

Report of Independent Auditors

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

Year Ended June 30, 2004

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**CITY OF DELAWARE CITY, DELAWARE**

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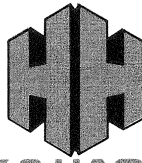
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**HAGGERTY & HAGGERTY, P.A.**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**& MANAGEMENT CONSULTANTS**

James R. Zdimal, CPA†  
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**Report of Independent Auditors**

To Mayor and City Council  
**City of Delaware City**  
Delaware City, Delaware

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Delaware City, Delaware, as of and for the year ended June 30, 2004, which collectively comprise the City's financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Delaware City, Delaware, as of June 30, 2004, and the respective changes in financial position and cash flows where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2004 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary information on page 30 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The City has not presented Management's Discussion and Analysis that U.S. generally accepted accounting principles has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the City of Delaware City's basic financial statements. The combining individual fund statements, listed in the table of contents as additional information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Certified Public Accountants

October 14, 2004  
Wilmington, Delaware

## **Basic Financial Statements Section**

CITY OF DELAWARE CITY, DELAWARE  
STATEMENT OF NET ASSETS  
June 30, 2004

	Primary Government			Discretely Presented Component Unit
	Activity Type			
	Governmental	Business	Total	
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and equivalents	\$ 585,561	\$ ...	\$ 585,561	\$ 3,561
Receivables, net:				
Taxes	6,248	...	6,248	...
Trade accounts	...	14,019	14,019	...
Other	869	...	869	...
Due from other governments	420,215	...	420,215	...
Note receivable due within one year	6,600	...	6,600	...
Prepayments and other assets	...	...	...	2,821
<b>Total current assets</b>	<b>1,019,493</b>	<b>14,019</b>	<b>1,033,512</b>	<b>6,382</b>
<b>Noncurrent assets:</b>				
Note receivable due after one year	67,558	...	67,558	...
Capital assets, net:				
Nondepreciable	5,987,443	18,331	6,005,774	...
Depreciable	67,818	1,515,993	1,583,811	...
<b>Total noncurrent assets</b>	<b>6,122,819</b>	<b>1,534,324</b>	<b>7,657,143</b>	<b>...</b>
<b>TOTAL ASSETS</b>	<b>7,142,312</b>	<b>1,548,343</b>	<b>8,690,655</b>	<b>6,382</b>
<b>LIABILITIES</b>				
<b>Current liabilities:</b>				
Lines of credit	390,250	...	390,250	...
Accounts payable	149,139	...	149,139	...
Accrued interest payable	...	3,600	3,600	...
Current portion of long-term debt	75,920	21,904	97,824	...
Payroll deductions and withholdings	3,130	...	3,130	...
Deferred revenues due within one year	158,265	...	158,265	...
Refundable advances and deposits	57,702	2,900	60,602	...
<b>Total current liabilities</b>	<b>834,406</b>	<b>28,404</b>	<b>862,810</b>	<b>...</b>
<b>Noncurrent liabilities:</b>				
Long-term debt, net of current portion	491,899	734,584	1,226,483	...
Long-term portion of compensated absences	8,013	...	8,013	...
<b>Total noncurrent liabilities</b>	<b>499,912</b>	<b>734,584</b>	<b>1,234,496</b>	<b>...</b>
<b>TOTAL LIABILITIES</b>	<b>1,334,318</b>	<b>762,988</b>	<b>2,097,306</b>	<b>...</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	5,487,442	777,836	6,265,278	...
Restricted for specific programs	74,158	...	74,158	6,382
Unrestricted	246,394	7,519	253,913	...
<b>TOTAL NET ASSETS</b>	<b>\$ 5,807,994</b>	<b>\$ 785,355</b>	<b>\$ 6,593,349</b>	<b>\$ 6,382</b>

Accompanying notes are an integral part of these financial statements

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

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

Accompanying notes are an integral part of these financial statements

**CITY OF DELAWARE CITY, DELAWARE**  
**BALANCE SHEET-GOVERNMENTAL FUNDS**  
 June 30, 2004

<b>ASSETS</b>	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and equivalents	\$ 558,923	\$ 26,638	\$ 585,561
Receivables, net:			
Taxes	6,248	...	6,248
Other	869	...	869
Note receivable	...	74,158	74,158
Interfund receivables	389,449	...	389,449
Due from other governments	...	420,215	420,215
<b>TOTAL ASSETS</b>	<u>\$ 955,489</u>	<u>\$ 521,011</u>	<u>\$1,476,500</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Lines of credit	\$ 390,250	\$ ...	\$ 390,250
Accounts payable	149,139	...	149,139
Payroll deductions and withholdings	3,130	...	3,130
Interfund payables	...	389,449	389,449
Deferred revenues	161,879	54,088	215,967
<b>Total liabilities</b>	<u>704,398</u>	<u>443,537</u>	<u>1,147,935</u>
<b>FUND BALANCES</b>			
Reserved for note receivable	...	74,158	74,158
Unreserved	251,091	3,316	254,407
<b>Total fund balances</b>	<u>251,091</u>	<u>77,474</u>	<u>328,565</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 955,489</u>	<u>\$ 521,011</u>	<u>\$1,476,500</u>

Accompanying notes are an integral part of these financial statements



**CITY OF DELAWARE CITY, DELAWARE**  
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 June 30, 2004

	<u>Amount</u>
Amounts reported for governmental activities in the statement of net assets are different because:	
<b>Total fund balances-governmental funds</b>	<b>\$ 328,565</b>
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds. The cost of capital assets is \$6,193,488 and the related accumulated depreciation is \$138,227.	6,055,261
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
General obligation notes	\$ 567,819
Compensated absences liability	<u>8,013</u>
	<u>(575,832)</u>
<b>Total net assets-governmental activities</b>	<b>\$ 5,807,994</b>

Accompanying notes are an integral part of these financial statements

**CITY OF DELAWARE CITY, DELAWARE**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS  
Year Ended June 30, 2004

	Governmental Fund Types		
	General	Special Revenue	Total
<b>REVENUES</b>			
Taxes:			
Real estate taxes	\$ 479,002	\$ ...	\$ 479,002
Real estate transfer taxes	291,150	...	291,150
Cable franchise taxes	5,458	...	5,458
Licenses and permits	930	...	930
Intergovernmental revenues:			
Federal	...	330,507	330,507
State	9,379	906,441	915,820
Local	...	20,000	20,000
Police fines	12,479	...	12,479
Charges for services	13,151	...	13,151
Interest and rents	63,746	4,265	68,011
Contributions	4,118	...	4,118
Miscellaneous revenues	730	...	730
<b>Total revenues</b>	<u>880,143</u>	<u>1,261,213</u>	<u>2,141,356</u>
<b>EXPENDITURES</b>			
Current:			
General governments	268,202	...	268,202
Public safety-police	177,336	11,254	188,590
Public works-streets	113,840	32,302	146,142
Public works-sanitation	124,360	3,332	127,692
Parks and recreation	...	6,335	6,335
Standing Committees	394	...	394
Youth Center	28,193	83,815	112,008
Capital outlay	43,983	1,549,722	1,593,705
Debt service:			
Principal	51,663	28,754	80,417
Interest and other fees	28,465	5,223	33,688
<b>Total expenditures</b>	<u>836,436</u>	<u>1,720,737</u>	<u>2,557,173</u>
<b>EXCESS (DEFICIT) REVENUES OVER EXPENDITURES</b>	<u>43,707</u>	<u>(459,524)</u>	<u>(415,817)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from new financing	450,000	...	450,000
Capital lease arrangement	27,624	...	27,624
Proceeds from sale of capital assets	146,634	...	146,634
Transfers in (out)	(522,242)	456,761	(65,481)
<b>Total other financing sources (uses)</b>	<u>102,016</u>	<u>456,761</u>	<u>558,777</u>
<b>NET CHANGE IN FUND BALANCES</b>	145,723	(2,763)	142,960
<b>FUND BALANCES</b>			
Beginning of year	<u>105,368</u>	<u>80,237</u>	<u>185,605</u>
End of year	<u>\$ 251,091</u>	<u>\$ 77,474</u>	<u>\$ 328,565</u>

Accompanying notes are an integral part of these financial statements

**CITY OF DELAWARE CITY, DELAWARE**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

	<u>Amount</u>
Amounts reported for governmental activities in the statement of activities are different because:	
<b>Net change in fund balance-total governmental funds</b>	<b>\$ 142,960</b>
<p>Government funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current year.</p>	
Capital Outlay	\$ 1,145,510
Donated Youth Center improvements	1,975,000
Depreciation Expense	<u>(21,158)</u>
	3,099,352
<p>The governmental funds report loan proceeds as an other financing source, while repayment of loan principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of long-term liabilities and related items is as follows:</p>	
Long-term financing:	
Proceeds received	\$ (450,000)
Principal payments made	<u>70,712</u>
	(379,288)
<p>Capital assets acquired by capital lease are shown as expenditures and other financing sources in the governmental funds. The principal payments must be removed from the statement of activities and applied to the lease liability.</p>	
Capital lease proceeds	\$ (27,624)
Capital lease principal payments	<u>9,705</u>
	(17,919)
<p>Some expenses reported in the statement of activities do not require current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
Proceeds from sale of capital assets	\$ (146,634)
Gain from sale of capital assets	<u>110,317</u>
	(36,317)
	<u>(2,362)</u>
<b>Change in net assets-governmental activities</b>	<b>\$ 2,806,426</b>

Accompanying notes are an integral part of these financial statements

**CITY OF DELAWARE CITY, DELAWARE**  
**STATEMENT OF NET ASSETS-PROPRIETARY FUND**  
 June 30, 2004

<b>ASSETS</b>	<u>Water</u>
<b>CURRENT ASSETS</b>	
Cash and equivalents	\$ . . .
Accounts receivable, net	<u>14,019</u>
<b>Total current assets</b>	<u>14,019</u>
<b>NONCURRENT ASSETS</b>	
Capital assets, net:	
Nondepreciable	18,331
Depreciable	<u>1,515,993</u>
<b>Total noncurrent assets</b>	<u>1,534,324</u>
<b>TOTAL ASSETS</b>	<u>1,548,343</u>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accrued interest payable	3,600
Current portion of long-term debt	21,904
Refundable deposits	<u>2,900</u>
<b>Total current liabilities</b>	28,404
<b>NONCURRENT LIABILITIES</b>	
Long-term debt, net of current portion	<u>734,584</u>
<b>TOTAL LIABILITIES</b>	<u>762,988</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	777,836
Unrestricted	<u>7,519</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 785,355</u>

Accompanying notes are an integral part of these financial statements

**CITY OF DELAWARE CITY, DELAWARE**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS-PROPRIETARY FUND  
Year Ended June 30, 2004

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	<u>Water</u>
<b>OPERATING REVENUES</b>	
Charges for services	\$ <u>217,116</u>
<b>OPERATING EXPENSES</b>	
Salaries	44,041
Payroll taxes	3,603
Employee benefits	9,401
Contractual services	37,463
Insurance	16,882
Telephone	4,363
Electricity	19,640
Professional fees	14,907
Distribution system maintenance	29,576
Office supplies	1,206
Materials and supplies	2,516
Fuel for heating	988
Miscellaneous	663
Bad debt expense	13,422
Depreciation	<u>115,872</u>
<b>Total operating expenses</b>	<u>314,543</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(97,427)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest expense	(38,323)
Miscellaneous revenues	<u>12,361</u>
<b>Total non-operating revenues (expenses)</b>	<u>(25,962)</u>
<b>INCOME (LOSS) BEFORE OTHER FINANCING SOURCES (USES)</b>	(123,389)
<b>TRANSFERS FROM GOVERNMENTAL ACTIVITIES</b>	<u>65,481</u>
<b>CHANGE IN NET ASSETS (LIABILITIES)</b>	(57,908)
<b>NET ASSETS</b>	
Beginning of year	<u>843,263</u>
End of year	<u>\$ 785,355</u>

Accompanying notes are an integral  
part of these financial statements

**CITY OF DELAWARE CITY, DELAWARE**  
**STATEMENT OF CASH FLOWS-PROPRIETARY FUND**  
**Year Ended June 30, 2004**

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

Accompanying notes are an integral part of these financial statements

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

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Delaware City (the "City") have been prepared in conformity with U.S. generally accepted accounting principles as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The City has the option of election to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The significant accounting policies of the City are described below.

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

- Inclusion of Management's Discussion and Analysis (MD&A) Section which provides an analysis of the City's overall financial position and results of operations. Management has elected not to include the MD&A for fiscal year 2004.
- Financial statements are prepared using full-accrual accounting for all of the City's activities.
- Change in the fund financial statements to focus on major funds.

Reporting Entity

The City of Delaware City 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 the GASB, the City is financially accountable if it appoints a voting majority of an entity's governing board and (1) it can impose its will on the entity or (2) there is a potential for the entity to provide specific financial benefit to or impose specific financial burden on the City. Additionally the statement requires the City to consider other entities for which the nature and significance of their relationship are such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete. The component unit discussed below is included in the City's reporting entity because of the financial relationship with the City.

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

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Discretely Presented Component Unit

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

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

Government-Wide and Fund Financial Statements

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

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

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

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

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



**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Government-Wide and Fund Financial Statements (continued)

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

The City reports the following major governmental funds:

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

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

Additionally, the City reports the following fund type:

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

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

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

Budgetary Accounting

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

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Use of Estimates

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

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

Taxes receivable are shown net of allowance of \$31,006 for estimated uncollectibles. The allowance for uncollectible accounts is based upon historical data established according to experience and other factors which in the judgment of City officials deserve recognition in estimating possible losses. Management believes that they have adequately provided for future probable losses.

Receivable-Trade Accounts

Trade accounts receivable is shown net of allowance of \$51,424 for estimated uncollectibles. The allowance for uncollectible accounts is based upon historical data established according to experience and other factors which in the judgment of City officials deserve recognition in estimating possible losses. Management believes that they have adequately provided for future probable losses.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund balances" (i.e., current portion) or "advances from/to other funds" (i.e., the noncurrent portion).

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. At June 30, 2004, the City had no such activity.

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

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads, sidewalks, traffic signals, street lights, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$1,500 or more and an estimated useful life in excess of one year. Such capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of a capital asset or materially extends its life is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. During fiscal 2004, no interest was capitalized.

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

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

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

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Deferred Revenues

Deferred revenues represent funds received in advance which will be recognized in future years when the revenue recognition criteria is met. In the general fund, deferred revenues consist of \$1,062 of various revenues, and \$157,203 of real estate taxes received in advance.

Refundable Advances

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

Compensated Absences

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

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

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

Long-Term Obligations

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

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in governmental funds. Encumbrances as of the year end are reported as reservations of fund balance since they do not constitute expenditures or liabilities but serve as authorization for expenditures in the subsequent year. At June 30, 2004, the City had no outstanding encumbrances.

Net Assets and Fund Equity

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

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**NOTE 2 - REAL ESTATE TAXES**

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

The schedule of real estate taxes levied for the fiscal year 2004 follows:

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

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

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**NOTE 3 - CASH AND INVESTMENTS**

It is the policy of the City of Delaware City to invest funds under its control principally in money market accounts.

Cash and Equivalents

The City's deposits (cash and equivalents) are categorized to give an indication of the level of risk assumed at June 30, 2004. The categories are described below:

Category 1-Insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2-Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3-Uncollateralized and uninsured deposits.

Deposits categorized by level of risk at June 30 are as follows:

<u>Description</u>	<u>Financial Institution Balances</u>			<u>Carrying Amount</u>
	<u>Category</u>		<u>Totals</u>	
	<u>1</u>	<u>2</u>		
Total cash and equivalents	\$ <u>100,000</u>	\$ <u>473,527</u>	\$ <u>573,527</u>	\$ <u>585,561</u>

**NOTE 4 - NOTE RECEIVABLE**

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

**NOTE 5 - INTERGOVERNMENTAL RECEIVABLES**

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

<u>Description</u>	<u>Primary Government</u>		<u>Component Unit</u>
	<u>Activity Type</u>		
	<u>Governmental</u>	<u>Business</u>	
Delaware Department of Transportation	\$ 275,914	\$ ...	\$ ...
Federal Homeland Security Agency	62,944	...	...
Delaware Criminal Justice Council	18,592	...	...
Delaware Emergency Management Agency	10,241	...	...
Various other State agencies	<u>52,524</u>	<u>...</u>	<u>...</u>
Total intergovernmental receivables	\$ <u>420,215</u>	\$ <u>...</u>	\$ <u>...</u>

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

**NOTE 6 - CAPITAL ASSETS**

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

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

**NOTE 7 - ECONOMIC DEPENDENCY**

A substantial portion of Delaware City's annual real estate tax assessment is paid by one corporate taxpayer, which approximates 33% of the total annual assessment.



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

**NOTE 8 - LONG-TERM DEBT OBLIGATIONS**

The schedule summarizes the changes in general obligation debt:

Description	Year Ended June 30, 2004					
	Beginning Balances	Additions	Deletions	Ending Balances		
				Long-term Portion	Due Within One Year	
<b>Governmental Activities:</b>						
General obligation bonds:						
1988 Bonds, Series A	\$ 25,000	\$ ...	\$ 25,000	\$ ...	\$ ...	
General obligation notes:						
Note No. 1	6,974	...	3,850	...	3,124	
Note No. 2	82,823	...	12,723	58,086	12,014	
Note No. 3	6,418	...	2,885	516	3,017	
Note No. 4	49,397	...	3,754	41,598	4,045	
Note No. 5	...	450,000	22,500	382,500	45,000	
Note No. 6	...	27,624	9,705	9,199	8,720	
Total note obligations	145,612	477,624	55,417	491,899	75,920	
<b>Total governmental</b>	<b>\$ 170,612</b>	<b>\$ 477,624</b>	<b>\$ 80,417</b>	<b>\$ 491,899</b>	<b>\$ 75,920</b>	
<b>Business-Type Activities:</b>						
General obligation bonds:						
1995 Bonds	\$ 623,600	\$ ...	\$ 7,328	\$ 608,571	\$ 7,701	
General obligation notes:						
SERCAP Note	124,705	...	6,364	111,651	6,690	
Sun National Bank Note	29,375	...	7,500	14,362	7,513	
Total note obligations	154,080	...	13,864	126,013	14,203	
<b>Total business-type</b>	<b>\$ 777,680</b>	<b>\$ ...</b>	<b>\$ 21,192</b>	<b>\$ 734,584</b>	<b>\$ 21,904</b>	

General Obligation Bonds and Notes

1988 Bond Issue, Series A

In August of 1988, the City approved the issuance of \$250,000 in general obligation bonds to finance the cost of a major street improvement program. The bonds carried an annual interest rate of 8%. The bonds matured October 1 in certain years, and interest was paid semiannually on April 1 and October 1. The term was for fifteen years with a maturity date of October 1, 2003. The bonds were also subject to mandatory redemption, in part, prior to maturity. The annual and final debt service payment required for fiscal 2004 of \$25,000 in principal and \$1,000 in interest was made.

Note No. 1

On March 26, 2002, the City issued a general obligation note to Sun National Bank in the original amount of \$11,326, with a maturity date of March 26, 2005. Interest is payable at an annual rate of 9.014%. The note was issued for the purpose of purchasing a police motorcycle, and the note is secured with an interest in said equipment. At June 30, 2004, the note repayment required for the remaining year in the aggregate is \$3,242 which includes interest of \$118.

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

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**NOTE 8 - LONG-TERM DEBT OBLIGATIONS (continued)**

General Obligation Bonds and Notes (continued)

Note No. 2

On September 30, 1999, the City issued a general obligation note to Wilmington Trust Company in the original amount of \$115,000, carrying a maturity date of September, 2014. The note is for a term of ten years with a fifteen-year amortization. Interest is payable at the adjusted rate [defined as the annual rate equal to 75% of the Wilmington Trust Company's National Commercial Rate (NCR)]. At June 30, 2004, the interest rate in effect was 3.1875%. The note was issued for the purpose of purchasing real estate located at 112 Clinton Street, Delaware City. The note is secured with an interest in all machinery, equipment, furniture and inventory, and contract rights now owned by the City or hereafter acquired wherever located. The following is the note repayment schedule, based on the interest rate in effect at June 30, 2004.

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 12,014	\$ 2,092	\$ 14,106
2006	12,403	1,703	14,106
2007	12,804	1,302	14,106
2008	13,218	888	14,106
2009	13,646	460	14,106
2010-2014	<u>6,015</u>	<u>1,169</u>	<u>7,184</u>
Total required payments	<u>\$ 70,100</u>	<u>\$ 7,614</u>	<u>\$ 77,714</u>

Note No. 3

On October 4, 2002, the City issued a general obligation note to Kubota Credit Corporation in the original amount of \$8,725, with a maturity date of August 1, 2006. Interest is payable at an annual rate of 4.49%. The note was issued for the purpose of purchasing a Kubota tractor with loader and backhoe, and the note is secured with an interest in said equipment. The following is the note repayment schedule at June 30, 2004.

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Amount</u>
2005	\$ 3,017	\$ 97	\$ 3,114
2006	<u>516</u>	<u>3</u>	<u>519</u>
Total required payments	<u>\$ 3,533</u>	<u>\$ 100</u>	<u>\$ 3,633</u>

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

**NOTE 8 - LONG-TERM DEBT OBLIGATIONS (continued)**

General Obligation Bonds and Notes (continued)

Note No. 4

On January 9, 2003, the City issued a general obligation note to Sun National Bank in the original amount of \$50,000, with a maturity date of April 10, 2013. Interest is payable at an annual rate of 6.14%. The note was issued for the purpose of providing funding for the "Revolving Loan Fund" or Façade Improvement Program. The note is secured with the full faith and credit of the City of Delaware City, Delaware, and assignment of tax revenues. The following is the note repayment schedule at June 30, 2004.

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Amount</u>
2005	\$ 4,045	\$ 2,686	\$ 6,731
2006	4,300	2,431	6,731
2007	4,572	2,159	6,731
2008	4,861	1,870	6,731
2009	5,168	1,563	6,731
2010-2013	<u>22,697</u>	<u>2,723</u>	<u>25,420</u>
Total required payments	<u>\$ 45,643</u>	<u>\$ 13,432</u>	<u>\$ 59,075</u>

Note No. 5

On December 30, 2003, the City issued a general obligation note to Sun National Bank in the original amount of \$450,000, with a maturity date of December 30, 2008. Interest is payable at a variable rate. The interest rate at June 30, 2004 was 3.15%. The note was issued for the purpose of providing funding for the City's Capital Improvement Projects. The note is secured with the full faith and credit of the City of Delaware City, Delaware, and assignment of tax revenues. The following is the note repayment schedule, based on the interest rate in effect at June 30, 2004.

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Amount</u>
2005	\$ 45,000	\$ 12,300	\$ 57,300
2006	45,000	11,100	56,100
2007	45,000	9,800	54,800
2008	45,000	8,500	53,500
2009	<u>247,500</u>	<u>7,200</u>	<u>254,700</u>
Total required payments	<u>\$ 427,500</u>	<u>\$ 48,900</u>	<u>\$ 476,400</u>

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

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**NOTE 8 - LONG-TERM DEBT OBLIGATIONS (continued)**

General Obligation Bonds and Notes (continued)

Note No. 6

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

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Amount</u>
2005	\$ 8,720	\$ 985	\$ 9,705
2006	9,199	506	9,705
Total required payments	<u>\$ 17,919</u>	<u>\$ 1,491</u>	<u>\$ 19,410</u>

1995 General Obligation Bonds

The general obligation bonds, Series 1995, originally issued in the amount of \$662,000, carry a maturity date of February 21, 2037. The proceeds of the general obligation bonds were used to finance the City's "Water System Improvement Project". The bonds carry an interest rate of 5% per annum and are payable in quarterly installments of \$9,593, which includes interest. The following schedule summarizes the remaining payments required:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Amount</u>
2005	\$ 7,701	\$ 30,671	\$ 38,372
2006	8,094	30,278	38,372
2007	8,506	29,866	38,372
2008	8,939	29,433	38,372
2009	9,395	28,977	38,372
2010-2014	54,660	137,200	191,860
2015-2019	70,076	121,784	191,860
2020-2024	89,840	102,020	191,860
2025-2029	115,178	76,682	191,860
2030-2034	147,663	44,197	191,860
2035-2037	96,220	7,240	103,460
Total required payments	<u>\$ 616,272</u>	<u>\$ 638,348</u>	<u>\$1,254,620</u>

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

**NOTE 8 - LONG-TERM DEBT OBLIGATIONS (continued)**

General Obligation Bonds and Notes (continued)

SERCAP Note

On May 21, 2002, the City issued a general obligation note to the Southeast Rural Community Assistance Project, Inc. (SERCAP) in the original amount of \$131,250, with an annual interest rate of 5%. The note term is for fifteen years and matures on May 21, 2017. The note was issued for the City's Well No. 4 "Water Filter Rehabilitation Project". The note is secured with an interest in land (parcel no. 22.008.00.055) located at 321 Washington Street, Delaware City, Delaware. The following schedule summarizes the remaining payments required:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Amount</u>
2005	\$ 6,690	\$ 5,765	\$ 12,455
2006	7,032	5,423	12,455
2007	7,392	5,063	12,455
2008	7,770	4,685	12,455
2009	8,167	4,288	12,455
2010-2014	47,549	14,726	62,275
2015-2017	<u>33,741</u>	<u>2,588</u>	<u>36,329</u>
Total required payments	<u>\$ 118,341</u>	<u>\$ 42,538</u>	<u>\$ 160,879</u>

Sun National Bank Note

On May 21, 2002, the City issued (in conjunction with the SERCAP note) a general obligation note to Sun National Bank in the original amount of \$37,500, with an annual interest rate of 5%. The note term is for five years and matures on May 21, 2007. The general obligation note was issued for the City Well No. 4 "Water Filter Rehabilitation Project". The note is secured with an interest in land (parcel no. 22.008.00.055) located at 321 Washington Street, Delaware City, Delaware. The following schedule summarizes the remaining required payments:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Amount</u>
2005	\$ 7,513	\$ 876	\$ 8,389
2006	7,858	531	8,389
2007	<u>6,504</u>	<u>1,187</u>	<u>7,691</u>
Total required payments	<u>\$ 21,875</u>	<u>\$ 2,594</u>	<u>\$ 24,469</u>

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

**NOTE 8 - LONG-TERM DEBT OBLIGATIONS (continued)**

General Obligation Bonds and Notes (continued)

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

<u>Years Ending</u> <u>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>	
<b>Governmental Activities:</b>					
2005	\$ ...	\$ ...	\$ 75,920	\$ 18,278	\$ 94,198
2006	...	...	71,418	15,743	87,161
2007	...	...	62,376	13,261	75,637
2008	...	...	63,079	11,258	74,337
2009	...	...	266,314	9,223	275,537
2010-2014	...	...	28,712	3,892	32,604
Totals	\$ ...	\$ ...	\$ 567,819	\$ 71,655	\$ 639,474

**Business-Type Activities:**

2005	\$ 7,701	\$ 30,671	\$ 14,203	\$ 6,641	\$ 59,216
2006	8,094	30,278	14,890	5,954	59,216
2007	8,506	29,866	13,896	6,250	58,518
2008	8,939	29,433	7,770	4,685	50,827
2009	9,395	28,977	8,167	4,288	50,827
2010-2014	54,660	137,200	47,549	14,726	254,135
2015-2019	70,076	121,784	33,741	2,588	228,189
2020-2024	89,840	102,020	...	...	191,860
2025-2029	115,178	76,682	...	...	191,860
2030-2034	147,663	44,197	...	...	191,860
2035-2037	96,220	7,240	...	...	103,460
Totals	\$ 616,272	\$ 638,348	\$ 140,216	\$ 45,132	\$ 1,439,968

**NOTE 9 - LINES OF CREDIT**

On December 31, 2003, the City issued a general obligation note for \$200,000 to Sun National Bank. The note carries a variable interest rate and the principal is payable by December 31, 2004. The interest rate at June 30, 2004 was 3.25%. The note was issued for the purpose of providing short-term working capital and is secured with the full faith and credit of the City and the assignment of tax revenues. At June 30, 2004, the balance outstanding was \$200,000.

On April 23, 2004, the City issued a general obligation note for \$300,000 to Sun National Bank. The note carries a variable interest rate and the principal is payable by October 31, 2004. The interest rate at June 30, 2004 was 3.25%. The note was issued for the purpose of providing short-term working capital "to allow time for state funding for roadway improvements", and is secured with the full faith and credit of the City and assignment of tax revenues. At June 30, 2004, the balance outstanding was \$190,250.

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

**NOTE 10 - LEASING ARRANGEMENTS**

At June 30, the City is involved with the following arrangements:

Operating Lease as Lessee

The City leases the following equipment under an operating leasing arrangement. The city incurred no rental expense for the year ended June 30, 2004 since the first five months are rent-free.

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

At June 30, 2004, the minimum future rental payments under the non-cancelable leasing arrangement having remaining terms in excess of one year in the aggregate are:

<u>Years Ending June 30</u>	<u>Amount</u>
2005	\$ 2,691
2006	3,588
2007	3,588
2008	3,588
2009	3,588
2010	<u>897</u>
Total minimum future rental payments required	<u>\$ 17,940</u>

Operating Leases as Lessor

The City is the lessor of certain real property under operating leasing arrangements expiring at various dates through 2007. The following is a summary of property held for lease at June 30, 2004:

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

Minimum future rentals to be received on non-cancelable leasing arrangements at June 30, 2004 for each of the remaining years and in the aggregate are:

<u>Years Ending June 30</u>	<u>Amount</u>
2005	\$ 42,000
2006	22,000
2007	<u>11,000</u>
Total minimum future rental revenue to be received	<u>\$ 75,000</u>

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

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**NOTE 11 - COMMITMENTS AND CONTINGENCIES**

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The City does not anticipate losses as a result of these transactions.

Government Grant/Award Programs

The City participates in a number of federally and state assisted programs. These programs are subject to program compliance audits by the grantors or their representatives. Accordingly, the City's compliance with applicable program requirements will be established at some future date. The amount, if any, of expenditures, not already disclosed, which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Commitments

As described in other notes, the City is contingently liable for certain debt obligations, compensated absences, and certain leasing arrangements in the capacity of both lessor and lessee.

**NOTE 12 - BEGINNING FUND BALANCE/NET ASSETS ADJUSTMENTS**

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

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

<u>Government-Wide Financial Statements at June 30, 2003</u>	<u>Amount</u>
Fund balance of governmental funds, previously reported	\$ 185,605
Add: Governmental capital assets	3,156,054
Deduct:	
Accumulated depreciation on gov'tal capital assets	163,828
Governmental compensated absences liability	5,651
Governmental long-term debt obligations	<u>170,612</u>
Governmental net assets, restated	<u>\$ 3,001,568</u>



**Required Supplemental Information (RSI) Section**

**CITY OF DELAWARE CITY, DELAWARE**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND**  
**Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Real estate taxes	\$ 475,000	\$ 475,000	\$ 479,002	\$ 4,002
Real estate transfer taxes	50,000	50,000	291,150	241,150
Cable franchise taxes	5,300	5,300	5,458	158
Licenses and permits	1,000	1,000	930	(70)
Intergovernmental revenues	...	...	9,379	9,379
Police fines	10,000	10,000	12,479	2,479
Charges for services	39,250	39,250	13,151	(26,099)
Interest and rents	59,400	59,400	63,746	4,346
Contributions	32,000	32,000	4,118	(27,882)
Miscellaneous revenues	5,000	5,000	730	(4,270)
<b>Total revenues</b>	<u>676,950</u>	<u>676,950</u>	<u>880,143</u>	<u>203,193</u>
<b>EXPENDITURES</b>				
Current:				
General government	289,977	289,977	268,202	21,775
Public safety-police	142,170	142,170	177,336	(35,166)
Public works-streets	69,669	69,669	113,840	(44,171)
Public works-sanitation	149,000	149,000	124,360	24,640
Standing Committees	1,700	1,700	394	1,306
Youth Center	91,004	91,004	28,193	62,811
Capital outlay	...	...	43,983	(43,983)
Debt service	40,230	40,230	80,128	(39,898)
<b>Total expenditures</b>	<u>783,750</u>	<u>783,750</u>	<u>836,436</u>	<u>(52,686)</u>
<b>EXCESS (DEFICIT)</b>				
<b>REVENUES OVER EXPENDITURES</b>	<u>(106,800)</u>	<u>(106,800)</u>	<u>43,707</u>	<u>150,507</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from new financing	...	...	450,000	450,000
Capital lease arrangement	...	...	27,624	27,624
Proceeds from sale of capital assets	135,000	135,000	146,634	11,634
Operating transfers in (out)	(25,000)	(25,000)	(522,242)	(497,242)
<b>Total other financing sources (uses)</b>	<u>110,000</u>	<u>110,000</u>	<u>102,016</u>	<u>(7,984)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>3,200</u>	<u>3,200</u>	<u>145,723</u>	<u>142,523</u>
<b>FUND BALANCE</b>				
Beginning of year	<u>105,368</u>	<u>105,368</u>	<u>105,368</u>	<u>...</u>
End of year	<u>\$ 108,568</u>	<u>\$ 108,568</u>	<u>\$ 251,091</u>	<u>\$ 142,523</u>

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City annually adopts a budget for the general fund financial statements. The budgets are integrated into the accounting system, and the budgetary data, as presented in the financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the accompanying budgetary comparison schedule for the general fund presents actual expenditures in accordance with the U.S. generally accepted accounting principles on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

Material Violations

There were no material violations of the annual appropriated budget of the general fund for fiscal year 2004.

See Accompanying Report of Independent Auditors

## **Additional Information**

CITY OF DELAWARE CITY, DELAWARE  
 COMBINING BALANCE SHEET-SPECIAL REVENUE FUND  
 June 30, 2004

	State Funding			Local Funding	Revolving Loan Fund	Totals
	Federal Funding	Municipal Street Aid	SALLE and EIDE			
<b>ASSETS</b>						
Cash and equivalents	\$ ...	\$ 18,322	\$ ...	\$ ...	\$ 8,316	\$ 26,638
Note receivable	...	...	...	...	74,158	74,158
Due from other governments	91,774	...	...	328,441	...	420,215
Interfund balances	(85,445)	(18,322)	14,957	(295,639)	(5,000)	(389,449)
<b>TOTAL ASSETS</b>	\$ 6,329	\$ ...	\$ 14,957	\$ 32,802	\$ 77,474	\$ 131,562
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts payable	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...
Deferred revenues	6,329	...	14,957	32,802	...	54,088
<b>Total liabilities</b>	6,329	...	14,957	32,802	...	54,088
<b>FUND BALANCES</b>						
Reserved for note receivable	...	...	...	...	74,158	74,158
Unreserved	...	...	...	...	3,316	3,316
<b>Total fund balances</b>	...	...	...	...	77,474	77,474
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	\$ 6,329	\$ ...	\$ 14,957	\$ 32,802	\$ 77,474	\$ 131,562

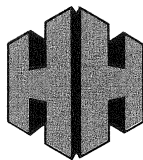
See Accompanying Report of Independent Auditors

**CITY OF DELAWARE CITY, DELAWARE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-SPECIAL REVENUE FUND**  
 Year Ended June 30, 2004

	State Funding					Local Funding	Revolving Federal Funding	Municipal Street Aid
	Federal Funding	Municipal Street Aid	SALLE and EIDE	Other				
<b>REVENUES</b>								
Intergovernmental revenues:								
Federal	\$ 330,507	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ 330,507	
State	...	59,251	3,441	843,749	...	...	906,441	
Local	...	...	...	...	20,000	...	20,000	
Charges for services	...	...	...	...	...	...	...	
Interest revenue	...	195	...	...	...	4,070	4,265	
<b>Total revenues</b>	<b>330,507</b>	<b>59,446</b>	<b>3,441</b>	<b>843,749</b>	<b>20,000</b>	<b>4,070</b>	<b>1,261,213</b>	
<b>EXPENDITURES</b>								
Current:								
Public safety-police	6,626	...	3,441	1,187	...	...	11,254	
Public works-streets	...	32,302	...	...	...	...	32,302	
Public works-sanitation	...	...	...	3,332	...	...	3,332	
Parks and recreation	...	...	...	6,335	...	...	6,335	
Youth Center	50,815	...	...	33,000	...	...	83,815	
Capital outlay:								
Public safety-police	73,156	...	...	...	...	...	73,156	
Public works-streets	191,661	...	...	1,191,149	...	...	1,382,810	
Parks and recreation	10,916	...	...	...	...	...	10,916	
Youth Center	...	...	...	82,840	...	...	82,840	
Debt service:								
Principal	...	25,000	...	...	...	3,754	28,754	
Interest and other fees	...	2,245	...	...	...	2,978	5,223	
<b>Total expenditures</b>	<b>333,174</b>	<b>59,547</b>	<b>3,441</b>	<b>1,317,843</b>	<b>...</b>	<b>6,732</b>	<b>1,720,737</b>	
<b>EXCESS REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(2,667)</b>	<b>(101)</b>	<b>...</b>	<b>(474,094)</b>	<b>20,000</b>	<b>(2,662)</b>	<b>(459,524)</b>	
<b>OTHER FINANCING SOURCES (USES)</b>								
Operating transfers in	2,667	...	...	474,094	...	...	476,761	
Operating transfers out	...	...	...	...	(20,000)	...	(20,000)	
<b>Total other financing sources (uses)</b>	<b>2,667</b>	<b>...</b>	<b>...</b>	<b>474,094</b>	<b>(20,000)</b>	<b>...</b>	<b>456,761</b>	
<b>NET CHANGE IN FUND BALANCES</b>	<b>...</b>	<b>(101)</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>(2,662)</b>	<b>(2,763)</b>	
<b>FUND BALANCES</b>								
Beginning of year	...	101	...	...	...	80,136	80,237	
End of year	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ 77,474	\$ 77,474	

See Accompanying Report of Independent Auditors

**Reports Required by  
Government Auditing Standards**



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

**CERTIFIED PUBLIC ACCOUNTANTS  
& MANAGEMENT CONSULTANTS**

James R. Zdimal, CPA†  
Vincent S. Barbone, CPA, CFE\*†

American Institute of CPA  
Pennsylvania Institute of CPA\*  
Delaware Society of CPA†  
Private Companies Practice Section

**Report of Independent Auditors  
on Compliance and on Internal Control over Financial Reporting  
Based on an Audit of the Basic Financial Statements  
Performed in Accordance with Government Auditing Standards**

To Mayor and City Council  
**City of Delaware City**  
Delaware City, Delaware

We have audited the basic financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Delaware City, Delaware, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated October 14, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Delaware City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We noted certain matters that we reported to the management of the City of Delaware City in a separate letter, dated October 14, 2004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Delaware City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Mayor and City Council, management, the State of Delaware, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

  
Certified Public Accountants

October 14, 2004  
Wilmington, Delaware

**CITY OF DELAWARE CITY, DELAWARE**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2004

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**SUMMARY OF AUDITORS' RESULTS**

1. The report of independent auditors expresses an unqualified opinion on the basic financial statements of the City of Delaware City.
2. No material reportable conditions were identified during the audit of the basic financial statements of the City of Delaware City.
3. No instances of noncompliance material to the basic financial statements of the City of Delaware City were disclosed during the audit.

**FINDINGS-INTERNAL CONTROL OVER FINANCIAL REPORTING**

None.

**FINDINGS-COMPLIANCE AND OTHER MATTERS**

None.