

Report of Independent Auditor

CITY OF DELAWARE CITY
Delaware City, Delaware

Years Ended June 30, 2014 and 2013



HAGGERTY & HAGGERTY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS
& MANAGEMENT CONSULTANTS

CITY OF DELAWARE CITY, DELAWARE

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CERTIFIED PUBLIC ACCOUNTANTS
& MANAGEMENT CONSULTANTS

American Institute of CPA
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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 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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, the implementation, and the maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the 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, 2014 and 2013, and the respective changes in financial position and where applicable, cash flows thereof for the years then ended in accordance accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that budgetary comparison information reflected on page 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. Management has omitted the management's discussion and analysis section that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Delaware City, Delaware's financial statements. The supplementary information reflected on pages 30 and 31 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2015 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 in considering the City of Delaware City's internal control over financial reporting and compliance.

Restriction on Use

This report is intended solely for the information and use of management, Mayor and members of Council, others within the City, the Office of the Governor, the Office of Controller General, Office of Attorney General, Office of Management and Budget, Secretary of Finance, Office of Auditor of Accounts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a public record and its distribution is not limited.

Haggerty & Haggerty, P.A.
Certified Public Accountants

January 22, 2015
Wilmington, Delaware

Basic Financial Statements Section

CITY OF DELAWARE CITY, DELAWARE
STATEMENTS OF NET POSITION
As of June 30, 2014 and 2013

	2014				Discretely Presented Component Unit	2013				
	Primary Government			Total		Primary Government			Total	Discretely Presented Component Unit
	Activity Type		Total			Activity Type		Total		
Governmental	Business				Governmental	Business				
ASSETS										
Current assets:										
Cash and equivalents	\$ 543,461	\$...	\$ 543,461	\$ 55,276	\$ 626,772	\$...	\$ 626,772	\$ 46,484		
Receivables, net of allowances:										
Property taxes	4,570	...	4,570	...	5,134	...	5,134	...		
Accounts	...	7,713	7,713	...	...	7,291	7,291	...
Other	67,413	...	67,413	...	8,206	...	8,206	...		
Due from other governments	223,792	...	223,792	...	30,379	...	30,379	...		
Restricted assets:										
Cash and equivalents	369,913	...	369,913	...	369,876	...	369,876	...		
Total current assets	1,209,149	7,713	1,216,862	55,276	1,040,367	7,291	1,047,658	46,484		
Noncurrent assets:										
Capital assets, net of depreciation:										
Nondepreciable	773,196	18,331	791,527	...	531,792	18,331	550,123	...		
Depreciable	5,733,239	608,241	6,341,480	...	5,988,554	732,751	6,721,305	...		
Bond issue costs, net of amortization	...	17,366	17,366	...	...	18,764	18,764	...
Total noncurrent assets	6,506,435	643,938	7,150,373	...	6,520,346	769,846	7,290,192	...		
TOTAL ASSETS	7,715,584	651,651	8,367,235	55,276	7,560,713	777,137	8,337,850	46,484		
LIABILITIES										
Current liabilities:										
Line of credit	...	...	...	...	...	...	...	...
Accounts payable	18,933	...	18,933	...	24,213	...	24,213	14,500		
Accrued interest payable	...	5,096	5,096	...	...	5,676	5,676	...
Current portion of long-term debt	37,883	36,104	73,987	...	43,190	34,617	77,807	...		
Payroll deductions and withholdings	792	...	792	...	237	...	237	...		
Funds held in custody	5,417	...	5,417	2,663	3,267	...	3,267	2,663		
Refundable advances and deposits	456,677	12,900	469,577	...	394,321	12,500	406,821	...		
Unearned revenue	2,949	...	2,949	...	3,669	...	3,669	...		
Total current liabilities	522,651	54,100	576,751	2,663	468,897	52,793	521,690	17,163		
Noncurrent liabilities:										
Long-term debt, net of current portion	379,795	717,114	1,096,909	...	409,677	753,217	1,162,894	...		
Long-term portion of compensated absences	7,750	...	7,750	...	7,432	...	7,432	...		
Total noncurrent liabilities	387,545	717,114	1,104,659	...	417,109	753,217	1,170,326	...		
TOTAL LIABILITIES	910,196	771,214	1,681,410	2,663	886,006	806,010	1,692,016	17,163		
DEFERRED INFLOWS OF RESOURCES										
Unavailable revenue-other	50,031	...	50,031	...	3,106	...	3,106	...		
NET POSITION										
Net investment in capital assets	6,088,757	(109,280)	5,979,477	...	6,067,479	(17,988)	6,049,491	...		
Restricted for specific programs	62,136	...	62,136	52,613	72,170	...	72,170	29,321		
Unrestricted	604,464	(10,283)	594,181	...	531,952	(10,885)	521,067	...		
TOTAL NET POSITION	\$ 6,755,357	\$ (119,563)	\$ 6,635,794	\$ 52,613	\$ 6,671,601	\$ (28,873)	\$ 6,642,728	\$ 29,321		

Accompanying notes are an integral part of these financial statements

CITY OF DELAWARE CITY, DELAWARE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

Functions	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position			Discretely Presented Component Unit
		Charges for Services	Grants and Contributions Operating	Capital	Activity Type			
					Governmental	Business	Total	
GOVERNMENTAL ACTIVITIES								
General government	\$ 307,386	\$ 5,895	\$ 26,000	\$...	\$ (275,491)	\$...	\$ (275,491)	\$...
Public safety-police	256,952	6,862	2,260	33,810	(214,020)	...	(214,020)	...
Public works-streets	168,341	...	161,116	...	(7,225)	...	(7,225)	...
Public works-sanitation	197,149	3,754	...	...	(193,395)	...	(193,395)	...
Parks and recreation	59,817	...	...	105,627	45,810	...	45,810	...
Community Center	41,726	20	46,898	...	5,192	...	5,192	...
Interest on long-term debt	21,000	...	...	8,000	(13,000)	...	(13,000)	...
Depreciation-unallocated	342,835	...	...	...	(342,835)	...	(342,835)	...
Total governmental activities	1,395,206	16,531	236,274	147,437	(994,964)	...	(994,964)	...
BUSINESS-TYPE ACTIVITIES								
Water system	367,374	322,947	...	...	...	(44,427)	(44,427)	...
Total business-type activities	367,374	322,947	...	...	...	(44,427)	(44,427)	...
TOTAL PRIMARY GOVERNMENT	1,762,580	339,478	236,274	147,437	(994,964)	(44,427)	(1,039,391)	...
DISCRETELY PRESENTED COMPONENT UNIT	53,169	10,196	66,256	...	...	...	...	23,283
TOTAL PRIMARY GOV'T AND COMPONENT UNIT	\$ 1,815,749	\$ 349,674	\$ 302,530	\$ 147,437	(994,964)	(44,427)	(1,039,391)	23,283
GENERAL REVENUES AND TRANSFERS								
Property taxes levied for general purposes					845,118	...	845,118	...
Cable franchise taxes					19,320	...	19,320	...
Investment earnings and rents					154,915	...	154,915	9
Gain (loss) from sale of capital assets					20,429	...	20,429	...
Miscellaneous revenues					(7,555)	230	(7,325)	...
Transfers between governmental, BT activities					46,493	(46,493)	...	...
Total general revenues and transfers					1,078,720	(46,263)	1,032,457	9
CHANGES IN NET POSITION					83,756	(90,690)	(6,934)	23,292
NET POSITION								
Beginning of year					<u>6,671,601</u>	<u>(28,873)</u>	<u>6,642,728</u>	<u>29,321</u>
End of year					\$ 6,755,357	\$ (119,563)	\$ 6,635,794	\$ 52,613

Accompanying notes are an integral part of these financial statements

CITY OF DELAWARE CITY, DELAWARE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

Functions	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position			Discretely Presented Component Unit
		Charges for Services	Grants and Contributions		Activity Type			
			Operating	Capital	Governmental	Business	Total	
GOVERNMENTAL ACTIVITIES								
General government	\$ 306,006	\$ 3,167	\$ 3,000	\$ 10,483	\$ (289,356)	\$...	\$ (289,356)	\$...
Public safety-police	303,755	8,294	36,291	5,610	(253,560)	...	(253,560)	...
Public works-streets	104,290	...	73,134	...	(31,156)	...	(31,156)	...
Public works-sanitation	195,549	3,648	...	...	(191,901)	...	(191,901)	...
Parks and recreation	76,301	...	19,790	202	(56,309)	...	(56,309)	...
Community Center	56,566	730	39,139	...	(16,697)	...	(16,697)	...
Interest on long-term debt	26,449	...	...	8,742	(17,707)	...	(17,707)	...
Depreciation-unallocated	346,155	...	...	...	(346,155)	...	(346,155)	...
Total governmental activities	1,415,071	15,839	171,354	25,037	(1,202,841)	...	(1,202,841)	...
BUSINESS-TYPE ACTIVITIES								
Water system	370,477	259,781	...	...	...	(110,696)	(110,696)	...
Total business-type activities	370,477	259,781	...	...	...	(110,696)	(110,696)	...
TOTAL PRIMARY GOVERNMENT	1,785,548	275,620	171,354	25,037	(1,202,841)	(110,696)	(1,313,537)	...
DISCRETELY PRESENTED COMPONENT UNIT	69,323	13,017	43,851	...	...	...	...	(12,455)
TOTAL PRIMARY GOV'T AND COMPONENT UNIT	\$ 1,854,871	\$ 288,637	\$ 215,205	\$ 25,037	(1,202,841)	(110,696)	(1,313,537)	(12,455)
GENERAL REVENUES AND TRANSFERS								
Property taxes levied for general purposes					915,425	...	915,425	...
Cable franchise taxes					18,931	...	18,931	...
Investment earnings and rents					135,154	...	135,154	24
Gain (loss) from sale of capital assets					(1,336,684)	...	(1,336,684)	...
Miscellaneous revenues					33,026	630	33,656	...
Transfers between governmental, BT activities					(17,550)	17,550	...	...
Total general revenues and transfers					(251,698)	18,180	(233,518)	24
CHANGES IN NET POSITION					(1,454,539)	(92,516)	(1,547,055)	(12,431)
NET POSITION								
Beginning of year					<u>8,126,140</u>	<u>63,643</u>	<u>8,189,783</u>	<u>41,752</u>
End of year					<u>\$ 6,671,601</u>	<u>\$ (28,873)</u>	<u>\$ 6,642,728</u>	<u>\$ 29,321</u>

Accompanying notes are an integral part of these financial statements

CITY OF DELAWARE CITY, DELAWARE
BALANCE SHEETS-GOVERNMENTAL FUNDS
As of June 30, 2014 and 2013

	2014			2013		
	Governmental Fund Types			Governmental Fund Types		
	General	Special Revenue	Total	General	Special Revenue	Total
ASSETS						
ASSETS						
Cash and equivalents	\$ 418,653	\$ 124,808	\$ 543,461	\$ 508,215	\$ 118,557	\$ 626,772
Receivables, net of allowances:						
Property taxes	4,570	...	4,570	5,134	...	5,134
Other	67,413	...	67,413	8,206	...	8,206
Due from other governments	...	223,792	223,792	...	30,379	30,379
Restricted assets:						
Cash and equivalents	...	369,913	369,913	...	369,876	369,876
Interfund receivables (payables)	241,489	(241,489)	...	44,183	(44,183)	...
TOTAL ASSETS	\$ 732,125	\$ 477,024	\$1,209,149	\$ 565,738	\$ 474,629	\$1,040,367
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Line of credit	\$...	\$...	\$...	\$...	\$...	\$...
Accounts payable	18,933	...	18,933	24,213	...	24,213
Payroll deductions and withholdings	792	...	792	237	...	237
Funds held in custody	5,417	...	5,417	3,267	...	3,267
Refundable advances and deposits	51,050	405,627	456,677	1,050	393,271	394,321
Unearned revenue	2,949	...	2,949	3,669	...	3,669
Total liabilities	79,141	405,627	484,768	32,436	393,271	425,707
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue-other	50,031	...	50,031	3,106	...	3,106
FUND BALANCES						
Restricted-specific programs	...	62,136	62,136	...	72,170	72,170
Committed-capital reserve	101,223	...	101,223	51,125	...	51,125
Committed-budget reserve	500,000	...	500,000	479,071	...	479,071
Unassigned	1,730	9,261	10,991	...	9,188	9,188
Total fund balances	602,953	71,397	674,350	530,196	81,358	611,554
TOTAL LIABILITIES AND FUND BALANCES	\$ 732,125	\$ 477,024	\$1,209,149	\$ 565,738	\$ 474,629	\$1,040,367

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 POSITION

As of June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Amounts reported for governmental activities in the statement of net position are different because:		
Total fund balances-governmental funds	\$ 674,350	\$ 611,554
Capital assets used in governmental activities are not financial resources and, therefore are not reported as capital assets in the governmental funds. The total cost of capital assets is \$9,091,058 and \$8,839,256 and the related accumulated depreciation is \$2,584,623 and \$2,318,910 as of June 30, 2014 and 2013, respectively.	6,506,435	6,520,346
Long-term liabilities are not due and payable within the current period and are therefore not reported as liabilities in the governmental fund types.		
Long-term debt obligations:	<u>2014</u>	<u>2013</u>
Current portion	\$ (37,883)	\$ (43,190)
Net of current portion	<u>(379,795)</u>	<u>(409,677)</u>
	(417,678)	(452,867)
Compensated absences are not due and payable within the current period and, therefore are not reported in the governmental fund types.	<u>(7,750)</u>	<u>(7,432)</u>
Total net position-governmental activities	<u>\$ 6,755,357</u>	<u>\$ 6,671,601</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, 2014 and 2013

	2014			2013		
	Governmental Fund Types			Governmental Fund Types		
	General	Special Revenue	Total	General	Special Revenue	Total
REVENUES						
Taxes:						
Real estate taxes	\$ 806,993	\$...	\$ 806,993	\$ 868,225	\$...	\$ 868,225
Real estate transfer taxes	38,125	...	38,125	47,200	...	47,200
Cable franchise taxes	19,320	...	19,320	18,931	...	18,931
Licenses and permits	4,747	...	4,747	2,350	...	2,350
Intergovernmental revenues:						
Federal	...	50,764	50,764	38,147	38,696	76,843
State	...	298,649	298,649	...	109,132	109,132
Local	...	1,000	1,000	...	202	202
Police fines and court fees	6,862	...	6,862	8,294	...	8,294
Charges for services	4,922	...	4,922	5,195	...	5,195
Interest and rents	154,842	73	154,915	135,118	36	135,154
Contributions	33,298	...	33,298	10,214	...	10,214
Miscellaneous revenues	...	...	...	40,186	...	40,186
Total revenues	1,069,109	350,486	1,419,595	1,173,860	148,066	1,321,926
EXPENDITURES						
Current:						
General government	292,316	...	292,316	292,758	...	292,758
Public safety-police	222,719	35,669	258,388	268,918	36,291	305,209
Public works-streets	147,102	21,239	168,341	75,832	28,458	104,290
Public works-sanitation	197,149	...	197,149	195,549	...	195,549
Parks and recreation	53,908	35,746	89,654	56,511	19,790	76,301
Community Center	1,726	40,000	41,726	32,055	24,511	56,566
Capital outlay	92,610	219,793	312,403	100,570	16,295	116,865
Debt service:						
Principal	29,551	5,638	35,189	448,498	5,434	453,932
Interest and other fees	18,638	2,362	21,000	23,141	3,308	26,449
Total expenditures	1,055,719	360,447	1,416,166	1,493,832	134,087	1,627,919
EXCESS (DEFICIT) REVENUES OVER EXPENDITURES	13,390	(9,961)	3,429	(319,972)	13,979	(305,993)
OTHER FINANCING SOURCES (USES)						
Proceeds from new financing	...	...	...	20,335	...	20,335
Proceeds from sale of capital assets	20,429	...	20,429	430,619	...	430,619
Refund of prior year revenues	(7,555)	...	(7,555)	(7,160)	...	(7,160)
Interfund transfers in (out)	46,493	...	46,493	(10,136)	(7,414)	(17,550)
Total other financing sources (uses)	59,367	...	59,367	433,658	(7,414)	426,244
NET CHANGES IN FUND BALANCES	72,757	(9,961)	62,796	113,686	6,565	120,251
FUND BALANCES						
Beginning of year	530,196	81,358	611,554	416,510	74,793	491,303
End of year	\$ 602,953	\$ 71,397	\$ 674,350	\$ 530,196	\$ 81,358	\$ 611,554

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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Amounts reported for governmental activities in the statement of activities are different because:		
Net changes in fund balance-total governmental funds	\$ 62,796	\$ 120,251
The governmental funds report capital outlay as expenditures. However, in the statement of activities, capital assets with an initial individual cost of \$1,500 or more are capitalized and the cost of those capital assets is allocated over their estimated useful lives as depreciation expense. The following is the difference between capital outlay and depreciation expense.		
	<u>2014</u>	<u>2013</u>
Capital outlay	\$ 328,924	\$ 103,129
Depreciation expense	<u>(342,835)</u>	<u>(346,155)</u>
	(13,911)	(243,026)
The governmental funds report loan proceeds as other financing sources, while repayment of loan principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. However, 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>2014</u>	<u>2013</u>
Long-term financing:		
Proceeds received	\$...	\$ (20,335)
Principal payments made	<u>35,189</u>	<u>453,932</u>
	35,189	433,597
Some expenses reported in the statement of activities do not require current financial resources and, are therefore not reported as expenditures in the governmental funds.		
	<u>2014</u>	<u>2013</u>
Capital assets:		
Proceeds from sale	\$ (20,429)	\$ (430,619)
Gain (loss) from sale	<u>20,429</u>	<u>(1,336,684)</u>
	...	(1,767,303)
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. The difference reflected represents the amount used versus the amount earned.		
	<u>(318)</u>	<u>1,942</u>
Changes in net position-governmental activities	\$ 83,756	\$ (1,454,539)

Accompanying notes are an integral part of these financial statements

CITY OF DELAWARE CITY, DELAWARE
STATEMENTS OF NET POSITION-PROPRIETARY FUND
As of June 30, 2014 and 2013

	Water Fund	
	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$...	\$...
Accounts receivable, net of allowances	7,713	7,291
Total current assets	<u>7,713</u>	<u>7,291</u>
NONCURRENT ASSETS		
Capital assets, net of depreciation:		
Nondepreciable	18,331	18,331
Depreciable	608,241	732,751
Bond issue costs, net of amortization	17,366	18,764
Total noncurrent assets	<u>643,938</u>	<u>769,846</u>
TOTAL ASSETS	<u>651,651</u>	<u>777,137</u>
LIABILITIES		
CURRENT LIABILITIES		
Accrued interest payable	5,096	5,676
Current portion of long-term debt	36,104	34,617
Refundable deposits	12,900	12,500
Total current liabilities	<u>54,100</u>	<u>52,793</u>
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	<u>717,114</u>	<u>753,217</u>
TOTAL LIABILITIES	<u>771,214</u>	<u>806,010</u>
NET POSITION		
Net investment in capital assets	(109,280)	(17,988)
Unrestricted (deficit)	<u>(10,283)</u>	<u>(10,885)</u>
TOTAL NET POSITION	<u>\$ (119,563)</u>	<u>\$ (28,873)</u>

Accompanying notes are an integral part of these financial statements

CITY OF DELAWARE CITY, DELAWARESTATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION-PROPRIETARY FUND
Years Ended June 30, 2014 and 2013

	Water Fund	
	2014	2013
OPERATING REVENUES		
Charges for services	\$ 322,947	\$ 259,781
OPERATING EXPENSES		
Salaries	51,416	49,407
Payroll taxes	4,281	4,188
Employee benefits	7,564	6,979
Contractual services	48,180	48,180
Insurance	16,360	16,550
Telephone	2,761	2,179
Electricity	18,482	26,432
Professional fees	16,583	19,657
Distribution system maintenance	33,989	31,292
Office supplies	861	846
Materials and supplies	3,559	1,633
Fuel for heating	3,222	1,230
Miscellaneous	710	490
Depreciation and amortization	125,908	125,911
Total operating expenses	<u>333,876</u>	<u>334,974</u>
OPERATING INCOME (LOSS)	<u>(10,929)</u>	<u>(75,193)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest expense	(33,498)	(35,503)
Miscellaneous revenues	230	630
Total nonoperating revenues (expenses)	<u>(33,268)</u>	<u>(34,873)</u>
INCOME (LOSS) BEFORE OTHER FINANCING SOURCES (USES)	(44,197)	(110,066)
TRANSFERS FROM GOVERNMENTAL ACTIVITIES	<u>(46,493)</u>	<u>17,550</u>
CHANGES IN NET POSITION	(90,690)	(92,516)
NET POSITION		
Beginning of year	<u>(28,873)</u>	<u>63,643</u>
End of year	<u>\$ (119,563)</u>	<u>\$ (28,873)</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, 2014 and 2013

	Water Fund	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 323,155	\$ 260,211
Cash payments to suppliers for goods and services	(144,707)	(148,489)
Cash payments to employees for services	(63,261)	(60,574)
Net cash provided (used) by operating activities	<u>115,187</u>	<u>51,148</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	...	...
Principal paid on general obligation bonds and notes	(34,616)	(33,195)
Interest paid on general obligation bonds and notes	(34,078)	(35,503)
Cash received (paid) from/(to) governmental activities	(46,493)	17,550
Net cash provided (used) by capital and related financing activities	<u>(115,187)</u>	<u>(51,148)</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	...	...
CASH AND EQUIVALENTS		
Beginning of year	...	...
End of year	<u>\$...</u>	<u>\$...</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	<u>\$ (10,929)</u>	<u>\$ (75,193)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	124,510	124,513
Amortization	1,398	1,398
Other nonoperating revenues	230	630
Changes in assets and liabilities:		
Receivables	(422)	...
Refundable deposits	400	(200)
Total adjustments	<u>126,116</u>	<u>126,341</u>
Net cash provided from operating activities	<u>\$ 115,187</u>	<u>\$ 51,148</u>

Accompanying notes are an integral part of these financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Delaware City, Delaware [the "City"] have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board [GASB] is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Reporting Entity

The City of Delaware City was incorporated on March 5, 1851 under the provisions of the State of Delaware, and 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 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 "Delaware City Day" annual celebration.

Use of Estimates

Preparation of the financial statements in conformity 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 and/or expenditures during the reporting period. Accordingly, the actual results may differ from those estimates.

Reclassifications

Certain amounts in the prior year basic financial statements have been reclassified for comparative purposes to conform with the presentation in the current year 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 position 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 position 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, the transactions between the governmental and business-type activities have not been eliminated.

Both government-wide financial statements distinguish functions of the City that are principally supported by property tax assessments and the intergovernmental revenues [governmental activities] from other functions that are intended to recover all or a significant portion of their costs through user fees and other charges [business-type activities]. The governmental activities of the City include the general government, public safety [police], public works [streets and sanitation], parks and recreation, Community Center, and other general administrative support services. The City's business-type activities 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 both the governmental funds and proprietary funds. The major individual governmental funds and the proprietary funds are reported as separate columns in the fund financial statements.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to assign 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 assigned fund balance since they do not constitute expenditures or liabilities but serve as authorization for expenditures in the subsequent year. At June 30, 2014 and 2013, the City had no encumbrances outstanding.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting, & 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 received, and 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. The special revenue fund consists of grant award funds and the "Revolving Loan Fund". The purpose of the revolving loan fund is to provide "Façade Improvement" funding to private businesses for revitalization of the downtown area.

Additionally, the City reports the following business fund type:

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

The proprietary fund distinguishes *operating* revenues and expenses from *nonoperating* items. The operating revenues and expenses generally result from providing and delivering goods and services in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary fund is water fees. Operating expenses for the proprietary fund include salaries, employee benefits, contracted services, supplies and materials, plant and system maintenance, and administrative expenses. Revenues and expenses not meeting this criteria are reported as nonoperating revenues and expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgetary Accounting

The City Council follows the following procedures in establishing the budgetary data reflected within the financial statements as RSI:

- The City Manager submits to Council a proposed budget for the ensuing fiscal year. The budget includes proposed expenditures and/or expenses 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 fiscal year for all operating funds.
- The budget for the general fund is adopted on a basis consistent with U.S. generally accepted accounting principles.
- The budget for budgeted special revenue funds are approved based on the individual funding sources.

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.

Receivable-Taxes

At June 30, 2014 and 2013, taxes receivable is reflected net of estimated uncollectible allowances of \$61,435 and \$43,329, 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 the possible losses. Management believes that they have adequately provided for future probable losses.

Receivable-Accounts

At June 30, 2014 and 2013, accounts receivable is reflected net of the estimated uncollectible allowances of \$25,747 and \$27,322, 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 the possible losses. Management believes that they have adequately provided for future probable losses.

Due From Other Governments

Due from other governments represents reimbursements and grants from other governments. Grant revenues are recognized when expenditures for the purpose of the grant have been incurred in the government-wide financial statements and, as long as it meets the measurable and available criteria in the governmental fund financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Internal Balances

Activity between funds that are representative of lending arrangements outstanding at the end of the fiscal year are referred to as either "interfund balances" [current] or "interfund advances" [noncurrent].

Advances between funds, as reported in the fund financial statements, are offset by an assigned fund balance 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, 2014 and 2013, the City had no such activity.

Restricted Assets

Restricted assets consist of funds awarded to the City in the "Texaco Settlement Agreement and Release" dated September 20, 2007 in the amount of \$350,000. The restricted assets include net investment income earned on these funds.

Capital Assets and Depreciation

The capital assets, which include property, plant, equipment, and infrastructure assets completed after June 30, 2003 [such as roads, sidewalks, traffic signals, street lights, and similar items], are reported in the applicable governmental activities or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of \$1,500 or more and an estimated useful life in excess of one year. 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 capital 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 2014 and 2013, no interest costs were capitalized.

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

<u>Asset Categories</u>	<u>Years</u>
Buildings and improvements	10 to 50
Improvements other than buildings	5 to 50
Machinery and equipment	3 to 10
Furniture and office equipment	3 to 10
Water system	15 to 40
Infrastructure assets	20 to 50

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Bond Issue Costs

Bond issue costs of \$27,969 resulted from the Bond Issue, Series 2006. The costs are being amortized over the twenty-year life of the bond using the straight-line method. At June 30, 2014 and 2013, the accumulated amortization is \$10,603 and \$9,205, respectively. The annual amortization expense is \$1,398.

Deferred Inflows of Resources

At June 30, 2014 and 2013, the balances in the governmental funds of deferred inflows of resources consist of \$50,031 and \$3,106, respectively, of unavailable revenues for which the revenue recognition [availability] criterion has not been met.

Refundable Advances

The City records grant awards that are accounted as exchange transactions as refundable advances until such time the related restrictions are met, at which time they are recognized as revenues.

Compensated Absences

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

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

In accordance with the above criteria, when applicable the City accrues a liability for vacation pay, which has been earned but not taken by the City's employees, on the government-wide financial statements. As 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, when present, the proprietary fund liability for compensated absences is recorded as an accrued liability in accordance with FASB guidelines.

Long-Term Obligations

In 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 statement of net position.

In fund financial statements, the 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position and Fund Equity

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

The City follows the requirements of the GASB Statements under which fund balances are required to be reported in accordance with the following classifications:

- **Nonspendable fund balance**-Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must remain intact. This classification includes inventories, prepaids, assets held for sale, and long-term receivables.
- **Restricted fund balance**-Constraints placed on the use of these amounts are either externally imposed by creditors [debt covenants], grantors, contributors, or other governments; or are imposed by law through constitutional provisions or enabling legislation.
- **Committed fund balance**-Amounts that can only be used for specific purposes because of a formal action [resolution or ordinance] by the City's highest level of decision-making authority: City Council.
- **Assigned fund balance**-Amounts that are constrained by the City's intent to be used for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by City Council, or by an official to whom authority has been given. With the exception of the general fund, this is the residual fund balance classification for all governmental funds with positive balances.
- **Unassigned fund balance**-This is the residual classification of the general fund. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amounts had been restricted, committed or assigned.

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.

Evaluation of Subsequent Events

Management has evaluated subsequent events through the date of the auditor's report, the date on which the financial statements were available to be issued. Management has determined that no additional disclosures or adjustments are necessary.

CITY OF DELAWARE CITY, DELAWARE
 NOTES TO FINANCIAL STATEMENTS

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 2014 and \$1.09 per \$100 of assessed valuation for the fiscal year 2013 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 the fiscal years presented follows:

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

NOTE 3 - CASH AND INVESTMENTS

It is the City's policy to invest its funds principally in money market accounts and with financial institutions that are FDIC insured.

Cash and Equivalents

The City's deposits [cash and equivalents] are categorized to give an indication of the level of risk assumed as of June 30, 2014 and 2013. The categories are described below:

Description	2014		2013	
	Book	Bank	Book	Bank
Category 1	\$ 258,742	\$ 258,742	\$ 234,059	\$ 258,710
Category 2	284,419	310,796	392,413	392,413
Category 3	300	...	300	...
Totals	\$ 543,461	\$ 569,538	\$ 626,772	\$ 651,123

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.

Custodial credit risk is the risk that in the event of a financial institution's failure, the City's deposits may not be returned.

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

The primary government receivables due from other governmental units represent revenues earned by the City. At June 30, 2014 and 2013, the receivables consist of the following:

Description	Activity Type			
	2014		2013	
	Governmental	Business	Governmental	Business
U.S. Department of Justice	\$...	\$...	\$ 15,089	\$...
U.S. Department of Agriculture	44,426	...	15,290	...
Delaware Department of Transportation	125,738	...	...	...
Delaware Department of Natural Resources	53,628	...	...	...
Total intergovernmental receivables	\$ 223,792	\$...	\$ 30,379	\$...

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2014 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	...	...	...	...
Streets and sidewalks	...	158,640	...	158,640
Trees, trails and landscape	110,055	82,764	...	192,819
Total capital assets, not being depreciated	531,792	241,404	...	773,196
Capital assets, being depreciated:				
Buildings and improvements	4,783,104	47,981	...	4,831,085
Furniture and office equipment	58,088	...	...	58,088
Vehicles and equipment	370,272	39,539	77,122	332,689
Streets and sidewalks	1,412,574	...	...	1,412,574
Trees, trails and landscape	1,683,426	...	...	1,683,426
Total being depreciated	8,307,464	87,520	77,122	8,317,862
Less accumulated depreciation:				
Buildings and improvements	1,058,136	148,138	...	1,206,274
Furniture and office equipment	50,369	1,291	...	51,660
Vehicles and equipment	262,748	41,250	77,122	226,876
Streets and sidewalks	590,510	74,643	...	665,153
Trees, trails and landscape	357,147	77,513	...	434,660
Accumulated depreciation	2,318,910	342,835	77,122	2,584,623
Total capital assets, being depreciated	5,988,554	(255,315)	...	5,733,239
Governmental activities capital assets, net	\$ 6,520,346	\$ (13,911)	\$...	\$ 6,506,435
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	2,711,684	...	...	2,711,684
Machinery and equipment	...	...	...	...
Total being depreciated	3,127,276	...	...	3,127,276
Less accumulated depreciation:				
Buildings and improvements	341,993	10,501	...	352,494
Water distribution system	2,052,532	114,009	...	2,166,541
Machinery and equipment	...	...	...	...
Accumulated depreciation	2,394,525	124,510	...	2,519,035
Total capital assets, being depreciated	732,751	(124,510)	...	608,241
Business-type activities capital assets, net	\$ 751,082	\$ (124,510)	\$...	\$ 626,572

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - CAPITAL ASSETS (continued)

Capital assets activity for the year ended June 30, 2013 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	307,000	...	307,000	...
Streets and sidewalks	...	...	...	...
Trees, trails and landscape	94,765	15,290	...	110,055
Total capital assets, not being depreciated	823,502	15,290	307,000	531,792
Capital assets, being depreciated:				
Buildings and improvements	6,387,621	336,685	1,941,202	4,783,104
Furniture and office equipment	57,520	8,241	7,673	58,088
Vehicles and equipment	347,983	49,913	27,624	370,272
Streets and sidewalks	1,412,574	...	...	1,412,574
Trees, trails and landscape	1,683,426	...	...	1,683,426
Total being depreciated	9,889,124	394,839	1,976,499	8,307,464
Less accumulated depreciation:				
Buildings and improvements	1,073,216	158,819	173,899	1,058,136
Furniture and office equipment	57,520	522	7,673	50,369
Vehicles and equipment	255,714	34,658	27,624	262,748
Streets and sidewalks	515,866	74,644	...	590,510
Trees, trails and landscape	279,635	77,512	...	357,147
Accumulated depreciation	2,181,951	346,155	209,196	2,318,910
Total capital assets, being depreciated	7,707,173	48,684	1,767,303	5,988,554
Governmental activities capital assets, net	\$ 8,530,675	\$ 63,974	\$ 2,074,303	\$ 6,520,346
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	2,711,684	...	...	2,711,684
Machinery and equipment	...	...	...	...
Total being depreciated	3,127,276	...	...	3,127,276
Less accumulated depreciation:				
Buildings and improvements	331,492	10,501	...	341,993
Water distribution system	1,938,520	114,012	...	2,052,532
Machinery and equipment	...	...	...	...
Accumulated depreciation	2,270,012	124,513	...	2,394,525
Total capital assets, being depreciated	857,264	(124,513)	...	732,751
Business-type activities capital assets, net	\$ 875,595	\$ (124,513)	\$...	\$ 751,082

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LINE OF CREDIT

On August 12, 2011, the City issued a general obligation note for \$150,000 to Wilmington Savings Fund Society, FSB. The note [a line of credit] carries a variable interest rate [currently at 4.00%] and is on demand. The note is 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, 2014 and 2013, the City had no balance outstanding.

NOTE 7 - LONG-TERM DEBT OBLIGATIONS

The schedule summarizes the annual changes in long-term debt obligations:

Description	Year Ended June 30, 2014				
	Beginning Balances	Additions	Deletions	Ending Balances	
				Long-term Portion	Due Within One Year
Governmental Activities:					
General obligation notes:					
Ally Financial	\$ 20,335	\$...	\$ 7,199	\$ 6,366	\$ 6,770
General obligation bonds:					
Citizens Bank	220,290	...	21,626	174,229	24,435
2008 Series	212,242	...	6,364	199,200	6,678
Total governmental	\$ 452,867	\$...	\$ 35,189	\$ 379,795	\$ 37,883

Compensated absences liability for governmental activities is generally liquidated with general fund resources. At June 30, 2014 and 2013, the liability is \$7,750 and \$7,432, respectively.

Description	Year Ended June 30, 2014				
	Beginning Balances	Additions	Deletions	Ending Balances	
				Long-term Portion	Due Within One Year
Business-Type Activities:					
General obligation bonds:					
1995 Series	\$ 530,728	\$...	\$ 12,044	\$ 506,026	\$ 12,658
2006 Series	212,346	...	12,091	187,827	12,428
Total bond obligations	743,074	...	24,135	693,853	25,086
General obligation notes:					
SERCAP	44,760	...	10,481	23,261	11,018
Total business-type	\$ 787,834	\$...	\$ 34,616	\$ 717,114	\$ 36,104

General Obligation Bonds and Notes

Ally Financial

On June 26, 2013, the City entered into a lease-purchase agreement in the amount of \$20,335 maturing on June 26, 2015. The agreement carries a fixed interest rate of 6.34% and requires a downpayment of \$7,199 at signing [the downpayment was made on July 1, 2013] and two annual payments of \$7,199 [principal and interest]. The proceeds were used to purchase a 2012 Chrysler/Dodge Charger. At June 30, 2014, the repayment schedule is as follows:

Years Ending June 30	Principal	Interest	Total
2015	\$ 6,366	\$ 833	\$ 7,199
2016	6,770	429	7,199
Total required payments	\$ 13,136	\$ 1,262	\$ 14,398

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - LONG-TERM DEBT OBLIGATIONS (continued)

General Obligation Bonds and Notes (continued)

Citizens Bank-Bond

On June 15, 2006, the City issued a General Obligation Bond in the amount of \$355,000 carrying a maturity date of June 15, 2021. The bond carries an annual interest rate of 5.125% 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 Project. The bond is secured with the full faith and credit of the City. At June 30, 2014, the repayment schedule is as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 24,435	\$ 9,531	\$ 33,966
2016	25,717	8,249	33,966
2017	27,066	6,900	33,966
2018	28,486	5,480	33,966
2019	29,981	3,985	33,966
2020-2021	<u>62,979</u>	<u>3,161</u>	<u>66,140</u>
Total required payments	<u>\$ 198,664</u>	<u>\$ 37,306</u>	<u>\$ 235,970</u>

General Obligation Bonds, Series 2008

The general obligation bonds, Series 2008 [originally issued in the amount of \$234,000] carry a maturity date of August 14, 2034. The proceeds of the general obligation bonds were used to finance the City's "Community Center Roof Replacement Project". The bonds carry a fixed interest rate of 4.125% per annum and are payable in monthly installments of \$1,252 [principal and interest]. At June 30, 2014, the repayment schedule is as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 6,678	\$ 8,346	\$ 15,024
2016	6,937	8,087	15,024
2017	7,251	7,773	15,024
2018	7,555	7,469	15,024
2019	7,205	7,819	15,024
2020-2024	44,283	30,837	75,120
2025-2029	54,434	20,686	75,120
2030-2034	66,886	8,234	75,120
2035	<u>4,649</u>	<u>36</u>	<u>4,685</u>
Total required payments	<u>\$ 205,878</u>	<u>\$ 99,287</u>	<u>\$ 305,165</u>

CITY OF DELAWARE CITY, DELAWARE
 NOTES TO FINANCIAL STATEMENTS

NOTE 7 - 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 a fixed interest rate of 5.00% per annum and are payable in quarterly installments of \$9,593 [principal and interest]. At June 30, 2014, the repayment schedule is as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 12,658	\$ 25,714	\$ 38,372
2016	13,303	25,069	38,372
2017	13,981	24,391	38,372
2018	14,693	23,679	38,372
2019	15,441	22,931	38,372
2020-2024	89,840	102,020	191,860
2025-2029	115,178	76,682	191,860
2030-2034	147,863	43,997	191,860
2035-2037	<u>95,727</u>	<u>7,240</u>	<u>102,967</u>
Total required payments	\$ 518,684	\$ 351,723	\$ 870,407

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 a fixed interest rate of 2.76% on the principal amount thereof, and requires semiannual payments of \$8,934.69 [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 No. 5 Upgrade Project". The bond is secured with the full faith and credit of the City. At June 30, 2014, the repayment schedule is as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 12,428	\$ 5,441	\$ 17,869
2016	12,773	5,096	17,869
2017	13,128	4,741	17,869
2018	13,492	4,377	17,869
2019	13,867	4,002	17,869
2020-2024	75,338	14,009	89,347
2025-2028	<u>59,229</u>	<u>3,314</u>	<u>62,543</u>
Total required payments	\$ 200,255	\$ 40,980	\$ 241,235

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - 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, 2014, the repayment schedule is as follows:

Years Ending June 30	Principal	Interest	Total
2015	\$ 11,018	\$ 1,437	\$ 12,455
2016	11,582	873	12,455
2017	<u>11,679</u>	<u>281</u>	<u>11,960</u>
Total required payments	<u>\$ 34,279</u>	<u>\$ 2,591</u>	<u>\$ 36,870</u>

Future maturities of principal and interest payments follow:

Years Ending June 30	<u>General Obligation Bonds</u>		<u>General Obligation Notes</u>		Totals
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
Governmental Activities:					
2015	\$ 31,113	\$ 17,877	\$ 6,366	\$ 833	\$ 56,189
2016	32,654	16,336	6,770	429	56,189
2017	34,317	14,673	...	...	48,990
2018	36,041	12,949	...	...	48,990
2019	37,186	11,804	...	...	48,990
2020-2024	107,262	33,998	...	...	141,260
2025-2029	54,434	20,686	...	...	75,120
2030-2034	66,886	8,234	...	...	75,120
2035	<u>4,649</u>	<u>36</u>	<u>...</u>	<u>...</u>	<u>4,685</u>
Totals	<u>\$ 404,542</u>	<u>\$ 136,593</u>	<u>\$ 13,136</u>	<u>\$ 1,262</u>	<u>\$ 555,533</u>

Business-Type Activities:

2015	\$ 25,086	\$ 31,155	\$ 11,018	\$ 1,437	\$ 68,696
2016	26,076	30,165	11,582	873	68,696
2017	27,109	29,132	11,679	281	68,201
2018	28,185	28,056	...	...	56,241
2019	29,308	26,933	...	...	56,241
2020-2024	165,178	116,029	...	...	281,207
2025-2029	174,407	79,996	...	...	254,403
2030-2034	147,863	43,997	...	...	191,860
2035-2037	<u>95,727</u>	<u>7,240</u>	<u>...</u>	<u>...</u>	<u>102,967</u>
Totals	<u>\$ 718,939</u>	<u>\$ 392,703</u>	<u>\$ 34,279</u>	<u>\$ 2,591</u>	<u>\$ 1,148,512</u>

CITY OF DELAWARE CITY, DELAWARE
 NOTES TO FINANCIAL STATEMENTS

NOTE 8 - ECONOMIC DEPENDENCY

A substantial portion of the City's annual property taxes assessment is received from one corporate taxpayer. The collected amount approximates 40% of the City's total annual assessments.

A substantial portion of the City's water user fees is received from one corporate taxpayer. The collected amount approximates 20% of the City's total annual water user fees.

NOTE 9 - LEASING ARRANGEMENTS AS LESSEE

The City leases the following office equipment under an operating leasing arrangement. Total rental cost was \$2,868 and \$2,629 for the years ended June 30, 2014 and 2013, respectively.

Description	Monthly Rentals	Expiration Date
Konica-Minolta Digital Copier System and Fax	\$ 239	August, 2015

At June 30, 2014, the minimum future rentals under the non-cancelable leasing arrangement having remaining terms in excess of one year in the aggregate are:

Years Ending June 30	Amount
2015	\$ 2,868
2016	239
Total minimum future rental payments required	<u>\$ 3,107</u>

NOTE 10 - LEASING ARRANGEMENTS AS LESSOR

The City is the lessor of certain real property under operating leasing arrangements expiring at various dates. The following is a summary of property held for lease at June 30, 2014:

Property Under Lease	Purpose of Rental	Cost Basis
Certain land parcels	Commercial	\$...
Water Tower-Air Rights	Mobile Antennae	...
511 Fifth Street, Delaware City	Public Works Yard	...

The leasing arrangements are generally based on a percentage of lessee collections and as such the rentals cannot be estimated for future periods. Total rentals received for the years ended June 30, 2014 and 2013 were \$154,840 and \$135,031, respectively.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

In the 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.

Grant Activity

The City receives federal and state financial assistance in the form of grants. The disbursement of funds received under these grants generally requires compliance with the terms and conditions specified in grant agreements and is generally subject to audit by the federal and state agencies. Disallowed claims resulting from such audits, if any, could become a liability of the City. The City's management believes that such disallowance would not be considered material to the financial statements.

Litigation

In the course of business, the City may become involved in litigation; any losses from such litigation are generally covered by insurance. At June 30, 2014, the City is involved in certain disputes which the City solicitor anticipates will not result in significant financial liability.

NOTE 12 - GASB STATEMENT IMPLEMENTATION

The City has implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this Statement is to either [a] properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources, or [b] recognize certain items that were previously reported as assets and liabilities as outflows of resources [expenses or expenditures] or inflows of resources [revenues].

The City has implemented GASB Statement No. 67, *Financial Reporting for Pension Plans*. The Statement establishes financial reporting standards for state and local government pension plans [defined benefit pension plans and defined contribution plans] that are administered through trusts or equivalent arrangements as defined in the GASB Statement. The implementation of the Statement has no current effect on the City.

The City has implemented GASB Statement No. 70, *Accounting and Financial Reporting for Financial Reporting for Nonexchange Financial Guarantees*. The Statement requires State and local governments that extend and receive nonexchange financial guarantees to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the City will be required to make a payment on a guarantee. The implementation of the Statement has no current effect on the City.

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, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Real estate taxes	\$ 809,455	\$ 809,455	\$ 806,993	\$ (2,462)
Real estate transfer taxes	22,000	22,000	38,125	16,125
Cable franchise taxes	18,000	18,000	19,320	1,320
Licenses and permits	1,000	1,000	4,747	3,747
Intergovernmental revenues	...	...	...	...
Police fines and court fees	6,000	6,000	6,862	862
Charges for services	4,900	4,900	4,922	22
Interest and rents	140,600	140,600	154,842	14,242
Contributions	...	...	33,298	33,298
Miscellaneous revenues	...	...	...	...
Total revenues	<u>1,001,955</u>	<u>1,001,955</u>	<u>1,069,109</u>	<u>67,154</u>
EXPENDITURES				
Current:				
General government	267,378	267,378	292,316	(24,938)
Public safety-police	278,305	278,305	222,719	55,586
Public works-streets	89,670	89,670	147,102	(57,432)
Public works-sanitation	198,818	198,818	197,149	1,669
Parks and recreation	34,000	34,000	53,908	(19,908)
Community Center	18,145	18,145	1,726	16,419
Capital reserve	50,098	50,098	...	50,098
Capital outlay	...	...	92,610	(92,610)
Debt service	40,025	40,025	48,189	(8,164)
Total expenditures	<u>976,439</u>	<u>976,439</u>	<u>1,055,719</u>	<u>(79,280)</u>
EXCESS (DEFICIT)				
REVENUES OVER EXPENDITURES	<u>25,516</u>	<u>25,516</u>	<u>13,390</u>	<u>(12,126)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from new financing	...	...	20,429	20,429
Proceeds from sale of capital assets	...	...	(7,555)	(7,555)
Refund of prior year expenditures	...	...	46,493	72,009
Operating transfers in (out)	(25,516)	(25,516)	59,367	84,883
Total other financing sources (uses)	<u>(25,516)</u>	<u>(25,516)</u>	<u>59,367</u>	<u>84,883</u>
NET CHANGE IN FUND BALANCE	<u>...</u>	<u>...</u>	<u>72,757</u>	<u>72,757</u>
FUND BALANCE				
Beginning of year	<u>...</u>	<u>...</u>	<u>530,196</u>	<u>530,196</u>
End of year	<u>\$...</u>	<u>\$...</u>	<u>\$ 602,953</u>	<u>\$ 602,953</u>

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City annually adopts a budget for the general fund financial statements. The budgets are integrated into the accounting system, and the budgetary data, as presented in the financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. 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. The 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 the fiscal year presented.

See Report of Independent Auditor

Supplementary Information Section

CITY OF DELAWARE CITY, DELAWARE
 COMBINING BALANCE SHEET-SPECIAL REVENUE FUND
 As of June 30, 2014 With Comparative Totals for 2013

	Federal Funding	State Funding			Local Funding	Revolving Loan Fund	Totals	
		Municipal Street Aid	SALLE and EIDE	Other			2014	2013
ASSETS								
ASSETS								
Cash and equivalents	\$...	\$ 53,547	\$...	\$...	\$...	\$ 71,261	\$ 124,808	\$ 118,557
Due from other governments	...	...	...	223,792	...	...	223,792	30,379
Restricted assets:								
Cash and equivalents	...	...	...	...	369,913	...	369,913	369,876
Interfund balances	<u>19,171</u>	<u>(53,411)</u>	<u>13,754</u>	<u>(218,805)</u>	<u>(2,198)</u>	<u>...</u>	<u>(241,489)</u>	<u>(44,183)</u>
TOTAL ASSETS	<u>\$ 19,171</u>	<u>\$ 136</u>	<u>\$ 13,754</u>	<u>\$ 4,987</u>	<u>\$ 367,715</u>	<u>\$ 71,261</u>	<u>\$ 477,024</u>	<u>\$ 474,629</u>
LIABILITIES AND FUND BALANCES								
LIABILITIES								
Refundable advances and deposits	\$ 19,171	\$...	\$ 13,754	\$ 4,987	\$ 367,715	\$...	\$ 405,627	\$ 393,271
Total liabilities	<u>19,171</u>	<u>...</u>	<u>13,754</u>	<u>4,987</u>	<u>367,715</u>	<u>...</u>	<u>405,627</u>	<u>393,271</u>
FUND BALANCES								
Restricted-specific programs	...	136	...	...	...	62,000	62,136	72,170
Unassigned	...	...	...	...	...	9,261	9,261	9,188
Total fund balances	<u>...</u>	<u>136</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>71,261</u>	<u>71,397</u>	<u>81,358</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 19,171</u>	<u>\$ 136</u>	<u>\$ 13,754</u>	<u>\$ 4,987</u>	<u>\$ 367,715</u>	<u>\$ 71,261</u>	<u>\$ 477,024</u>	<u>\$ 474,629</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, 2014 With Comparative Totals for 2013

	Federal Funding	State Funding			Local Funding	Revolving Loan Fund	Totals	
		Municipal Street Aid	SALLE and EIDE	Other			2014	2013
REVENUES								
Intergovernmental revenues:								
Federal	\$ 50,764	\$...	\$...	\$...	\$...	\$...	\$ 50,764	\$ 38,696
State	...	43,378	1,860	253,411	...	...	298,649	109,132
Local	...	...	...	...	1,000	...	1,000	202
Interest revenue	...	...	...	...	...	73	73	36
Total revenues	50,764	43,378	1,860	253,411	1,000	73	350,486	148,066
EXPENDITURES								
Current:								
Public safety-police	33,809	...	1,860	...	...	...	35,669	36,291
Public works-streets	...	21,239	...	...	...	...	21,239	28,458
Parks and recreation	...	...	...	34,746	1,000	...	35,746	19,790
Community Center	...	...	...	40,000	...	...	40,000	24,511
Capital outlay:								
General government	...	...	...	...	...	...	...	10,483
Public safety-police	...	...	...	...	...	...	...	5,610
Public works-streets	...	24,173	...	125,738	...	...	149,911	...
Parks and recreation	16,955	...	...	52,927	...	...	69,882	202
Debt service:								
Principal	...	5,638	...	...	...	...	5,638	5,434
Interest and other fees	...	2,362	...	...	...	...	2,362	3,308
Total expenditures	50,764	53,412	1,860	253,411	1,000	...	360,447	134,087
EXCESS REVENUES OVER (UNDER) EXPENDITURES	...	(10,034)	...	...	...	73	(9,961)	13,979
OTHER FINANCING SOURCES (USES)								
Operating transfers in	...	...	...	...	...	...	...	...
Operating transfers out	...	...	...	...	...	...	...	(7,414)
Total other financing sources (uses)	...	...	...	...	...	...	...	(7,414)
NET CHANGES IN FUND BALANCES	...	(10,034)	...	...	...	73	(9,961)	6,565
FUND BALANCES								
Beginning of year	...	10,170	...	...	...	71,188	81,358	74,793
End of year	\$...	\$ 136	\$...	\$...	\$...	\$ 71,261	\$ 71,397	\$ 81,358

See Report of Independent Auditor