

Report of Independent Auditor

CITY OF DELAWARE CITY
Delaware City, Delaware

Years Ended June 30, 2016 and 2015



HAGGERTY & HAGGERTY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS
& MANAGEMENT CONSULTANTS

CITY OF DELAWARE CITY, DELAWARE

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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 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, 2016 and 2015, 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 City'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 City'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, 2016 and 2015, 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 27, 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 to 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 the missing information.

Other Supplementary Information

Our audit was 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 28 and 29, 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 as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2016 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 entity, 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

December 13, 2016
Wilmington, Delaware

Basic Financial Statements Section

CITY OF DELAWARE CITY, DELAWARE
STATEMENTS OF NET POSITION
As of June 30, 2016 and 2015

	2016				2015			
	Primary Government			Component Unit Delaware City Day Committee	Primary Government			Component Unit Delaware City Day Committee
	Activity Type		Total		Activity Type		Total	
	Governmental	Business		Governmental	Business			
ASSETS								
Current assets								
Cash and equivalents	\$ 463,210	\$...	\$ 463,210	\$ 39,539	\$ 768,205	\$...	\$ 768,205	\$ 62,436
Receivables, net of allowance:								
Property taxes	7,785	...	7,785	...	5,526	...	5,526	...
Accounts	...	7,713	7,713	...	...	7,713	7,713	...
Other	7,273	...	7,273	...	8,716	...	8,716	...
Due from other governments	396,243	...	396,243	...	109,186	...	109,186	...
Due from primary government	...	...	...	36,000	...	...	...	...
Total current assets	874,511	7,713	882,224	75,539	891,633	7,713	899,346	62,436
Noncurrent assets								
Capital assets, net of depreciation:								
Nondepreciable	421,737	18,331	440,068	...	709,204	18,331	727,535	...
Depreciable	6,143,489	366,324	6,509,813	...	6,011,453	484,511	6,495,964	...
Total noncurrent assets	6,565,226	384,655	6,949,881	...	6,720,657	502,842	7,223,499	...
TOTAL ASSETS	7,439,737	392,368	7,832,105	75,539	7,612,290	510,555	8,122,845	62,436
DEFERRED OUTFLOWS OF RESOURCES								
Bond issue costs, net of amortization	...	14,570	14,570	...	...	15,968	15,968	...
LIABILITIES								
Current liabilities								
Line of credit	...	...	...	...	...	...	...	...
Accounts payable	72,251	...	72,251	...	60,660	...	60,660	14,500
Accrued interest payable	...	4,443	4,443	...	...	4,886	4,886	...
Current portion of long-term debt	34,171	38,788	72,959	...	32,654	37,658	70,312	...
Payroll deductions and withholdings	...	...	...	...	1,132	...	1,132	...
Funds held in custody	30,842	...	30,842	...	19,509	...	19,509	...
Refundable advances and other deposits	73,340	13,550	86,890	6,543	82,091	13,150	95,241	2,663
Due to component unit	36,000	...	36,000	...	...	...	...	...
Total current liabilities	246,604	56,781	303,385	6,543	196,046	55,694	251,740	17,163
Noncurrent liabilities								
Long-term debt, net of current portion	305,290	640,717	946,007	...	338,938	679,456	1,018,394	...
Long-term portion of compensated absences	14,262	...	14,262	...	7,402	...	7,402	...
Total noncurrent liabilities	319,552	640,717	960,269	...	346,340	679,456	1,025,796	...
TOTAL LIABILITIES	566,156	697,498	1,263,654	6,543	542,386	735,150	1,277,536	17,163
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenue-other	8,499	...	8,499	...	1,125	...	1,125	...
NET POSITION								
Net investment in capital assets	6,225,765	(280,280)	5,945,485	...	6,349,065	(198,304)	6,150,761	...
Restricted for specific programs	62,136	...	62,136	68,996	62,136	...	62,136	45,273
Unrestricted (deficit)	577,181	(10,280)	566,901	...	657,578	(10,323)	647,255	...
TOTAL NET POSITION	\$ 6,865,082	\$ (290,560)	\$ 6,574,522	\$ 68,996	\$ 7,068,779	\$ (208,627)	\$ 6,860,152	\$ 45,273

Accompanying notes are an integral part of these financial statements

CITY OF DELAWARE CITY, DELAWARE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

Functions	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position			Component Unit Delaware City Day Committee
		Charges for Services	Grants and Contributions		Activity Type			
			Operating	Capital	Governmental	Business	Total	
GOVERNMENTAL ACTIVITIES								
General government	\$ 376,542	\$ 27,254	\$...	\$...	\$ (349,288)	\$...	\$ (349,288)	\$...
Code enforcement	8,685	...	...	...	(8,685)	...	(8,685)	...
Public safety-police	365,772	12,300	20,803	...	(332,669)	...	(332,669)	...
Public works-streets	147,288	880	16,774	51,133	(78,501)	...	(78,501)	...
Public works-sanitation	200,622	5,349	...	...	(195,273)	...	(195,273)	...
Parks and recreation	266,249	...	106,376	254,003	94,130	...	94,130	...
Community Center	33,704	...	22,291	...	(11,413)	...	(11,413)	...
Interest on long-term debt	16,859	...	...	8,492	(8,367)	...	(8,367)	...
Depreciation-unallocated	361,797	...	...	...	(361,797)	...	(361,797)	...
Total governmental activities	1,777,518	45,783	166,244	313,628	(1,251,863)	...	(1,251,863)	...
BUSINESS-TYPE ACTIVITIES								
Water system	360,986	260,027	...	...	...	(100,959)	(100,959)	...
Total business-type activities	360,986	260,027	...	...	...	(100,959)	(100,959)	...
TOTAL PRIMARY GOVERNMENT	2,138,504	305,810	166,244	313,628	(1,251,863)	(100,959)	(1,352,822)	...
DISCRETELY PRESENTED COMPONENT UNIT								
Delaware City Day Committee	41,497	11,050	54,170	...	...	...	...	23,723
TOTAL PRIMARY GOV'T AND COMPONENT UNIT	\$ 2,180,001	\$ 316,860	\$ 220,414	\$ 313,628	(1,251,863)	(100,959)	(1,352,822)	23,723
GENERAL REVENUES AND TRANSFERS								
Property taxes levied for general purposes					893,217	...	893,217	...
Cable franchise taxes					23,272	...	23,272	...
Investment earnings and rents					146,015	...	146,015	...
Gain (loss) from sale of capital assets					400	...	400	...
Miscellaneous revenues					2,670	1,618	4,288	...
Transfers between governmental, BT activities					(17,408)	17,408	...	...
Total general revenues and transfers					1,048,166	19,026	1,067,192	...
CHANGES IN NET POSITION					(203,697)	(81,933)	(285,630)	23,723
NET POSITION								
Beginning of year					7,068,779	(208,627)	6,860,152	45,273
End of year					\$ 6,865,082	\$ (290,560)	\$ 6,574,522	\$ 68,996

Accompanying notes are an integral part of these financial statements

CITY OF DELAWARE CITY, DELAWARE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2015

Functions	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position			Component Unit Delaware City Day Committee
		Charges for Services	Grants and Contributions Operating	Capital	Activity Type		Total	
					Governmental	Business		
GOVERNMENTAL ACTIVITIES								
General government	\$ 454,476	\$ 12,649	\$ 9,780	\$...	\$ (432,047)	\$...	\$ (432,047)	\$...
Code enforcement	1,735	...	...	...	(1,735)	...	(1,735)	...
Public safety-police	301,391	10,659	25,910	8,670	(256,152)	...	(256,152)	...
Public works-streets	125,411	...	18,615	18,169	(88,627)	...	(88,627)	...
Public works-sanitation	204,523	4,937	...	...	(199,586)	...	(199,586)	...
Parks and recreation	77,183	...	5,344	630,801	558,962	...	558,962	...
Community Center	61,387	20	26,671	...	(34,696)	...	(34,696)	...
Interest on long-term debt	17,302	...	...	8,491	(8,811)	...	(8,811)	...
Depreciation-unallocated	338,100	...	...	...	(338,100)	...	(338,100)	...
Total governmental activities	1,581,508	28,265	86,320	666,131	(800,792)	...	(800,792)	...
BUSINESS-TYPE ACTIVITIES								
Water system	353,012	307,464	...	...	...	(45,548)	(45,548)	...
Total business-type activities	353,012	307,464	...	...	...	(45,548)	(45,548)	...
TOTAL PRIMARY GOVERNMENT	1,934,520	335,729	86,320	666,131	(800,792)	(45,548)	(846,340)	...
DISCRETELY PRESENTED COMPONENT UNIT								
Delaware City Day Committee	76,105	10,035	58,730	...	...	...	...	(7,340)
TOTAL PRIMARY GOV'T AND COMPONENT UNIT	\$ 2,010,625	\$ 345,764	\$ 145,050	\$ 666,131	(800,792)	(45,548)	(846,340)	(7,340)
GENERAL REVENUES AND TRANSFERS								
Property taxes levied for general purposes					907,057	...	907,057	...
Cable franchise taxes					20,965	...	20,965	...
Investment earnings and rents					142,697	...	142,697	...
Gain (loss) from sale of capital assets					(15,251)	...	(15,251)	...
Miscellaneous revenues					14,330	900	15,230	...
Transfers between governmental, BT activities					44,416	(44,416)	...	...
Total general revenues and transfers					1,114,214	(43,516)	1,070,698	...
CHANGES IN NET POSITION					313,422	(89,064)	224,358	(7,340)
NET POSITION								
Beginning of year					6,755,357	(119,563)	6,635,794	52,613
End of year					\$ 7,068,779	\$ (208,627)	\$ 6,860,152	\$ 45,273

Accompanying notes are an integral part of these financial statements

CITY OF DELAWARE CITY, DELAWARE
BALANCE SHEETS-GOVERNMENTAL FUNDS
As of June 30, 2016 and 2015

	2016			2015		
	Governmental Fund Types			Governmental Fund Types		
	General	Special Revenue	Total	General	Special Revenue	Total
ASSETS						
ASSETS						
Cash and equivalents	\$ 348,613	\$ 114,597	\$ 463,210	\$ 653,312	\$ 114,893	\$ 768,205
Receivables, net of allowance:						
Property taxes	7,785	...	7,785	5,526	...	5,526
Other	7,273	...	7,273	8,716	...	8,716
Due from other governments	53,895	342,348	396,243	...	109,186	109,186
Interfund receivables (payables)	<u>323,442</u>	<u>(323,442)</u>	<u>...</u>	<u>114,804</u>	<u>(114,804)</u>	<u>...</u>
TOTAL ASSETS	<u>\$ 741,008</u>	<u>\$ 133,503</u>	<u>\$ 874,511</u>	<u>\$ 782,358</u>	<u>\$ 109,275</u>	<u>\$ 891,633</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Line of credit	\$...	\$...	\$...	\$...	\$...	\$...
Accounts payable	72,251	...	72,251	60,660	...	60,660
Payroll deductions and withholdings	...	...	...	1,132	...	1,132
Funds held in custody	30,842	...	30,842	19,509	...	19,509
Refundable advances and other deposits	11,449	61,891	73,340	44,320	37,771	82,091
Due to component unit	<u>36,000</u>	<u>...</u>	<u>36,000</u>	<u>...</u>	<u>...</u>	<u>...</u>
Total liabilities	<u>150,542</u>	<u>61,891</u>	<u>212,433</u>	<u>125,621</u>	<u>37,771</u>	<u>163,392</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue-other	<u>8,499</u>	<u>...</u>	<u>8,499</u>	<u>1,125</u>	<u>...</u>	<u>1,125</u>
FUND BALANCES						
Restricted-specific programs	...	62,136	62,136	...	62,136	62,136
Committed-capital reserve	153,976	...	153,976	153,976	...	153,976
Committed-budget reserve	427,991	...	427,991	500,000	...	500,000
Unassigned	...	9,476	9,476	1,636	9,368	11,004
Total fund balances	<u>581,967</u>	<u>71,612</u>	<u>653,579</u>	<u>655,612</u>	<u>71,504</u>	<u>727,116</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 741,008</u>	<u>\$ 133,503</u>	<u>\$ 874,511</u>	<u>\$ 782,358</u>	<u>\$ 109,275</u>	<u>\$ 891,633</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 POSITION

As of June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Amounts reported for governmental activities in the statement of net position are different because:		
Total fund balances-governmental funds	\$ 653,579	\$ 727,116
Capital assets used in governmental activities are not financial resources and, therefore are not reported as assets in governmental funds. The amounts presented reflect total cost of capital assets net of accumulated depreciation.	6,565,226	6,720,657
Long-term liabilities are not due and payable within the current period, and therefore are not reported as liabilities in the governmental fund types.		
<u>Long-Term Debt Obligations</u>	<u>2016</u>	<u>2015</u>
Current portion	\$ (34,171)	\$ (32,654)
Net of current portion	<u>(305,290)</u>	<u>(338,938)</u>
	(339,461)	(371,592)
Compensated absences not due and payable within the period presented are not reported in the governmental funds.	<u>(14,262)</u>	<u>(7,402)</u>
Total net position-governmental activities	<u>\$ 6,865,082</u>	<u>\$ 7,068,779</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, 2016 and 2015

	2016			2015		
	Governmental Fund Types			Governmental Fund Types		
	General	Special Revenue	Total	General	Special Revenue	Total
REVENUES						
Taxes:						
Property taxes	\$ 838,221	\$...	\$ 838,221	\$ 846,008	\$...	\$ 846,008
Property taxes-transfer tax	54,996	...	54,996	61,049	...	61,049
Cable franchise taxes	23,272	...	23,272	20,965	...	20,965
Licenses and permits	26,360	...	26,360	11,914	...	11,914
Intergovernmental revenues:						
Federal	...	216,372	216,372	...	56,616	56,616
State	53,895	187,773	241,668	...	291,821	291,821
Local	...	...	...	...	354,000	354,000
Police fines and court fees	12,300	...	12,300	10,659	...	10,659
Charges for services	11,878	...	11,878	9,501	...	9,501
Interest and rents	145,907	108	146,015	142,590	107	142,697
Contributions	17,077	...	17,077	46,205	...	46,205
Miscellaneous revenues	...	...	...	104	...	104
Total revenues	1,183,906	404,253	1,588,159	1,148,995	702,544	1,851,539
EXPENDITURES						
Current:						
General government	374,054	...	374,054	361,370	...	361,370
Code enforcement	8,685	...	8,685	1,735	...	1,735
Public safety-police	345,855	15,545	361,400	277,313	21,851	299,164
Public works-streets	130,514	16,774	147,288	106,796	18,615	125,411
Public works-sanitation	200,622	...	200,622	204,523	...	204,523
Parks and recreation	63,664	37,894	101,558	71,839	5,344	77,183
Community Center	13,082	20,622	33,704	35,826	25,561	61,387
Capital outlay	65,921	305,136	371,057	44,179	622,575	666,754
Debt service:						
Principal	172,987	6,367	179,354	40,040	6,046	46,086
Interest and other fees	14,734	2,125	16,859	14,857	2,445	17,302
Total expenditures	1,390,118	404,463	1,794,581	1,158,478	702,437	1,860,915
EXCESS (DEFICIT) REVENUES OVER EXPENDITURES	(206,212)	(210)	(206,422)	(9,483)	107	(9,376)
OTHER FINANCING SOURCES (USES)						
Proceeds from new financing	147,223	...	147,223	...	...	...
Proceeds from sale of capital assets	400	...	400	3,500	...	3,500
Refund of prior year expenditures	2,670	...	2,670	14,226	...	14,226
Interfund transfers in (out)	(17,726)	318	(17,408)	44,416	...	44,416
Total other financing sources (uses)	132,567	318	132,885	62,142	...	62,142
NET CHANGES IN FUND BALANCES	(73,645)	108	(73,537)	52,659	107	52,766
FUND BALANCES						
Beginning of year	655,612	71,504	727,116	602,953	71,397	674,350
End of year	\$ 581,967	\$ 71,612	\$ 653,579	\$ 655,612	\$ 71,504	\$ 727,116

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, 2016 and 2015

	2016	2015		
Amounts reported for governmental activities in the statement of activities are different because:				
Net changes in fund balance-total governmental funds	\$ (73,537)	\$ 52,766		
The governmental funds report capital outlay as expenditures. However, in government-wide financial statements, capital assets with an initial individual cost of \$1,500 or more are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. The following represents the amount by which capital outlays capitalized exceeds or is less than and depreciation expense for the periods presented.				
Description	2016	2015		
Capital outlays	\$ 206,366	\$ 571,073		
Depreciation expense	<u>(361,797)</u>	<u>(338,100)</u>	(155,431)	232,973
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 obligations and related items is as follows:				
Long-Term Obligations	2016	2015		
Financing proceeds received	\$ (147,223)	\$...		
Principal payments made	<u>179,354</u>	<u>46,086</u>	32,131	46,086
Some expenses reported in the statement of activities do not require current financial resources, and therefore are not reported as expenditures in the governmental funds.				
Description	2016	2015		
Proceeds from sale of assets	\$ (400)	\$ (3,500)		
Gain (loss) from sale of assets	<u>400</u>	<u>(15,251)</u>	...	(18,751)
In the statement of activities, certain operating expenses such as compensated absences for vacation are measured by 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>(6,860)</u>	<u>348</u>
Changes in net position-governmental activities	\$ (203,697)	\$ 313,422		

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, 2016 and 2015

	Water Fund	
	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$...	\$...
Accounts receivable, net of allowances	7,713	7,713
Total current assets	<u>7,713</u>	<u>7,713</u>
NONCURRENT ASSETS		
Capital assets, net of accumulated depreciation:		
Nondepreciable	18,331	18,331
Depreciable	366,324	484,511
Total noncurrent assets	<u>384,655</u>	<u>502,842</u>
TOTAL ASSETS	<u>392,368</u>	<u>510,555</u>
DEFERRED OUTFLOWS OF RESOURCES		
Bond issue costs, net of accumulated amortization	14,570	15,968
LIABILITIES		
CURRENT LIABILITIES		
Accrued interest payable	4,443	4,886
Current portion of long-term debt	38,788	37,658
Refundable advances and other deposits	13,550	13,150
Total current liabilities	<u>56,781</u>	<u>55,694</u>
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	640,717	679,456
TOTAL LIABILITIES	<u>697,498</u>	<u>735,150</u>
NET POSITION (LIABILITIES)		
Net investment in capital assets	(280,280)	(198,304)
Unrestricted (deficit)	<u>(10,280)</u>	<u>(10,323)</u>
TOTAL NET POSITION (LIABILITIES)	<u>\$ (290,560)</u>	<u>\$ (208,627)</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, 2016 and 2015

	Water Fund	
	2016	2015
OPERATING REVENUES		
Charges for services	\$ 260,027	\$ 307,464
OPERATING EXPENSES		
Salaries	55,129	53,568
Payroll taxes	4,305	4,753
Employee benefits	9,809	7,959
Contractual services	56,613	52,258
Insurance	15,964	15,021
Telephone	2,552	2,580
Electricity	17,194	16,366
Professional fees	27,993	15,246
Distribution system maintenance	15,994	21,732
Office supplies	1,177	955
Materials and supplies	2,106	2,692
Fuel for heating	1,240	1,483
Miscellaneous	680	888
Depreciation and amortization	119,585	125,128
Total operating expenses	330,341	320,629
OPERATING INCOME (LOSS)	(70,314)	(13,165)
NONOPERATING REVENUES (EXPENSES)		
Interest expense	(30,645)	(32,383)
Miscellaneous revenues	1,618	900
Total nonoperating revenues (expenses)	(29,027)	(31,483)
INCOME (LOSS) BEFORE OTHER FINANCING SOURCES (USES)	(99,341)	(44,648)
OTHER FINANCING SOURCES (USES)		
Transfers from (to) governmental activities	17,408	(44,416)
CHANGES IN NET POSITION	(81,933)	(89,064)
NET POSITION (LIABILITIES)		
Beginning of year	(208,627)	(119,563)
End of year	\$ (290,560)	\$ (208,627)

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, 2016 and 2015

	Water Fund	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 262,045	\$ 308,614
Cash payments to suppliers for goods and services	(141,513)	(129,221)
Cash payments to employees for services	(69,243)	(66,280)
Net cash provided (used) by operating activities	51,289	113,113
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	...	...
Principal paid on general obligation bonds and notes	(37,609)	(36,104)
Interest paid on general obligation bonds and notes	(31,088)	(32,593)
Cash received (paid) from/(to) governmental activities	17,408	(44,416)
Net cash provided (used) by capital and related financing activities	(51,289)	(113,113)
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)	\$ (70,314)	\$ (13,165)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	118,187	123,730
Amortization	1,398	1,398
Other nonoperating revenues	1,618	900
Changes in assets and liabilities:		
Receivables	...	...
Refundable advances and other deposits	400	250
Total adjustments	121,603	126,278
Net cash provided (used) by operating activities	\$ (51,289)	\$ 113,113

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, hereafter referred to as GAAP. The Governmental Accounting Standards Board [GASB] is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's significant accounting policies are described below.

Reporting Entity

The City of Delaware City is a municipal corporation incorporated March 5, 1851 under the provisions of the State of Delaware. The City is 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 City's [reporting entity] financial statements to be misleading or incomplete. The City has one organization meeting the above criteria and the City has elected to include the following component unit:

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

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.

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.

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 two statements: the statement of net position and the statement of activities. As a general rule, the effects of any interfund balances have 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 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/or other charges [business-type activities]. The governmental activities of the City include general government, public safety [police], public works [streets and sanitation], parks and recreation, Community Center, and other general administrative support services. The business-type activities of the City include the water system.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-Wide and Fund Financial Statements (continued)

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. Property taxes and other revenue sources not properly included among program revenues are reported instead as general revenues.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The **government-wide financial statements** are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned or received, and for property taxes in the period for which they are levied. Expenses are recorded when the 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 respective period or soon enough thereafter to pay liabilities of the period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the respective period.

Grants and similar items are recognized as revenues as soon as all of the 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 which are recognized when payment is due.

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

The City reports the following major governmental fund types:

- 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 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 the revitalization of the City's 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* activities. 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 are 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 the criteria are reported as nonoperating revenues and expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP as it applies to governmental units 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.

Budgetary Accounting

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

- City Manager submits to Council a proposed budget for ensuing fiscal year. The budget includes proposed expenditures and means of financing them.
- Council meets in open session to review the proposed budget.
- Not later than the final public meeting prior to the end of the preceding fiscal year, the budget is legally enacted.
- City Manager is required to present to Council a monthly budget report 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. GAAP.
- The budget for budgeted special revenue funds is approved on a funding-by-funding basis.

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 for the governmental funds. Encumbrances at the year-end are reported as assigned fund balance since encumbrances do not constitute expenditures or liabilities but serve as the authorization for expenditures in the subsequent year. At June 30, 2016 and 2015, the City has no encumbrances outstanding.

Cash and Equivalents

Demand deposits and highly liquid unrestricted investments with an initial maturity of three months or less are considered to be cash equivalents.

Receivable-Property Taxes

At June 30, 2016 and 2015, the property taxes receivable is reflected net of an estimated uncollectible allowance of \$55,413 and \$57,601, respectively. The uncollectible allowance is based upon historical data established according to experience and other factors which in the judgment of City officials deserve recognition in estimating future probable losses. Management believes they have adequately provided for such losses.

Receivable-Accounts

At June 30, 2016 and 2015, the accounts receivable is reflected net of an estimated uncollectible allowance of \$24,541 and \$23,370, respectively. The uncollectible allowance is based upon historical data established according to experience and other factors which in the judgment of City officials deserve recognition in estimating future probable losses. Management believes they have adequately provided for such losses.

Receivable-Other

At June 30, 2016 and 2015, the other receivable is reflected net of an estimated uncollectible allowance of \$7,830 and \$10,500, respectively. The uncollectible allowance is based upon historical data established according to experience and other factors which in the judgment of City officials deserve recognition in estimating future probable losses. Management believes they have adequately provided for such losses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Due From Other Governments

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

Receivables and Payables

Activities between funds that are representative of the lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivable or interfund payable" [current portion] or "interfund advances from/to other funds" [noncurrent portion].

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. The City has no such activity for the years presented.

Prepayments and Other Assets

Payments made to vendors for goods and services that will benefit periods beyond the current period are recorded as prepayments and other assets using the consumption method by recording an asset for the prepaid amount and reflecting the expenditure/expense in the period in which the goods and services are consumed. At the fund reporting level, an equal amount of fund balance is classified as nonspendable, as the amount is not available for appropriation.

Restricted Assets

Restricted assets consisted 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 also include net investment income earned on these funds since receipt of the award. During fiscal years 2016 and 2015, the City expended \$0 and \$352,500 of said funds with the remainder of the funds in the amount of \$15,205 and \$15,205 reflected as refundable advances and other deposits, respectively.

Capital Assets and Depreciation

Capital assets consist of property, plant, furnishings, equipment, and infrastructure assets completed after June 30, 2003 [such as roads, sidewalks, traffic signals, street lights, and similar items], and 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. Such capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at estimated fair value as of the date of the donation.

The cost of normal maintenance and repairs that does not add to the value of an asset or materially extend its life is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. The interest incurred during the construction phase of capital assets for business-type activities is included as part of the capitalized value of the asset constructed. The amount of interest 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. No interest costs were capitalized for the years presented.

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 [20] life of the bond using the straight-line method. At June 30, 2016 and 2015, the accumulated amortization is \$13,399 and \$12,001, respectively. The annual amortization expense is \$1,398.

Funds Held in Custody

Funds held in custody are funds held by the City in an agency capacity to account for assets of other organizations and activities not considered part of the City's budgeted operations.

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 Liability

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

- The obligation related to 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 reflects 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 compensated absences liability is not reflected 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 reflected as an accrued liability.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources [expense/expenditure] until that period. The City has one item that qualifies for reporting in this category. This item is bond issue costs. The amount is reflected in both the government-wide and proprietary fund statement of net position. The amount is deferred and amortized over the life of the bond.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources [revenue] until that time. The City has one item that qualifies for reporting in this category; that item is reflected as unavailable revenue. This item is reported in both the government-wide statement of net position and the governmental fund type balance sheet. These amounts are deferred and recognized as an inflow from resources in the period that the amounts become available.

Long-Term Obligations

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

In fund financial statements, the governmental fund types recognize bond discounts and issuance costs in the current period. The bond discounts and refunding losses for the proprietary fund type 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 financial statements and the proprietary fund financial statements, net position is reported in three separate 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 the related debt obligation and does not include unspent proceeds of 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 may include unspent grant awards. All other net position is considered to be unrestricted.

In the fund financial statements, fund balances are required to be reported according to 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 prepayments and other assets, inventory, 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 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 the restricted resources first, then unrestricted resources as they are needed.

NOTE 2 - PROPERTY TAXES

Property taxes within the City limits are \$1.09 per \$100 of assessed valuation for fiscal year 2016 and \$1.09 per \$100 of assessed valuation for fiscal year 2015 as levied by the City Council. The City bills and collects its own property taxes. Delinquent property taxes are lienied by the City. The schedule of property taxes levied is as follows:

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

NOTE 3 - ECONOMIC DEPENDENCY

A substantial portion of the City's annual assessment of property taxes is received from two corporate taxpayers. The collected property taxes from the two taxpayers approximates 58% of the City's total annual assessment.

A substantial portion of the City's water user fees is received from one corporate customer. The collected amount approximates 2% and 13% of the City's total annual water user fees for the fiscal years ended June 30, 2016 and 2015, respectively.

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - CASH AND EQUIVALENTS

It is the City's policy to invest its funds principally in money market accounts and with financial institutions that are FDIC insured and provide collateralization for deposits in excess of FDIC insurance.

The City's deposits [cash and equivalents] are categorized to give an indication of the level of risk assumed as of June 30, 2016 and 2015. The categories are described below:

Description	2016		2015	
	Book	Bank	Book	Bank
Category 1	\$ 258,492	\$ 258,492	\$ 258,777	\$ 258,777
Category 2	204,418	335,378	509,128	526,903
Category 3	300	...	300	...
Totals	\$ 463,210	\$ 593,870	\$ 768,205	\$ 785,680

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.

At June 30, 2016 and 2015, the City's deposits held primarily by one financial institution are insured with the Federal Deposit Insurance Corporation [FDIC]. Deposits totaling \$593,870 and \$785,680 held by the financial institution are in excess of FDIC limits in the amounts of \$335,378 and \$526,903, respectively. The excess FDIC deposits are collateralized with U.S. Government securities held by the financial institution in the City's name. Category 3 balances are subject to custodial risk.

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

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

The intergovernmental receivables represent receivables from other governmental agencies for revenues earned but not received as of June 30 by the City.

At June 30, due from other governments consists of receivables due from the following government agencies:

Description	Activity Type			
	2016		2015	
	Governmental	Business	Governmental	Business
U.S. Department of Agriculture	\$ 97,641	\$...	\$...	\$...
Delaware Emergency Management Agency	52,988	...	26,354	...
Delaware Department of Transportation	35,301	...	1,886	...
Delaware Department of Natural Resources	77,939	...	10,751	...
Delaware Land & Conservation Trust Fund	132,374	...	70,195	...
Total intergovernmental receivables	\$ 396,243	\$...	\$ 109,186	\$...

NOTE 6 - RISK MANAGEMENT

The City purchases commercial insurance policies in response to risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or acts of God. The premium payment for the insurance policies is recorded as expenditures/expenses of the City, and insurance settlements have not exceeded insurance coverage.

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - CAPITAL ASSETS

The schedules summarize annual changes in the activity of the capital assets:

Description	As of and Year Ended June 30, 2016			
	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	170,559	33,415	203,974	...
Trees, trails and landscape	116,908	114,465	231,373	...
Total capital assets, not being depreciated	709,204	147,880	435,347	421,737
Capital assets, being depreciated:				
Buildings and improvements	4,831,085	...	...	4,831,085
Furniture and office equipment	58,088	...	...	58,088
Vehicles and equipment	200,236	...	4,819	195,417
Streets and sidewalks	2,012,574	203,974	...	2,216,548
Trees, trails and landscape	1,718,491	289,859	...	2,008,350
Total being depreciated	8,820,474	493,833	4,819	9,309,488
Less accumulated depreciation:				
Buildings and improvements	1,357,656	150,838	...	1,508,494
Furniture and office equipment	52,952	1,291	...	54,243
Vehicles and equipment	138,752	21,898	4,819	155,831
Streets and sidewalks	744,059	107,879	...	851,938
Trees, trails and landscape	515,602	79,891	...	595,493
Accumulated depreciation	2,809,021	361,797	4,819	3,165,999
Total capital assets, being depreciated	6,011,453	132,036	...	6,143,489
Governmental activities capital assets, net	\$ 6,720,657	\$ 279,916	\$ 435,347	\$ 6,565,226
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	362,996	10,501	...	373,497
Water distribution system	2,279,769	107,686	...	2,387,455
Machinery and equipment	...	...	...	...
Accumulated depreciation	2,642,765	118,187	...	2,760,952
Total capital assets, being depreciated	484,511	(118,187)	...	366,324
Business-type activities capital assets, net	\$ 502,842	\$ (118,187)	\$...	\$ 384,655

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - CAPITAL ASSETS (continued)

The schedules summarize annual changes in the activity of the capital assets:

Description	As of and Year Ended June 30, 2015			
	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	11,919	...	170,559
Trees, trails and landscape	192,819	524,089	600,000	116,908
Total capital assets, not being depreciated	773,196	536,008	600,000	709,204
Capital assets, being depreciated:				
Buildings and improvements	4,831,085	...	...	4,831,085
Furniture and office equipment	58,088	...	...	58,088
Vehicles and equipment	332,689	...	132,453	200,236
Streets and sidewalks	1,412,574	600,000	...	2,012,574
Trees, trails and landscape	1,683,426	35,065	...	1,718,491
Total being depreciated	8,317,862	635,065	132,453	8,820,474
Less accumulated depreciation:				
Buildings and improvements	1,206,274	151,382	...	1,357,656
Furniture and office equipment	51,660	1,292	...	52,952
Vehicles and equipment	226,876	25,578	113,702	138,752
Streets and sidewalks	665,153	78,906	...	744,059
Trees, trails and landscape	434,660	80,942	...	515,602
Accumulated depreciation	2,584,623	338,100	113,702	2,809,021
Total capital assets, being depreciated	5,733,239	296,965	18,751	6,011,453
Governmental activities capital assets, net	\$ 6,506,435	\$ 832,973	\$ 618,751	\$ 6,720,657
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	352,494	10,502	...	362,996
Water distribution system	2,166,541	113,228	...	2,279,769
Machinery and equipment	...	...	...	...
Accumulated depreciation	2,519,035	123,730	...	2,642,765
Total capital assets, being depreciated	608,241	(123,730)	...	484,511
Business-type activities capital assets, net	\$ 626,572	\$ (123,730)	\$...	\$ 502,842

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - 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 payable 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 property tax revenues. As of and for the years ended June 30, 2016 and 2015, the City did not utilize the line of credit and has no outstanding balance.

NOTE 9 - PENSION PLAN

The City adopted a "5304 Savings Incentive Plan for Employees of Small Employers [SIMPLE]" administered by Edward Jones for the City's employees. The plan is intended to provide benefits for eligible City employees. The City contributes to each eligible employee's SIMPLE IRA a matching contribution equal to the employee's salary reduction contributions up to a limit of 3.00% of the employee's compensation for the calendar year. The City contributed \$7,409 and \$6,542 for eligible employees participating in the retirement plan for fiscal years ended June 30, 2016 and 2015, respectively.

NOTE 10 - LONG-TERM DEBT OBLIGATIONS

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

Description	As of and Year Ended June 30, 2016				
	Beginning Balances	Additions	Deletions	Ending Balances Long-term Portion	Ending Balances Due Within One Year
Governmental Activities:					
General obligation bonds:					
Citizens Bank	\$ 172,392	\$...	\$ 172,392	\$...	\$...
2008 Series	199,200	...	6,962	184,987	7,251
Promissory note-WSFS	...	147,223	...	120,303	26,920
Total bonds and note	371,592	147,223	179,354	305,290	34,171
Compensated absences	7,402	6,860	...	14,262	...
Total governmental	\$ 378,994	\$ 154,083	\$ 179,354	\$ 319,552	\$ 34,171

The compensated absences liability for governmental activities is generally liquidated with general fund resources.

Description	As of and Year Ended June 30, 2016				
	Beginning Balances	Additions	Deletions	Ending Balances Long-term Portion	Ending Balances Due Within One Year
Business-Type Activities:					
General obligation bonds:					
1995 Series	\$ 506,026	\$...	\$ 13,254	\$ 478,791	\$ 13,981
2006 Series	187,827	...	12,773	161,926	13,128
Total bond obligations	693,853	...	26,027	640,717	27,109
General obligation notes:					
SERCAP	23,261	...	11,582	...	11,679
Total business-type	\$ 717,114	\$...	\$ 37,609	\$ 640,717	\$ 38,788

General Obligation Bonds and Notes

General Obligation Bond-Citizens Bank

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 carried a fixed interest rate of 5.125% and required monthly payments of \$2,830.49 [principal and interest]. The bond was issued for the purpose of funding the City's 2006 Capital Improvement Project and was secured with the full faith and credit of the City. On June 29, 2016, the bond was refinanced through WSFS Bank.

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (continued)

General Obligation Bonds and Notes (continued)

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% and are payable in monthly installments of \$1,252 [principal and interest]. At June 30, 2016, the repayment schedule is as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 7,251	\$ 7,773	\$ 15,024
2018	7,555	7,469	15,024
2019	7,205	7,819	15,024
2020	8,131	6,893	15,024
2021	8,491	6,533	15,024
2022-2026	48,105	27,015	75,120
2027-2031	59,109	16,011	75,120
2032-2035	<u>46,391</u>	<u>3,341</u>	<u>49,732</u>
Total required payments	\$ 192,238	\$ 82,854	\$ 275,092

Promissory Note-WSFS Bank

On June 29, 2016, the City issued a promissory note to WSFS Bank in the amount of \$147,223, with an annual interest rate of 4.49%. The note requires monthly payments of \$2,748.35 [principal and interest] for five years and has a maturity date of June 29, 2021. The note was issued for the purpose of refinancing the Citizens Bank General Obligation Bond. The note is secured with an interest in land located at 321 Washington Street, Delaware City, Delaware. At June 30, 2016, the repayment schedule is as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 26,920	\$ 6,060	\$ 32,980
2018	28,153	4,827	32,980
2019	29,444	3,536	32,980
2020	30,793	2,187	32,980
2021	<u>31,913</u>	<u>1,067</u>	<u>32,980</u>
Total required payments	\$ 147,223	\$ 17,677	\$ 164,900

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% and are payable in quarterly installments of \$9,593 [principal and interest]. At June 30, 2016, the repayment schedule is as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 13,981	\$ 24,391	\$ 38,372
2018	14,693	23,679	38,372
2019	15,441	22,931	38,372
2020	16,228	22,144	38,372
2021	17,055	21,317	38,372
2022-2026	99,227	92,633	191,860
2027-2031	127,213	64,647	191,860
2032-2036	163,091	28,769	191,860
2037	<u>25,843</u>	<u>429</u>	<u>26,272</u>
Total required payments	\$ 492,772	\$ 300,940	\$ 793,712

CITY OF DELAWARE CITY, DELAWARE
 NOTES TO FINANCIAL STATEMENTS

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (continued)

General Obligation Bonds and Notes (continued)

General Obligation Bond, Series 2006

On October 11, 2006, the City issued a General Obligation Bond to the Delaware Safe Drinking Water Revolving Fund, Delaware Department of Health & Social Services, Division of Public Health in the amount of \$273,237, with a maturity date of August 1, 2027. The bond carries 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, 2016, the repayment schedule is as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 13,128	\$ 4,741	\$ 17,869
2018	13,492	4,377	17,869
2019	13,867	4,002	17,869
2020	14,253	3,616	17,869
2021	14,649	3,220	17,869
2022-2026	79,583	9,764	89,347
2027-2028	<u>26,082</u>	<u>722</u>	<u>26,804</u>
Total required payments	\$ 175,054	\$ 30,442	\$ 205,496

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 has a maturity date of 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, 2016, the repayment schedule is as follows:

<u>Year Ending June 30, 2017</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Total required payments	\$ 11,679	\$ 281	\$ 11,960

The following schedules summarize future maturities of principal and interest payments:

<u>Years Ending June 30</u>	<u>General Obligation Bonds</u>		<u>General Obligation Notes</u>		<u>Totals</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
Governmental Activities:					
2017	\$ 7,251	\$ 7,773	\$ 26,920	\$ 6,060	\$ 48,004
2018	7,555	7,469	28,153	4,827	48,004
2019	7,205	7,819	29,444	3,536	48,004
2020	8,131	6,893	30,793	2,187	48,004
2021	8,491	6,533	31,913	1,067	48,004
2022-2026	48,105	27,015	...	...	75,120
2027-2031	59,109	16,011	...	...	75,120
2032-2035	<u>46,391</u>	<u>3,341</u>	<u>...</u>	<u>...</u>	<u>49,732</u>
Totals	\$ 192,238	\$ 82,854	\$ 147,223	\$ 17,677	\$ 439,992

Business-Type Activities:

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	30,481	25,760	...	...	56,241
2021	31,704	24,537	...	...	56,241
2022-2026	178,810	102,397	...	...	281,207
2027-2031	153,295	65,369	...	...	218,664
2032-2036	163,091	28,769	...	...	191,860
2037	<u>25,843</u>	<u>429</u>	<u>...</u>	<u>...</u>	<u>26,272</u>
Totals	\$ 667,826	\$ 331,382	\$ 11,679	\$ 281	\$ 1,011,168

NOTE 11 - LEASING ARRANGEMENTS

At June 30, 2015, the City is involved in the following leasing arrangements:

Operating Leases as Lessee

The City leases the following office equipment under operating leasing arrangements:

Description	Monthly Rentals	Expiration Date
Konica-Minolta C364e Digital Copier System	\$ 365	September, 2018
Konica-Minolta C224e Digital Copier System	154	June, 2022

At June 30, 2016, the minimum future rentals under non-cancelable leasing arrangements having remaining terms in excess of one year in the aggregate are:

Years Ending June 30	Amount
2017	\$ 6,228
2018	6,228
2019	2,943
2020	1,848
2021	1,848
2022	1,848
Total minimum future rental payments required	\$ 20,943

Total rental costs are \$3,886 and \$2,868 for the years ended June 30, 2016 and 2015, respectively.

Operating Leases 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 for the years presented:

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 in conjunction with fixed rentals and as such the rentals cannot be estimated for future periods. Total rentals received are \$143,807 and \$139,170 for the years ended June 30, 2016 and 2015, respectively.

NOTE 12 - 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 Awards

The City participates in a number of federally and state assisted grant awards. These awards are subject to compliance audits by the grantors or their representatives. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount 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.

NOTE 13 - GASB STATEMENT IMPLEMENTATION

The City has implemented GASB Statement No. 72, *Fair Value Measurement and Application*. The objective of the Statement is to improve financial reporting by [1] clarifying the definition of fair value for financial reporting purposes, [2] establishing general principles for measuring fair value, [3] providing additional fair value application guidance, and [4] enhancing the disclosures regarding fair value measurements. These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, *Measurement of Elements of Financial Statements*. The implementation of the Statement has no impact on the City's financial reporting.

NOTE 14 - 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 to the financial statements.

Required Supplementary 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, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes:				
Property taxes	\$ 841,000	\$ 841,000	\$ 838,221	\$ (2,779)
Property taxes-transfer tax	40,000	40,000	54,996	14,996
Cable franchise taxes	18,000	18,000	23,272	5,272
Licenses and permits	28,000	28,000	26,360	(1,640)
Intergovernmental revenues	...	...	53,895	53,895
Police fines and court fees	10,000	10,000	12,300	2,300
Charges for services	4,600	4,600	11,878	7,278
Interest and rents	129,400	129,400	145,907	16,507
Contributions	...	...	17,077	17,077
Miscellaneous revenues	...	...	...	...
Total revenues	<u>1,071,000</u>	<u>1,071,000</u>	<u>1,183,906</u>	<u>112,906</u>
EXPENDITURES				
Current:				
General government	293,419	293,419	374,054	(80,635)
Code enforcement	48,195	48,195	8,685	39,510
Public safety-police	347,603	347,603	345,855	1,748
Public works-streets	83,170	83,170	130,514	(47,344)
Public works-sanitation	188,666	188,666	200,622	(11,956)
Parks and recreation	52,000	52,000	63,664	(11,664)
Community Center	13,000	13,000	13,082	(82)
Capital reserve	52,150	52,150	...	52,150
Capital outlay	...	...	65,921	(65,921)
Debt service	40,499	40,499	187,721	(147,222)
Total expenditures	<u>1,118,702</u>	<u>1,118,702</u>	<u>1,390,118</u>	<u>(271,416)</u>
EXCESS (DEFICIT)				
REVENUES OVER EXPENDITURES	<u>(47,702)</u>	<u>(47,702)</u>	<u>(206,212)</u>	<u>(158,510)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from new financing	...	...	147,223	147,223
Proceeds from sale of capital assets	...	...	400	400
Refund of prior year expenditures	...	...	2,670	2,670
Operating transfers in (out)	(315,656)	(315,656)	(17,726)	297,930
Total other financing sources (uses)	<u>(315,656)</u>	<u>(315,656)</u>	<u>132,567</u>	<u>448,223</u>
NET CHANGE IN FUND BALANCE	<u>(363,358)</u>	<u>(363,358)</u>	<u>(73,645)</u>	<u>289,713</u>
FUND BALANCE				
Beginning of year	<u>363,358</u>	<u>363,358</u>	<u>655,512</u>	<u>292,154</u>
End of year	<u>\$...</u>	<u>\$...</u>	<u>\$ 581,867</u>	<u>\$ 581,867</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. GAAP as applied to governmental units 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 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, 2016 With Comparative Totals for 2015

	Federal Funding	State Funding			Local Funding	Revolving Loan Fund	Totals	
		Municipal Street Aid	SALLE and EIDE	Other			[Memorandum Only]	
							2016	2015
ASSETS								
ASSETS								
Cash and equivalents	\$...	\$ 43,121	\$...	\$...	\$...	\$ 71,476	\$ 114,597	\$ 114,893
Due from other governments	150,629	...	...	191,719	...	...	342,348	109,186
Interfund balances	(150,629)	(42,985)	10,065	(155,098)	15,205	...	(323,442)	(114,804)
TOTAL ASSETS	<u>\$...</u>	<u>\$ 136</u>	<u>\$ 10,065</u>	<u>\$ 36,621</u>	<u>\$ 15,205</u>	<u>\$ 71,476</u>	<u>\$ 133,503</u>	<u>\$ 109,275</u>
LIABILITIES AND FUND BALANCES								
LIABILITIES								
Refundable advances and other deposits	\$...	\$...	\$ 10,065	\$ 36,621	\$ 15,205	\$...	\$ 61,891	\$ 37,771
Total liabilities	<u>...</u>	<u>...</u>	<u>10,065</u>	<u>36,621</u>	<u>15,205</u>	<u>...</u>	<u>61,891</u>	<u>37,771</u>
FUND BALANCES								
Restricted-specific programs	...	136	...	...	...	62,000	62,136	62,136
Unassigned	...	...	...	...	...	9,476	9,476	9,368
Total fund balances	<u>...</u>	<u>136</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>71,476</u>	<u>71,612</u>	<u>71,504</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$...</u>	<u>\$ 136</u>	<u>\$ 10,065</u>	<u>\$ 36,621</u>	<u>\$ 15,205</u>	<u>\$ 71,476</u>	<u>\$ 133,503</u>	<u>\$ 109,275</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, 2016 With Comparative Totals for 2015

	State Funding				Local Funding	Revolving Loan Fund	Totals	
	Federal Funding	Municipal Street Aid	SALLE and EIDE	Other			[Memorandum Only]	
							2016	2015
REVENUES								
Intergovernmental revenues:								
Federal	\$ 216,372	\$...	\$...	\$...	\$...	\$...	\$ 216,372	\$ 56,616
State	...	42,984	3,594	141,195	...	...	187,773	291,821
Local	...	...	...	...	...	...	...	354,000
Interest revenue	...	...	...	...	...	108	108	107
Total revenues	216,372	42,984	3,594	141,195	...	108	404,253	702,544
EXPENDITURES								
Current:								
Public safety-police	4,110	...	3,594	7,841	...	...	15,545	21,851
Public works-streets	...	16,774	...	...	...	...	16,774	18,615
Parks and recreation	...	...	...	37,894	...	...	37,894	5,344
Community Center	...	...	...	20,622	...	...	20,622	25,561
Capital outlay:								
Public safety-police	...	...	...	...	...	...	...	8,670
Public works-streets	...	17,718	...	33,415	...	...	51,133	18,169
Parks and recreation	212,262	...	...	41,741	...	...	254,003	595,736
Community Center	...	...	...	...	...	...	...	...
Debt service:								
Principal	...	6,367	...	...	...	...	6,367	6,046
Interest and other fees	...	2,125	...	...	...	...	2,125	2,445
Total expenditures	216,372	42,984	3,594	141,513	...	...	404,463	702,437
EXCESS REVENUES OVER (UNDER) EXPENDITURES	...	...	...	(318)	...	108	(210)	107
OTHER FINANCING SOURCES (USES)								
Operating transfers in	...	...	...	318	...	...	318	...
Operating transfers out	...	...	...	...	...	...	...	...
Total other financing sources (uses)	...	...	...	318	...	...	318	...
NET CHANGES IN FUND BALANCES	...	...	...	...	...	108	108	107
FUND BALANCES								
Beginning of year	...	136	...	...	...	71,368	71,504	71,397
End of year	\$...	\$ 136	\$...	\$...	\$...	\$ 71,476	\$ 71,612	\$ 71,504

See Report of Independent Auditor