | | |
| Employee benefits | 69,071 | 69,324 | (253) |
| Gasoline and oil | 10,000 | 8,695 | 1,305 |
| Insurance | 16,751 | 15,054 | 1,697 |
| Office | 9,000 | 9,580 | (580) |
| Payroll taxes | 12,713 | 17,740 | (5,027) |
| Pension expense | 11,585 | 18,304 | (6,719) |
| Professional services | 21,000 | 18,596 | 2,404 |
| Repairs and maintenance | 51,000 | 54,674 | (3,674) |
| Salaries | 166,188 | 176,009 | (9,821) |
| Special events | 1,000 | 223 | 777 |
| Street lights | 100,000 | 158,105 | (58,105) |
| Trash removal and fees | 440,000 | 430,636 | 9,364 |
| Utilities | 5,000 | 4,955 | 45 |
| | <u>913,308</u> | <u>981,895</u> | <u>(68,587)</u> |
| TOTAL STREETS AND GROUNDS | | | |

**TOWN OF GEORGETOWN
SCHEDULE OF GENERAL FUND EXPENDITURES - BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED APRIL 30, 2013**

| | Original and Final Budget | Actual | Variance with Budget Positive (Negative) |
|----------------------------------|--|---------------------|---|
| PLANNING AND ZONING | | | |
| Employee benefits | \$ 17,462 | \$ 7,688 | \$ 9,774 |
| Insurance | 3,262 | 2,969 | 293 |
| Meetings and travel | - | 147 | (147) |
| Office | 7,579 | 6,323 | 1,256 |
| Payroll taxes | 3,226 | 2,232 | 994 |
| Pension expense | 2,959 | 2,051 | 908 |
| Professional services | 22,412 | 39,413 | (17,001) |
| Salaries | 42,173 | 43,200 | (1,027) |
| Utilities | 200 | 400 | (200) |
| TOTAL PLANNING AND ZONING | 99,273 | 104,423 | (5,150) |
| DEBT SERVICE | | | |
| General administration | 6,951 | - | 6,951 |
| Public safety | - | 32,491 | (32,491) |
| TOTAL DEBT SERVICE | 6,951 | 32,491 | (25,540) |
| CAPITAL OUTLAY | | | |
| General administration | - | 10,650 | (10,650) |
| Public safety | 25,000 | 328,816 | (303,816) |
| Streets and grounds | - | 49,014 | (49,014) |
| TOTAL CAPITAL OUTLAY | 25,000 | 388,480 | (363,480) |
| TOTAL EXPENDITURES | \$ 2,983,533 | \$ 3,542,072 | \$ (558,539) |

**TOWN OF GEORGETOWN
PROPERTY ASSESSMENTS
FOR THE MOST RECENT TEN YEARS**

| <u>Assessment Date</u> | <u>Assessed Property Values</u> | |
|------------------------|---------------------------------|--------------------|
| | <u>Taxable</u> | <u>Non-taxable</u> |
| May 1, 2003 | \$ 35,221,166 | \$ 12,392,250 |
| May 1, 2004 | 39,545,017 | 12,415,100 |
| May 1, 2005 | 41,448,932 | 12,554,650 |
| May 1, 2006 | 41,412,732 | 13,179,600 |
| May 1, 2007 | 43,245,212 | 13,643,300 |
| May 1, 2008 | 44,268,064 | 13,963,550 |
| May 1, 2009 | 45,138,211 | 14,113,650 |
| May 1, 2010 | 44,943,037 | 14,604,700 |
| May 1, 2011 | 45,386,077 | 14,733,100 |
| May 1, 2012 | 45,214,117 | 15,115,650 |

SINGLE AUDIT SUPPLEMENT

**TOWN OF GEORGETOWN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED APRIL 30, 2013**

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| <u>Federal Grantor/Pass-through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Entity Identifying Number</u> | <u>Federal Expenditures</u> |
|---|----------------------------|---|-----------------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| Direct Programs: | | | |
| Water and Waste Disposal Systems for Rural Communities* | 10.760 | 92-12 92-14 92-15 | \$ 2,163,318 |
| Community Facilities Loans and Grants | 10.766 | 00-10 | <u>6,525</u> |
| TOTAL U.S. DEPARTMENT OF AGRICULTURE | | | <u>2,169,843</u> |
| DEPARTMENT OF JUSTICE | | | |
| Direct Programs: | | | |
| ARRA - Public Safety Partnership and Community Policing Grants | 16.710 | 2009-RK-WX-0199 | 56,838 |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | 2010-DJ-BX-0871 2011-DJ-BX-3267 | 16,098 |
| ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government | 16.804 | 2009-SB-B9-0161 | 968 |
| Equitable Sharing Program | 16.922 | 12-DEA-565149 | <u>197,876</u> |
| TOTAL DEPARTMENT OF JUSTICE | | | <u>271,780</u> |
| ENVIRONMENTAL PROTECTION AGENCY | | | |
| Passed through State - Delaware Department of Natural Resources and Environmental Control: | | | |
| Capitalization Grants for Drinking Water State Revolving Funds* | 66.468 | D-2057 D-2069 D-2070 | <u>1,468,315</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 3,909,938</u> |

* Denotes major program

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the Town of Georgetown (the Town). The Town's reporting entity is defined in Note A of the notes to basic financial statements. Federal awards that are passed through other governmental agencies are included on the schedule. Matching funds are excluded from the schedule and program income generated from federal grants is classified as federal expenditures when spent.

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual and the modified accrual bases of accounting, which are described in Note A of the notes to basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB 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 B - LOANS

The Town's federal expenditures for CFDA No. 10.760 are being funded directly from the U.S. Department of Agriculture totaling \$ 4,305,000 in loan and grant sources. The Town has incurred eligible program costs from current and previous fiscal periods totaling \$ 2,465,082. The balance of these loans as of April 30, 2013 is \$ 1,921,869, with a total of \$ 1,956,570 advanced at April 30, 2013. Current year expenditures include \$ 551,607 of prior year costs that are considered allowable for the fiscal year ended April 30, 2013 since there was not a commitment to fund the expenditures until the current fiscal year.

The Town's federal expenditures for CFDA No. 66.468 are being funded by loans passed through the Delaware Department of Natural Resources and Environmental Control and combined with state loan funds. Total loan funds of \$ 2,199,410 (D-2057) and \$ 4,895,590 (D-2069 and D-2070) are passed through with 80.36% and 78.50%, respectively, of advances from federal funds. The Town has incurred eligible program costs from current and previous fiscal periods totaling \$ 2,155,052. Current year expenditures include \$ 8,706 of prior period costs for water improvements that are considered allowable for this fiscal year ended April 30, 2013 since there were no loan commitments from the Environmental Protection Agency, Capitalization Grants for Drinking Water State Revolving Funds program that was awarded in the prior year(s). The gross advances and balances on these loans total \$ 1,626,189 at April 30, 2013.

NOTE C - SUBRECIPIENTS

The Town's federal expenditures for CFDA No. 16.804 from prior years totaled \$ 359,786 that were provided to subrecipients. There were no expenditures under this program that have been provided to subrecipients during the year ended April 30, 2013.

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

To the Honorable Mayor and Council
Town of Georgetown
Georgetown, Delaware

Report on Compliance for Each Major Federal Program

We have audited the Town of Georgetown'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 the Town of Georgetown's major federal programs for the year ended April 30, 2013. The Town of Georgetown's major federal programs are identified in the summary of independent auditor's results section of the accompanying schedule of findings and questioned costs.

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 the Town of Georgetown'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; 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 the Town of Georgetown'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 the Town of Georgetown's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of Georgetown 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 April 30, 2013.

Report on Internal Control over Compliance

Management of the Town of Georgetown 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 the Town of Georgetown'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 an 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 the Town of Georgetown'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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

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.

Jefferson, Urian, Doane & Sterner, P.A.

Georgetown, Delaware
October 3, 2013

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**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**

To the Honorable Mayor and Council
Town of Georgetown
Georgetown, Delaware

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Georgetown, as of and for the year ended April 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Georgetown's basic financial statements and have issued our report thereon dated October 3, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Georgetown's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Georgetown's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Georgetown's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in Finding 2013-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Georgetown'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*.

The Town of Georgetown's Response to Findings

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

Purpose of this Report

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

Jefferson, Urian, Doane & Sterner, P.A.

Georgetown, Delaware
October 3, 2013

SECTION I - SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified? X Yes None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Type of auditor's report issued on compliance for major programs: Unmodified

Internal control over major programs:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified? Yes X None Reported

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 Programs:

| <u>PROGRAM NAME</u> | <u>CFDA Number(s)</u> |
|--|-----------------------|
| Water and Waste Disposal Systems for Rural Communities | 10.760 |
| Capitalization Grants for Drinking Water State Revolving Funds | 66.468 |

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

Auditee qualified as low-risk auditee? Yes X No

**SECTION II - FINDINGS RELATED TO THE FINANCIAL STATEMENTS REPORTED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Prior and Current Year

Significant Deficiencies

Finding 2013-1 Financial Statements

Condition: The Town of Georgetown does not have an employee with the technical accounting expertise to completely prepare the Town's financial statements and notes in conformity with accounting principles generally accepted in the United States of America without a significant risk of a potential misstatement.

Cause: The Town does not have the opportunity and the means to employ personnel who possess the knowledge and expertise who can properly prepare financial statements and notes in accordance with specified standards.

Effect: The Town's financial reports could have a significant risk of being potentially misstated.

Criteria: Preparation of financial statements and accounting adjustments are functions that should be performed by management.

Recommendation: The Town of Georgetown may wish to consider alternatives to improve control and expertise over the financial reporting process in the future.

Auditee Response: *"The Town of Georgetown will consider alternatives and the related costs to improving its technical expertise over the Town's financial reporting."*

SECTION III - FINDINGS RELATED TO THE FEDERAL AWARDS

None - Current Year

United States Department of Agriculture

Water and Waste Disposal Systems for Rural Communities

Finding 2012-1 Program Reporting

Condition: The Town of Georgetown did not properly report expenditures in an application for federal funds reimbursement (CFDA No. 10.760). The amount included in the reporting of the expenditures includes costs already submitted for reimbursement through another funding source totaling \$ 67,704 from the State of Delaware. The Town improperly requested \$ 67,704 for reimbursement. The error in reporting has been communicated to appropriate funding agencies for a subsequent period correction.

Cause: This was an oversight by Town personnel who did not have additional tracking measures to account for those costs already submitted.

Criteria: OMB Circular A-87 guidelines for allowable costs states that such costs not be included as a cost or used to meet cost sharing or match requirements of any other award.

Recommendation: The Town of Georgetown should implement additional procedures for effective tracking of federal expenditures to ensure proper reporting of costs to be submitted for reimbursements.

Current Year Status: Corrected