

CITY OF NEWARK, DELAWARE
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 4 LONG-TERM DEBT

General Obligation Bonds

These "refunding" bonds were used to refinance the debt incurred to finance the reservoir.

On December 5, 2011, the City issued \$12,695,000 of General Obligation Refunding Bond Series 2011 for both governmental and business-type activities.

The bonds mature September 15, 2012 through September 14, 2022 and bear interest rates that vary from 2.0 percent to 3.0 percent, payable March 15 and September 15.

The bonds outstanding on December 31, 2014 are general obligation debt supported by the full faith and credit of the City and are summarized as follows:

Purpose	12/31/14 Amount	12/31/15	12/31/16
Governmental activities	\$ 1,055,000	\$890,000	\$720,000
Business-type activities	9,055,000	8,035,000	6,995,000
	<u>\$ 10,110,000</u>	<u>\$8,925,000</u>	<u>\$7,715,000</u>

Annual debt service requirements to maturity for the bonds payable are as follows:

Annual
Payments

Year Ending December 31	Governmental Activities		Total	Business-Type Activities		Total
	Principal	Interest		Principal	Interest	
2015	\$ 165,000	\$ 26,550	\$ 191,550	\$ 1,020,000	\$ 240,350	\$ 1,260,350
2016	170,000	23,250	193,250	1,040,000	219,950	1,259,950
2017	175,000	19,850	194,850	1,070,000	199,150	1,269,150
2018	175,000	16,350	191,350	1,095,000	177,750	1,272,750
2019	180,000	11,100	191,100	1,140,000	144,900	1,284,900
2020-2022	\$ 190,000	\$ 5,700	195,700	3,690,000	224,100	3,914,100
	<u>\$ 1,055,000</u>	<u>\$ 102,800</u>	<u>\$ 1,157,800</u>	<u>\$ 9,055,000</u>	<u>\$ 1,206,200</u>	<u>\$ 10,261,200</u>

The 2011 bonds will be retired in 2022.

In 2011, the City defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, assets in the trust account and the liability for the defeased bonds are not included in the City's financial statements. On December 31, 2014, \$9.06 million of bonds outstanding were considered defeased.

Equipment Lease/Purchase Agreement – Business Type Activities

On December 19, 2012, the City entered into an \$8,897,374 Equipment Lease/Purchase Agreement with Bank of America Public Capital Corporation. The loan bears an interest rate of 2.20%. Payments are due quarterly starting January 1, 2014, with the final payment due January 1, 2028. The proceeds, which were used to partially finance the City's \$11,495,735 Automated Meter Infrastructure Project in the business-type activities, were deposited in an Acquisition Fund under the City's name. Disbursements for project construction costs were made out of this fund. The present value of all future minimum lease payments is reported as a lease obligation in the statement of net position.

This is the smart meter lease obligation.

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NOTE 4 LONG-TERM DEBT (cont'd)

As of December 31, 2014, payments under this lease obligation are as follows:

	<u>Year Ending December 31</u>	<u>Business Type</u> <u>Activities</u>	<u>12/31/15</u>	<u>12/31/16</u>
	2015	\$ 703,350		
	2016	703,350		
	2017	703,350		
	2018	703,350		
	2019	703,350		
	2020-2024	3,516,750		
	2025-2028	2,110,049		
	Total lease payments	9,143,549	8,440,199	7,736,849
	Less: interest	(1,265,890)	(1,092,581)	(930,933)
	Present value of lease payments	<u>\$ 7,877,659</u>	<u>\$7,347,618</u>	<u>\$6,805,916</u>

Capital lease obligation related to Smart Meters will be paid off in 2028

Annual Payments

Energy Improvement Loans – Governmental & Business Type Activities

The BOA lease financing covered \$8.9 million of the Smart Meter project: the balance of \$2.9 million was met with ARRA funding

On July 20, 2012, the City signed a \$2,851,935 financing agreement with the Delaware Department of Natural Resources & Environmental Control. The agreement, under the American Recovery and Reinvestment Act of 2009, consists of a promissory note and a security agreement related to the Automated Meter Infrastructure Project in the business-type activities. The loan proceeds partially financed the installation and acquisition of equipment for the Automated Meter Infrastructure Project. The loan bears an interest rate of 1.99%. Payments are due quarterly starting September 1, 2013, with the final payment due September 1, 2022.

Other ARRA funding was secured to undertake efficiency projects early in 2012. This financing is similar to the financing that DEMEC is attempting to secure to fund LED lighting projects for member municipalities.

On February 29, 2012, the City entered into a \$598,131 financing agreement with the Delaware Department of Natural Resources and Environment Control. The agreement, under the American Recovery and Reinvestment Act of 2009, consists of a promissory note and a security agreement related to the installation of energy efficiency improvements and equipment at various municipal facilities. The loan bears an interest rate of 1.99%. Payments are due quarterly starting January 1, 2013, with the final payment due July 1, 2022.

The loan outstanding on December 31, 2014 are summarized below:

<u>Purpose</u>	<u>Amount</u>	<u>12/31/15</u>	<u>12/31/16</u>
Governmental activities	\$ 220,675	\$ 194,072	\$ 166,935
Business-type activities	2,726,313	2,397,644	2,062,386
	<u>\$ 2,946,988</u>	<u>\$2,591,716</u>	<u>\$2,229,321</u>

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NOTE 4 LONG-TERM DEBT (cont'd)

Annual debt service requirements to maturity for the energy improvement loans are as follows:

Year Ending December 31	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 26,603	\$ 4,194	\$ 30,797	\$ 328,669	\$ 51,812	\$ 380,481
2016	27,137	3,660	30,797	335,258	45,222	380,480
2017	27,681	3,116	30,797	341,980	38,500	380,480
2018	28,236	2,561	30,797	348,836	31,644	380,480
2019	28,802	1,995	30,797	355,830	24,650	380,480
2020-2022	\$ 82,216	\$ 2,475	84,691	1,015,740	30,570	1,046,310
	<u>\$ 220,675</u>	<u>\$ 18,001</u>	<u>\$ 238,676</u>	<u>\$ 2,726,313</u>	<u>\$ 222,398</u>	<u>\$ 2,948,711</u>

The ARRA funding
will be repaid in 2022.



NOTE 5 CHANGES IN LONG-TERM LIABILITIES

Long term liability activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
Bonds payable	\$ 1,215,000	\$ -	\$ (160,000)	\$ 1,055,000	\$ 165,000
Plus: deferred amounts - bond premium	42,598	-	(6,234)	36,364	6,234
Total bonds payable	1,257,598	-	(166,234)	1,091,364	171,234
Notes Payable	240,284	-	(19,609)	220,675	26,603
Compensated absences	637,124	1,184,628	(1,120,155)	701,597	70,160
Long-term liabilities	<u>\$ 2,135,006</u>	<u>\$ 1,184,628</u>	<u>\$ (1,305,998)</u>	<u>\$ 2,013,636</u>	<u>\$ 267,997</u>
<u>Business-Type Activities</u>					
Bonds payable	\$ 10,060,000	\$ -	\$ (1,005,000)	\$ 9,055,000	\$ 1,020,000
Plus: deferred amounts - bond premium	336,381	-	(38,081)	298,300	38,081
Total bonds payable	10,396,381	-	(1,043,081)	9,353,300	1,058,081
Lease payable	8,396,291	-	(518,632)	7,877,659	530,042
Notes Payable	3,112,300	-	(385,987)	2,726,313	328,669
Compensated absences	110,161	293,433	(280,524)	123,070	12,307
Long-term liabilities	<u>\$ 22,015,133</u>	<u>\$ 293,433</u>	<u>\$ (2,228,224)</u>	<u>\$ 20,080,342</u>	<u>\$ 1,929,099</u>

The compensated absences liability attributable to governmental activities will be paid by the governmental and internal service funds. In the past, approximately 90% has been paid by the General Fund and the remainder by other governmental and internal service funds. The internal service fund predominantly serves the governmental funds.

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NOTE 5 CHANGES IN LONG-TERM LIABILITIES (cont'd)

Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. As of December 31, 2014, \$15,164 of internal service funds compensated absences is included in the above amounts.

NOTE 6 INTERFUND TRANSFERS, RECEIVABLES & PAYABLES

The composition of interfund transfers as of the year ended December 31, 2014 was as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ 12,698,555	\$ 3,435,247
Capital Projects Fund	2,300,433	-
Nonmajor Governmental Funds	2,416,025	708,113
Electric Fund	70,327	10,014,996
Water Fund	-	1,810,184
Sewer Fund	-	1,433,776
Parking Fund	<u>249,996</u>	<u>333,019</u>
Total transfers	<u>\$ 17,735,335</u>	<u>\$ 17,735,335</u>

Annual operating transfers of electric utility revenues have been made to the General Fund since 1996. The City's policy is that operating transfers may be made from the enterprise funds to the General Fund provided such transfers will take into consideration each enterprise fund's financial strength and operating condition.

The composition of interfund balances as of the year ended December 31, 2014 was as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Community Development	<u>\$ 168,453</u>
Total		<u>\$ 168,453</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods & services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. These amounts include balances of working capital loans made to funds that are awaiting receivables.

The Community Development Fund incurs expenditures for goods and services related to Community Development Grant (CDBG) funded programs which are later reimbursed by grant proceeds. On December 31, 2014, \$168,453 was due from the Community Development Fund for working capital advances. The General Fund expects to collect this amount in the subsequent year.