

Report of Independent Auditor

**CITY OF DELAWARE CITY**  
Delaware City, Delaware

Years Ended June 30, 2007 and 2006

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**CITY OF DELAWARE CITY, DELAWARE**

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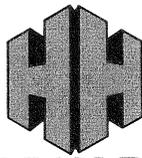
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**HAGGERTY & HAGGERTY, P.A.**

**CERTIFIED PUBLIC ACCOUNTANTS  
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**Report of Independent Auditor**

To Mayor and City Council  
**City of Delaware City**  
Delaware City, Delaware

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Delaware City, Delaware, as of and for the years ended June 30, 2007 and 2006, which collectively comprise the City's financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audits.

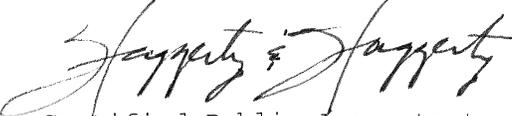
We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Delaware City, Delaware, as of June 30, 2007 and 2006, and the respective changes in financial position and cash flows where applicable, thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2007 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary information on page 31 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The City has not presented Management's Discussion and Analysis that U.S. generally accepted accounting principles has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audits were conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the City of Delaware City's basic financial statements. The combining individual fund statements, listed in the table of contents as additional information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Certified Public Accountants

November 9, 2007  
Wilmington, Delaware

## **Basic Financial Statements Section**

**CITY OF DELAWARE CITY, DELAWARE**  
**STATEMENTS OF NET ASSETS**  
June 30, 2007 and 2006

	2007				Discretely Presented Component Unit	2006				
	Primary Government			Total		Primary Government			Total	Discretely Presented Component Unit
	Activity Type		Total			Activity Type		Total		
	Governmental	Business				Governmental	Business			
<b>ASSETS</b>										
<b>Current assets:</b>										
Cash and equivalents	\$ 27,555	\$ ...	\$ 27,555	\$ 5,453	\$ 64,293	\$ ...	\$ 64,293	\$ 10,675		
Investments at fair value	...	...	...	...	10,685	...	10,685	...		
Receivables, net:										
Taxes	9,850	...	9,850	...	9,338	...	9,338	...		
Trade accounts	...	14,100	14,100	...	...	14,888	14,888	...		
Other	46,080	...	46,080	...	69,481	...	69,481	...		
Due from other governments	306,705	...	306,705	...	323,500	...	323,500	...		
Note receivable due within one year	63,548	...	63,548	...	7,378	...	7,378	...		
Prepayments and other assets	...	...	...	3,525	...	...	...	1,357		
<b>Total current assets</b>	<b>453,738</b>	<b>14,100</b>	<b>467,838</b>	<b>8,978</b>	<b>484,675</b>	<b>14,888</b>	<b>499,563</b>	<b>12,032</b>		
<b>Noncurrent assets:</b>										
Note receivable due after one year	3,045	...	3,045	...	54,240	...	54,240	...		
Capital assets, net:										
Nondepreciable	680,686	18,331	699,017	...	841,600	191,319	1,032,919	...		
Depreciable	6,120,874	1,458,294	7,579,168	...	5,896,369	1,330,496	7,226,865	...		
Bond issue costs, net of amortization	...	27,153	27,153	...	...	...	...	...		
<b>Total noncurrent assets</b>	<b>6,804,605</b>	<b>1,503,778</b>	<b>8,308,383</b>	<b>...</b>	<b>6,792,209</b>	<b>1,521,815</b>	<b>8,314,024</b>	<b>...</b>		
<b>TOTAL ASSETS</b>	<b>7,258,343</b>	<b>1,517,878</b>	<b>8,776,221</b>	<b>8,978</b>	<b>7,276,884</b>	<b>1,536,703</b>	<b>8,813,587</b>	<b>12,032</b>		
<b>LIABILITIES</b>										
<b>Current liabilities:</b>										
Lines of credit	125,000	...	125,000	...	275,000	...	275,000	...		
Contract payable	61,813	...	61,813	...	...	119,151	119,151	...		
Accounts payable	45,856	...	45,856	...	87,049	...	87,049	...		
Accrued interest payable	...	5,721	5,721	...	...	3,450	3,450	...		
Current portion of long-term debt	42,749	21,864	64,613	...	43,464	21,727	65,191	...		
Payroll deductions and withholdings	5,736	...	5,736	...	3,870	...	3,870	...		
Due to other governments	...	...	...	8,000	...	...	...	...		
Deferred revenues due within one year	33,997	...	33,997	...	32,679	...	32,679	...		
Refundable advances and deposits	6,465	5,775	12,240	860	19,362	4,800	24,162	...		
<b>Total current liabilities</b>	<b>321,616</b>	<b>33,360</b>	<b>354,976</b>	<b>8,860</b>	<b>461,424</b>	<b>149,128</b>	<b>610,552</b>	<b>...</b>		
<b>Noncurrent liabilities:</b>										
Long-term debt, net of current portion	377,987	940,420	1,318,407	...	423,790	690,070	1,113,860	...		
Long-term portion of compensated absences	11,306	...	11,306	...	10,180	...	10,180	...		
<b>Total noncurrent liabilities</b>	<b>389,293</b>	<b>940,420</b>	<b>1,329,713</b>	<b>...</b>	<b>433,970</b>	<b>690,070</b>	<b>1,124,040</b>	<b>...</b>		
<b>TOTAL LIABILITIES</b>	<b>710,909</b>	<b>973,780</b>	<b>1,684,689</b>	<b>8,860</b>	<b>895,394</b>	<b>839,198</b>	<b>1,734,592</b>	<b>...</b>		
<b>NET ASSETS</b>										
Invested in capital assets, net of related debt	6,319,011	541,494	6,860,505	...	6,270,715	690,867	6,961,582	...		
Restricted for specific programs	83,564	...	83,564	118	72,284	...	72,284	12,032		
Unrestricted	144,859	2,604	147,463	...	38,491	6,638	45,129	...		
<b>TOTAL NET ASSETS</b>	<b>\$ 6,547,434</b>	<b>\$ 544,098</b>	<b>\$ 7,091,532</b>	<b>\$ 118</b>	<b>\$ 6,381,490</b>	<b>\$ 697,505</b>	<b>\$ 7,078,995</b>	<b>\$ 12,032</b>		

Accompanying notes are an integral part of these financial statements

CITY OF DELAWARE CITY, DELAWARE  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2007

Functions	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets			Discretely Presented Component Unit
		Charges for Services	Grants and Contributions Operating	Capital	Activity Type			
					Governmental	Business	Total	
<b>GOVERNMENTAL ACTIVITIES</b>								
General government	\$ 262,657	\$ 5,074	\$ ...	\$ ...	\$ (257,583)	\$ ...	\$ (257,583)	\$ ...
Public safety-police	230,446	11,948	25,416	...	(193,082)	...	(193,082)	...
Public works-streets	170,987	...	24,531	8,606	(137,850)	...	(137,850)	...
Public works-sanitation	139,490	5,318	...	...	(134,172)	...	(134,172)	...
Parks and recreation	86,359	...	...	370,836	284,477	...	284,477	...
Standing Committees	1,500	...	...	...	(1,500)	...	(1,500)	...
Youth Center	74,259	371	57,446	...	(16,442)	...	(16,442)	...
Interest on long-term debt	35,534	...	...	22,693	(12,841)	...	(12,841)	...
Depreciation-unallocated	256,655	...	...	...	(256,655)	...	(256,655)	...
<b>Total governmental activities</b>	<b>1,257,887</b>	<b>22,711</b>	<b>107,393</b>	<b>402,135</b>	<b>(725,648)</b>	<b>...</b>	<b>(725,648)</b>	<b>...</b>
<b>BUSINESS-TYPE ACTIVITIES</b>								
Water system	366,488	272,742	...	...	...	(93,746)	(93,746)	...
<b>Total business-type activities</b>	<b>366,488</b>	<b>272,742</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>(93,746)</b>	<b>(93,746)</b>	<b>...</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>1,624,375</b>	<b>295,453</b>	<b>107,393</b>	<b>402,135</b>	<b>(725,648)</b>	<b>(93,746)</b>	<b>(819,394)</b>	<b>...</b>
<b>DISCRETELY PRESENTED COMPONENT UNIT</b>	<b>69,776</b>	<b>8,001</b>	<b>49,600</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>(12,175)</b>
<b>TOTAL PRIMARY GOV'T AND COMPONENT UNIT</b>	<b>\$ 1,694,151</b>	<b>\$ 303,454</b>	<b>\$ 156,993</b>	<b>\$ 402,135</b>	<b>(725,648)</b>	<b>(93,746)</b>	<b>(819,394)</b>	<b>(12,175)</b>
<b>GENERAL REVENUES AND TRANSFERS</b>								
Property taxes levied for general purposes, net					716,034	...	716,034	...
Investment earnings and rents					88,921	...	88,921	261
Gain from sale of capital assets					2,806	...	2,806	...
Miscellaneous revenues					13,515	10,655	24,170	...
Transfers between governmental, BT activities					70,316	(70,316)	...	...
<b>Total general revenues and transfers</b>					<b>891,592</b>	<b>(59,661)</b>	<b>831,931</b>	<b>261</b>
<b>CHANGE IN NET ASSETS (LIABILITIES)</b>					165,944	(153,407)	12,537	(11,914)
<b>NET ASSETS</b>								
Beginning of year					6,381,490	697,505	7,078,995	12,032
End of year					<u>\$ 6,547,434</u>	<u>\$ 544,098</u>	<u>\$ 7,091,532</u>	<u>\$ 118</u>

Accompanying notes are an integral part of these financial statements

CITY OF DELAWARE CITY, DELAWARE  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2006

Functions	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets			Discretely Presented Component Unit
		Charges for Services	Grants and Contributions Operating	Capital	Activity Type			
					Governmental	Business	Total	
<b>GOVERNMENTAL ACTIVITIES</b>								
General government	\$ 279,291	\$ 3,592	\$ ...	\$ ...	\$ (275,699)	\$ ...	\$ (275,699)	\$ ...
Public safety-police	196,260	10,564	12,315	1,579	(171,802)	...	(171,802)	...
Public works-streets	133,932	...	26,604	166,610	59,282	...	59,282	...
Public works-sanitation	137,121	5,286	133	...	(131,702)	...	(131,702)	...
Parks and recreation	15,202	...	15,202	193,498	193,498	...	193,498	...
Standing Committees	300	...	...	...	(300)	...	(300)	...
Youth Center	150,044	1,512	97,475	...	(51,057)	...	(51,057)	...
Interest on long-term debt	37,410	...	...	...	(37,410)	...	(37,410)	...
Depreciation-unallocated	199,398	...	24,120	...	(175,278)	...	(175,278)	...
<b>Total governmental activities</b>	<b>1,148,958</b>	<b>20,954</b>	<b>175,849</b>	<b>361,687</b>	<b>(590,468)</b>	<b>...</b>	<b>(590,468)</b>	<b>...</b>
<b>BUSINESS-TYPE ACTIVITIES</b>								
Water system	345,490	276,761	...	...	...	(68,729)	(68,729)	...
<b>Total business-type activities</b>	<b>345,490</b>	<b>276,761</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>(68,729)</b>	<b>(68,729)</b>	<b>...</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>1,494,448</b>	<b>297,715</b>	<b>175,849</b>	<b>361,687</b>	<b>(590,468)</b>	<b>(68,729)</b>	<b>(659,197)</b>	<b>...</b>
<b>DISCRETELY PRESENTED COMPONENT UNIT</b>	<b>50,548</b>	<b>4,848</b>	<b>51,141</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>5,441</b>
<b>TOTAL PRIMARY GOV'T AND COMPONENT UNIT</b>	<b>\$ 1,544,996</b>	<b>\$ 302,563</b>	<b>\$ 226,990</b>	<b>\$ 361,687</b>	<b>(590,468)</b>	<b>(68,729)</b>	<b>(659,197)</b>	<b>5,441</b>
<b>GENERAL REVENUES AND TRANSFERS</b>								
Property taxes levied for general purposes, net					705,273	...	705,273	...
Investment earnings and rents					81,819	...	81,819	397
Gain from sale of capital assets					11,077	...	11,077	...
Miscellaneous revenues					15,761	...	15,761	...
Transfers between governmental, BT activities					(27,399)	27,399	...	...
<b>Total general revenues and transfers</b>					<b>786,531</b>	<b>27,399</b>	<b>813,930</b>	<b>397</b>
<b>CHANGE IN NET ASSETS (LIABILITIES)</b>					<b>196,063</b>	<b>(41,330)</b>	<b>154,733</b>	<b>5,838</b>
<b>NET ASSETS</b>								
Beginning of year					<u>6,185,427</u>	<u>738,835</u>	<u>6,924,262</u>	<u>6,194</u>
End of year					<u>\$ 6,381,490</u>	<u>\$ 697,505</u>	<u>\$ 7,078,995</u>	<u>\$ 12,032</u>

Accompanying notes are an integral part of these financial statements

**CITY OF DELAWARE CITY, DELAWARE**  
BALANCE SHEETS-GOVERNMENTAL FUNDS  
June 30, 2007 and 2006

	2007			2006		
	Governmental Fund Types			Governmental Fund Types		
	General	Special Revenue	Total	General	Special Revenue	Total
<b>ASSETS</b>						
<b>ASSETS</b>						
Cash and equivalents	\$ 10,584	\$ 16,971	\$ 27,555	\$ 52,542	\$ 11,751	\$ 64,293
Investments at fair value	...	...	...	10,685	...	10,685
Receivables, net:						
Taxes	9,850	...	9,850	9,338	...	9,338
Other	46,080	...	46,080	69,481	...	69,481
Due from other governments	...	306,705	306,705	...	323,500	323,500
Note receivable	...	66,593	66,593	...	61,618	61,618
Interfund receivables	238,427	...	238,427	305,223	...	305,223
<b>TOTAL ASSETS</b>	<b>\$ 304,941</b>	<b>\$ 390,269</b>	<b>\$ 695,210</b>	<b>\$ 447,269</b>	<b>\$ 396,869</b>	<b>\$ 844,138</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Lines of credit	\$ 125,000	\$ ...	\$ 125,000	\$ 275,000	\$ ...	\$ 275,000
Accounts payable	45,856	...	45,856	87,049	...	87,049
Contract payable	...	61,813	61,813	...	...	...
Payroll deductions and withholdings	5,736	...	5,736	3,870	...	3,870
Deferred revenues	33,997	...	33,997	32,679	...	32,679
Refundable advances and deposits	...	6,465	6,465	...	19,362	19,362
Interfund payables	...	238,427	238,427	...	305,223	305,223
<b>Total liabilities</b>	<b>210,589</b>	<b>306,705</b>	<b>517,294</b>	<b>398,598</b>	<b>324,585</b>	<b>723,183</b>
<b>FUND BALANCES</b>						
Reserved for note receivable	...	66,593	66,593	...	61,618	61,618
Reserved for specific programs	...	16,971	16,971	...	10,666	10,666
Unreserved	94,352	...	94,352	48,671	...	48,671
<b>Total fund balances</b>	<b>94,352</b>	<b>83,564</b>	<b>177,916</b>	<b>48,671</b>	<b>72,284</b>	<b>120,955</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 304,941</b>	<b>\$ 390,269</b>	<b>\$ 695,210</b>	<b>\$ 447,269</b>	<b>\$ 396,869</b>	<b>\$ 844,138</b>

Accompanying notes are an integral part of these financial statements

**CITY OF DELAWARE CITY, DELAWARE**  
 RECONCILIATION OF THE BALANCE SHEETS OF GOVERNMENTAL FUNDS  
 TO THE STATEMENTS OF NET ASSETS  
 June 30, 2007 and 2006

	2007	2006
Amounts reported for governmental activities in the statement of net assets are different because:		
<b>Total fund balances-governmental funds</b>	\$ 177,916	\$ 120,955
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds. The cost of capital assets is \$7,511,725 for 2007 and \$7,191,479 for 2006 and the related accumulated depreciation is \$710,165 for 2007 and \$453,510 for 2006.	6,801,560	6,737,969
Long-term liabilities are not due and payable within the current period and therefore are not reported as liabilities in the governmental funds.	(420,736)	(467,254)
Compensated absences are not due and payable within the current period and therefore are not reported in the governmental funds.	(11,306)	(10,180)
<b>Total net assets-governmental activities</b>	<u>\$ 6,547,434</u>	<u>\$ 6,381,490</u>

Accompanying notes are an integral part of these financial statements

**CITY OF DELAWARE CITY, DELAWARE**

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS  
Years Ended June 30, 2007 and 2006

	2007			2006		
	Governmental Fund Types			Governmental Fund Types		
	General	Special Revenue	Total	General	Special Revenue	Total
<b>REVENUES</b>						
Taxes:						
Real estate taxes	\$ 578,191	\$ ...	\$ 578,191	\$ 557,330	\$ ...	\$ 557,330
Real estate transfer taxes	130,335	...	130,335	141,065	...	141,065
Cable franchise taxes	7,508	...	7,508	6,878	...	6,878
Licenses and permits	3,190	...	3,190	2,965	...	2,965
Intergovernmental revenues:						
Federal	...	220,547	220,547	...	94,485	94,485
State	...	288,981	288,981	...	427,207	427,207
Local	...	...	...	...	5,000	5,000
Police fines	13,229	...	13,229	10,564	...	10,564
Charges for services	6,292	...	6,292	7,425	...	7,425
Interest and rents	82,309	6,612	88,921	76,874	4,945	81,819
Contributions	...	...	...	10,844	...	10,844
Miscellaneous revenues	13,515	...	13,515	15,761	...	15,761
<b>Total revenues</b>	<b>834,569</b>	<b>516,140</b>	<b>1,350,709</b>	<b>829,706</b>	<b>531,637</b>	<b>1,361,343</b>
<b>EXPENDITURES</b>						
Current:						
General governments	260,673	...	260,673	280,871	...	280,871
Public safety-police	206,370	24,934	231,304	184,760	12,315	197,075
Public works-streets	141,967	29,020	170,987	113,624	27,491	141,115
Public works-sanitation	139,490	...	139,490	136,988	133	137,121
Parks and recreation	...	7,430	7,430	...	15,202	15,202
Standing Committees	1,500	...	1,500	300	...	300
Youth Center	16,813	57,446	74,259	63,413	86,631	150,044
Capital outlay	23,793	375,382	399,175	106,945	361,713	468,658
Debt service:						
Principal	31,424	15,094	46,518	405,726	19,259	424,985
Interest and other fees	21,204	14,330	35,534	25,817	11,593	37,410
<b>Total expenditures</b>	<b>843,234</b>	<b>523,636</b>	<b>1,366,870</b>	<b>1,318,444</b>	<b>534,337</b>	<b>1,852,781</b>
<b>EXCESS (DEFICIT) REVENUES OVER EXPENDITURES</b>	<b>(8,665)</b>	<b>(7,496)</b>	<b>(16,161)</b>	<b>(488,738)</b>	<b>(2,700)</b>	<b>(491,438)</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Proceeds from new financing	...	...	...	355,000	...	355,000
Capital lease arrangement	...	...	...	20,057	...	20,057
Proceeds from sale of capital assets	2,806	...	2,806	24,971	...	24,971
Transfers in (out)	51,540	18,776	70,316	(27,425)	26	(27,399)
<b>Total other financing sources (uses)</b>	<b>54,346</b>	<b>18,776</b>	<b>73,122</b>	<b>372,603</b>	<b>26</b>	<b>372,629</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>45,681</b>	<b>11,280</b>	<b>56,961</b>	<b>(116,135)</b>	<b>(2,674)</b>	<b>(118,809)</b>
<b>FUND BALANCES</b>						
Beginning of year	48,671	72,284	120,955	164,806	74,958	239,764
End of year	\$ 94,352	\$ 83,564	\$ 177,916	\$ 48,671	\$ 72,284	\$ 120,955

Accompanying notes are an integral part of these financial statements

**CITY OF DELAWARE CITY, DELAWARE**

RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENTS OF ACTIVITIES  
 Years Ended June 30, 2007 and 2006

	2007	2006
Amounts reported for governmental activities in the statement of activities are different because:		
<b>Net change in fund balance-total governmental funds</b>	<b>\$ 56,961</b>	<b>\$ (118,809)</b>
Government funds report capital outlay as expenditures. However, in the statement of activities, assets with an initial individual cost of \$1,500 or more are capitalized and the cost of those assets is allocated over their estimated useful lives as depreciation expense. The following is the amount by which capital outlay exceeded depreciation expense.		
	2007	2006
Capital outlay	\$ 320,246	\$ 475,841
Depreciation expense	(256,655)	(199,398)
	63,591	276,443
The governmental funds report loan proceeds as an other financing source, while repayment of loan principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of long-term liabilities and related items is as follows:		
	2007	2006
Long-term financing:		
Proceeds received	\$ ...	\$ (355,000)
Principal payments made	39,527	402,563
	39,527	47,563
Capital assets acquired by capital lease are shown as expenditures and other financing sources in the governmental funds. The principal payments must be removed from the statement of activities and applied to the lease liability.		
	2007	2006
Capital lease financing:		
Proceeds	\$ ...	\$ (20,057)
Principal payments	6,991	22,422
	6,991	2,365
Some expenses reported in the statement of activities do not require current financial resources and, therefore, are not reported as expenditures in governmental funds.		
	2007	2006
Capital assets:		
Proceeds from sale	\$ (2,806)	\$ (24,971)
Gain from sale	2,806	11,077
	...	(13,894)
In the statement of activities, certain operating expenses such as compensated absences for vacation are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount used versus the amount earned.		
	(1,126)	2,395
<b>Change in net assets-governmental activities</b>	<b>\$ 165,944</b>	<b>\$ 196,063</b>

Accompanying notes are an integral part of these financial statements

**CITY OF DELAWARE CITY, DELAWARE**  
**STATEMENTS OF NET ASSETS-PROPRIETARY FUND**  
June 30, 2007 and 2006

	Water Fund	
	2007	2006
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and equivalents	\$ ...	\$ ...
Accounts receivable, net	14,100	14,888
<b>Total current assets</b>	<b>14,100</b>	<b>14,888</b>
<b>NONCURRENT ASSETS</b>		
Capital assets, net:		
Nondepreciable	18,331	191,319
Depreciable	1,458,294	1,330,496
Bond issue costs, net of amortization	27,153	...
<b>Total noncurrent assets</b>	<b>1,503,778</b>	<b>1,521,815</b>
<b>TOTAL ASSETS</b>	<b>1,517,878</b>	<b>1,536,703</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Contract payable	...	119,151
Accrued interest payable	5,721	3,450
Current portion of long-term debt	21,864	21,727
Refundable deposits	5,775	4,800
<b>Total current liabilities</b>	<b>33,360</b>	<b>149,128</b>
<b>NONCURRENT LIABILITIES</b>		
Long-term debt, net of current portion	940,420	690,070
<b>TOTAL LIABILITIES</b>	<b>973,780</b>	<b>839,198</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	541,494	690,867
Unrestricted	2,604	6,638
<b>TOTAL NET ASSETS</b>	<b>\$ 544,098</b>	<b>\$ 697,505</b>

Accompanying notes are an integral part of these financial statements

**CITY OF DELAWARE CITY, DELAWARE**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS-PROPRIETARY FUND  
Years Ended June 30, 2007 and 2006

	Water Fund	
	2007	2006
<b>OPERATING REVENUES</b>		
Charges for services	\$ 272,742	\$ 270,405
<b>OPERATING EXPENSES</b>		
Salaries	41,564	48,247
Payroll taxes	3,386	3,947
Employee benefits	8,425	11,367
Contractual services	37,500	37,500
Insurance	18,673	21,785
Telephone	3,985	3,715
Electricity	32,161	20,588
Professional fees	10,017	12,524
Distribution system maintenance	32,885	23,280
Office supplies	525	846
Materials and supplies	5,920	4,797
Fuel for heating	1,233	1,261
Miscellaneous	3,003	52
Depreciation and amortization	127,921	119,583
<b>Total operating expenses</b>	<b>327,198</b>	<b>309,492</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(54,456)</b>	<b>(39,087)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest expense	(39,290)	(35,998)
Miscellaneous revenues	10,655	6,356
<b>Total non-operating revenues (expenses)</b>	<b>(28,635)</b>	<b>(29,642)</b>
<b>INCOME (LOSS) BEFORE OTHER FINANCING SOURCES (USES)</b>	<b>(83,091)</b>	<b>(68,729)</b>
<b>TRANSFERS FROM GOVERNMENTAL ACTIVITIES</b>	<b>(70,316)</b>	<b>27,399</b>
<b>CHANGE IN NET ASSETS (LIABILITIES)</b>	<b>(153,407)</b>	<b>(41,330)</b>
<b>NET ASSETS</b>		
Beginning of year	697,505	738,835
End of year	\$ 544,098	\$ 697,505

Accompanying notes are an integral  
part of these financial statements

**CITY OF DELAWARE CITY, DELAWARE**  
**STATEMENTS OF CASH FLOWS-PROPRIETARY FUND**  
**Years Ended June 30, 2007 and 2006**

	Water Fund	
	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 285,160	\$ 277,879
Cash payments to suppliers for goods and services	(145,902)	(126,348)
Cash payments to employees for services	(53,375)	(63,561)
<b>Net cash provided (used) by operating activities</b>	<b>85,883</b>	<b>87,970</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	(201,066)	(56,511)
Proceeds from issuance of new debt	273,237	...
Payment of bond issue costs	(27,969)	...
Principal paid on general obligation bonds and notes	(22,750)	(22,799)
Interest paid on general obligation bonds and notes	(37,019)	(36,059)
Cash received (paid) from governmental activities	(70,316)	27,399
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(85,883)</b>	<b>(87,970)</b>
<b>NET INCREASE IN CASH AND EQUIVALENTS</b>	<b>...</b>	<b>...</b>
<b>CASH AND EQUIVALENTS</b>		
Beginning of year	...	...
End of year	\$ ...	\$ ...
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ (54,456)	\$ (39,087)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	127,105	119,583
Amortization	816	...
Other non-operating revenues	10,655	6,356
Change in assets and liabilities:		
Receivables	788	740
Refundable deposits	975	378
Total adjustments	140,339	127,057
<b>Net cash provided from operating activities</b>	<b>\$ 85,883</b>	<b>\$ 87,970</b>

Accompanying notes are an integral part of these financial statements

**CITY OF DELAWARE CITY, DELAWARE**  
NOTES TO FINANCIAL STATEMENTS

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Delaware City (the "City") have been prepared in conformity with U.S. generally accepted accounting principles as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The City has the option of election to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The significant accounting policies of the City are described below.

Reporting Entity

The City of Delaware City incorporated on March 5, 1851 under the provisions of the State of Delaware, is a municipal corporation governed by a six-member governing body consisting of the Mayor (elected at large) and five Members of Council and provides traditional municipal services authorized by its charter as well as water services. In evaluating the City as a reporting entity, management has addressed all potential component units for which the City may or may not be financially accountable and, as such, be includable within the City's basic financial statements. According to the GASB, the City is financially accountable if it appoints a voting majority of an entity's governing board and (1) it can impose its will on the entity or (2) there is a potential for the entity to provide specific financial benefit to or impose specific financial burden on the City. Additionally the statement requires the City to consider other entities for which the nature and significance of their relationship are such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete. The component unit discussed below is included in the City's reporting entity because of the financial relationship with the City.

Discretely Presented Component Unit

The component unit column in the government-wide financial statements includes the financial data of the only component unit of the City. The component unit is reported in a separate column to emphasize that it is legally separate from the City's primary government operations.

**Delaware City Day Committee** was formed for the purpose of accounting for the financial activity of the City's annual celebration of "Delaware City Day".

**CITY OF DELAWARE CITY, DELAWARE**  
NOTES TO FINANCIAL STATEMENTS

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Government-Wide and Fund Financial Statements

The City's basic financial statements consist of the following:

- Government-wide financial statements
- Fund financial statements, and
- Notes to the financial statements.

The government-wide financial statements consist of the statement of net assets and the statement of activities. As a general rule, the effect of interfund activity has been removed from the government-wide financial statements. All internal balances in the statement of net assets have been eliminated, with the exception of those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total government column. In the statement of activities, transactions between governmental and business-type activities have not been eliminated.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety (police), public works (streets and sanitation), parks and recreation, Youth Center, and other general administrative support services. The business-type activities of the City include the water system.

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

Separate financial statements are provided for governmental funds and proprietary funds. The major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The **government-wide financial statements** are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned, or, for property tax revenues, in the period for which levied. Expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The **governmental fund financial statements** are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when payment is due.

Charges for services, property taxes, grants and similar items, and interest associated with the current fiscal year are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items are considered to be measurable and available only when received.

The City reports the following major governmental funds:

- The **general fund** is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted in other funds.
- The **special revenue fund** accounts for resources and payments of the activities derived from earmarked revenue sources. When such needs arise, separate self-balancing funds are established to account for each restricted special revenue source. Also included is the "Revolving Loan Fund" whose purpose is to provide "Façade Improvement" funding to private businesses for the revitalization of the City's downtown area.

Additionally, the City reports the following fund type:

- The **proprietary fund** (water) accounts for resources and payments made for providing water service to the citizens of the City.

**CITY OF DELAWARE CITY, DELAWARE**  
NOTES TO FINANCIAL STATEMENTS

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing and delivering goods and services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary fund is water fees. Operating expenses for the proprietary fund include salaries, employee benefits, purchased services, supplies and materials, water plant maintenance, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgetary Accounting

The City Council follows these procedures in establishing the budgetary data reflected within the financial statements:

- The City Manager submits to the City Council a proposed budget for the ensuing fiscal year. The budget includes proposed expenditures and the means of financing them.
- Council meets in open session to review the proposed budget.
- Not later than the public meeting and prior to the end of the preceding fiscal year, the budget is legally enacted.
- The City Manager is required to present a monthly report to Council explaining any variances from the approved budget.
- Formal budgetary integration is employed as a management control device during the year for all operating funds.
- The budget for the general fund is adopted on a basis consistent with U.S. generally accepted accounting principles (GAAP).
- The budget for budgeted special revenue funds are approved based on individual funding sources.

Use of Estimates

The preparation of financial statements in conformance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results may differ from those estimates.

**CITY OF DELAWARE CITY, DELAWARE**  
NOTES TO FINANCIAL STATEMENTS

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Cash and Equivalents

The City considers demand deposits and all unrestricted highly liquid investments with an initial maturity of three months or less to be cash and equivalents.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the basic financial statements. Unrealized gains and losses are also included in the statements of activities.

The investment consisted of 192 shares of common stock of Principal Financial Group, Inc. (PFG) received by the City as a result of the PFG's conversion from a mutual insurance company to a publicly traded company. The investment was approved by Council to be and was liquidated on February 6, 2007.

Receivable-Taxes

At June 30, 2007 and 2006, taxes receivable are shown net of the estimated uncollectible allowances of \$30,282 and \$25,713, respectively. The allowances for uncollectible accounts are based upon historical data established according to experience and other factors which in the judgment of City officials deserve recognition in estimating possible losses. Management believes that they have adequately provided for future probable losses.

Receivable-Trade Accounts

At June 30, 2007 and 2006, trade accounts receivable are shown net of the estimated uncollectible allowances of \$4,043 and \$10,436, respectively. The allowances for uncollectible accounts are based upon historical data established according to experience and other factors which in the judgment of City officials deserve recognition in estimating possible losses. Management believes that they have adequately provided for future probable losses.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund balances" (i.e., current portion) or "advances from/to other funds" (i.e., the noncurrent portion).

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. At June 30, 2007 and 2006, the City had no such activity.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads, sidewalks, traffic signals, street lights, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$1,500 or more and an estimated useful life in excess of one year. Such capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of a capital asset or materially extends its life is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. During fiscal years 2007 and 2006, no interest was capitalized.

Capital assets of the City are depreciated using a straight-line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	10 to 50
Improvements other than buildings	5 to 50
Machinery and equipment	5 to 10
Furniture and office equipment	3 to 10
Water system	15 to 40
Infrastructure assets	20 to 50

As a result of GASB 34 implementation, the City is now accounting for infrastructure assets on its financial statements. The government-wide financial statements include those infrastructure assets that were either completed during the current fiscal year or considered construction in progress at year-end. However, the government-wide financial statements do not reflect those infrastructure assets completed prior to July 1, 2003.

Unamortized Bond Issue Costs

Bond issue costs of the Series 2006 Bond in the amount of \$27,969 are being amortized over the life (20 years) of the Bond using the straight-line method. At June 30, 2007, accumulated amortization was \$816.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Deferred Revenues

Deferred revenues represent funds received in advance which will be recognized in future years when the revenue recognition criteria is met. At June 30, 2007 and 2006, deferred revenues in the general fund consist of \$33,997 and \$32,679 of which deferred rent was \$21,666 and \$21,950 and other revenue sources, respectively.

Refundable Advances

The City records grant awards, accounted for as exchange transactions, as refundable advances until the related services are performed at which time they are recognized as revenues.

Compensated Absences

Employees can accumulate certain number of vacation days. The City accrues a liability for absences that meet the following criteria:

- The City's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
- The obligation relates to rights that vest or accumulate.
- Payment of the compensation is probable.
- The amount can be reasonably estimated.

In accordance with the above criteria, the City has accrued on the government-wide financial statements a liability for vacation pay which has been earned but not taken by City employees. For governmental funds, the long-term portion of the liability for compensated absences is not reflected in the fund financial statements since it is anticipated that none of the liability will be liquidated with expendable available financial resources. However, the proprietary fund liability for compensated absences is recorded as an accrued liability in accordance with Financial Accounting Standards Board guidelines.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental fund types recognize bond discounts and issuance costs in the current period. Bond discounts and refunding losses for proprietary fund types are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method.

**CITY OF DELAWARE CITY, DELAWARE**  
NOTES TO FINANCIAL STATEMENTS

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in governmental funds. Encumbrances as of the year end are reported as reservations of fund balance since they do not constitute expenditures or liabilities but serve as authorization for expenditures in the subsequent year. At June 30, 2007 and 2006, the City had no outstanding encumbrances.

Net Assets and Fund Equity

In the government-wide financial statements and proprietary funds financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt represents capital assets less accumulated depreciation less outstanding principal of related debt. Net assets invested in capital assets, net of related debt does not include the unspent proceeds of capital debt. Restricted net assets represent net assets restricted by parties outside of the City (such as creditors, grantors, contributors, laws, and regulations of other governments) and include unspent grant awards not considered refundable advances. All other net assets are considered unrestricted.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**NOTE 2 - PROPERTY TAXES**

The tax on real estate within the City limits was \$1.09 per \$100 of assessed valuation for the fiscal year 2007 and \$1.09 per \$100 of assessed valuation for the fiscal year 2006 as levied by City Council. The City bills and collects its own property taxes. The delinquent property taxes are levied by the City.

The schedule of property taxes levied for fiscal years 2007 and 2006 follows:

- |           |                                                         |
|-----------|---------------------------------------------------------|
| July 1    | - Levy Date (effective date of enforceable lien)        |
| October 1 | - 5% Penalty plus 1% for each subsequent month not paid |

**CITY OF DELAWARE CITY, DELAWARE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - CASH AND INVESTMENTS**

It is the policy of the City of Delaware City to invest funds under its control principally in money market accounts.

Cash and Equivalents

The City's deposits (cash and equivalents) are categorized to give an indication of the level of risk assumed at June 30, 2007 and 2006. The categories are described below:

Category 1-Insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2-Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3-Uncollateralized and uninsured deposits.

Deposits categorized by level of risk at June 30 are as follows:

Description	2007		2006	
	Book	Bank	Book	Bank
Category 1	\$ 27,255	\$ 35,456	\$ 63,993	\$ 92,039
Category 2	...	...	...	...
Category 3	<u>300</u>	<u>...</u>	<u>300</u>	<u>...</u>
Totals	<u>\$ 27,555</u>	<u>\$ 35,456</u>	<u>\$ 64,293</u>	<u>\$ 92,039</u>

**NOTE 4 - NOTE RECEIVABLE**

Note receivable consists of loans made by the "Revolving Loan Fund" for the Façade Improvement Program. At June 30, 2007 and 2006, the receivable consisted of two and one notes, respectively, which are payable in monthly installments of interest and principal. The notes carry fixed interest rates and are secured with the real property of the borrower.

**NOTE 5 - INTERGOVERNMENTAL RECEIVABLES**

Primary government receivables due from other governmental units represent revenues earned by the City. At June 30, 2007 and 2006, the receivables consist of:

Description	Activity Type			
	2007		2006	
	Governmental	Business	Governmental	Business
Delaware Department of Transportation	\$ 237,934	\$ ...	\$ 277,444	\$ ...
Delaware Criminal Justice Council	7,902	...	15,803	...
Various other State agencies	<u>60,869</u>	<u>...</u>	<u>30,253</u>	<u>...</u>
Total intergovernmental receivables	<u>\$ 306,705</u>	<u>\$ ...</u>	<u>\$ 323,500</u>	<u>\$ ...</u>

**CITY OF DELAWARE CITY, DELAWARE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2007 follows:

Description	Beginning Balances	Additions	Deletions	Ending Balances
<b>Governmental activities:</b>				
Capital assets, not depreciated:				
Land	\$ 421,737	\$ ...	\$ ...	\$ 421,737
Construction in progress:				
Buildings and improvements	5,025	253,924	...	258,949
Streets and sidewalks	...	...	...	...
Trees, trails and landscape	414,838	9,063	423,901	...
Total capital assets, not being depreciated	841,600	262,987	423,901	680,686
Capital assets, being depreciated:				
Buildings and improvements	4,089,242	...	...	4,089,242
Furniture and office equipment	48,261	9,259	...	57,520
Vehicles and equipment	245,268	48,000	...	293,268
Streets and sidewalks	1,332,287	...	...	1,332,287
Trees, trails and landscape	634,821	423,901	...	1,058,722
Total being depreciated	6,349,879	481,160	...	6,831,039
Less accumulated depreciation:				
Buildings and improvements	240,825	106,317	...	347,142
Furniture and office equipment	23,648	7,121	...	30,769
Vehicles and equipment	75,533	39,546	...	115,079
Streets and sidewalks	113,504	103,671	...	217,175
Trees, trails and landscape	...	...	...	...
Total accumulated depr.	453,510	256,655	...	710,165
Total capital assets, being depreciated	5,896,369	224,505	...	6,120,874
Governmental activities capital assets, net	\$ 6,737,969	\$ 487,492	\$ 423,901	\$ 6,801,560
<b>Business-type activities:</b>				
Capital assets, not depreciated:				
Land	\$ 18,331	\$ ...	\$ ...	\$ 18,331
Construction in progress	172,988	81,915	254,903	...
Total capital assets, not being depreciated	191,319	81,915	254,903	18,331
Capital assets, being depreciated:				
Buildings and improvements	415,592	...	...	415,592
Water distribution system	2,439,071	254,903	21,573	2,672,401
Machinery and equipment	...	...	...	...
Total being depreciated	2,854,663	254,903	21,573	3,087,993
Less accumulated depreciation:				
Buildings and improvements	268,485	10,501	...	278,986
Water distribution system	1,255,682	116,604	21,573	1,350,713
Machinery and equipment	...	...	...	...
Total accumulated depr.	1,524,167	127,105	21,573	1,629,699
Total capital assets, being depreciated	1,330,496	127,798	...	1,458,294
Business-type activities capital assets, net	\$ 1,521,815	\$ 209,713	\$ 254,903	\$ 1,476,625

**CITY OF DELAWARE CITY, DELAWARE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - CAPITAL ASSETS (continued)**

Capital assets activity for the year ended June 30, 2006 follows:

Description	Beginning Balances	Additions	Deletions	Ending Balances
<b>Governmental activities:</b>				
Capital assets, not depreciated:				
Land	\$ 421,737	\$ ...	\$ ...	\$ 421,737
Construction in progress:				
Buildings and improvements	17,765	26,773	39,513	5,025
Streets and sidewalks	...	197,248	197,248	...
Trees, trails and landscape	894,639	155,020	634,821	414,838
Total capital assets, not being depreciated	1,334,141	379,041	871,582	841,600
Capital assets, being depreciated:				
Buildings and improvements	4,025,939	63,303	...	4,089,242
Furniture and office equipment	48,261	...	...	48,261
Vehicles and equipment	212,475	73,010	40,217	245,268
Streets and sidewalks	1,135,039	197,248	...	1,332,287
Trees, trails and landscape	...	634,821	...	634,821
Total being depreciated	5,421,714	968,382	40,217	6,349,879
Less accumulated depreciation:				
Buildings and improvements	137,672	103,153	...	240,825
Furniture and office equipment	15,515	8,133	...	23,648
Vehicles and equipment	70,496	31,360	26,323	75,533
Streets and sidewalks	56,752	56,752	...	113,504
Trees, trails and landscape	...	...	...	...
Total accumulated depr.	280,435	199,398	26,323	453,510
Total capital assets, being depreciated	5,141,279	768,984	13,894	5,896,369
Governmental activities capital assets, net	\$ 6,475,420	\$ 1,148,025	\$ 885,476	\$ 6,737,969
<b>Business-type activities:</b>				
Capital assets, not depreciated:				
Land	\$ 18,331	\$ ...	\$ ...	\$ 18,331
Construction in progress	...	172,988	...	172,988
Total capital assets, not being depreciated	18,331	172,988	...	191,319
Capital assets, being depreciated:				
Buildings and improvements	412,918	2,674	...	415,592
Water distribution system	2,439,071	...	...	2,439,071
Machinery and equipment	34,760	...	34,760	...
Total being depreciated	2,886,749	2,674	34,760	2,854,663
Less accumulated depreciation:				
Buildings and improvements	258,073	10,412	...	268,485
Water distribution system	1,146,511	109,171	...	1,255,682
Machinery and equipment	34,760	...	34,760	...
Total accumulated depr.	1,439,344	119,583	34,760	1,524,167
Total capital assets, being depreciated	1,447,405	(116,909)	...	1,330,496
Business-type activities capital assets, net	\$ 1,465,736	\$ 56,079	\$ ...	\$ 1,521,815

**NOTE 7 - ECONOMIC DEPENDENCY**

A substantial portion of the City's annual property tax assessment is paid by one corporate taxpayer, which approximates 33% of the total annual assessment.

**CITY OF DELAWARE CITY, DELAWARE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - LONG-TERM DEBT OBLIGATIONS**

The schedule summarizes the changes in general obligation debt:

Description	Year Ended June 30, 2007				
	Beginning Balances	Additions	Deletions	Ending Balances	
				Long-term Portion	Due Within One Year
<b>Governmental Activities:</b>					
General obligation notes:					
Wilmington Trust	\$ 48,255	\$ ...	\$ 11,404	\$ 24,681	\$ 12,170
Sun National Bank	37,381	...	4,532	28,000	4,849
Sun National Bank	6,561	...	4,309	...	2,252
Ford Motor Credit Corp.	20,057	...	6,991	6,748	6,318
Total note obligations	112,254	...	27,236	59,429	25,589
General obligation bond:					
Citizens Bank	355,000	...	19,282	318,558	17,160
<b>Total governmental</b>	<b>\$ 467,254</b>	<b>\$ ...</b>	<b>\$ 46,518</b>	<b>\$ 377,987</b>	<b>\$ 42,749</b>
<b>Business-Type Activities:</b>					
General obligation bonds:					
1995 Series	\$ 600,349	\$ ...	\$ 8,506	\$ 582,904	\$ 8,939
2006 Series	...	273,237	...	268,082	5,155
Total bond obligations	600,349	273,237	8,506	850,986	14,094
General obligation notes:					
SERCAP	104,619	...	7,415	89,434	7,770
Sun National Bank	6,829	...	6,829	...	...
Total note obligations	111,448	...	14,244	89,434	7,770
<b>Total business-type</b>	<b>\$ 711,797</b>	<b>\$ 273,237</b>	<b>\$ 22,750</b>	<b>\$ 940,420</b>	<b>\$ 21,864</b>

General Obligation Bonds and Notes

Wilmington Trust Note

On September 30, 1999, the City issued a general obligation note to Wilmington Trust Company in the amount of \$115,000, with a maturity date of September 30, 2009. The note is for a term of ten years with a fifteen-year amortization and calls for monthly payments of \$1,175.52. Interest is payable at the adjusted rate [defined as the annual rate equal to 75% of the Wilmington Trust Company's National Commercial Rate (NCR)]. At June 30, 2007, the effective interest rate is 6.1875%. The note was issued for the purpose of purchasing real estate located at 112 Clinton Street, Delaware City, and is secured with an interest in all machinery, equipment, furniture and inventory, and contract rights now owned by the City or hereafter acquired wherever located. The following is the note repayment schedule, based on the interest rate of 6.1875%.

Years Ending June 30	Principal	Interest	Total
2008	\$ 12,170	\$ 1,936	\$ 14,106
2009	12,944	1,162	14,106
2010	11,737	341	12,078
<b>Total required payments</b>	<b>\$ 36,851</b>	<b>\$ 3,439</b>	<b>\$ 40,290</b>

**CITY OF DELAWARE CITY, DELAWARE**  
 NOTES TO FINANCIAL STATEMENTS

**NOTE 8 - LONG-TERM DEBT OBLIGATIONS** (continued)

General Obligation Bonds and Notes (continued)

Sun National Bank Note

On January 9, 2003, the City issued a general obligation note to Sun National Bank in the amount of \$50,000, with a maturity date of April 10, 2013. Interest is payable at an annual rate of 6.14%. The note was issued for the purpose of funding the "Revolving Loan Fund" for the Façade Improvement Program. The note is secured with the full faith and credit of the City, and the assignment of tax revenues. The following is the note repayment schedule:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 4,849	\$ 1,882	\$ 6,731
2009	5,155	1,576	6,731
2010	5,481	1,250	6,731
2011	5,828	903	6,731
2012	6,196	535	6,731
2013	<u>5,340</u>	<u>148</u>	<u>5,488</u>
<b>Total required payments</b>	<b>\$ 32,849</b>	<b>\$ 6,294</b>	<b>\$ 39,143</b>

Sun National Bank Note

On December 15, 2004, the City issued a general obligation note to Sun National Bank in the amount of \$12,567, with a maturity of December 15, 2007. Interest is payable at an annual rate of 5.80%. The note was issued to purchase of a 2003 police motorcycle, and is secured with an interest in the motorcycle. Total payments due are \$2,285 which includes interest of \$33.

Ford Motor Credit Corporation

On May 18, 2006, the City entered into a lease-purchase arrangement with Ford Motor Credit Corporation in the amount of \$20,057, with a maturity date of July 15, 2008. Interest is payable at an annual rate of 6.80%. The arrangement was for the purchase of a 2006 Ford Crown Victoria, and is secured with an interest in the vehicle. The following is the note repayment schedule:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 6,318	\$ 889	\$ 7,207
2009	<u>6,748</u>	<u>459</u>	<u>7,207</u>
<b>Total required payments</b>	<b>\$ 13,066</b>	<b>\$ 1,348</b>	<b>\$ 14,414</b>

**CITY OF DELAWARE CITY, DELAWARE**  
 NOTES TO FINANCIAL STATEMENTS

**NOTE 8 - LONG-TERM DEBT OBLIGATIONS** (continued)

General Obligation Bonds and Notes (continued)

Citizens Bank Bond

On June 15, 2006, the City issued a General Obligation Bond to Citizens Bank in the amount of \$355,000, with a maturity date of June 15, 2021. The bond carries an annual interest rate of 5.125% on the principal amount thereof, and requires monthly payments of \$2,830.49 (principal and interest). The note was issued for the purpose of funding the City's 2006 Capital Improvement Projects. The bond is secured with the full faith and credit of the City. The following is the bond repayment schedule:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 17,160	\$ 16,806	\$ 33,966
2009	18,060	15,906	33,966
2010	19,008	14,958	33,966
2011	20,005	13,961	33,966
2012	21,055	12,911	33,966
2013-2017	123,051	46,778	169,829
2018-2021	<u>117,379</u>	<u>12,089</u>	<u>129,468</u>
<b>Total required payments</b>	<b>\$ 335,718</b>	<b>\$ 133,409</b>	<b>\$ 469,127</b>

General Obligation Bonds, Series 1995

The general obligation bonds, Series 1995, originally issued in the amount of \$662,000, carry a maturity date of February 21, 2037. The proceeds of the general obligation bonds were used to finance the City's "Water System Improvement Project". The bonds carry an interest rate of 5.00% per annum and are payable in quarterly installments of \$9,593, which includes interest. The following schedule summarizes the remaining payments required:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 8,939	\$ 29,433	\$ 38,372
2009	9,395	28,977	38,372
2010	9,873	28,499	38,372
2011	10,376	27,996	38,372
2012	10,905	27,467	38,372
2013-2017	63,447	128,413	191,860
2018-2022	81,341	110,519	191,860
2023-2027	104,282	87,578	191,860
2028-2032	133,694	58,166	191,860
2033-2037	<u>159,591</u>	<u>20,613</u>	<u>180,204</u>
<b>Total required payments</b>	<b>\$ 591,843</b>	<b>\$ 547,661</b>	<b>\$1,139,504</b>

**CITY OF DELAWARE CITY, DELAWARE**  
 NOTES TO FINANCIAL STATEMENTS

**NOTE 8 - LONG-TERM DEBT OBLIGATIONS** (continued)

General Obligation Bonds and Notes (continued)

General Obligation Bond, Series 2006

On October 11, 2006, the City issued a General Obligation Bond to the Delaware Safe Drinking Water Revolving Fund, Delaware Department of Health & Social Services, Division of Public Health in the amount of \$273,237, with a maturity date of August 1, 2027. The bond carries an annual interest rate of 2.760% on the principal amount thereof, and requires semiannual payments of principal and interest on August 1 and February 1 of each year. The bond was issued for the purpose of funding the Delaware City Well 5 Upgrade Project. The bond is secured with the full faith and credit of the City. The following is the bond repayment schedule:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 5,155	\$ 3,792	\$ 8,947
2009	10,527	7,369	17,896
2010	10,821	7,075	17,896
2011	11,123	6,773	17,896
2012	11,434	6,462	17,896
2013-2017	62,147	27,331	89,478
2018-2022	71,332	18,146	89,478
2022-2027	81,873	7,605	89,478
2028	<u>8,825</u>	<u>122</u>	<u>8,947</u>
<b>Total required payments</b>	<b><u>\$ 273,237</u></b>	<b><u>\$ 84,675</u></b>	<b><u>\$ 357,912</u></b>

SERCAP Note

On May 21, 2002, the City issued a general obligation note to the Southeast Rural Community Assistance Project, Inc. (SERCAP) in the amount of \$131,250, with an annual interest rate of 5.00%. The note requires monthly payments of \$1,037.90 (principal and interest) for fifteen years and matures on May 21, 2017. The note was issued for the City's "Well No. 4 Water Filter Rehabilitation Project". The note is secured with an interest in land (parcel no. 22.008.00.055) located at 321 Washington Street, Delaware City, Delaware. The following is the note repayment schedule:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 7,770	\$ 4,685	\$ 12,455
2009	8,167	4,288	12,455
2010	8,585	3,870	12,455
2011	9,028	3,427	12,455
2012	9,486	2,969	12,455
2013-2017	<u>54,168</u>	<u>7,071</u>	<u>61,239</u>
<b>Total required payments</b>	<b><u>\$ 97,204</u></b>	<b><u>\$ 26,310</u></b>	<b><u>\$ 123,514</u></b>

**CITY OF DELAWARE CITY, DELAWARE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - LONG-TERM DEBT OBLIGATIONS** (continued)

General Obligation Bonds and Notes (continued)

Sun National Bank Note

On May 21, 2002, the City issued (in conjunction with the SERCAP note) a general obligation note to Sun National Bank in the amount of \$37,500, with an annual interest rate of 4.50%. The note term was for five years and matured on May 21, 2007.

Future maturities of principal and interest payments follow:

Years Ending June 30	<u>General Obligation Bonds</u>		<u>General Obligation Notes</u>		Totals
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
<b>Governmental Activities:</b>					
2008	\$ 17,160	\$ 16,806	\$ 25,589	\$ 4,740	\$ 64,295
2009	18,060	15,906	24,847	3,197	62,010
2010	19,008	14,958	17,218	1,591	52,775
2011	20,005	13,961	5,828	903	40,697
2012	21,055	12,911	6,196	535	40,697
2013-2017	123,051	46,778	5,340	148	175,317
2018-2021	117,379	12,089	...	...	129,468
<b>Totals</b>	<b>\$ 335,718</b>	<b>\$ 133,409</b>	<b>\$ 85,018</b>	<b>\$ 11,114</b>	<b>\$ 565,259</b>
<b>Business-Type Activities:</b>					
2008	\$ 14,094	\$ 33,224	\$ 7,770	\$ 4,685	\$ 59,773
2009	19,922	36,346	8,167	4,288	68,723
2010	20,694	35,574	8,585	3,870	68,723
2011	21,499	34,769	9,028	3,427	68,723
2012	22,339	33,929	9,486	2,969	68,723
2013-2017	125,594	155,744	54,168	7,071	342,577
2018-2022	152,673	128,665	...	...	281,338
2023-2027	186,155	95,183	...	...	281,338
2028-2032	142,519	58,289	...	...	200,808
2033-2037	159,591	20,613	...	...	180,204
<b>Totals</b>	<b>\$ 865,080</b>	<b>\$ 632,336</b>	<b>\$ 97,204</b>	<b>\$ 26,310</b>	<b>\$ 1,620,930</b>

**NOTE 9 - LINES OF CREDIT**

The City issued a general obligation note for \$200,000 to Sun National Bank. The note, a line of credit, carries a variable interest rate and matures on February 28, 2008. The interest rate at June 30, 2007 is 4.50%. The note issued for the purpose of providing working capital is secured with the full faith and credit of the City and the assignment of tax revenues. At June 30, 2007 and 2006, the balance outstanding is \$125,000 and \$200,000, respectively.

The City issued other general obligation notes to Sun National Bank for \$150,000 and \$200,000. The notes were "overline" lines of credit carrying variable interest rates. The principal maturities of the lines of credit were August 31, 2006 and December 31, 2005, respectively. At June 30, 2007 and 2006, the outstanding balances are \$0 and \$75,000, respectively.

**CITY OF DELAWARE CITY, DELAWARE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 - LEASING ARRANGEMENTS**

At June 30, the City is involved with the following arrangements:

Operating Lease as Lessee

The City leases the following equipment under an operating leasing arrangement. Total rental expense for years ended June 30, 2007 and 2006 was \$3,588 and \$3,588, respectively.

Description	Monthly Rentals	Expiration Date
Kyocera KM-4039 Digital Copy System	\$ 299	September, 2009

At June 30, 2007, the minimum future rental payments under the non-cancelable leasing arrangement having remaining terms in excess of one year in the aggregate are:

Years Ending June 30	Amount
2008	\$ 3,588
2009	3,588
2010	<u>897</u>
Total minimum future rental payments required	<u>\$ 8,073</u>

Operating Leases as Lessor

The City is the lessor of certain real property under operating leasing arrangements expiring at various dates through 2007. The following is a summary of property held for lease at June 30, 2007:

Property Under Lease	Purpose of Rental	Cost Basis
Certain land parcels	Commercial	\$ ...
Water Tower-Air Rights	Mobile Antennae	...
Property at 511 Fifth Street	Commercial	...

Minimum future rentals to be received on non-cancelable leasing arrangements for each of the remaining years in the aggregate are:

Years Ending June 30	Amount
2008	\$ 53,397
2009	36,764
2010	<u>27,573</u>
Total minimum future rental revenue to be received	<u>\$ 117,734</u>

Total rental revenue received for the years ended June 30, 2007 and 2006 was \$67,570 and \$64,789, respectively.

**CITY OF DELAWARE CITY, DELAWARE**  
NOTES TO FINANCIAL STATEMENTS

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**NOTE 11 - COMMITMENTS AND CONTINGENCIES**

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The City does not anticipate losses as a result of these transactions.

Government Grant/Award Programs

The City participates in a number of federally and state assisted programs. These programs are subject to program compliance audits by the grantors or their representatives. Accordingly, the City's compliance with applicable program requirements will be established at some future date. The amount, if any, of expenditures, not already disclosed, which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Commitments

As described in other notes, the City is contingently liable for certain debt obligations, compensated absences, and certain leasing arrangements in the capacity of both lessor and lessee.

Construction Commitment

At June 27, 2007, the City has an active construction project: the "VanAmringe Exterior and Structural Rehabilitation Project". The commitments with contractors are as follows:

<u>Contractor</u>	<u>Contract Award</u>	<u>Expended To Date</u>	<u>Remaining Commitment</u>
Commonwealth Construction Co.	<u>\$1,206,320</u>	<u>\$.....</u>	<u>\$1,206,320</u>

The project will be funded with Transportation Enhancement Funds [federal funding] of \$873,056 and the remaining \$333,264 will be funded with state grant awards and the issuance of a general obligation note to a financial institution. It is projected that the note portion will be repaid with future revenues of the general governments.

**NOTE 12 - RECLASSIFICATIONS**

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

**Required Supplemental Information (RSI) Section**

**CITY OF DELAWARE CITY, DELAWARE**

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND  
Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Real estate taxes	\$ 575,842	\$ 575,842	\$ 578,191	\$ 2,349
Real estate transfer taxes	65,000	65,000	130,335	65,335
Cable franchise taxes	8,000	8,000	7,508	(492)
Licenses and permits	2,500	2,500	3,190	690
Intergovernmental revenues	...	...	...	...
Police fines	15,000	15,000	13,229	(1,771)
Charges for services	5,000	5,000	6,292	1,292
Interest and rents	73,000	73,000	82,309	9,309
Miscellaneous revenues	2,000	2,000	13,515	11,515
<b>Total revenues</b>	<b>746,342</b>	<b>746,342</b>	<b>834,569</b>	<b>88,227</b>
<b>EXPENDITURES</b>				
Current:				
General government	276,730	276,730	260,673	16,057
Public safety-police	195,264	195,264	206,370	(11,106)
Public works-streets	99,000	99,000	141,967	(42,967)
Public works-sanitation	133,000	133,000	139,490	(6,490)
Standing Committees	700	700	1,500	(800)
Youth Center	28,000	28,000	16,813	11,187
Capital outlay	15,748	15,748	23,793	(8,045)
Debt service	53,900	53,900	52,628	1,272
<b>Total expenditures</b>	<b>802,342</b>	<b>802,342</b>	<b>843,234</b>	<b>(40,892)</b>
<b>EXCESS (DEFICIT)</b>				
<b>REVENUES OVER EXPENDITURES</b>	<b>(56,000)</b>	<b>(56,000)</b>	<b>(8,665)</b>	<b>47,335</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from new financing	...	...	...	...
Proceeds from sale of capital assets	...	...	2,806	2,806
Operating transfers in (out)	12,000	12,000	51,540	39,540
<b>Total other financing sources (uses)</b>	<b>12,000</b>	<b>12,000</b>	<b>54,346</b>	<b>42,346</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(44,000)</b>	<b>(44,000)</b>	<b>45,681</b>	<b>89,681</b>
<b>FUND BALANCE</b>				
Beginning of year	44,000	44,000	48,671	4,671
End of year	\$ ...	\$ ...	\$ 94,352	\$ 94,352

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City annually adopts a budget for the general fund financial statements. The budgets are integrated into the accounting system, and the budgetary data, as presented in the financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. The budgets for the governmental funds are presented on the modified accrual basis of accounting. Accordingly, the accompanying budgetary comparison schedule for the general fund presents actual expenditures in accordance with the U.S. generally accepted accounting principles on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

Material Violations

There were no material violations of the annual appropriated budget of the general fund for fiscal year 2007.

See Report of Independent Auditor

## **Additional Information Section**

**CITY OF DELAWARE CITY, DELAWARE**  
 COMBINING BALANCE SHEET-SPECIAL REVENUE FUND  
 June 30, 2007 With Comparative Totals for 2006

	Federal Funding	State Funding			Local Funding	Revolving Loan Fund	Totals	
		Municipal Street Aid	SALLE and EIDE	Other			2007	2006
<b>ASSETS</b>								
<b>ASSETS</b>								
Cash and equivalents	\$ ...	\$ 28	\$ ...	\$ ...	\$ ...	\$ 16,943	\$ 16,971	\$ 11,751
Due from other governments	27,063	...	...	279,642	...	...	306,705	323,500
Note receivable	...	...	...	...	...	66,593	66,593	61,618
Interfund balances	(10,776)	...	...	(227,651)	...	...	(238,427)	(305,223)
<b>TOTAL ASSETS</b>	<u>\$ 16,287</u>	<u>\$ 28</u>	<u>\$ ...</u>	<u>\$ 51,991</u>	<u>\$ ...</u>	<u>\$ 83,536</u>	<u>\$ 151,842</u>	<u>\$ 91,646</u>
<b>LIABILITIES AND FUND BALANCES</b>								
<b>LIABILITIES</b>								
Contract payable	\$ 14,312	\$ ...	\$ ...	\$ 47,501	\$ ...	\$ ...	\$ 61,813	\$ ...
Refundable advances and deposits	1,975	...	...	4,490	...	...	6,465	19,362
<b>Total liabilities</b>	<u>16,287</u>	<u>...</u>	<u>...</u>	<u>51,991</u>	<u>...</u>	<u>...</u>	<u>68,278</u>	<u>19,362</u>
<b>FUND BALANCES</b>								
Reserved for note receivable	...	...	...	...	...	66,593	66,593	61,618
Reserved for specific programs	...	28	...	...	...	16,943	16,971	10,666
<b>Total fund balances</b>	<u>..</u>	<u>28</u>	<u>..</u>	<u>..</u>	<u>..</u>	<u>83,536</u>	<u>83,564</u>	<u>72,284</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 16,287</u>	<u>\$ 28</u>	<u>\$ ...</u>	<u>\$ 51,991</u>	<u>\$ ...</u>	<u>\$ 83,536</u>	<u>\$ 151,842</u>	<u>\$ 91,646</u>

See Report of Independent Auditor

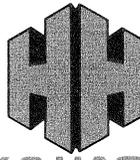
**CITY OF DELAWARE CITY, DELAWARE**

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-SPECIAL REVENUE FUND  
Year Ended June 30, 2007 With Comparative Totals for 2006

	State Funding				Local Funding	Revolving Loan Fund	Totals	
	Federal Funding	Municipal Street Aid	SALLE and EIDE	Other			2007	2006
<b>REVENUES</b>								
Intergovernmental revenues:								
Federal	\$ 208,547	\$ ...	\$ ...	\$ ...	\$ ...	\$ 12,000	\$ 220,547	\$ 94,485
State	...	47,224	23,177	218,580	...	...	288,981	427,207
Local	...	...	...	...	...	...	...	5,000
Interest revenue	...	629	...	...	...	5,983	6,612	4,945
<b>Total revenues</b>	<b>208,547</b>	<b>47,853</b>	<b>23,177</b>	<b>218,580</b>	<b>...</b>	<b>17,983</b>	<b>516,140</b>	<b>531,637</b>
<b>EXPENDITURES</b>								
Current:								
Public safety-police	...	...	22,695	2,239	...	...	24,934	12,315
Public works-streets	3,888	25,132	...	...	...	...	29,020	27,491
Public works-sanitation	...	...	...	...	...	...	...	133
Parks and recreation	5,000	...	...	2,430	...	...	7,430	15,202
Youth Center	22,221	...	...	35,225	...	...	57,446	86,631
Capital outlay:								
Public safety-police	...	...	482	...	...	...	482	1,579
Public works-streets	48,000	...	...	8,606	...	...	56,606	48,723
Health and welfare	...	...	...	...	...	...	...	117,913
Parks and recreation	129,438	...	...	188,856	...	...	318,294	193,498
Youth Center	...	...	...	...	...	...	...	...
Debt service:								
Principal	...	10,562	...	...	...	4,532	15,094	19,259
Interest and other fees	...	12,131	...	...	...	2,199	14,330	11,593
<b>Total expenditures</b>	<b>208,547</b>	<b>47,825</b>	<b>23,177</b>	<b>237,356</b>	<b>...</b>	<b>6,731</b>	<b>523,636</b>	<b>534,337</b>
<b>EXCESS REVENUES OVER (UNDER) EXPENDITURES</b>	<b>...</b>	<b>28</b>	<b>...</b>	<b>(18,776)</b>	<b>...</b>	<b>11,252</b>	<b>(7,496)</b>	<b>(2,700)</b>
<b>OTHER FINANCING SOURCES (USES)</b>								
Operating transfers in	...	...	...	18,776	...	...	18,776	26
Operating transfers out	...	...	...	...	...	...	...	...
<b>Total other financing sources (uses)</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>18,776</b>	<b>...</b>	<b>...</b>	<b>18,776</b>	<b>26</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>...</b>	<b>28</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>11,252</b>	<b>11,280</b>	<b>(2,674)</b>
<b>FUND BALANCES</b>								
Beginning of year	...	...	...	...	...	72,284	72,284	74,958
End of year	\$ ...	\$ 28	\$ ...	\$ ...	\$ ...	\$ 83,536	\$ 83,564	\$ 72,284

See Report of Independent Auditor

**Reports Required by  
Government Auditing Standards**



**HAGGERTY & HAGGERTY, P.A.**

**CERTIFIED PUBLIC ACCOUNTANTS  
& MANAGEMENT CONSULTANTS**

James R. Zdimal, CPA†  
Vincent S. Barbone, CPA, CFE\*†

American Institute of CPA  
Pennsylvania Institute of CPA\*  
Delaware Society of CPA†  
Private Companies Practice Section

**Report of Independent Auditor  
on Internal Control over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of the Financial Statements  
Performed in Accordance with Government Auditing Standards**

To Mayor and City Council  
**City of Delaware City**  
Delaware City, Delaware

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Delaware City, Delaware, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated November 9, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

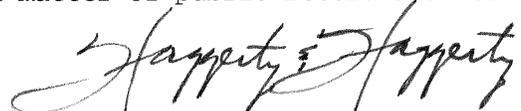
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Delaware City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Mayor and City Council, management, the State of Delaware, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

  
Certified Public Accountants

November 9, 2007  
Wilmington, Delaware

**CITY OF DELAWARE CITY, DELAWARE**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2007

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**SUMMARY OF AUDITOR'S RESULTS**

1. The report of independent auditor expresses an unqualified opinion on the City of Delaware City's financial statements.
2. No deficiencies in the internal control [considered material weaknesses] were identified during the audit of the basic financial statements of the City of Delaware City.
3. No instances of noncompliance material to the basic financial statements of the City of Delaware City were disclosed during the audit.

**FINDINGS-INTERNAL CONTROL OVER FINANCIAL REPORTING**

None.

**FINDINGS-COMPLIANCE AND OTHER MATTERS**

None.