

Report of Independent Auditor

CITY OF DELAWARE CITY
Delaware City, Delaware

Year Ended June 30, 2005

CITY OF DELAWARE CITY, DELAWARE

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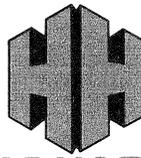
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HAGGERTY & HAGGERTY, P.A.

**CERTIFIED PUBLIC ACCOUNTANTS
& MANAGEMENT CONSULTANTS**

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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, 2005 and 2004, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2005 and 2004, 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 October 6, 2005 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 32 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

October 6, 2005
Wilmington, Delaware

Basic Financial Statements Section

CITY OF DELAWARE CITY, DELAWARE
STATEMENTS OF NET ASSETS
June 30, 2005 and 2004

	2005			Discretely Presented Component Unit	2004			Discretely Presented Component Unit
	Primary Government				Primary Government			
	Activity Type				Activity Type			
	Governmental	Business	Total		Governmental	Business	Total	
ASSETS								
Current assets:								
Cash and equivalents	\$ 350,519	\$...	\$ 350,519	\$ 6,381	\$ 585,561	\$...	\$ 585,561	\$ 3,561
Investments at fair value	8,045	...	8,045	...	...	...	...	...
Receivables, net:								
Taxes	4,667	...	4,667	...	6,248	...	6,248	...
Trade accounts	...	15,628	15,628	...	...	14,019	14,019	...
Other	3,561	...	3,561	...	869	...	869	...
Due from other governments	228,738	...	228,738	...	420,215	...	420,215	...
Note receivable due within one year	7,019	...	7,019	...	6,600	...	6,600	...
Prepayments and other assets	...	...	...	6,488	...	...	...	2,821
Total current assets	602,549	15,628	618,177	12,869	1,019,493	14,019	1,033,512	6,382
Noncurrent assets:								
Note receivable due after one year	61,840	...	61,840	...	67,558	...	67,558	...
Capital assets, net:								
Nondepreciable	1,334,141	18,331	1,352,472	...	5,987,443	18,331	6,005,774	...
Depreciable	5,141,279	1,447,405	6,588,684	...	67,818	1,515,993	1,583,811	...
Total noncurrent assets	6,537,260	1,465,736	8,002,996	...	6,122,819	1,534,324	7,657,143	...
TOTAL ASSETS	7,139,809	1,481,364	8,621,173	12,869	7,142,312	1,548,343	8,690,655	6,382
LIABILITIES								
Current liabilities:								
Lines of credit	370,000	...	370,000	...	390,250	...	390,250	...
Accounts payable	13,257	...	13,257	...	149,139	...	149,139	...
Accrued interest payable	...	3,511	3,511	...	...	3,600	3,600	...
Current portion of long-term debt	81,100	22,152	103,252	...	75,920	21,904	97,824	...
Payroll deductions and withholdings	8,533	...	8,533	...	3,130	...	3,130	...
Due to other governments	...	...	...	3,500	...	...	...	...
Deferred revenues due within one year	4,204	...	4,204	3,175	158,265	...	158,265	...
Refundable advances and deposits	28,631	4,422	33,053	...	57,702	2,900	60,602	...
Total current liabilities	505,725	30,085	535,810	6,675	834,406	28,404	862,810	...
Noncurrent liabilities:								
Long-term debt, net of current portion	436,082	712,444	1,148,526	...	491,899	734,584	1,226,483	...
Long-term portion of compensated absences	12,575	...	12,575	...	8,013	...	8,013	...
Total noncurrent liabilities	448,657	712,444	1,161,101	...	499,912	734,584	1,234,496	...
TOTAL LIABILITIES	954,382	742,529	1,696,911	6,675	1,334,318	762,988	2,097,306	...
NET ASSETS								
Invested in capital assets, net of related debt	5,958,238	731,140	6,689,378	...	5,487,442	777,836	6,265,278	...
Restricted for specific programs	68,859	...	68,859	6,194	74,158	...	74,158	6,382
Unrestricted	158,330	7,695	166,025	...	246,394	7,519	253,913	...
TOTAL NET ASSETS	\$ 6,185,427	\$ 738,835	\$ 6,924,262	\$ 6,194	\$ 5,807,994	\$ 785,355	\$ 6,593,349	\$ 6,382

Accompanying notes are an integral part of these financial statements

CITY OF DELAWARE CITY, DELAWARE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

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	
GOVERNMENTAL ACTIVITIES								
General government	\$ 271,441	\$ 5,216	\$ 18,824	\$...	\$ (247,401)	\$...	\$ (247,401)	\$...
Public safety-police	168,713	9,502	11,048	21,296	(126,867)	...	(126,867)	...
Public works-streets	377,328	...	58,412	665,412	346,496	...	346,496	...
Public works-sanitation	143,507	6,401	3,720	...	(133,386)	...	(133,386)	...
Parks and recreation	25,525	...	12,860	...	(12,665)	...	(12,665)	...
Standing Committees	196	...	...	...	(196)	...	(196)	...
Youth Center	135,632	1,175	82,212	61,904	9,659	...	9,659	...
Interest on long-term debt	31,498	...	...	...	(31,498)	...	(31,498)	...
Depreciation-unallocated	174,866	...	...	...	(174,866)	...	(174,866)	...
Total governmental activities	1,328,706	22,294	187,076	748,612	(370,724)	...	(370,724)	...
BUSINESS-TYPE ACTIVITIES								
Water system	333,324	281,377	...	...	...	(51,947)	(51,947)	...
Total business-type activities	333,324	281,377	...	...	...	(51,947)	(51,947)	...
TOTAL PRIMARY GOVERNMENT	1,662,030	303,671	187,076	748,612	(370,724)	(51,947)	(422,671)	...
DISCRETELY PRESENTED COMPONENT UNIT	45,777	10,362	35,063	...	...	...	...	(352)
TOTAL PRIMARY GOV'T AND COMPONENT UNIT	\$ 1,707,807	\$ 314,033	\$ 222,139	\$ 748,612	(370,724)	(51,947)	(422,671)	(352)
GENERAL REVENUES AND TRANSFERS								
Property taxes levied for general purposes, net					599,535	...	599,535	...
Investment earnings and rents					76,288	...	76,288	164
Gain from sale of capital assets					21,900	...	21,900	...
Miscellaneous revenues					55,861	...	55,861	...
Transfers between governmental, BT activities					(5,427)	5,427	...	...
Total general revenues and transfers					748,157	5,427	753,584	164
CHANGE IN NET ASSETS (LIABILITIES)					377,433	(46,520)	330,913	(188)
NET ASSETS								
Beginning of year					<u>5,807,994</u>	<u>785,355</u>	<u>6,593,349</u>	<u>6,382</u>
End of year					<u>\$ 6,185,427</u>	<u>\$ 738,835</u>	<u>\$ 6,924,262</u>	<u>\$ 6,194</u>

Accompanying notes are an integral part of these financial statements

CITY OF DELAWARE CITY, DELAWARE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

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	
GOVERNMENTAL ACTIVITIES								
General government	\$ 270,845	\$ 1,325	\$ 9,379	\$...	\$ (260,141)	\$...	\$ (260,141)	\$...
Public safety-police	188,418	12,479	12,049	...	(163,890)	...	(163,890)	...
Public works-streets	594,337	...	59,251	1,084,500	549,414	...	549,414	...
Public works-sanitation	127,692	6,383	...	...	(121,309)	...	(121,309)	...
Parks and recreation	6,335	...	...	...	(6,335)	...	(6,335)	...
Standing Committees	394	...	...	...	(394)	...	(394)	...
Youth Center	111,900	6,373	81,148	...	(24,379)	...	(24,379)	...
Interest on long-term debt	33,687	...	...	...	(33,687)	...	(33,687)	...
Depreciation-unallocated	21,158	...	...	...	(21,158)	...	(21,158)	...
Total governmental activities	1,354,766	26,560	161,827	1,084,500	(81,879)	...	(81,879)	...
BUSINESS-TYPE ACTIVITIES								
Water system	352,866	229,477	...	...	...	(123,389)	(123,389)	...
Total business-type activities	352,866	229,477	...	...	...	(123,389)	(123,389)	...
TOTAL PRIMARY GOVERNMENT	1,707,632	256,037	161,827	1,084,500	(81,879)	(123,389)	(205,268)	...
DISCRETELY PRESENTED COMPONENT UNIT	47,232	1,800	43,101	...	...	...	...	(2,331)
TOTAL PRIMARY GOV'T AND COMPONENT UNIT	\$ 1,754,864	\$ 257,837	\$ 204,928	\$ 1,084,500	(81,879)	(123,389)	(205,268)	(2,331)
GENERAL REVENUES AND TRANSFERS								
Property taxes levied for general purposes, net					775,610	...	775,610	...
Investment earnings and rents					68,011	...	68,011	74
Gain from sale of capital assets					110,317	...	110,317	...
Miscellaneous revenues					24,848	...	24,848	...
Donated Community Center improvements					1,975,000	...	1,975,000	...
Transfers between governmental, BT activities					(65,481)	65,481	...	74
Total general revenues and transfers					2,888,305	65,481	2,953,786	74
CHANGE IN NET ASSETS (LIABILITIES)					2,806,426	(57,908)	2,748,518	(2,257)
NET ASSETS								
Beginning of year, restated (Note 12)					<u>3,001,568</u>	<u>843,263</u>	<u>3,844,831</u>	<u>8,639</u>
End of year					<u>\$ 5,807,994</u>	<u>\$ 785,355</u>	<u>\$ 6,593,349</u>	<u>\$ 6,382</u>

Accompanying notes are an integral part of these financial statements

CITY OF DELAWARE CITY, DELAWARE
BALANCE SHEETS-GOVERNMENTAL FUNDS
June 30, 2005 and 2004

	2005			2004		
	Governmental Fund Types			Governmental Fund Types		
	General	Special Revenue	Total	General	Special Revenue	Total
ASSETS						
ASSETS						
Cash and equivalents	\$ 337,938	\$ 12,581	\$ 350,519	\$ 558,923	\$ 26,638	\$ 585,561
Investments at fair value	8,045	...	8,045	...	...	...
Receivables, net:						
Taxes	4,667	...	4,667	6,248	...	6,248
Other	3,561	...	3,561	869	...	869
Note receivable	...	68,859	68,859	...	74,158	74,158
Due from other governments	...	228,738	228,738	...	420,215	420,215
Interfund receivables	206,589	...	206,589	389,449	...	389,449
TOTAL ASSETS	<u>\$ 560,800</u>	<u>\$ 310,178</u>	<u>\$ 870,978</u>	<u>\$ 955,489</u>	<u>\$ 521,011</u>	<u>\$1,476,500</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Lines of credit	\$ 370,000	\$...	\$ 370,000	\$ 390,250	\$...	\$ 390,250
Accounts payable	13,257	...	13,257	149,139	...	149,139
Payroll deductions and withholdings	8,533	...	8,533	3,130	...	3,130
Interfund payables	...	206,589	206,589	...	389,449	389,449
Deferred revenues	4,204	...	4,204	158,265	...	158,265
Refundable advances and deposits	...	28,631	28,631	3,614	54,088	57,702
Total liabilities	<u>395,994</u>	<u>235,220</u>	<u>631,214</u>	<u>704,398</u>	<u>443,537</u>	<u>1,147,935</u>
FUND BALANCES						
Reserved for note receivable	...	68,859	68,859	...	74,158	74,158
Unreserved	164,806	6,099	170,905	251,091	3,316	254,407
Total fund balances	<u>164,806</u>	<u>74,958</u>	<u>239,764</u>	<u>251,091</u>	<u>77,474</u>	<u>328,565</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 560,800</u>	<u>\$ 310,178</u>	<u>\$ 870,978</u>	<u>\$ 955,489</u>	<u>\$ 521,011</u>	<u>\$1,476,500</u>

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, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Amounts reported for governmental activities in the statement of net assets are different because:		
Total fund balances-governmental funds	\$ 239,764	\$ 328,565
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 \$6,755,855 for 2005 and \$6,193,488 for 2004 and the related accumulated depreciation is \$280,435 for 2005 and \$138,227 for 2004.	6,475,420	6,055,261
Long-term liabilities are not due and payable within the current period and therefore are not reported as liabilities in the governmental funds.	(517,182)	(567,819)
Compensated absences are not due and payable within the current period and therefore are not reported in the governmental funds.	<u>(12,575)</u>	<u>(8,013)</u>
Total net assets-governmental activities	<u>\$ 6,185,427</u>	<u>\$ 5,807,994</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, 2005 and 2004

	2005			2004		
	Governmental Fund Types			Governmental Fund Types		
	General	Special Revenue	Total	General	Special Revenue	Total
REVENUES						
Taxes:						
Real estate taxes	\$ 499,010	\$...	\$ 499,010	\$ 479,002	\$...	\$ 479,002
Real estate transfer taxes	96,014	...	96,014	291,150	...	291,150
Cable franchise taxes	4,511	...	4,511	5,458	...	5,458
Licenses and permits	4,845	...	4,845	930	...	930
Intergovernmental revenues:						
Federal	17,824	229,634	247,458	...	330,507	330,507
State	...	685,321	685,321	9,379	906,441	915,820
Local	...	1,000	1,000	...	20,000	20,000
Police fines	9,502	...	9,502	12,479	...	12,479
Charges for services	7,947	...	7,947	13,151	...	13,151
Interest and rents	71,675	4,613	76,288	63,746	4,265	68,011
Contributions	1,909	...	1,909	4,118	...	4,118
Miscellaneous revenues	55,861	...	55,861	730	...	730
Total revenues	769,098	920,568	1,689,666	880,143	1,261,213	2,141,356
EXPENDITURES						
Current:						
General governments	266,898	...	266,898	268,202	...	268,202
Public safety-police	159,425	8,654	168,079	177,336	11,254	188,590
Public works-streets	127,924	28,810	156,734	113,840	32,302	146,142
Public works-sanitation	139,787	3,720	143,507	124,360	3,332	127,692
Parks and recreation	...	25,525	25,525	...	6,335	6,335
Standing Committees	196	...	196	394	...	394
Youth Center	55,944	80,303	136,247	28,193	83,815	112,008
Capital outlay	88,951	729,268	818,219	43,983	1,549,722	1,593,705
Debt service:						
Principal	57,034	26,503	83,537	51,663	28,754	80,417
Interest and other fees	21,270	10,228	31,498	28,465	5,223	33,688
Total expenditures	917,429	913,011	1,830,440	836,436	1,720,737	2,557,173
EXCESS (DEFICIT) REVENUES OVER EXPENDITURES	(148,331)	7,557	(140,774)	43,707	(459,524)	(415,817)
OTHER FINANCING SOURCES (USES)						
Proceeds from new financing	12,567	...	12,567	450,000	...	450,000
Capital lease arrangement	20,333	...	20,333	27,624	...	27,624
Proceeds from sale of capital assets	24,500	...	24,500	146,634	...	146,634
Transfers in (out)	4,646	(10,073)	(5,427)	(522,242)	456,761	(65,481)
Total other financing sources (uses)	62,046	(10,073)	51,973	102,016	456,761	558,777
NET CHANGE IN FUND BALANCES	(86,285)	(2,516)	(88,801)	145,723	(2,763)	142,960
FUND BALANCES						
Beginning of year	251,091	77,474	328,565	105,368	80,237	185,605
End of year	\$ 164,806	\$ 74,958	\$ 239,764	\$ 251,091	\$ 77,474	\$ 328,565

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, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balance-total governmental funds	\$ (88,801)	\$ 142,960
Government funds report capital outlay as expenditures. However, in the statement of activities, assets with an initial 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.		
	<u>2005</u>	<u>2004</u>
Capital Outlay	\$ 597,625	\$1,145,510
Community Center	...	1,975,000
Depreciation Expense	<u>(174,866)</u>	<u>(21,158)</u>
	422,759	3,099,352
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:		
	<u>2005</u>	<u>2004</u>
Long-term financing:		
Proceeds received	\$ (12,567)	\$ (450,000)
Principal payments made	<u>67,707</u>	<u>70,712</u>
	55,140	(379,288)
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.		
	<u>2005</u>	<u>2004</u>
Capital lease:		
Proceeds	\$ (20,333)	\$ (27,624)
Principal payments	<u>15,830</u>	<u>9,705</u>
	(4,503)	(17,919)
Some expenses reported in the statement of activities do not require current financial resources and, therefore, are not reported as expenditures in governmental funds.		
	<u>2005</u>	<u>2004</u>
Capital assets:		
Proceeds from sale	\$ (24,500)	\$ (146,634)
Gain from sale	<u>21,900</u>	<u>110,317</u>
	(2,600)	(36,317)
In the statement of activities, certain operating expenses such as compensated absences (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.	<u>(4,562)</u>	<u>(2,362)</u>
Change in net assets-governmental activities	\$ 377,433	\$ 2,806,426

Accompanying notes are an integral part of these financial statements

CITY OF DELAWARE CITY, DELAWARE
STATEMENTS OF NET ASSETS-PROPRIETARY FUND
June 30, 2005 and 2004

ASSETS	Water Fund	
	2005	2004
CURRENT ASSETS		
Cash and equivalents	\$...	\$...
Accounts receivable, net	15,628	14,019
Total current assets	15,628	14,019
NONCURRENT ASSETS		
Capital assets, net:		
Nondepreciable	18,331	18,331
Depreciable	1,447,405	1,515,993
Total noncurrent assets	1,465,736	1,534,324
TOTAL ASSETS	1,481,364	1,548,343
LIABILITIES		
CURRENT LIABILITIES		
Accrued interest payable	3,511	3,600
Current portion of long-term debt	22,152	21,904
Refundable deposits	4,422	2,900
Total current liabilities	30,085	28,404
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	712,444	734,584
TOTAL LIABILITIES	742,529	762,988
NET ASSETS		
Invested in capital assets, net of related debt	731,140	777,836
Unrestricted	7,695	7,519
TOTAL NET ASSETS	\$ 738,835	\$ 785,355

Accompanying notes are an integral part of these financial statements

CITY OF DELAWARE CITY, DELAWARESTATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS-PROPRIETARY FUND
Years Ended June 30, 2005 and 2004

	Water Fund	
	2005	2004
OPERATING REVENUES		
Charges for services	\$ 261,890	\$ 217,116
OPERATING EXPENSES		
Salaries	42,464	44,041
Payroll taxes	3,521	3,603
Employee benefits	9,779	9,401
Contractual services	37,543	37,463
Insurance	17,017	16,882
Telephone	140	4,363
Electricity	19,960	19,640
Professional fees	12,919	14,907
Distribution system maintenance	34,213	29,576
Office supplies	316	1,206
Materials and supplies	1,381	2,516
Fuel for heating	895	988
Miscellaneous	400	663
Bad debt expense	...	13,422
Depreciation	115,575	115,872
Total operating expenses	<u>296,123</u>	<u>314,543</u>
OPERATING INCOME (LOSS)	<u>(34,233)</u>	<u>(97,427)</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest expense	(37,201)	(38,323)
Miscellaneous revenues	19,487	12,361
Total non-operating revenues (expenses)	<u>(17,714)</u>	<u>(25,962)</u>
INCOME (LOSS) BEFORE OTHER FINANCING SOURCES (USES)	<u>(51,947)</u>	<u>(123,389)</u>
TRANSFERS FROM GOVERNMENTAL ACTIVITIES	<u>5,427</u>	<u>65,481</u>
CHANGE IN NET ASSETS (LIABILITIES)	<u>(46,520)</u>	<u>(57,908)</u>
NET ASSETS		
Beginning of year	<u>785,355</u>	<u>843,263</u>
End of year	<u>\$ 738,835</u>	<u>\$ 785,355</u>

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, 2005 and 2004

	Water Fund	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 281,290	\$ 230,377
Cash payments to suppliers for goods and services	(124,784)	(128,204)
Cash payments to employees for services	(55,764)	(57,045)
Net cash provided (used) by operating activities	<u>100,742</u>	<u>45,128</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(46,987)	...
Principal paid on general obligation bonds and notes	(21,892)	(21,192)
Interest paid on general obligation bonds and notes	(37,290)	(38,323)
Cash received from governmental activities	5,427	14,387
Net cash provided (used) by capital and related financing activities	<u>(100,742)</u>	<u>(45,128)</u>
NET INCREASE IN CASH AND EQUIVALENTS	...	...
CASH AND EQUIVALENTS		
Beginning of year	...	...
End of year	<u>\$...</u>	<u>\$...</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (34,233)	\$ (97,427)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	115,575	115,872
Other non-operating revenues	19,487	12,361
Change in assets and liabilities:		
Receivables	(1,609)	13,422
Refundable deposits	1,522	900
Total adjustments	<u>134,975</u>	<u>142,555</u>
Net cash provided from operating activities	<u>\$ 100,742</u>	<u>\$ 45,128</u>

Accompanying notes are an integral part of these financial statements

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.

In June 1999, the GASB unanimously approved Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- Inclusion of Management's Discussion and Analysis (MD&A) Section which provides an analysis of the City's overall financial position and results of operations. Management has elected not to include the MD&A.
- Financial statements are prepared using full-accrual accounting for all of the City's activities.
- Change in the fund financial statements to focus on major funds.

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.

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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".

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 water.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-Wide and Fund Financial Statements (continued)

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.

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 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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 or expenditures during the reporting period. Actual results could differ from those estimates.

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

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 consists 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 liquidated during fiscal year 2006.

Receivable-Taxes

At June 30, 2005 and 2004, taxes receivable are shown net of estimated uncollectible allowances of \$25,982 and \$31,006, 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, 2005 and 2004, trade accounts receivable are shown net of estimated uncollectible allowances of \$35,280 and \$51,424, 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, 2005 and 2004, the City had no such activity.

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

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 2005 and 2004, no interest was capitalized.

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

<u>Assets</u>	<u>Years</u>
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 the implementation of GASB 34, the City is for the first time 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 the fiscal year-end. However, the government-wide financial statements do not reflect those infrastructure assets completed prior to July 1, 2003. From this point forward, new infrastructure assets will be added to the records.

The infrastructure assets capitalized during fiscal year 2004, the initial year of implementation, are reflected as construction in progress since the infrastructure capital assets were not completed as of June 30, 2004.

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. In the general fund at June 30, 2005 and 2004, deferred revenues consist of \$4,204 and \$1,062 of various revenue sources, and \$0 and \$157,203 of real estate taxes received in advance, respectively.

Refundable Advances

Grant awards accounted for as exchange transactions, the City records 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

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, 2005 and 2004, 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 - REAL ESTATE TAXES

The tax on real estate in the City area for fiscal years 2005 and 2004 was 99 cents per \$100 of assessed valuation as levied by City Council. The City bills and collects its own real estate taxes. The delinquent taxes are levied by the City.

The schedule of real estate taxes levied for the fiscal years 2005 and 2004 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, 2005 and 2004. 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:

<u>Description</u>	<u>2005</u>		<u>2004</u>	
	<u>Book</u>	<u>Bank</u>	<u>Book</u>	<u>Bank</u>
Category 1	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Category 2	250,019	259,608	485,061	473,527
Category 3	<u>500</u>	<u>...</u>	<u>500</u>	<u>...</u>
Totals	<u>\$ 350,519</u>	<u>\$ 359,608</u>	<u>\$ 585,561</u>	<u>\$ 573,527</u>

NOTE 4 - NOTE RECEIVABLE

Note receivable issued on April 1, 2002 consists of a loan made by the "Revolving Loan Fund" for the Façade Improvement Program. At June 30, 2005 and 2004, the receivable consisted of one note which is payable in monthly installments of \$848.52. The note carries a fixed interest rate of 5.00% and is secured with the real property of the borrower. The note matures May 1, 2013.

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

Primary government receivables due from other governmental units represent revenues earned by the City. At June 30, 2005 and 2004, the receivables consist of:

<u>Description</u>	<u>Activity Type</u>			
	<u>2005</u>		<u>2004</u>	
	<u>Governmental</u>	<u>Business</u>	<u>Governmental</u>	<u>Business</u>
Delaware Department of Transportation	\$ 275,914	\$...	\$ 216,574	\$...
Federal Homeland Security Agency	62,944	...	...	...
Delaware Criminal Justice Council	18,592	...	...	...
Delaware Emergency Management Agency	10,241	...	...	...
Various other State agencies	<u>52,524</u>	<u>...</u>	<u>12,164</u>	<u>...</u>
Total intergovernmental receivables	<u>\$ 420,215</u>	<u>\$...</u>	<u>\$ 228,738</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, 2005 follows:

Description	Beginning Balances	Additions	Deletions	Ending Balances
Governmental activities:				
Capital assets, not depreciated:				
Land	\$ 127,237	\$ 294,500	\$...	\$ 421,737
Construction in progress:				
Buildings and improvements	4,182,436	58,478	4,240,914	...
Vehicles and equipment	72,361	81,978	136,574	17,765
Streets and sidewalks	975,929	159,110	1,135,039	...
Trees, trails and landscape	629,480	265,159	...	894,639
Total capital assets, not being depreciated	<u>5,987,443</u>	<u>859,225</u>	<u>5,512,527</u>	<u>1,334,141</u>
Capital assets, being depreciated:				
Buildings and improvements	66,495	3,959,444	...	4,025,939
Furniture and office equipment	41,632	29,887	23,258	48,261
Vehicles and equipment	97,918	126,557	12,000	212,475
Streets and sidewalks	...	1,135,039	...	1,135,039
Trees, trails and landscape	...	...	...	...
Total being depreciated	<u>206,045</u>	<u>5,250,927</u>	<u>35,258</u>	<u>5,421,714</u>
Less accumulated depreciation:				
Buildings and improvements	52,564	85,108	...	137,672
Furniture and office equipment	30,885	7,888	23,258	15,515
Vehicles and equipment	54,778	25,118	9,400	70,496
Streets and sidewalks	...	56,752	...	56,752
Trees, trails and landscape	...	...	...	...
Total accumulated depr.	<u>138,227</u>	<u>174,866</u>	<u>32,658</u>	<u>280,435</u>
Total capital assets, being depreciated	<u>67,818</u>	<u>5,076,061</u>	<u>2,600</u>	<u>5,141,279</u>
Governmental activities capital assets, net	<u>\$ 6,055,261</u>	<u>\$ 5,935,286</u>	<u>\$ 5,515,127</u>	<u>\$ 6,475,420</u>
Business-type activities:				
Capital assets, not depreciated:				
Land	\$ 18,331	\$...	\$...	\$ 18,331
Construction in progress	...	...	...	...
Total capital assets, not being depreciated	<u>18,331</u>	<u>...</u>	<u>...</u>	<u>18,331</u>
Capital assets, being depreciated:				
Buildings and improvements	412,918	...	...	412,918
Water distribution system	2,392,084	46,987	...	2,439,071
Machinery and equipment	34,760	...	...	34,760
Total being depreciated	<u>2,839,762</u>	<u>46,987</u>	<u>...</u>	<u>2,886,749</u>
Less accumulated depreciation:				
Buildings and improvements	247,750	10,323	...	258,073
Water distribution system	1,041,259	105,252	...	1,146,511
Machinery and equipment	34,760	...	...	34,760
Total accumulated depr.	<u>1,323,769</u>	<u>115,575</u>	<u>...</u>	<u>1,439,344</u>
Total capital assets, being depreciated	<u>1,515,993</u>	<u>(68,588)</u>	<u>...</u>	<u>1,447,405</u>
Business-type activities capital assets, net	<u>\$ 1,534,324</u>	<u>\$ (68,588)</u>	<u>\$...</u>	<u>\$ 1,465,736</u>

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - CAPITAL ASSETS (continued)

Capital assets activity for the year ended June 30, 2004 follows:

Description	Beginning Balances	Additions	Deletions	Ending Balances
Governmental activities:				
Capital assets, not depreciated:				
Land	\$ 162,287	\$...	\$ 35,050	\$ 127,237
Construction in progress:				
Buildings and improvements	2,124,596	2,057,840	...	4,182,436
Vehicles and equipment	...	72,361	...	72,361
Streets and sidewalks	320,780	655,149	...	975,929
Trees, trails and landscape	330,561	298,919	...	629,480
Total capital assets, not being depreciated	<u>2,938,224</u>	<u>3,084,269</u>	<u>35,050</u>	<u>5,987,443</u>
Capital assets, being depreciated:				
Buildings and improvements	64,969	1,526	...	66,495
Furniture and office equipment	34,541	7,091	...	41,632
Vehicles and equipment	118,320	27,624	48,026	97,918
Streets and sidewalks	...	...	...	...
Trees, trails and landscape	...	...	...	...
Total being depreciated	<u>217,830</u>	<u>36,241</u>	<u>48,026</u>	<u>206,045</u>
Less accumulated depreciation:				
Buildings and improvements	50,485	2,079	...	52,564
Furniture and office equipment	27,452	3,433	...	30,885
Vehicles and equipment	85,891	15,646	46,759	54,778
Streets and sidewalks	...	...	...	...
Trees, trails and landscape	...	...	...	...
Total accumulated depr.	<u>163,828</u>	<u>21,158</u>	<u>46,759</u>	<u>138,227</u>
Total capital assets, being depreciated	<u>54,002</u>	<u>15,083</u>	<u>1,267</u>	<u>67,818</u>
Governmental activities capital assets, net	<u>\$ 2,992,226</u>	<u>\$ 3,099,352</u>	<u>\$ 36,317</u>	<u>\$ 6,055,261</u>
Business-type activities:				
Capital assets, not depreciated:				
Land	\$ 18,331	\$...	\$...	\$ 18,331
Construction in progress	...	...	...	...
Total capital assets, not being depreciated	<u>18,331</u>	<u>...</u>	<u>...</u>	<u>18,331</u>
Capital assets, being depreciated:				
Buildings and improvements	412,918	...	...	412,918
Water distribution system	2,392,084	...	...	2,392,084
Machinery and equipment	34,760	...	...	34,760
Total being depreciated	<u>2,839,762</u>	<u>...</u>	<u>...</u>	<u>2,839,762</u>
Less accumulated depreciation:				
Buildings and improvements	237,427	10,323	...	247,750
Water distribution system	935,710	105,549	...	1,041,259
Machinery and equipment	34,760	...	...	34,760
Total accumulated depr.	<u>1,207,897</u>	<u>115,872</u>	<u>...</u>	<u>1,323,769</u>
Total capital assets, being depreciated	<u>1,631,865</u>	<u>(115,872)</u>	<u>...</u>	<u>1,515,993</u>
Business-type activities capital assets, net	<u>\$ 1,650,196</u>	<u>\$ (115,872)</u>	<u>\$...</u>	<u>\$ 1,534,324</u>

NOTE 7 - ECONOMIC DEPENDENCY

A substantial portion of Delaware City's annual real estate 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, 2005				
	Beginning Balances	Additions	Deletions	Ending Balances	
				Long-term Portion	Due Within One Year
Governmental Activities:					
General obligation notes:					
Note No. 1	\$ 70,100	\$...	\$ 10,620	\$ 47,916	\$ 11,564
Note No. 2	3,124	...	3,124	...	...
Note No. 3	3,533	...	3,017	...	516
Note No. 4	45,643	...	4,003	37,340	4,300
Note No. 5	427,500	...	45,000	337,500	45,000
Note No. 6	17,919	...	8,720	...	9,199
Note No. 7	...	20,333	7,110	6,773	6,450
Note No. 8	...	12,567	1,943	6,553	4,071
Total governmental	\$ 567,819	\$ 32,900	\$ 83,537	\$ 436,082	\$ 81,100
Business-Type Activities:					
General obligation bonds:					
1995 Series	\$ 616,272	\$...	\$ 7,702	\$ 600,476	\$ 8,094
General obligation notes:					
SERCAP Note	118,341	...	6,690	104,619	7,032
Sun National Bank Note	21,875	...	7,500	7,349	7,026
Total note obligations	140,216	...	14,190	111,968	14,058
Total business-type	\$ 756,488	\$...	\$ 21,892	\$ 712,444	\$ 22,152

General Obligation Bonds and Notes

Note No. 1

On September 30, 1999, the City issued a general obligation note to Wilmington Trust Company in the original amount of \$115,000, carrying a maturity date of September 30, 2009. The note is for a term of ten years with a fifteen-year amortization. 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, 2005, the interest rate in effect was 4.6875%. 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 in effect at June 30, 2005.

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 11,564	\$ 2,542	\$ 14,106
2007	12,118	1,988	14,106
2008	12,699	1,407	14,106
2009	13,307	799	14,106
2010	9,792	126	9,918
Total required payments	\$ 59,480	\$ 6,862	\$ 66,342

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - LONG-TERM DEBT OBLIGATIONS (continued)

General Obligation Bonds and Notes (continued)

Note No. 2

On March 26, 2002, the City issued a general obligation note to Sun National Bank in the original amount of \$11,326, with a maturity of March 26, 2005. Interest was payable at an annual rate of 9.014%. The note was issued for the purpose of purchasing a police motorcycle, and was secured with an interest in said equipment.

Note No. 3

On October 4, 2002, the City issued a general obligation note to Kubota Credit Corporation in the original amount of \$8,725, with a maturity of August 1, 2006. Interest is payable at an annual rate of 4.49%. The note was issued for the purpose of purchasing a Kubota tractor with loader and backhoe, and the note is secured with an interest in said equipment. At June 30, 2005, the note repayment required for the remaining year in the aggregate is \$519 which includes interest of \$3.

Note No. 4

On January 9, 2003, the City issued a general obligation note to Sun National Bank in the original 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 providing funding for the "Revolving Loan Fund" or Façade Improvement Program. The note is secured with the full faith and credit of the City of Delaware City, Delaware, and assignment of tax revenues. The following is the note repayment schedule at June 30, 2005.

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 4,300	\$ 2,431	\$ 6,731
2007	4,572	2,159	6,731
2008	4,861	1,870	6,731
2009	5,168	1,563	6,731
2010	5,494	1,237	6,731
2011-2013	<u>17,245</u>	<u>1,444</u>	<u>18,689</u>
Total required payments	<u>\$ 41,640</u>	<u>\$ 10,704</u>	<u>\$ 52,344</u>

CITY OF DELAWARE CITY, DELAWARE
 NOTES TO FINANCIAL STATEMENTS

NOTE 8 - LONG-TERM DEBT OBLIGATIONS (continued)

General Obligation Bonds and Notes (continued)

Note No. 5

On December 30, 2003, the City issued a general obligation note to Sun National Bank in the original amount of \$450,000, with a maturity date of December 30, 2008. Interest is payable at a variable rate. The interest rate at June 30, 2005 was 4.65%. The note was issued for the purpose of providing funding for the City's Capital Improvement Projects. The note is secured with the full faith and credit of the City of Delaware City, Delaware, and assignment of tax revenues. The following is the note repayment schedule, based on the interest rate in effect at June 30, 2005.

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 45,000	\$ 16,700	\$ 61,700
2007	45,000	14,500	59,500
2008	45,000	12,100	57,100
2009	<u>247,500</u>	<u>5,100</u>	<u>252,600</u>
Total required payments	<u>\$ 382,500</u>	<u>\$ 48,400</u>	<u>\$ 430,900</u>

Note No. 6

On February 26, 2004, the City entered into a lease-purchase arrangement with Ford Motor Credit Corporation in the original amount of \$27,624, with a maturity date of January 26, 2006. Interest is payable at an annual rate of 5.50%. The arrangement was for the purpose of purchasing a 2004 Ford Expedition, and is secured with an interest in said vehicle. At June 30, 2005, the note repayment required for the remaining year in the aggregate is \$9,705 which includes interest of \$506.

Note No. 7

On December 3, 2004, the City entered into a lease-purchase arrangement with Ford Motor Credit Corporation in the original amount of \$20,333, with a maturity date of December 3, 2006. Interest is payable at an annual rate of 5.00%. The arrangement was for the purpose of purchasing a 2005 Ford Crown Victoria, and is secured with an interest in said vehicle. The following is the note repayment schedule at June 30, 2005.

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 6,450	\$ 661	\$ 7,111
2007	<u>6,773</u>	<u>338</u>	<u>7,111</u>
Total required payments	<u>\$ 13,223</u>	<u>\$ 999</u>	<u>\$ 14,222</u>

CITY OF DELAWARE CITY, DELAWARE
 NOTES TO FINANCIAL STATEMENTS

NOTE 8 - LONG-TERM DEBT OBLIGATIONS (continued)

General Obligation Bonds and Notes (continued)

Note No. 8

On December 15, 2004, the City issued a general obligation note to Sun National Bank in the original amount of \$12,567, with a maturity of December 15, 2004. Interest is payable at an annual rate of 5.80%. The note was issued for the purpose of purchasing a 2003 police motorcycle, and is secured with an interest in said equipment. The following is the note repayment schedule at June 30, 2005.

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 4,071	\$ 508	\$ 4,579
2007	4,313	266	4,579
2008	<u>2,240</u>	<u>32</u>	<u>2,272</u>
Total required payments	<u>\$ 10,624</u>	<u>\$ 806</u>	<u>\$ 11,430</u>

1995 General Obligation Bonds

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>
2006	\$ 8,094	\$ 30,278	\$ 38,372
2007	8,506	29,866	38,372
2008	8,939	29,433	38,372
2009	9,395	28,977	38,372
2010	9,873	28,499	38,372
2011-2015	57,445	134,415	191,860
2016-2020	73,646	118,214	191,860
2021-2025	94,417	97,443	191,860
2026-2030	121,046	70,814	191,860
2031-2035	155,185	36,675	191,860
2036-2037	<u>62,024</u>	<u>3,064</u>	<u>65,088</u>
Total required payments	<u>\$ 608,570</u>	<u>\$ 607,678</u>	<u>\$1,216,248</u>

CITY OF DELAWARE CITY, DELAWARE
 NOTES TO FINANCIAL STATEMENTS

NOTE 8 - LONG-TERM DEBT OBLIGATIONS (continued)

General Obligation Bonds and Notes (continued)

SERCAP Note

On May 21, 2002, the City issued a general obligation note to the Southeast Rural Community Assistance Project, Inc. (SERCAP) in the original amount of \$131,250, with an annual interest rate of 5.00%. The note term is 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 schedule summarizes the remaining payments required:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 7,032	\$ 5,423	\$ 12,455
2007	7,392	5,063	12,455
2008	7,770	4,685	12,455
2009	8,167	4,288	12,455
2010	8,585	3,870	12,455
2011-2015	49,982	12,293	62,275
2016-2017	<u>22,723</u>	<u>1,151</u>	<u>23,874</u>
Total required payments	<u>\$ 111,651</u>	<u>\$ 36,773</u>	<u>\$ 148,424</u>

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 original amount of \$37,500, with an annual interest rate of 4.50%. The note term is for five years and matures on May 21, 2007. The general obligation note was issued for the City 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 schedule summarizes the remaining required payments:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 7,026	\$ 503	\$ 7,529
2007	<u>7,349</u>	<u>180</u>	<u>7,529</u>
Total required payments	<u>\$ 14,375</u>	<u>\$ 683</u>	<u>\$ 15,058</u>

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - LONG-TERM DEBT OBLIGATIONS (continued)

General Obligation Bonds and Notes (continued)

Future maturities of principal and interest payments on general obligation bonds and notes are as follows:

Years Ending June 30	General Obligation Bonds		General Obligation Notes		Totals
	Principal	Interest	Principal	Interest	
Governmental Activities:					
2006	\$...	\$...	\$ 81,100	\$ 23,351	\$ 104,451
2007	72,776	19,251	92,027
2008	64,800	15,409	80,209
2009	265,975	7,462	273,437
2010	15,286	1,363	16,649
2011-2013	17,245	1,444	18,689
Totals	\$...	\$...	\$ 517,182	\$ 68,280	\$ 585,462

Business-Type Activities:

2006	\$ 8,094	\$ 30,278	\$ 14,058	\$ 5,926	\$ 58,356
2007	8,506	29,866	14,741	5,243	58,356
2008	8,939	29,433	7,770	4,685	50,827
2009	9,395	28,977	8,167	4,288	50,827
2010	9,873	28,499	8,585	3,870	50,827
2011-2015	57,445	134,415	49,982	12,293	254,135
2016-2020	73,646	118,214	22,723	1,151	215,734
2021-2025	94,417	97,443	...	...	191,860
2026-2030	121,046	70,814	...	...	191,860
2031-2035	155,185	36,675	...	...	191,860
2036-2037	62,024	3,064	...	...	65,088
Totals	\$ 608,570	\$ 607,678	\$ 126,026	\$ 37,456	\$ 1,379,730

NOTE 9 - LINES OF CREDIT

On December 31, 2003, the City issued a general obligation note for \$200,000 to Sun National Bank. The note carries a variable interest rate and the principal is payable by February 28, 2006. The interest rate at June 30, 2005 is 4.75%. The note was issued for the purpose of providing working capital and is secured with the full faith and credit of the City and the assignment of tax revenues. At June 30, 2005 and 2004, the balance outstanding was \$200,000 and \$200,000, respectively.

On February 25, 2005, the City issued a general obligation note for \$250,000 to Sun National Bank. The note (a revolving line of credit) carries a variable interest rate and the principal is payable by December 31, 2005. At June 30, 2005 the interest rate is 4.75%, and the balance outstanding is \$170,000. The revolving line of credit supersedes a pre-existing line of credit of \$300,000 available at June 30, 2004, of which \$190,250 was outstanding.

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, 2005 and 2004 was \$2,691 and \$0, respectively.

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

At June 30, 2005, the minimum future rental payments under the non-cancelable leasing arrangement having remaining terms in excess of one year in the aggregate are:

<u>Years Ending June 30</u>	<u>Amount</u>
2006	\$ 3,588
2007	3,588
2008	3,588
2009	3,588
2010	<u>897</u>
Total minimum future rental payments required	<u>\$ 15,249</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, 2005:

<u>Property Under Lease</u>	<u>Purpose of Rental</u>	<u>Cost Basis</u>
Certain land parcels	Commercial	\$...
Water Tower-Air Rights	Mobile Antennae	...

Minimum future rentals to be received on non-cancelable leasing arrangements at June 30, 2005 for each of the remaining years and in the aggregate are:

<u>Years Ending June 30</u>	<u>Amount</u>
2006	\$ 22,000
2007	<u>11,000</u>
Total minimum future rental revenue to be received	<u>\$ 33,000</u>

Total rental revenue received for the years ended June 30, 2005 and 2004 was \$56,058 and \$55,926, respectively.

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

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.

NOTE 12 - BEGINNING FUND BALANCE/NET ASSETS ADJUSTMENTS

Statement No. 34 requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund or account group, but distinguish between the City's governmental activities and business-type activities on the statement of net assets and statement of activities. Significantly, the City's statement of net assets includes both noncurrent assets and noncurrent liabilities of the City, which were previously recorded in the general fixed assets and general long-term debt account groups.

The following schedule reconciles fund balance/net assets as previously reported to beginning fund balance/net assets as restated to reflect the adoption of GASB Statement 34 presentation:

<u>Government-Wide Financial Statements at June 30, 2004</u>	<u>Amount</u>
Fund balance of governmental funds, previously reported	\$ 185,605
Add: Governmental capital assets	3,156,054
Deduct:	
Accumulated depreciation on gov'tal capital assets	163,828
Governmental compensated absences liability	5,651
Governmental long-term debt obligations	<u>170,612</u>
Governmental net assets, restated	<u>\$ 3,001,568</u>

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, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Real estate taxes	\$ 482,000	\$ 482,000	\$ 499,010	\$ 17,010
Real estate transfer taxes	50,000	50,000	96,014	46,014
Cable franchise taxes	6,000	6,000	4,511	(1,489)
Licenses and permits	1,000	1,000	4,845	3,845
Intergovernmental revenues	...	...	17,824	17,824
Police fines	10,000	10,000	9,502	(498)
Charges for services	21,550	21,550	7,947	(13,603)
Interest and rents	63,200	63,200	71,675	8,475
Contributions	11,500	11,500	1,909	(9,591)
Miscellaneous revenues	5,000	5,000	55,861	50,861
Total revenues	<u>650,250</u>	<u>650,250</u>	<u>769,098</u>	<u>118,848</u>
EXPENDITURES				
Current:				
General government	298,150	298,150	266,898	31,252
Public safety-police	160,691	160,691	159,425	1,266
Public works-streets	67,060	67,060	127,924	(60,864)
Public works-sanitation	154,050	154,050	139,787	14,263
Standing Committees	1,200	1,200	196	1,004
Youth Center	43,399	43,399	55,944	(12,545)
Capital outlay	...	...	88,951	(88,951)
Debt service	49,700	49,700	78,304	(28,604)
Total expenditures	<u>774,250</u>	<u>774,250</u>	<u>917,429</u>	<u>(143,179)</u>
EXCESS (DEFICIT)				
REVENUES OVER EXPENDITURES	<u>(124,000)</u>	<u>(124,000)</u>	<u>(148,331)</u>	<u>(24,331)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from new financing	...	...	12,567	12,567
Capital lease arrangement	...	...	20,333	20,333
Proceeds from sale of capital assets	20,000	20,000	24,500	4,500
Operating transfers in (out)	...	...	4,646	4,646
Total other financing sources (uses)	<u>20,000</u>	<u>20,000</u>	<u>62,046</u>	<u>42,046</u>
NET CHANGE IN FUND BALANCE	<u>(104,000)</u>	<u>(104,000)</u>	<u>(86,285)</u>	<u>17,715</u>
FUND BALANCE				
Beginning of year	<u>104,000</u>	<u>104,000</u>	<u>251,091</u>	<u>147,091</u>
End of year	<u>\$...</u>	<u>\$...</u>	<u>\$ 164,806</u>	<u>\$ 164,806</u>

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. All budgets 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 2005.

See Accompanying Report of Independent Auditor

Additional Information

CITY OF DELAWARE CITY, DELAWARE
 COMBINING BALANCE SHEET-SPECIAL REVENUE FUND
 June 30, 2005 With Comparative Totals for 2004

	Federal Funding	State Funding			Local Funding	Revolving Loan Fund	Totals	
		Municipal Street Aid	SALLE and EIDE	Other			2005	2004
ASSETS								
ASSETS								
Cash and equivalents	\$...	\$ 6,482	\$...	\$...	\$...	\$ 6,099	\$ 12,581	\$ 26,638
Note receivable	...	...	...	...	...	68,859	68,859	74,158
Due from other governments	...	...	...	228,738	...	...	228,738	420,215
Interfund balances	1,330	(6,482)	16,196	(217,633)	...	...	(206,589)	(389,449)
TOTAL ASSETS	<u>\$ 1,330</u>	<u>\$...</u>	<u>\$ 16,196</u>	<u>\$ 11,105</u>	<u>\$...</u>	<u>\$ 74,958</u>	<u>\$ 103,589</u>	<u>\$ 131,562</u>
LIABILITIES AND FUND BALANCES								
LIABILITIES								
Accounts payable	\$...	\$...	\$...	\$...	\$...	\$...	\$...	\$...
Refundable advances and deposits	1,330	...	16,196	11,105	...	...	28,631	54,088
Total liabilities	<u>1,330</u>	<u>...</u>	<u>16,196</u>	<u>11,105</u>	<u>...</u>	<u>...</u>	<u>28,631</u>	<u>54,088</u>
FUND BALANCES								
Reserved for note receivable	...	...	...	...	...	68,859	68,859	74,158
Unreserved	...	...	...	...	...	6,099	6,099	3,316
Total fund balances	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>74,958</u>	<u>74,958</u>	<u>77,474</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,330</u>	<u>\$...</u>	<u>\$ 16,196</u>	<u>\$ 11,105</u>	<u>\$...</u>	<u>\$ 74,958</u>	<u>\$ 103,589</u>	<u>\$ 131,562</u>

See Accompanying Report of Independent Auditor

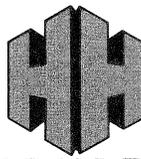
CITY OF DELAWARE CITY, DELAWARE

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-SPECIAL REVENUE FUND
Year Ended June 30, 2005 With Comparative Totals for 2004

	State Funding				Local Funding	Revolving Loan Fund	Totals	
	Federal Funding	Municipal Street Aid	SALLE and EIDE	Other			2005	2004
REVENUES								
Intergovernmental revenues:								
Federal	\$ 229,634	\$...	\$...	\$...	\$...	\$...	\$ 229,634	\$ 330,507
State	...	58,412	2,708	624,201	...	...	685,321	906,441
Local	...	...	...	...	1,000	...	1,000	20,000
Interest revenue	...	398	...	...	...	4,215	4,613	4,265
Total revenues	229,634	58,810	2,708	624,201	1,000	4,215	920,568	1,261,213
EXPENDITURES								
Current:								
Public safety-police	4,155	...	2,708	1,791	...	...	8,654	11,254
Public works-streets	...	28,810	...	...	...	...	28,810	32,302
Public works-sanitation	...	...	...	3,720	...	...	3,720	3,332
Parks and recreation	15,665	...	...	8,860	1,000	...	25,525	6,335
Youth Center	48,384	...	...	31,919	...	...	80,303	83,815
Capital outlay:								
Public safety-police	21,296	...	...	2,394	...	...	23,690	73,156
Public works-streets	146,561	...	...	497,113	...	...	643,674	1,382,810
Parks and recreation	...	...	...	...	...	...	...	10,916
Youth Center	...	...	...	61,904	...	...	61,904	82,840
Debt service:								
Principal	...	22,500	...	...	...	4,003	26,503	28,754
Interest and other fees	...	7,500	...	...	...	2,728	10,228	5,223
Total expenditures	236,061	58,810	2,708	607,701	1,000	6,731	913,011	1,720,737
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(6,427)	...	...	16,500	...	(2,516)	7,557	(459,524)
OTHER FINANCING SOURCES (USES)								
Operating transfers in	6,427	...	...	...	...	...	6,427	476,761
Operating transfers out	...	...	...	(16,500)	...	...	(16,500)	(20,000)
Total other financing sources (uses)	6,427	...	...	(16,500)	...	...	(10,073)	456,761
NET CHANGE IN FUND BALANCES	...	...	...	...	...	(2,516)	(2,516)	(2,763)
FUND BALANCES								
Beginning of year	...	...	...	...	...	77,474	77,474	80,237
End of year	\$...	\$...	\$...	\$...	\$...	\$ 74,958	\$ 74,958	\$ 77,474

See Accompanying 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 Basic 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 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 year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated October 6, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We noted certain matters that we reported to the management of the City of Delaware City in a separate letter, dated October 6, 2005.

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

October 6, 2005
Wilmington, Delaware

CITY OF DELAWARE CITY, DELAWARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2005

SUMMARY OF AUDITORS' RESULTS

1. The report of independent auditor expresses an unqualified opinion on the City of Delaware City's financial statements.
2. No material reportable conditions were identified during the audit of the 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.