

Report of Independent Auditor

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

Years Ended June 30, 2006 and 2005

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**CITY OF DELAWARE CITY, DELAWARE**

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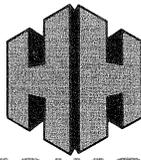
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**HAGGERTY & HAGGERTY, P.A.**

**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, 2006 and 2005, 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.

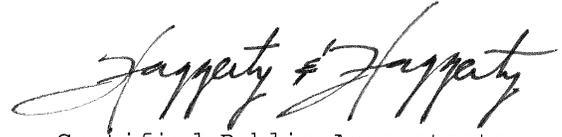
We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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, 2006 and 2005, 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 16, 2006 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 16, 2006  
Wilmington, Delaware

## **Basic Financial Statements Section**

CITY OF DELAWARE CITY, DELAWARE  
STATEMENTS OF NET ASSETS  
June 30, 2006 and 2005

	2006				Discretely Presented Component Unit	2005				
	Primary Government			Total		Primary Government			Total	Discretely Presented Component Unit
	Governmental	Business	Total			Governmental	Business	Total		
<b>ASSETS</b>										
<b>Current assets:</b>										
Cash and equivalents	\$ 64,293	\$ ...	\$ 64,293	\$ 10,675	\$ 350,519	\$ ...	\$ 350,519	\$ 6,381	\$ ...	
Investments at fair value	10,685	...	10,685	...	8,045	...	8,045	...	...	
Receivables, net:										
Taxes	9,338	...	9,338	...	4,667	...	4,667	...	...	
Trade accounts	...	14,888	14,888	...	...	15,628	15,628	...	...	
Other	69,481	...	69,481	...	3,561	...	3,561	...	...	
Due from other governments	323,500	...	323,500	...	228,738	...	228,738	...	...	
Note receivable due within one year	7,378	...	7,378	...	7,019	...	7,019	...	...	
Prepayments and other assets	...	...	...	1,357	...	...	...	...	6,488	
<b>Total current assets</b>	<b>484,675</b>	<b>14,888</b>	<b>499,563</b>	<b>12,032</b>	<b>602,549</b>	<b>15,628</b>	<b>618,177</b>	<b>12,869</b>	<b>...</b>	
<b>Noncurrent assets:</b>										
Note receivable due after one year	54,240	...	54,240	...	61,840	...	61,840	...	...	
Capital assets, net:										
Nondepreciable	841,600	191,319	1,032,919	...	1,334,141	18,331	1,352,472	...	...	
Depreciable	5,896,369	1,330,496	7,226,865	...	5,141,279	1,447,405	6,588,684	...	...	
<b>Total noncurrent assets</b>	<b>6,792,209</b>	<b>1,521,815</b>	<b>8,314,024</b>	<b>...</b>	<b>6,537,260</b>	<b>1,465,736</b>	<b>8,002,996</b>	<b>...</b>	<b>...</b>	
<b>TOTAL ASSETS</b>	<b>7,276,884</b>	<b>1,536,703</b>	<b>8,813,587</b>	<b>12,032</b>	<b>7,139,809</b>	<b>1,481,364</b>	<b>8,621,173</b>	<b>12,869</b>	<b>...</b>	
<b>LIABILITIES</b>										
<b>Current liabilities:</b>										
Lines of credit	275,000	...	275,000	...	370,000	...	370,000	...	...	
Contract payable	...	119,151	119,151	...	...	...	...	...	...	
Accounts payable	87,049	...	87,049	...	13,257	...	13,257	...	...	
Accrued interest payable	...	3,450	3,450	...	...	3,511	3,511	...	...	
Current portion of long-term debt	43,464	21,727	65,191	...	81,100	22,152	103,252	...	...	
Payroll deductions and withholdings	3,870	...	3,870	...	8,533	...	8,533	...	...	
Due to other governments	...	...	...	...	...	...	...	...	3,500	
Deferred revenues due within one year	32,679	...	32,679	...	4,204	...	4,204	...	3,175	
Refundable advances and deposits	19,362	4,800	24,162	...	28,631	4,422	33,053	...	...	
<b>Total current liabilities</b>	<b>461,424</b>	<b>149,128</b>	<b>610,552</b>	<b>...</b>	<b>505,725</b>	<b>30,085</b>	<b>535,810</b>	<b>...</b>	<b>6,675</b>	
<b>Noncurrent liabilities:</b>										
Long-term debt, net of current portion	423,790	690,070	1,113,860	...	436,082	712,444	1,148,526	...	...	
Long-term portion of compensated absences	10,180	...	10,180	...	12,575	...	12,575	...	...	
<b>Total noncurrent liabilities</b>	<b>433,970</b>	<b>690,070</b>	<b>1,124,040</b>	<b>...</b>	<b>448,657</b>	<b>712,444</b>	<b>1,161,101</b>	<b>...</b>	<b>...</b>	
<b>TOTAL LIABILITIES</b>	<b>895,394</b>	<b>839,198</b>	<b>1,734,592</b>	<b>...</b>	<b>954,382</b>	<b>742,529</b>	<b>1,696,911</b>	<b>...</b>	<b>6,675</b>	
<b>NET ASSETS</b>										
Invested in capital assets, net of related debt	6,270,715	690,867	6,961,582	...	5,958,238	731,140	6,689,378	...	...	
Restricted for specific programs	61,618	...	61,618	12,032	68,859	...	68,859	...	6,194	
Unrestricted	49,157	6,638	55,795	...	158,330	7,695	166,025	...	...	
<b>TOTAL NET ASSETS</b>	<b>\$ 6,381,490</b>	<b>\$ 697,505</b>	<b>\$ 7,078,995</b>	<b>\$ 12,032</b>	<b>\$ 6,185,427</b>	<b>\$ 738,835</b>	<b>\$ 6,924,262</b>	<b>\$ 6,194</b>	<b>\$ ...</b>	

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>					196,063	(41,330)	154,733	5,838
<b>NET ASSETS</b>								
Beginning of year					6,185,427	738,835	6,924,262	6,194
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**  
**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	
<b>GOVERNMENTAL ACTIVITIES</b>								
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)	...
<b>Total governmental activities</b>	<b>1,328,706</b>	<b>22,294</b>	<b>187,076</b>	<b>748,612</b>	<b>(370,724)</b>	<b>...</b>	<b>(370,724)</b>	<b>...</b>
<b>BUSINESS-TYPE ACTIVITIES</b>								
Water system	333,324	281,377	...	...	...	(51,947)	(51,947)	...
<b>Total business-type activities</b>	<b>333,324</b>	<b>281,377</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>(51,947)</b>	<b>(51,947)</b>	<b>...</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>1,662,030</b>	<b>303,671</b>	<b>187,076</b>	<b>748,612</b>	<b>(370,724)</b>	<b>(51,947)</b>	<b>(422,671)</b>	<b>...</b>
<b>DISCRETELY PRESENTED COMPONENT UNIT</b>	<b>45,777</b>	<b>10,362</b>	<b>35,063</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>(352)</b>
<b>TOTAL PRIMARY GOV'T AND COMPONENT UNIT</b>	<b>\$ 1,707,807</b>	<b>\$ 314,033</b>	<b>\$ 222,139</b>	<b>\$ 748,612</b>	<b>(370,724)</b>	<b>(51,947)</b>	<b>(422,671)</b>	<b>(352)</b>
<b>GENERAL REVENUES AND TRANSFERS</b>								
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	...	...
<b>Total general revenues and transfers</b>					<b>748,157</b>	<b>5,427</b>	<b>753,584</b>	<b>164</b>
<b>CHANGE IN NET ASSETS (LIABILITIES)</b>					377,433	(46,520)	330,913	(188)
<b>NET ASSETS</b>								
Beginning of year					5,807,994	785,355	6,593,349	6,382
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**  
BALANCE SHEETS-GOVERNMENTAL FUNDS  
June 30, 2006 and 2005

	2006			2005		
	Governmental Fund Types			Governmental Fund Types		
	General	Special Revenue	Total	General	Special Revenue	Total
<b>ASSETS</b>						
<b>ASSETS</b>						
Cash and equivalents	\$ 52,542	\$ 11,751	\$ 64,293	\$ 337,938	\$ 12,581	\$ 350,519
Investments at fair value	10,685	...	10,685	8,045	...	8,045
Receivables, net:						
Taxes	9,338	...	9,338	4,667	...	4,667
Other	69,481	...	69,481	3,561	...	3,561
Note receivable	...	61,618	61,618	...	68,859	68,859
Due from other governments	...	323,500	323,500	...	228,738	228,738
Interfund receivables	305,223	...	305,223	206,589	...	206,589
<b>TOTAL ASSETS</b>	<u>\$ 447,269</u>	<u>\$ 396,869</u>	<u>\$ 844,138</u>	<u>\$ 560,800</u>	<u>\$ 310,178</u>	<u>\$ 870,978</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Lines of credit	\$ 275,000	\$ ...	\$ 275,000	\$ 370,000	\$ ...	\$ 370,000
Accounts payable	87,049	...	87,049	13,257	...	13,257
Payroll deductions and withholdings	3,870	...	3,870	8,533	...	8,533
Interfund payables	...	305,223	305,223	...	206,589	206,589
Deferred revenues	32,679	...	32,679	4,204	...	4,204
Refundable advances and deposits	...	19,362	19,362	...	28,631	28,631
<b>Total liabilities</b>	<u>398,598</u>	<u>324,585</u>	<u>723,183</u>	<u>395,994</u>	<u>235,220</u>	<u>631,214</u>
<b>FUND BALANCES</b>						
Reserved for note receivable	...	61,618	61,618	...	68,859	68,859
Unreserved	48,671	10,666	59,337	164,806	6,099	170,905
<b>Total fund balances</b>	<u>48,671</u>	<u>72,284</u>	<u>120,955</u>	<u>164,806</u>	<u>74,958</u>	<u>239,764</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 447,269</u>	<u>\$ 396,869</u>	<u>\$ 844,138</u>	<u>\$ 560,800</u>	<u>\$ 310,178</u>	<u>\$ 870,978</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, 2006 and 2005

	2006	2005
Amounts reported for governmental activities in the statement of net assets are different because:		
<b>Total fund balances-governmental funds</b>	\$ 120,955	\$ 239,764
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 \$7,191,479 for 2006 and \$6,755,855 for 2005 and the related accumulated depreciation is \$453,510 for 2006 and \$280,435 for 2005.	6,737,969	6,475,420
Long-term liabilities are not due and payable within the current period and therefore are not reported as liabilities in the governmental funds.	(467,254)	(517,182)
Compensated absences are not due and payable within the current period and therefore are not reported in the governmental funds.	(10,180)	(12,575)
<b>Total net assets-governmental activities</b>	<u>\$ 6,381,490</u>	<u>\$ 6,185,427</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, 2006 and 2005

	2006			2005		
	Governmental Fund Types			Governmental Fund Types		
	General	Special Revenue	Total	General	Special Revenue	Total
<b>REVENUES</b>						
Taxes:						
Real estate taxes	\$ 557,330	\$ ...	\$ 557,330	\$ 499,010	\$ ...	\$ 499,010
Real estate transfer taxes	141,065	...	141,065	96,014	...	96,014
Cable franchise taxes	6,878	...	6,878	4,511	...	4,511
Licenses and permits	2,965	...	2,965	4,845	...	4,845
Intergovernmental revenues:						
Federal	...	94,485	94,485	17,824	229,634	247,458
State	...	427,207	427,207	...	685,321	685,321
Local	...	5,000	5,000	...	1,000	1,000
Police fines	10,564	...	10,564	9,502	...	9,502
Charges for services	7,425	...	7,425	7,947	...	7,947
Interest and rents	76,874	4,945	81,819	71,675	4,613	76,288
Contributions	10,844	...	10,844	1,909	...	1,909
Miscellaneous revenues	15,761	...	15,761	55,861	...	55,861
<b>Total revenues</b>	<b>829,706</b>	<b>531,637</b>	<b>1,361,343</b>	<b>769,098</b>	<b>920,568</b>	<b>1,689,666</b>
<b>EXPENDITURES</b>						
Current:						
General governments	280,871	...	280,871	266,898	...	266,898
Public safety-police	184,760	12,315	197,075	159,425	8,654	168,079
Public works-streets	113,624	27,491	141,115	127,924	28,810	156,734
Public works-sanitation	136,988	133	137,121	139,787	3,720	143,507
Parks and recreation	...	15,202	15,202	...	25,525	25,525
Standing Committees	300	...	300	196	...	196
Youth Center	63,413	86,631	150,044	55,944	80,303	136,247
Capital outlay	106,945	361,713	468,658	88,951	729,268	818,219
Debt service:						
Principal	405,726	19,259	424,985	57,034	26,503	83,537
Interest and other fees	25,817	11,593	37,410	21,270	10,228	31,498
<b>Total expenditures</b>	<b>1,318,444</b>	<b>534,337</b>	<b>1,852,781</b>	<b>917,429</b>	<b>913,011</b>	<b>1,830,440</b>
<b>EXCESS (DEFICIT) REVENUES OVER EXPENDITURES</b>	<b>(488,738)</b>	<b>(2,700)</b>	<b>(491,438)</b>	<b>(148,331)</b>	<b>7,557</b>	<b>(140,774)</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Proceeds from new financing	355,000	...	355,000	12,567	...	12,567
Capital lease arrangement	20,057	...	20,057	20,333	...	20,333
Proceeds from sale of capital assets	24,971	...	24,971	24,500	...	24,500
Transfers in (out)	(27,425)	26	(27,399)	4,646	(10,073)	(5,427)
<b>Total other financing sources (uses)</b>	<b>372,603</b>	<b>26</b>	<b>372,629</b>	<b>62,046</b>	<b>(10,073)</b>	<b>51,973</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(116,135)</b>	<b>(2,674)</b>	<b>(118,809)</b>	<b>(86,285)</b>	<b>(2,516)</b>	<b>(88,801)</b>
<b>FUND BALANCES</b>						
Beginning of year	164,806	74,958	239,764	251,091	77,474	328,565
End of year	\$ 48,671	\$ 72,284	\$ 120,955	\$ 164,806	\$ 74,958	\$ 239,764

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, 2006 and 2005

	2006	2005
Amounts reported for governmental activities in the statement of activities are different because:		
<b>Net change in fund balance-total governmental funds</b>	<b>\$ (118,809)</b>	<b>\$ (88,801)</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.		
	2006	2005
Capital outlay	\$ 475,841	\$ 597,625
Depreciation expense	(199,398)	(174,866)
	276,443	422,759
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:		
	2006	2005
Long-term financing:		
Proceeds received	\$ (355,000)	\$ (12,567)
Principal payments made	402,563	67,707
	47,563	55,140
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.		
	2006	2005
Capital lease financing:		
Proceeds	\$ (20,057)	\$ (20,333)
Principal payments	22,422	15,830
	2,365	(4,503)
Some expenses reported in the statement of activities do not require current financial resources and, therefore, are not reported as expenditures in governmental funds.		
	2006	2005
Capital assets:		
Proceeds from sale	\$ (24,971)	\$ (24,500)
Gain from sale	11,077	21,900
	(13,894)	(2,600)
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.		
	2,395	(4,562)
<b>Change in net assets-governmental activities</b>	<b>\$ 196,063</b>	<b>\$ 377,433</b>

Accompanying notes are an integral part of these financial statements

**CITY OF DELAWARE CITY, DELAWARE**  
**STATEMENTS OF NET ASSETS-PROPRIETARY FUND**  
June 30, 2006 and 2005

	Water Fund	
	2006	2005
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and equivalents	\$ ...	\$ ...
Accounts receivable, net	14,888	15,628
<b>Total current assets</b>	<u>14,888</u>	<u>15,628</u>
<b>NONCURRENT ASSETS</b>		
Capital assets, net:		
Nondepreciable	191,319	18,331
Depreciable	1,330,496	1,447,405
<b>Total noncurrent assets</b>	<u>1,521,815</u>	<u>1,465,736</u>
<b>TOTAL ASSETS</b>	<u>1,536,703</u>	<u>1,481,364</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Contract payable	119,151	...
Accrued interest payable	3,450	3,511
Current portion of long-term debt	21,727	22,152
Refundable deposits	4,800	4,422
<b>Total current liabilities</b>	<u>149,128</u>	<u>30,085</u>
<b>NONCURRENT LIABILITIES</b>		
Long-term debt, net of current portion	<u>690,070</u>	<u>712,444</u>
<b>TOTAL LIABILITIES</b>	<u>839,198</u>	<u>742,529</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	690,867	731,140
Unrestricted	<u>6,638</u>	<u>7,695</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 697,505</u>	<u>\$ 738,835</u>

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, 2006 and 2005

	Water Fund	
	2006	2005
<b>OPERATING REVENUES</b>		
Charges for services	\$ 270,405	\$ 261,890
<b>OPERATING EXPENSES</b>		
Salaries	48,247	42,464
Payroll taxes	3,947	3,521
Employee benefits	11,367	9,779
Contractual services	37,500	37,543
Insurance	21,785	17,017
Telephone	3,715	140
Electricity	20,588	19,960
Professional fees	12,524	12,919
Distribution system maintenance	23,280	34,213
Office supplies	846	316
Materials and supplies	4,797	1,381
Fuel for heating	1,261	895
Miscellaneous	52	400
Depreciation	119,583	115,575
<b>Total operating expenses</b>	<b>309,492</b>	<b>296,123</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(39,087)</b>	<b>(34,233)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest expense	(35,998)	(37,201)
Miscellaneous revenues	6,356	19,487
<b>Total non-operating revenues (expenses)</b>	<b>(29,642)</b>	<b>(17,714)</b>
<b>INCOME (LOSS) BEFORE OTHER FINANCING SOURCES (USES)</b>	<b>(68,729)</b>	<b>(51,947)</b>
<b>TRANSFERS FROM GOVERNMENTAL ACTIVITIES</b>	<b>27,399</b>	<b>5,427</b>
<b>CHANGE IN NET ASSETS (LIABILITIES)</b>	<b>(41,330)</b>	<b>(46,520)</b>
<b>NET ASSETS</b>		
Beginning of year	738,835	785,355
End of year	\$ 697,505	\$ 738,835

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, 2006 and 2005**

	Water Fund	
	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 277,879	\$ 281,290
Cash payments to suppliers for goods and services	(126,348)	(124,784)
Cash payments to employees for services	(63,561)	(55,764)
<b>Net cash provided (used) by operating activities</b>	<b>87,970</b>	<b>100,742</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	(56,511)	(46,987)
Principal paid on general obligation bonds and notes	(22,799)	(21,892)
Interest paid on general obligation bonds and notes	(36,059)	(37,290)
Cash received from governmental activities	27,399	5,427
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(87,970)</b>	<b>(100,742)</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)	\$ (39,087)	\$ (34,233)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	119,583	115,575
Other non-operating revenues	6,356	19,487
Change in assets and liabilities:		
Receivables	740	(1,609)
Refundable deposits	378	1,522
Total adjustments	127,057	134,975
<b>Net cash provided from operating activities</b>	<b>\$ 87,970</b>	<b>\$ 100,742</b>

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) which provides an analysis of the City's overall financial position and operating results. Management has not included 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

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**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 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.

**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 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.

**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/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 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 when the market is advantageous to the City.

Receivable-Taxes

At June 30, 2006 and 2005, taxes receivable are shown net of the estimated uncollectible allowances of \$25,713 and \$25,982, 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, 2006 and 2005, trade accounts receivable are shown net of the estimated uncollectible allowances of \$10,436 and \$35,280, 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, 2006 and 2005, 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 2006 and 2005, 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 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 City's financial records.

**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, 2006 and 2005, deferred revenues consist of \$32,679 and \$4,204 of various revenue sources, 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

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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, 2006 and 2005, 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 2006 and \$.99 per \$100 of assessed valuation for the fiscal year 2005 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 2006 and 2005 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, 2006 and 2005. 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	2006		2005	
	Book	Bank	Book	Bank
Category 1	\$ 63,993	\$ 92,039	\$ 100,000	\$ 100,000
Category 2	...	...	250,019	259,608
Category 3	<u>300</u>	<u>...</u>	<u>500</u>	<u>...</u>
Totals	<u>\$ 64,293</u>	<u>\$ 92,039</u>	<u>\$ 350,519</u>	<u>\$ 359,608</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, 2006 and 2005, 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, 2006 and 2005, the receivables consist of:

Description	Activity Type			
	2006		2005	
	Governmental	Business	Governmental	Business
Delaware Department of Transportation	\$ 277,444	\$ ...	\$ 216,574	\$ ...
Delaware Criminal Justice Council	15,803	...	...	...
Various other State agencies	<u>30,253</u>	<u>...</u>	<u>12,164</u>	<u>...</u>
Total intergovernmental receivables	<u>\$ 323,500</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, 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
Vehicles and equipment	...	...	...	...
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	<u>1,334,141</u>	<u>379,041</u>	<u>871,582</u>	<u>841,600</u>
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	<u>5,421,714</u>	<u>968,382</u>	<u>40,217</u>	<u>6,349,879</u>
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.	<u>280,435</u>	<u>199,398</u>	<u>26,323</u>	<u>453,510</u>
Total capital assets, being depreciated	<u>5,141,279</u>	<u>768,984</u>	<u>13,894</u>	<u>5,896,369</u>
Governmental activities capital assets, net	<u>\$ 6,475,420</u>	<u>\$ 1,148,025</u>	<u>\$ 885,476</u>	<u>\$ 6,737,969</u>
<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	<u>18,331</u>	<u>172,988</u>	<u>...</u>	<u>191,319</u>
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	<u>2,886,749</u>	<u>2,674</u>	<u>34,760</u>	<u>2,854,663</u>
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.	<u>1,439,344</u>	<u>119,583</u>	<u>34,760</u>	<u>1,524,167</u>
Total capital assets, being depreciated	<u>1,447,405</u>	<u>(116,909)</u>	<u>...</u>	<u>1,330,496</u>
Business-type activities capital assets, net	<u>\$ 1,465,736</u>	<u>\$ 56,079</u>	<u>\$ ...</u>	<u>\$ 1,521,815</u>

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

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

Capital assets activity for the year ended June 30, 2005 follows:

Description	Beginning Balances	Additions	Deletions	Ending Balances
<b>Governmental activities:</b>				
Capital assets, not depreciated:				
Land	\$ 127,237	\$ 294,500	\$ ...	\$ 421,737
Construction in progress:				
Buildings and improvements	4,182,436	89,273	4,253,944	17,765
Vehicles and equipment	72,361	51,183	123,544	...
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	5,987,443	859,225	5,512,527	1,334,141
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	206,045	5,250,927	35,258	5,421,714
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.	138,227	174,866	32,658	280,435
Total capital assets, being depreciated	67,818	5,076,061	2,600	5,141,279
Governmental activities capital assets, net	\$ 6,055,261	\$ 5,935,286	\$ 5,515,127	\$ 6,475,420
<b>Business-type activities:</b>				
Capital assets, not depreciated:				
Land	\$ 18,331	\$ ...	\$ ...	\$ 18,331
Construction in progress	...	...	...	...
Total capital assets, not being depreciated	18,331	...	...	18,331
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	2,839,762	46,987	...	2,886,749
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.	1,323,769	115,575	...	1,439,344
Total capital assets, being depreciated	1,515,993	(68,588)	...	1,447,405
Business-type activities capital assets, net	\$ 1,534,324	\$ (68,588)	\$ ...	\$ 1,465,736

**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, 2006				
	Beginning Balances	Additions	Deletions	Ending Balances	
				Long-term Portion	Due Within One Year
<b>Governmental Activities:</b>					
General obligation notes:					
Note No. 1	\$ 59,480	\$ ...	\$ 11,225	\$ 36,814	\$ 11,441
Note No. 2-Bond		355,000		338,852	16,148
Note No. 3	516		516		
Note No. 4	41,640		4,259	32,809	4,572
Note No. 5	382,500		382,500		
Note No. 6	9,199		9,199		
Note No. 7	13,223		13,223		
Note No. 8	10,624		4,063	2,249	4,312
Note No. 9		20,057		13,066	6,991
<b>Total governmental</b>	<b>\$ 517,182</b>	<b>\$ 375,057</b>	<b>\$ 424,985</b>	<b>\$ 423,790</b>	<b>\$ 43,464</b>

**Business-Type Activities:**

General obligation bonds:					
1995 Series	\$ 608,570	\$ ...	\$ 8,221	\$ 592,843	\$ 7,506
General obligation notes:					
SERCAP Note	111,651		7,032	97,227	7,392
Sun National Bank Note	14,375		7,546		6,829
Total note obligations	126,026		14,578	97,227	14,221
<b>Total business-type</b>	<b>\$ 734,596</b>	<b>\$ ...</b>	<b>\$ 22,799</b>	<b>\$ 690,070</b>	<b>\$ 21,727</b>

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 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, 2006, 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
2007	\$ 11,441	\$ 2,665	\$ 14,106
2008	12,170	1,936	14,106
2009	12,944	1,162	14,106
2010	11,700	341	12,041
<b>Total required payments</b>	<b>\$ 48,255</b>	<b>\$ 6,104</b>	<b>\$ 54,359</b>

**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-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 providing funding for 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>
2007	\$ 16,148	\$ 17,818	\$ 33,966
2008	16,995	16,971	33,966
2009	17,887	16,079	33,966
2010	18,826	15,140	33,966
2011	19,813	14,153	33,966
2012-2016	115,796	54,033	169,829
2017-2021	<u>149,535</u>	<u>20,294</u>	<u>169,829</u>
<b>Total required payments</b>	<b><u>\$ 355,000</u></b>	<b><u>\$ 154,488</u></b>	<b><u>\$ 509,488</u></b>

Note No. 3

On October 4, 2002, the City issued a note to Kubota Credit Corporation in the amount of \$8,725, with a maturity of August 1, 2005. Interest was payable at an annual rate of 4.49%. The note was paid-off in full during fiscal year 2006.

Note No. 4

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 providing funding for the "Revolving Loan Fund" or 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 at June 30, 2006.

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	5,841	890	6,731
2012-2013	<u>11,445</u>	<u>512</u>	<u>11,957</u>
<b>Total required payments</b>	<b><u>\$ 37,381</u></b>	<b><u>\$ 8,231</u></b>	<b><u>\$ 45,612</u></b>

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

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**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 amount of \$450,000, with a maturity date of December 30, 2008. Interest was payable at a variable rate. The note was issued for the purpose of providing funding for the City's Capital Improvement Projects, and was secured with the full faith and credit of the City, and assignment of tax revenues. The note was paid-off in full on June 15, 2006.

Note No. 6

On February 26, 2004, the City entered into a lease-purchase arrangement with Ford Motor Credit Corporation in the amount of \$27,624, with a maturity date of January 26, 2006. Interest was payable at an annual rate of 5.50%. The arrangement was for the purchase of a 2004 Ford Expedition, and was secured with an interest in the vehicle. The note was paid-off January 26, 2006.

Note No. 7

On December 3, 2004, the City entered into a lease-purchase arrangement with Ford Motor Credit Corporation in the amount of \$20,333, with a maturity date of December 3, 2006. Interest was payable at an annual rate of 5.00%. The arrangement was for the purchase of a 2005 Ford Crown Victoria, and was secured with an interest in the vehicle. The note was paid-off June 12, 2006.

Note No. 8

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 for the purchase of a 2003 police motorcycle, and is secured with an interest in the motorcycle. The following is the note repayment schedule at June 30, 2006.

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 4,312	\$ 267	\$ 4,579
2008	<u>2,249</u>	<u>36</u>	<u>2,285</u>
Total required payments	<u>\$ 6,561</u>	<u>\$ 303</u>	<u>\$ 6,864</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. 9

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 at June 30, 2006.

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 6,991	\$ 216	\$ 7,207
2008	6,318	889	7,207
2009	<u>6,748</u>	<u>459</u>	<u>7,207</u>
Total required payments	<u>\$ 20,057</u>	<u>\$ 1,564</u>	<u>\$ 21,621</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>
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	10,376	27,996	38,372
2012-2016	60,371	131,489	191,860
2017-2021	77,398	114,462	191,860
2022-2026	99,227	92,633	191,860
2027-2031	127,213	64,647	191,860
2032-2036	163,091	28,769	191,860
2037	<u>25,960</u>	<u>756</u>	<u>26,716</u>
Total required payments	<u>\$ 600,349</u>	<u>\$ 577,527</u>	<u>\$1,177,876</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 amount of \$131,250, with an annual interest rate of 5.00% and requires monthly payments of \$1,037.90 (principal and interest). 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>
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	9,028	3,427	12,455
2012-2016	52,539	9,736	62,275
2017	<u>11,138</u>	<u>281</u>	<u>11,419</u>
<b>Total required payments</b>	<b>\$ <u>104,619</u></b>	<b>\$ <u>31,350</u></b>	<b>\$ <u>135,969</u></b>

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 is for five years and matures on May 21, 2007. The general obligation 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 required payments:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 6,829	\$ 155	\$ 6,984
<b>Total required payments</b>	<b>\$ <u>6,829</u></b>	<b>\$ <u>155</u></b>	<b>\$ <u>6,984</u></b>

**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	<u>General Obligation Bonds</u>		<u>General Obligation Notes</u>		<u>Totals</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
<b>Governmental Activities:</b>					
2007	\$ 16,148	\$ 17,818	\$ 27,316	\$ 5,307	\$ 66,589
2008	16,995	16,971	25,598	4,731	64,295
2009	17,887	16,079	24,860	3,184	62,010
2010	18,826	15,140	17,194	1,578	52,738
2011	19,813	14,153	5,841	890	40,697
2012-2016	115,796	54,033	11,445	512	181,786
2017-2021	<u>149,535</u>	<u>20,294</u>	<u>...</u>	<u>...</u>	<u>169,829</u>
<b>Totals</b>	<b>\$ 355,000</b>	<b>\$ 154,488</b>	<b>\$ 112,254</b>	<b>\$ 16,202</b>	<b>\$ 637,944</b>

**Business-Type Activities:**

2007	\$ 8,506	\$ 29,866	\$ 14,221	\$ 5,218	\$ 57,811
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	10,376	27,996	9,028	3,427	50,827
2012-2016	60,371	131,489	52,539	9,736	254,135
2017-2021	77,398	114,462	11,138	281	203,279
2022-2026	99,227	92,633	...	...	191,860
2027-2031	127,213	64,647	...	...	191,860
2032-2036	163,091	28,769	...	...	191,860
2037	<u>25,960</u>	<u>756</u>	<u>...</u>	<u>...</u>	<u>26,716</u>
<b>Totals</b>	<b>\$ 600,349</b>	<b>\$ 577,527</b>	<b>\$ 111,448</b>	<b>\$ 31,505</b>	<b>\$ 1,320,829</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 the principal is payable on February 28, 2007. The interest rate at June 30, 2006 is 7.25%. 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, 2006 and 2005, the balance outstanding is \$200,000 and \$200,000, respectively.

The City issued other general obligation notes to Sun National Bank for \$150,000 and \$200,000. The notes are "overline" lines of credit carrying variable interest rates. The principal maturities of the lines of credit are August 31, 2006 and December 31, 2005, respectively. The interest rate at June 30, 2006 is 7.25%. At June 30, 2006 and 2005, the outstanding balances are \$75,000 and \$170,000, 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, 2006 and 2005 was \$3,588 and \$2,691, respectively.

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

At June 30, 2006, 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
2007	\$ 3,588
2008	3,588
2009	3,588
2010	897
<b>Total minimum future rental payments required</b>	<b>\$ 11,661</b>

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, 2006:

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
2007	\$ 65,231
2008	53,397
2009	36,764
2010	27,573
<b>Total minimum future rental revenue to be received</b>	<b>\$ 182,965</b>

Total rental revenue received for the years ended June 30, 2006 and 2005 was \$64,789 and \$56,058, 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 30, 2006, the City has an active construction project: the "Well 5 Treatment Plant Improvements Project". The commitments with contractors are as follows:

<u>Contractor</u>	<u>Contract Award</u>	<u>Expended To Date</u>	<u>Remaining Commitment</u>
Uni-Tech Drilling Co., Inc.	<u>\$ 195,891</u>	<u>\$ 153,100</u>	<u>\$ 42,791</u>

The project will be funded with the issuance of a \$297,300 General Obligation Bond provided through the Delaware Drinking Water State Revolving Fund, Delaware Health & Social Services, Division of Public Health. It is projected that the bond will be repaid with future operating revenues of the water system.

**NOTE 12 - SUBSEQUENT EVENT**

On July 24, 2006, the City issued a General Obligation Bond, Series 2006-SRF to fund the "Well 5 Treatment Plant Improvements Project".

**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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Real estate taxes	\$ 550,907	\$ 550,907	\$ 557,330	\$ 6,423
Real estate transfer taxes	60,000	60,000	141,065	81,065
Cable franchise taxes	6,000	6,000	6,878	878
Licenses and permits	8,000	8,000	2,965	(5,035)
Intergovernmental revenues	...	...	...	...
Police fines	10,000	10,000	10,564	564
Charges for services	6,800	6,800	7,425	625
Interest and rents	72,200	72,200	76,874	4,674
Contributions	11,500	11,500	10,844	(656)
Miscellaneous revenues	5,000	5,000	15,761	10,761
<b>Total revenues</b>	<b>730,407</b>	<b>730,407</b>	<b>829,706</b>	<b>99,299</b>
<b>EXPENDITURES</b>				
Current:				
General government	291,073	291,073	280,871	10,202
Public safety-police	171,854	171,854	184,760	(12,906)
Public works-streets	50,000	50,000	113,624	(63,624)
Public works-sanitation	134,000	134,000	136,988	(2,988)
Standing Committees	1,700	1,700	300	1,400
Youth Center	58,380	58,380	63,413	(5,033)
Capital outlay	58,888	58,888	106,945	(48,057)
Debt service	74,512	74,512	431,543	(357,031)
<b>Total expenditures</b>	<b>840,407</b>	<b>840,407</b>	<b>1,318,444</b>	<b>(478,037)</b>
<b>EXCESS (DEFICIT)</b>				
<b>REVENUES OVER EXPENDITURES</b>	<b>(110,000)</b>	<b>(110,000)</b>	<b>(488,738)</b>	<b>(378,738)</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	...	...	24,971	24,971
Operating transfers in (out)	50,000	50,000	(27,425)	(77,425)
<b>Total other financing sources (uses)</b>	<b>50,000</b>	<b>50,000</b>	<b>372,603</b>	<b>322,603</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(60,000)</b>	<b>(60,000)</b>	<b>(116,135)</b>	<b>(56,135)</b>
<b>FUND BALANCE</b>				
Beginning of year	60,000	60,000	164,806	104,806
End of year	\$ ...	\$ ...	\$ 48,671	\$ 48,671

**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 2006.

See Accompanying Report of Independent Auditor

## **Additional Information Section**

**CITY OF DELAWARE CITY, DELAWARE**  
 COMBINING BALANCE SHEET-SPECIAL REVENUE FUND  
 June 30, 2006 With Comparative Totals for 2005

	Federal Funding	State Funding			Local Funding	Revolving Loan Fund	Totals	
		Municipal Street Aid	SALLE and EIDE	Other			2006	2005
<b>ASSETS</b>								
<b>ASSETS</b>								
Cash and equivalents	\$ ...	\$ 1,085	\$ ...	\$ ...	\$ ...	\$ 10,666	\$ 11,751	\$ 12,581
Note receivable	...	...	...	...	...	61,618	61,618	68,859
Due from other governments	15,803	...	...	307,697	...	...	323,500	228,738
Interfund balances	(15,803)	(1,085)	14,512	(302,847)	...	...	(305,223)	(206,589)
<b>TOTAL ASSETS</b>	<u>\$ ...</u>	<u>\$ ...</u>	<u>\$ 14,512</u>	<u>\$ 4,850</u>	<u>\$ ...</u>	<u>\$ 72,284</u>	<u>\$ 91,646</u>	<u>\$ 103,589</u>
<b>LIABILITIES AND FUND BALANCES</b>								
<b>LIABILITIES</b>								
Accounts payable	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...
Refundable advances and deposits	...	...	14,512	4,850	...	...	19,362	28,631
<b>Total liabilities</b>	<u>...</u>	<u>...</u>	<u>14,512</u>	<u>4,850</u>	<u>...</u>	<u>...</u>	<u>19,362</u>	<u>28,631</u>
<b>FUND BALANCES</b>								
Reserved for note receivable	...	...	...	...	...	61,618	61,618	68,859
Unreserved	...	...	...	...	...	10,666	10,666	6,099
<b>Total fund balances</b>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>72,284</u>	<u>72,284</u>	<u>74,958</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ ...</u>	<u>\$ ...</u>	<u>\$ 14,512</u>	<u>\$ 4,850</u>	<u>\$ ...</u>	<u>\$ 72,284</u>	<u>\$ 91,646</u>	<u>\$ 103,589</u>

See Accompanying Report of Independent Auditor

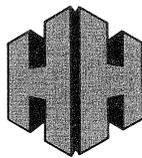
**CITY OF DELAWARE CITY, DELAWARE**

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-SPECIAL REVENUE FUND  
Year Ended June 30, 2006 With Comparative Totals for 2005

	Federal Funding	State Funding			Local Funding	Revolving Loan Fund	Totals	
		Municipal Street Aid	SALLE and EIDE	Other			2006	2005
<b>REVENUES</b>								
Intergovernmental revenues:								
Federal	\$ 94,485	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ 94,485	\$ 229,634
State	...	47,834	9,173	370,200	...	...	427,207	685,321
Local	...	...	...	...	5,000	...	5,000	1,000
Interest revenue	...	887	...	...	...	4,058	4,945	4,613
<b>Total revenues</b>	<b>94,485</b>	<b>48,721</b>	<b>9,173</b>	<b>370,200</b>	<b>5,000</b>	<b>4,058</b>	<b>531,637</b>	<b>920,568</b>
<b>EXPENDITURES</b>								
Current:								
Public safety-police	1,330	...	9,173	1,812	...	...	12,315	8,654
Public works-streets	...	22,491	...	...	5,000	...	27,491	28,810
Public works-sanitation	...	...	...	133	...	...	133	3,720
Parks and recreation	12,202	...	...	3,000	...	...	15,202	25,525
Youth Center	47,500	...	...	39,131	...	...	86,631	80,303
Capital outlay:								
Public safety-police	...	...	...	1,579	...	...	1,579	23,690
Public works-streets	...	2,110	...	46,613	...	...	48,723	643,674
Health and welfare	...	...	...	117,913	...	...	117,913	...
Parks and recreation	33,453	...	...	160,045	...	...	193,498	...
Youth Center	...	...	...	...	...	...	...	61,904
Debt service:								
Principal	...	15,000	...	...	...	4,259	19,259	26,503
Interest and other fees	...	9,120	...	...	...	2,473	11,593	10,228
<b>Total expenditures</b>	<b>94,485</b>	<b>48,721</b>	<b>9,173</b>	<b>370,226</b>	<b>5,000</b>	<b>6,732</b>	<b>534,337</b>	<b>913,011</b>
<b>EXCESS REVENUES OVER (UNDER) EXPENDITURES</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>(26)</b>	<b>...</b>	<b>(2,674)</b>	<b>(2,700)</b>	<b>7,557</b>
<b>OTHER FINANCING SOURCES (USES)</b>								
Operating transfers in	...	...	...	26	...	...	26	6,427
Operating transfers out	...	...	...	...	...	...	...	(16,500)
<b>Total other financing     sources (uses)</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>26</b>	<b>...</b>	<b>...</b>	<b>26</b>	<b>(10,073)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>(2,674)</b>	<b>(2,674)</b>	<b>(2,516)</b>
<b>FUND BALANCES</b>								
Beginning of year	...	...	...	...	...	74,958	74,958	77,474
End of year	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ 72,284	\$ 72,284	\$ 74,958

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 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, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated October 16, 2006. 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.

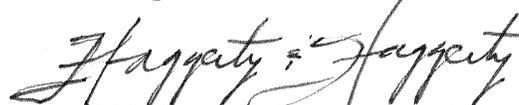
Internal Control Over Financial Reporting

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 16, 2006.

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 16, 2006  
Wilmington, Delaware

**CITY OF DELAWARE CITY, DELAWARE**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2006

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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 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.