

Report of Independent Auditor

CITY OF DELAWARE CITY
Delaware City, Delaware

Years Ended June 30, 2008 and 2007

CITY OF DELAWARE CITY, DELAWARE

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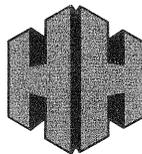
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**CERTIFIED PUBLIC ACCOUNTANTS
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Report of Independent Auditor

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, 2008 and 2007, which collectively comprise the City's financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Delaware 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 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 as of June 30, 2008 and 2007, 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 17, 2008 on our consideration of the City of Delaware 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 important for assessing the results of our audit.

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

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Delaware City's basic financial statements. The combining and individual nonmajor fund financial 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. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Delaware City. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountants

October 17, 2008
Wilmington, Delaware

Basic Financial Statements Section

CITY OF DELAWARE CITY, DELAWARE
STATEMENTS OF NET ASSETS
June 30, 2008 and 2007

	2008			Discretely Presented Component Unit	2007			Discretely Presented Component Unit
	Primary Government				Primary Government			
	Governmental	Business	Total		Governmental	Business	Total	
ASSETS								
Current assets:								
Cash and equivalents	\$ 236,648	\$...	\$ 236,648	\$ 6,784	\$ 27,555	\$...	\$ 27,555	\$ 5,453
Receivables, net:								
Taxes	5,020	...	5,020	...	9,850	...	9,850	...
Trade accounts	...	9,958	9,958	...	...	14,100	14,100	...
Other	19,248	...	19,248	...	46,080	...	46,080	...
Due from other governments	32,781	...	32,781	...	306,705	...	306,705	...
Restricted assets:								
Certificates of deposit	357,067	...	357,067	...	...	...	...	...
Note receivable due within one year	7,812	...	7,812	...	63,548	...	63,548	...
Prepayments and other assets	9,692	...	9,692	8,279	...	...	...	3,525
Total current assets	668,268	9,958	678,226	15,063	453,738	14,100	467,838	8,978
Noncurrent assets:								
Note receivable due after one year	16,269	...	16,269	...	3,045	...	3,045	...
Capital assets, net:								
Nondepreciable	2,197,975	18,331	2,216,306	...	680,686	18,331	699,017	...
Depreciable	5,865,646	1,325,877	7,191,523	...	6,120,874	1,458,294	7,579,168	...
Bond issue costs, net of amortization	...	25,754	25,754	...	...	27,153	27,153	...
Total noncurrent assets	8,079,890	1,369,962	9,449,852	...	6,804,605	1,503,778	8,308,383	...
TOTAL ASSETS	8,748,158	1,379,920	10,128,078	15,063	7,258,343	1,517,878	8,776,221	8,978
LIABILITIES								
Current liabilities:								
Line of credit	...	...	...	...	125,000	...	125,000	...
Contract payable	41,230	...	41,230	...	61,813	...	61,813	...
Accounts payable	66,784	...	66,784	2,450	45,856	...	45,856	...
Accrued interest payable	...	6,173	6,173	...	...	5,721	5,721	...
Current portion of long-term debt	56,899	28,105	85,004	...	42,749	21,864	64,613	...
Payroll deductions and withholdings	4,168	...	4,168	...	5,736	...	5,736	...
Compensated absences liability	4,711	...	4,711	...	...	...	...	...
Due to other governments	...	...	...	...	...	...	...	8,000
Deferred revenues due within one year	23,853	...	23,853	...	33,997	...	33,997	...
Refundable advances and deposits	366,800	6,300	373,100	4,760	6,465	5,775	12,240	860
Total current liabilities	564,445	40,578	605,023	7,210	321,616	33,360	354,976	8,860
Noncurrent liabilities:								
Long-term debt, net of current portion	641,519	912,306	1,553,825	...	377,987	940,420	1,318,407	...
Long-term portion of compensated absences	5,736	...	5,736	...	11,306	...	11,306	...
Total noncurrent liabilities	647,255	912,306	1,559,561	...	389,293	940,420	1,329,713	...
TOTAL LIABILITIES	1,211,700	952,884	2,164,584	7,210	710,909	973,780	1,684,689	8,860
NET ASSETS (LIABILITIES)								
Invested in capital assets, net of related debt	7,365,203	429,551	7,794,754	...	6,319,011	541,494	6,860,505	...
Restricted for specific programs	99,883	...	99,883	7,853	83,564	...	83,564	118
Unrestricted	71,372	(2,515)	68,857	...	144,859	2,604	147,463	...
TOTAL NET ASSETS	\$ 7,536,458	\$ 427,036	\$ 7,963,494	\$ 7,853	\$ 6,547,434	\$ 544,098	\$ 7,091,532	\$ 118

Accompanying notes are an integral part of these financial statements

CITY OF DELAWARE CITY, DELAWARE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

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	\$ 260,434	\$ 2,391	\$...	\$...	\$ (258,043)	\$...	\$ (258,043)	\$...
Public safety-police	198,135	5,583	29,644	...	(162,908)	...	(162,908)	...
Public works-streets	184,478	...	41,312	...	(143,166)	...	(143,166)	...
Public works-sanitation	142,546	5,806	...	...	(136,740)	...	(136,740)	...
Parks and recreation	39,747	...	6,127	1,067,744	1,034,124	...	1,034,124	...
Standing Committees	1,725	...	...	...	(1,725)	...	(1,725)	...
Youth Center	67,150	125	47,200	38,957	19,132	...	19,132	...
Interest on long-term debt	23,781	...	11,854	...	(11,927)	...	(11,927)	...
Depreciation-unallocated	262,324	...	...	...	(262,324)	...	(262,324)	...
Total governmental activities	1,180,320	13,905	136,137	1,106,701	76,423	...	76,423	...
BUSINESS-TYPE ACTIVITIES								
Water system	365,933	283,320	...	...	...	(82,613)	(82,613)	...
Total business-type activities	365,933	283,320	...	...	...	(82,613)	(82,613)	...
TOTAL PRIMARY GOVERNMENT	1,546,253	297,225	136,137	1,106,701	76,423	(82,613)	(6,190)	...
DISCRETELY PRESENTED COMPONENT UNIT	61,011	9,668	58,666	...	...	...	...	7,323
TOTAL PRIMARY GOV'T AND COMPONENT UNIT	\$ 1,607,264	\$ 306,893	\$ 194,803	\$ 1,106,701	76,423	(82,613)	(6,190)	7,323
GENERAL REVENUES AND TRANSFERS								
Property taxes levied for general purposes, net					762,826	...	762,826	...
Investment earnings and rents					99,664	...	99,664	412
Gain (loss) from sale of capital assets					(1,780)	...	(1,780)	...
Miscellaneous revenues					15,073	2,369	17,442	...
Transfers between governmental, BT activities					36,818	(36,818)	...	...
Total general revenues and transfers					912,601	(34,449)	878,152	412
CHANGES IN NET ASSETS (LIABILITIES)					989,024	(117,062)	871,962	7,735
NET ASSETS								
Beginning of year					6,547,434	544,098	7,091,532	118
End of year					\$ 7,536,458	\$ 427,036	\$ 7,963,494	\$ 7,853

Accompanying notes are an integral part of these financial statements

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

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

Accompanying notes are an integral part of these financial statements

CITY OF DELAWARE CITY, DELAWARE
BALANCE SHEETS-GOVERNMENTAL FUNDS
June 30, 2008 and 2007

	2008			2007		
	Governmental Fund Types			Governmental Fund Types		
	General	Special Revenue	Total	General	Special Revenue	Total
ASSETS						
ASSETS						
Cash and equivalents	\$ 160,846	\$ 75,802	\$ 236,648	\$ 10,584	\$ 16,971	\$ 27,555
Receivables, net:						
Taxes	5,020	...	5,020	9,850	...	9,850
Other	19,248	...	19,248	46,080	...	46,080
Due from other governments	10,000	22,781	32,781	...	306,705	306,705
Prepayments	9,692	...	9,692	...	...	...
Restricted assets:						
Certificates of deposit	...	357,067	357,067	...	...	...
Notes receivable	...	24,081	24,081	...	66,593	66,593
Interfund receivables	...	28,182	28,182	238,427	...	238,427
TOTAL ASSETS	<u>\$ 204,806</u>	<u>\$ 507,913</u>	<u>\$ 712,719</u>	<u>\$ 304,941</u>	<u>\$ 390,269</u>	<u>\$ 695,210</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Lines of credit	\$...	\$...	\$...	\$ 125,000	\$...	\$ 125,000
Accounts payable	66,784	...	66,784	45,856	...	45,856
Contract payable	...	41,230	41,230	...	61,813	61,813
Payroll deductions and withholdings	4,168	...	4,168	5,736	...	5,736
Compensated absences liability	4,711	...	4,711	...	...	...
Deferred revenues	23,853	...	23,853	33,997	...	33,997
Refundable advances and deposits	...	366,800	366,800	...	6,465	6,465
Interfund payables	28,182	...	28,182	...	238,427	238,427
Total liabilities	<u>127,698</u>	<u>408,030</u>	<u>535,728</u>	<u>210,589</u>	<u>306,705</u>	<u>517,294</u>
FUND BALANCES						
Reserved for note receivable	...	24,081	24,081	...	66,593	66,593
Reserved for specific programs	...	75,802	75,802	...	16,971	16,971
Unreserved	77,108	...	77,108	94,352	...	94,352
Total fund balances	<u>77,108</u>	<u>99,883</u>	<u>176,991</u>	<u>94,352</u>	<u>83,564</u>	<u>177,916</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 204,806</u>	<u>\$ 507,913</u>	<u>\$ 712,719</u>	<u>\$ 304,941</u>	<u>\$ 390,269</u>	<u>\$ 695,210</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, 2008 and 2007

	2008	2007
Amounts reported for governmental activities in the statement of net assets are different because:		
Total fund balances-governmental funds	\$ 176,991	\$ 177,916
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 \$8,995,077 for 2008 and \$7,511,725 for 2007 and the related accumulated depreciation is \$931,456 for 2008 and \$710,165 for 2007.	8,063,621	6,801,560
Long-term liabilities are not due and payable within the current period and therefore are not reported as liabilities in the governmental funds.	(698,418)	(420,736)
Compensated absences are not due and payable within the current period and therefore are not reported in the governmental funds.	(5,736)	(11,306)
Total net assets-governmental activities	<u>\$ 7,536,458</u>	<u>\$ 6,547,434</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, 2008 and 2007

	2008			2007		
	Governmental Fund Types			Governmental Fund Types		
	General	Special Revenue	Total	General	Special Revenue	Total
REVENUES						
Taxes:						
Real estate taxes	\$ 647,122	\$...	\$ 647,122	\$ 578,191	\$...	\$ 578,191
Real estate transfer taxes	104,616	...	104,616	130,335	...	130,335
Cable franchise taxes	11,088	...	11,088	7,508	...	7,508
Licenses and permits	2,020	...	2,020	3,190	...	3,190
Intergovernmental revenues:						
Federal	...	1,014,169	1,014,169	...	220,547	220,547
State	...	228,269	228,269	...	288,981	288,981
Local	...	400	400	...	...	...
Police fines	5,583	...	5,583	13,229	...	13,229
Charges for services	6,302	...	6,302	6,292	...	6,292
Interest and rents	96,202	3,462	99,664	82,309	6,612	88,921
Miscellaneous revenues	15,073	...	15,073	13,515	...	13,515
Total revenues	<u>888,006</u>	<u>1,246,300</u>	<u>2,134,306</u>	<u>834,569</u>	<u>516,140</u>	<u>1,350,709</u>
EXPENDITURES						
Current:						
General governments	266,449	...	266,449	260,673	...	260,673
Public safety-police	168,046	29,644	197,690	206,370	24,934	231,304
Public works-streets	154,462	30,016	184,478	141,967	29,020	170,987
Public works-sanitation	142,546	...	142,546	139,490	...	139,490
Parks and recreation	...	6,127	6,127	...	7,430	7,430
Standing Committees	1,725	...	1,725	1,500	...	1,500
Youth Center	19,950	47,200	67,150	16,813	57,446	74,259
Capital outlay	474,700	1,097,801	1,572,501	23,793	375,382	399,175
Debt service:						
Principal	26,705	16,055	42,760	31,424	15,094	46,518
Interest and other fees	9,995	13,786	23,781	21,204	14,330	35,534
Total expenditures	<u>1,264,578</u>	<u>1,240,629</u>	<u>2,505,207</u>	<u>843,234</u>	<u>523,636</u>	<u>1,366,870</u>
EXCESS (DEFICIT) REVENUES OVER EXPENDITURES	<u>(376,572)</u>	<u>5,671</u>	<u>(370,901)</u>	<u>(8,665)</u>	<u>(7,496)</u>	<u>(16,161)</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from new financing	300,000	...	300,000	...	...	...
Capital lease arrangement	20,442	...	20,442	...	...	...
Proceeds from sale of capital assets	12,716	...	12,716	2,806	...	2,806
Interfund transfers in (out)	26,170	10,648	36,818	51,540	18,776	70,316
Total other financing sources (uses)	<u>359,328</u>	<u>10,648</u>	<u>369,976</u>	<u>54,346</u>	<u>18,776</u>	<u>73,122</u>
NET CHANGES IN FUND BALANCES	<u>(17,244)</u>	<u>16,319</u>	<u>(925)</u>	<u>45,681</u>	<u>11,280</u>	<u>56,961</u>
FUND BALANCES						
Beginning of year	<u>94,352</u>	<u>83,564</u>	<u>177,916</u>	<u>48,671</u>	<u>72,284</u>	<u>120,955</u>
End of year	<u>\$ 77,108</u>	<u>\$ 99,883</u>	<u>\$ 176,991</u>	<u>\$ 94,352</u>	<u>\$ 83,564</u>	<u>\$ 177,916</u>

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, 2008 and 2007

	2008	2007
Amounts reported for governmental activities in the statement of activities are different because:		
Net changes in fund balance-total governmental funds	\$ (925)	\$ 56,961
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.		
	<u>2008</u>	<u>2007</u>
Capital outlay	\$1,538,881	\$ 320,246
Depreciation expense	<u>(262,324)</u>	<u>(256,655)</u>
	1,276,557	63,591
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>2008</u>	<u>2007</u>
Long-term financing:		
Proceeds received	\$ (300,000)	\$...
Principal payments made	<u>36,442</u>	<u>39,527</u>
	(263,558)	39,527
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>2008</u>	<u>2007</u>
Capital lease financing:		
Proceeds	\$ (20,442)	\$...
Principal payments	<u>6,318</u>	<u>6,991</u>
	(14,124)	6,991
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>2008</u>	<u>2007</u>
Capital assets:		
Proceeds from sale	\$ (12,716)	\$ (2,806)
Gain (loss) from sale	<u>(1,780)</u>	<u>2,806</u>
	(14,496)	...
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.		
	<u>5,570</u>	<u>(1,126)</u>
Changes in net assets-governmental activities	<u>\$ 989,024</u>	<u>\$ 165,944</u>

Accompanying notes are an integral part of these financial statements

CITY OF DELAWARE CITY, DELAWARE
STATEMENTS OF NET ASSETS-PROPRIETARY FUND
June 30, 2008 and 2007

	Water Fund	
	2008	2007
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$. . .	\$. . .
Accounts receivable, net	9,958	14,100
Total current assets	9,958	14,100
NONCURRENT ASSETS		
Capital assets, net:		
Nondepreciable	18,331	18,331
Depreciable	1,325,877	1,458,294
Bond issue costs, net of amortization	25,754	27,153
Total noncurrent assets	1,369,962	1,503,778
TOTAL ASSETS	1,379,920	1,517,878
LIABILITIES		
CURRENT LIABILITIES		
Accrued interest payable	6,173	5,721
Current portion of long-term debt	28,105	21,864
Refundable deposits	6,300	5,775
Total current liabilities	40,578	33,360
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	912,306	940,420
TOTAL LIABILITIES	952,884	973,780
NET ASSETS (LIABILITIES)		
Invested in capital assets, net of related debt	429,551	541,494
Unrestricted	(2,515)	2,604
TOTAL NET ASSETS	\$ 427,036	\$ 544,098

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, 2008 and 2007

	Water Fund	
	2008	2007
OPERATING REVENUES		
Charges for services	\$ 283,320	\$ 272,742
OPERATING EXPENSES		
Salaries	42,815	41,564
Payroll taxes	3,550	3,386
Employee benefits	8,652	8,425
Contractual services	37,500	37,500
Insurance	18,277	18,673
Telephone	3,731	3,985
Electricity	35,018	32,161
Professional fees	9,609	10,017
Distribution system maintenance	23,408	32,885
Office supplies	694	525
Materials and supplies	4,310	5,920
Fuel for heating	2,191	1,233
Miscellaneous	230	3,003
Depreciation and amortization	133,816	127,921
Total operating expenses	<u>323,801</u>	<u>327,198</u>
OPERATING INCOME (LOSS)	<u>(40,481)</u>	<u>(54,456)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest expense	(42,132)	(39,290)
Miscellaneous revenues	2,369	10,655
Total nonoperating revenues (expenses)	<u>(39,763)</u>	<u>(28,635)</u>
INCOME (LOSS) BEFORE OTHER FINANCING SOURCES (USES)	<u>(80,244)</u>	<u>(83,091)</u>
TRANSFERS FROM (TO) GOVERNMENTAL ACTIVITIES	<u>(36,818)</u>	<u>(70,316)</u>
CHANGES IN NET ASSETS (LIABILITIES)	<u>(117,062)</u>	<u>(153,407)</u>
NET ASSETS		
Beginning of year	<u>544,098</u>	<u>697,505</u>
End of year	<u>\$ 427,036</u>	<u>\$ 544,098</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, 2008 and 2007

	Water Fund	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 290,356	\$ 285,160
Cash payments to suppliers for goods and services	(134,968)	(145,902)
Cash payments to employees for services	(55,017)	(53,375)
Net cash provided (used) by operating activities	100,371	85,883
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	...	(201,066)
Proceeds from issuance of new debt	...	273,237
Payment of bond issue costs	...	(27,969)
Principal paid on general obligation bonds and notes	(21,873)	(22,750)
Interest paid on general obligation bonds and notes	(41,680)	(37,019)
Cash received (paid) from governmental activities	(36,818)	(70,316)
Net cash provided (used) by capital and related financing activities	(100,371)	(85,883)
NET INCREASE IN CASH AND EQUIVALENTS	...	...
CASH AND EQUIVALENTS		
Beginning of year	...	...
End of year	\$...	\$...
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (40,481)	\$ (54,456)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	132,417	127,105
Amortization	1,399	816
Other nonoperating revenues	2,369	10,655
Changes in assets and liabilities:		
Receivables	4,142	788
Refundable deposits	525	975
Total adjustments	140,852	140,339
Net cash provided from operating activities	\$ 100,371	\$ 85,883

Accompanying notes are an integral part of these financial statements

CITY OF DELAWARE CITY, DELAWARE
NOTES TO 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.

Reporting Entity

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

Discretely Presented Component Unit

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

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

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-Wide and Fund Financial Statements

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

The City reports the following major governmental funds:

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

Additionally, the City reports the following fund type:

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Budgetary Accounting

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

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

Use of Estimates

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

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Equivalents

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

Investments

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

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

Receivable-Taxes

At June 30, 2008 and 2007, taxes receivable are shown net of the estimated uncollectible allowances of \$27,614 and \$30,282, 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, 2008 and 2007, trade accounts receivable are shown net of the estimated uncollectible allowances of \$4,043 and \$4,043, 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, 2008 and 2007, 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 2008 and 2007, no interest was capitalized.

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

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

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

Unamortized Bond Issue Costs

Bond issue costs of the Series 2006 Bond in the amount of \$27,969 are being amortized over the life [20 years] of the Bond using the straight-line method. At June 30, 2008 and 2007, accumulated amortization was \$2,215 and \$816, respectively. Amortization expense annually is \$1,399.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Revenues

Deferred revenues represent funds received in advance which will be recognized in future years when the revenue recognition criteria is met. At June 30, 2008 and 2007, deferred revenues in the general fund consist of \$23,853 and \$33,997 of which deferred rent was \$19,032 and \$21,666 and other revenue sources, respectively.

Refundable Advances

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

Compensated Absences

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

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

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

Long-Term Obligations

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

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

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

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, 2008 and 2007, 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 is \$1.09 per \$100 of assessed valuation for the fiscal year 2008 and \$1.09 per \$100 of assessed valuation for the fiscal year 2007 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 2008 and 2007 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, 2008 and 2007. 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	2008		2007	
	Book	Bank	Book	Bank
Category 1	\$ 109,038	\$ 101,038	\$ 27,255	\$ 35,456
Category 2	127,310	172,723	...	...
Category 3	<u>300</u>	<u>...</u>	<u>300</u>	<u>...</u>
Totals	<u>\$ 236,648</u>	<u>\$ 273,761</u>	<u>\$ 27,555</u>	<u>\$ 35,456</u>

NOTE 4 - NOTE RECEIVABLE

Note receivable consists of loans made by the "Revolving Loan Fund" for the Façade Improvement Program. At June 30, 2008 and 2007, the receivable consisted of three and two notes, respectively, which are payable either in monthly or quarterly installments of interest and principal. The notes carry a fixed rate of interest and are secured with the real property of the borrower.

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

Primary government receivables due from other governmental units represent revenues earned by the City. At June 30, 2008 and 2007, the receivables consist of:

Description	Activity Type			
	2008		2007	
	Governmental	Business	Governmental	Business
Delaware Department of Transportation	\$...	\$...	\$ 237,934	\$...
Delaware Criminal Justice Council	...	...	7,902	...
Delaware Emergency Management Agency	17,067	...	...	...
Various other State agencies	<u>15,714</u>	<u>...</u>	<u>60,869</u>	<u>...</u>
Total intergovernmental receivables	<u>\$ 32,781</u>	<u>\$...</u>	<u>\$ 306,705</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, 2008 follows:

Description	Beginning Balances	Additions	Deletions	Ending Balances
Governmental activities:				
Capital assets, not depreciated:				
Land	\$ 421,737	\$...	\$...	\$ 421,737
Construction in progress:				
Buildings and improvements	258,949	1,514,335	...	1,773,284
Streets and sidewalks	...	...	...	...
Trees, trails and landscape	...	2,954	...	2,954
Total capital assets, not being depreciated	680,686	1,517,289	...	2,197,975
Capital assets, being depreciated:				
Buildings and improvements	4,089,242	...	...	4,089,242
Furniture and office equipment	57,520	...	...	57,520
Vehicles and equipment	293,268	21,592	55,529	259,331
Streets and sidewalks	1,332,287	...	...	1,332,287
Trees, trails and landscape	1,058,722	...	...	1,058,722
Total being depreciated	6,831,039	21,592	55,529	6,797,102
Less accumulated depreciation:				
Buildings and improvements	347,142	106,315	...	453,457
Furniture and office equipment	30,769	6,371	...	37,140
Vehicles and equipment	115,079	40,668	41,033	114,714
Streets and sidewalks	217,175	108,970	...	326,145
Trees, trails and landscape	...	...	...	...
Total accumulated depr.	710,165	262,324	41,033	931,456
Total capital assets, being depreciated	6,120,874	(240,732)	14,496	5,865,646
Governmental activities capital assets, net	\$ 6,801,560	\$ 1,276,557	\$ 14,496	\$ 8,063,621
Business-type activities:				
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	415,592	...	...	415,592
Water distribution system	2,672,401	...	...	2,672,401
Machinery and equipment	...	...	...	...
Total being depreciated	3,087,993	...	...	3,087,993
Less accumulated depreciation:				
Buildings and improvements	278,986	10,502	...	289,488
Water distribution system	1,350,713	121,915	...	1,472,628
Machinery and equipment	...	...	...	...
Total accumulated depr.	1,629,699	132,417	...	1,762,116
Total capital assets, being depreciated	1,458,294	(132,417)	...	1,325,877
Business-type activities capital assets, net	\$ 1,476,625	\$ (132,417)	\$...	\$ 1,344,208

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - CAPITAL ASSETS (continued)

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

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

NOTE 7 - ECONOMIC DEPENDENCY

A substantial portion of the City's annual property tax assessment is paid by one corporate taxpayer, which approximates 36% 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 long-term obligation debt:

Description	Year Ended June 30, 2008				
	Beginning Balances	Additions	Deletions	Ending Balances	
				Long-term Portion	Due Within One Year
Governmental Activities:					
General obligation notes:					
Wilmington Trust Bank	\$ 36,851	\$...	\$ 12,509	\$ 10,920	\$ 13,422
Sun National Bank	32,849	...	4,809	22,980	5,060
Sun National Bank	2,252	...	2,252	...	...
Sun National Bank	...	300,000	...	293,473	6,527
Ford Motor Credit Corp.	13,066	...	6,318	...	6,748
Ford Motor Credit Corp.	...	20,442	...	13,360	7,082
Total note obligations	85,018	320,442	25,888	340,733	38,839
General obligation bond:					
Citizens Bank	335,718	...	16,872	300,786	18,060
Total governmental	\$ 420,736	\$ 320,442	\$ 42,760	\$ 641,519	\$ 56,899
Business-Type Activities:					
General obligation bonds:					
1995 Series	\$ 591,843	\$...	\$ 8,939	\$ 573,509	\$ 9,395
2006 Series	273,237	...	5,164	257,530	10,543
Total bond obligations	865,080	...	14,103	831,039	19,938
General obligation notes:					
SERCAP	97,204	...	7,770	81,267	8,167
Total business-type	\$ 962,284	\$...	\$ 21,873	\$ 912,306	\$ 28,105

General Obligation Bonds and Notes

Wilmington Trust Bank-Note

On September 30, 1999, the City issued a general obligation note to Wilmington Trust Bank 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 Bank's National Commercial Rate (NCR)]. 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. At June 30, 2008, the note repayment schedule [based on an interest rate of 3.75%] follows:

Years Ending June 30	Principal	Interest	Total
2009	\$ 13,422	\$ 684	\$ 14,106
2010	10,920	178	11,098
Total required payments	\$ 24,342	\$ 862	\$ 25,204

CITY OF DELAWARE CITY, DELAWARE
 NOTES TO FINANCIAL STATEMENTS

NOTE 8 - LONG-TERM DEBT OBLIGATIONS (continued)

General Obligation Bonds and Notes (continued)

Sun National Bank-Note

On January 9, 2003, the City issued a general obligation note to Sun National Bank in the amount of \$50,000, with a maturity date of April 10, 2013. The note was issued for the purpose of funding the "Revolving Loan Fund" for the Façade Improvement Program. The note is secured with the full faith and credit of the City, and the assignment of tax revenues. At June 30, 2008, the note repayment schedule [based on an interest rate of 6.49%] follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 5,060	\$ 1,671	\$ 6,731
2010	5,399	1,332	6,731
2011	5,760	971	6,731
2012	6,145	586	6,731
2013	<u>5,676</u>	<u>177</u>	<u>5,853</u>
Total required payments	\$ 28,040	\$ 4,737	\$ 32,777

Sun National Bank-Lines of Credit

On October 25, 2007, the City opened two non-revolving lines of credit with Sun National Bank in the amounts of \$300,000 and \$200,000. The lines of credit will be repaid in nine monthly payments of interest only at the bank's prime rate minus 1%, floating, beginning with the payment due November 25, 2007. Beginning July 25, 2008, the principal balance then outstanding on the lines of credit will convert to a five-year term loan with fixed principal payments based on a twenty-five year amortization with the first payment due August 25, 2008. The final payment is due July 25, 2013. The lines of credit are collateralized with the real property located in New Castle County, State of Delaware, as stipulated in the security agreement. At June 30, 2008, only the \$300,000 was drawn down and the interest rate was at 4.00%. The following is the note repayment schedule:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 6,527	\$ 10,892	\$ 17,419
2010	7,398	11,604	19,002
2011	7,699	11,303	19,002
2012	8,013	10,989	19,002
2013	8,339	10,663	19,002
2014	<u>262,024</u>	<u>873</u>	<u>262,897</u>
Total required payments	\$ 300,000	\$ 56,324	\$ 356,324

CITY OF DELAWARE CITY, DELAWARE
 NOTES TO FINANCIAL STATEMENTS

NOTE 8 - LONG-TERM DEBT OBLIGATIONS (continued)

General Obligation Bonds and Notes (continued)

Ford Motor Credit Corporation

On May 18, 2006, the City entered into a lease-purchase arrangement with Ford Motor Credit Corporation in the amount of \$20,057, with a maturity date of July 15, 2008. Interest is payable at an annual rate of 6.80%. The arrangement was for the purchase of a 2006 Ford Crown Victoria, and is secured with an interest in the vehicle. At June 30, 2008, the following is the note repayment schedule:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 6,748	\$ 459	\$ 7,207

On May 16, 2008, the City entered into a lease-purchase arrangement with Ford Motor Credit Corporation in the amount of \$20,442, with a maturity date of July 15, 2010. Interest is payable at an annual rate of 5.95%. The arrangement was for the purchase of a 2008 Ford Crown Victoria, and is secured with an interest in the vehicle. At June 30, 2008, the following is the note repayment schedule:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 7,082	\$ 200	\$ 7,282
2010	6,487	795	7,282
2011	6,873	408	7,281
Total required payments	\$ 20,442	\$ 1,403	\$ 21,845

Citizens Bank-Bond

On June 15, 2006, the City issued a General Obligation Bond to Citizens Bank in the amount of \$355,000, with a maturity date of June 15, 2021. The bond carries an annual interest rate of 5.125% on the principal amount thereof, and requires monthly payments of \$2,830.49 [principal and interest]. The note was issued for the purpose of funding the City's 2006 Capital Improvement Projects. The bond is secured with the full faith and credit of the City. At June 30, 2008, the following is the bond repayment schedule:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 18,060	\$ 15,906	\$ 33,966
2010	19,008	14,958	33,966
2011	20,005	13,961	33,966
2012	21,055	12,911	33,966
2013	22,160	11,806	33,966
2014-2018	129,508	40,321	169,829
2019-2021	89,050	6,452	95,502
Total required payments	\$ 318,846	\$ 116,315	\$ 435,161

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - LONG-TERM DEBT OBLIGATIONS (continued)

General Obligation Bonds and Notes (continued)

General Obligation Bonds, Series 1995

The general obligation bonds, Series 1995, originally issued in the amount of \$662,000, carry a maturity date of February 21, 2037. The proceeds of the general obligation bonds were used to finance the City's "Water System Improvement Project". The bonds carry an interest rate of 5.00% per annum and are payable in quarterly installments of \$9,593, including interest. At June 30, 2008, the following schedule summarizes the remaining payments required:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 9,395	\$ 28,977	\$ 38,372
2010	9,873	28,499	38,372
2011	10,376	27,996	38,372
2012	10,905	27,467	38,372
2013	11,461	26,911	38,372
2014-2018	66,679	125,181	191,860
2019-2023	85,485	106,375	191,860
2024-2028	109,595	82,265	191,860
2029-2033	140,505	51,355	191,860
2034-2037	<u>128,630</u>	<u>13,202</u>	<u>141,832</u>
Total required payments	\$ 582,904	\$ 518,228	\$1,101,132

General Obligation Bond, Series 2006

On October 11, 2006, the City issued a General Obligation Bond to the Delaware Safe Drinking Water Revolving Fund, Delaware Department of Health & Social Services, Division of Public Health in the amount of \$273,237, with a maturity date of August 1, 2027. The bond carries an annual interest rate of 2.76% on the principal amount thereof, and requires semiannual payments of principal and interest on August 1 and February 1 of each year. The bond was issued for the purpose of funding the Delaware City Well 5 Upgrade Project. The bond is secured with the full faith and credit of the City. At June 30, 2008, the bond repayment schedule is as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 10,543	\$ 7,326	\$ 17,869
2010	10,836	7,033	17,869
2011	11,137	6,732	17,869
2012	11,446	6,423	17,869
2013	11,764	6,105	17,869
2014-2018	63,912	25,435	89,347
2019-2023	73,301	16,046	89,347
2024-2028	<u>75,134</u>	<u>5,279</u>	<u>80,413</u>
Total required payments	\$ 268,073	\$ 80,379	\$ 348,452

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%. The note requires monthly payments of \$1,037.90 [principal and interest] for fifteen years and matures on May 21, 2017. The note was issued for the City's "Well No. 4 Water Filter Rehabilitation Project". The note is secured with an interest in land [parcel no. 22.008.00.055] located at 321 Washington Street, Delaware City, Delaware. At June 30, 2008, the note repayment schedule is as follows:

Years Ending June 30	Principal	Interest	Total
2009	\$ 8,167	\$ 4,288	\$ 12,455
2010	8,585	3,870	12,455
2011	9,025	3,430	12,455
2012	9,486	2,969	12,455
2013	9,972	2,483	12,455
2014-2017	44,199	4,587	48,786
Total required payments	\$ 89,434	\$ 21,627	\$ 111,061

Future maturities of principal and interest payments follow:

Years Ending June 30	<u>General Obligation Bonds</u>		<u>General Obligation Notes</u>		Totals
	Principal	Interest	Principal	Interest	
Governmental Activities:					
2009	\$ 18,060	\$ 15,906	\$ 38,839	\$ 13,905	\$ 86,710
2010	19,008	14,958	30,204	13,909	78,079
2011	20,005	13,961	20,332	12,683	66,981
2012	21,055	12,911	14,158	11,575	59,699
2013	22,160	11,806	14,015	10,840	58,821
2014-2018	129,508	40,321	262,024	873	432,726
2019-2021	89,050	6,452	...	...	95,502
Totals	\$ 318,846	\$ 116,315	\$ 379,572	\$ 63,785	\$ 878,518

Business-Type Activities:

2009	\$ 19,938	\$ 36,303	\$ 8,167	\$ 4,288	\$ 68,696
2010	20,709	35,532	8,585	3,870	68,696
2011	21,513	34,728	9,025	3,430	68,696
2012	22,351	33,890	9,486	2,969	68,696
2013	23,225	33,016	9,972	2,483	68,696
2014-2018	130,591	150,616	44,199	4,587	329,993
2019-2023	158,786	122,421	...	...	281,207
2024-2028	184,729	87,544	...	...	272,273
2029-2033	140,505	51,355	...	...	191,860
2034-2037	128,630	13,202	...	...	141,832
Totals	\$ 850,977	\$ 598,607	\$ 89,434	\$ 21,627	\$ 1,560,645

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

NOTE 9 - 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, 2008 and 2007 was \$3,588 and \$3,588, respectively.

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

At June 30, 2008, 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
2009	\$ 3,588
2010	<u>897</u>
Total minimum future rental payments required	\$ <u>4,485</u>

Operating Leases as Lessor

The City is the lessor of certain real property under operating leasing arrangements expiring at various dates through 2010. The following is a summary of property held for lease at June 30, 2008:

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
2009	\$ 36,764
2010	<u>27,573</u>
Total minimum future rental revenue to be received	\$ <u>64,337</u>

Total rental revenue received for the years ended June 30, 2008 and 2007 was \$69,436 and \$67,570, respectively.

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

NOTE 10 - LINE OF CREDIT

The City issued a general obligation note for \$200,000 to Sun National Bank. The note, a line of credit, carried a variable interest rate with a maturity date of February 28, 2008. The line of credit was not renewed by the City. The note was issued for the purpose of providing working capital and was secured with the full faith and credit of the City and the assignment of tax revenues. At June 30, 2008 and 2007, the balance outstanding is \$0 and \$125,000, respectively.

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.

Construction Commitment

At June 30, 2008, the City has two active construction projects: the "Van Amringe Exterior and Structural Rehabilitation Project" and the "Delaware City Community Center Project". The commitments with the general contractors are as follows:

<u>Contractor</u>	<u>Contract Award</u>	<u>Expended To Date</u>	<u>Remaining Commitment</u>
Commonwealth Construction Co.	\$1,555,343	\$1,369,680	\$ 185,663
Wilkinson Roofing & Siding, Inc.	<u>213,700</u>	<u>...</u>	<u>213,700</u>
Totals	<u>\$1,769,043</u>	<u>\$1,369,680</u>	<u>\$ 399,363</u>

The Van Amringe project is funded with Transportation Enhancement Funds [federal funding of \$873,056] and the remaining \$682,287 will be funded with a state grant award and the issuance of general obligation notes to a financial institution totaling \$500,000. The Community Center project will be funded with financing provided by a local financial institution in the amount of \$234,000 entered into on May 23, 2008. The financing carries a fixed interest rate of 3.00% and matures May 23, 2010. It is projected that the financing will be repaid with future revenues of the general governments.

Required Supplemental Information (RSI) Section

CITY OF DELAWARE CITY, DELAWARE

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND
 Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Real estate taxes	\$ 572,594	\$ 572,594	\$ 647,122	\$ 74,528
Real estate transfer taxes	65,000	65,000	104,616	39,616
Cable franchise taxes	7,500	7,500	11,088	3,588
Licenses and permits	2,000	2,000	2,020	20
Intergovernmental revenues	...	...	...	...
Police fines	15,000	15,000	5,583	(9,417)
Charges for services	4,950	4,950	6,302	1,352
Public service contracts	41,160	41,160	...	(41,160)
Interest and rents	77,000	77,000	96,202	19,202
Miscellaneous revenues	2,000	2,000	15,073	13,073
Total revenues	787,204	787,204	888,006	100,802
EXPENDITURES				
Current:				
General government	255,553	255,553	266,449	(10,896)
Public safety-police	194,606	194,606	168,046	26,560
Public works-streets	122,000	122,000	154,462	(32,462)
Public works-sanitation	141,500	141,500	142,546	(1,046)
Standing Committees	700	700	1,725	(1,025)
Youth Center	14,000	14,000	19,950	(5,950)
Capital outlay	6,000	6,000	474,700	(468,700)
Debt service	87,845	87,845	36,700	51,145
Total expenditures	822,204	822,204	1,264,578	(442,374)
EXCESS (DEFICIT)				
REVENUES OVER EXPENDITURES	(35,000)	(35,000)	(376,572)	(341,572)
OTHER FINANCING SOURCES (USES)				
Proceeds from new financing	...	...	300,000	300,000
Capital lease arrangement	...	...	20,442	20,442
Proceeds from sale of capital assets	...	...	12,716	12,716
Operating transfers in (out)	15,000	15,000	26,170	11,170
Total other financing sources (uses)	15,000	15,000	359,328	344,328
NET CHANGE IN FUND BALANCE	(20,000)	(20,000)	(17,244)	2,756
FUND BALANCE				
Beginning of year	20,000	20,000	94,352	74,352
End of year	\$...	\$...	\$ 77,108	\$ 77,108

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 2008.

See Report of Independent Auditor

Additional Information Section

CITY OF DELAWARE CITY, DELAWARE
 COMBINING BALANCE SHEET-SPECIAL REVENUE FUND
 June 30, 2008 With Comparative Totals for 2007

	Federal Funding	State Funding			Local Funding	Revolving Loan Fund	Totals	
		Municipal Street Aid	SALLE and EIDE	Other			2008	2007
ASSETS								
ASSETS								
Cash and equivalents	\$...	\$ 78	\$...	\$...	\$...	\$ 75,724	\$ 75,802	\$ 16,971
Certificates of deposit	...	...	...	...	357,067	...	357,067	...
Due from other governments	17,067	...	...	5,714	...	...	22,781	306,705
Notes receivable	...	...	...	...	...	24,081	24,081	66,593
Interfund balances	(17,067)	...	8,182	37,467	(400)	...	28,182	(238,427)
TOTAL ASSETS	<u>\$...</u>	<u>\$ 78</u>	<u>\$ 8,182</u>	<u>\$ 43,181</u>	<u>\$ 356,667</u>	<u>\$ 99,805</u>	<u>\$ 507,913</u>	<u>\$ 151,842</u>
LIABILITIES AND FUND BALANCES								
LIABILITIES								
Contract payable	\$...	\$...	\$...	\$ 41,230	\$...	\$...	\$ 41,230	\$ 61,813
Refundable advances and deposits	...	...	8,182	1,951	356,667	...	366,800	6,465
Total liabilities	<u>...</u>	<u>...</u>	<u>8,182</u>	<u>43,181</u>	<u>356,667</u>	<u>...</u>	<u>408,030</u>	<u>68,278</u>
FUND BALANCES								
Reserved for note receivable	...	...	...	...	...	24,081	24,081	66,593
Reserved for specific programs	...	78	...	...	...	75,724	75,802	16,971
Total fund balances	<u>...</u>	<u>78</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>99,805</u>	<u>99,883</u>	<u>83,564</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$...</u>	<u>\$ 78</u>	<u>\$ 8,182</u>	<u>\$ 43,181</u>	<u>\$ 356,667</u>	<u>\$ 99,805</u>	<u>\$ 507,913</u>	<u>\$ 151,842</u>

See Report of Independent Auditor

CITY OF DELAWARE CITY, DELAWARE

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-SPECIAL REVENUE FUND
Year Ended June 30, 2008 With Comparative Totals for 2007

	Federal Funding	State Funding			Local Funding	Revolving Loan Fund	Totals	
		Municipal Street Aid	SALLE and EIDE	Other			2008	2007
REVENUES								
Intergovernmental revenues:								
Federal	\$ 994,169	\$...	\$...	\$...	\$...	\$ 20,000	\$1,014,169	\$ 220,547
State	...	50,294	...	177,975	...	...	228,269	288,981
Local	...	...	...	...	400	...	400	...
Interest revenue	...	452	...	...	...	3,010	3,462	6,612
Total revenues	994,169	50,746	...	177,975	400	23,010	1,246,300	516,140
EXPENDITURES								
Current:								
Public safety-police	26,667	...	...	2,977	...	...	29,644	24,934
Public works-streets	2,420	27,596	...	...	...	...	30,016	29,020
Parks and recreation	...	...	...	6,127	...	...	6,127	7,430
Youth Center	17,968	...	...	29,232	...	...	47,200	57,446
Capital outlay:								
Public safety-police	...	...	...	...	...	...	...	482
Public works-streets	...	...	...	...	...	...	...	56,606
Parks and recreation	943,469	...	...	114,975	400	...	1,058,844	318,294
Youth Center	3,645	...	...	35,312	...	...	38,957	...
Debt service:								
Principal	...	11,246	...	...	...	4,809	16,055	15,094
Interest and other fees	...	11,854	...	...	...	1,932	13,786	14,330
Total expenditures	994,169	50,696	...	188,623	400	6,741	1,240,629	523,636
EXCESS REVENUES OVER (UNDER) EXPENDITURES	...	50	...	(10,648)	...	16,269	5,671	(7,496)
OTHER FINANCING SOURCES (USES)								
Operating transfers in	...	...	...	10,648	...	...	10,648	18,776
Operating transfers out	...	...	...	...	...	...	...	...
Total other financing sources (uses)	...	...	...	10,648	...	...	10,648	18,776
NET CHANGES IN FUND BALANCES	...	50	...	...	...	16,269	16,319	11,280
FUND BALANCES								
Beginning of year	...	28	...	...	...	83,536	83,564	72,284
End of year	\$...	\$ 78	\$...	\$...	\$...	\$ 99,805	\$ 99,883	\$ 83,564

See Report of Independent Auditor