

Report of Independent Auditor

CITY OF DELAWARE CITY
Delaware City, Delaware

Years Ended June 30, 2012 and 2011



HAGGERTY & HAGGERTY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS
& MANAGEMENT CONSULTANTS

CITY OF DELAWARE CITY, DELAWARE

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HAGGERTY & HAGGERTY, P.A.

**CERTIFIED PUBLIC ACCOUNTANTS
& MANAGEMENT CONSULTANTS**

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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, 2012 and 2011, which collectively comprise the City of Delaware City's financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Delaware City, Delaware's management. Our responsibility is to express opinions on these financial statements based on our audits.

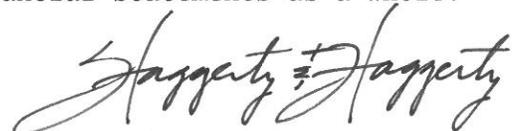
We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the 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, 2012 and 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2013 on our consideration of the City of Delaware City, Delaware'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.

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

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Delaware City, Delaware's financial statements as a whole. The combining individual fund statements, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


Certified Public Accountants

January 18, 2013
Wilmington, Delaware

Basic Financial Statements Section

CITY OF DELAWARE CITY, DELAWARE
STATEMENTS OF NET ASSETS
June 30, 2012 and 2011

	2012			Discretely Presented Component Unit	2011			Discretely Presented Component Unit
	Primary Government		Total		Primary Government		Total	
	Activity Type				Activity Type			
	Governmental	Business		Governmental	Business			
ASSETS								
Current assets:								
Cash and equivalents	\$ 258,948	\$...	\$ 258,948	\$ 43,315	\$ 183,243	\$...	\$ 183,243	\$ 45,051
Receivables, net:								
Taxes	5,435	...	5,435	...	4,943	...	4,943	...
Accounts	...	7,291	7,291	...	...	7,291	7,291	...
Other	36,934	...	36,934	...	21,810	...	21,810	...
Due from other governments	221,191	...	221,191	...	272,307	...	272,307	...
Restricted assets:								
Cash and equivalents	369,839	...	369,839	...	369,801	...	369,801	...
Prepayments and other assets	...	...	...	...	...	...	...	4,400
Total current assets	892,347	7,291	899,638	43,315	852,104	7,291	859,395	49,451
Noncurrent assets:								
Capital assets, net:								
Nondepreciable	823,502	18,331	841,833	...	1,144,069	18,331	1,162,400	...
Depreciable	7,707,173	857,264	8,564,437	...	7,276,436	981,775	8,258,211	...
Bond issue costs, net of amortization	...	20,162	20,162	...	...	21,560	21,560	...
Total noncurrent assets	8,530,675	895,757	9,426,432	...	8,420,505	1,021,666	9,442,171	...
TOTAL ASSETS	9,423,022	903,048	10,326,070	43,315	9,272,609	1,028,957	10,301,566	49,451
LIABILITIES								
Current liabilities:								
Line of credit	...	...	...	...	...	...	...	...
Accounts payable	3,322	...	3,322	...	1,609	...	1,609	...
Accrued interest payable	...	5,676	5,676	...	...	5,676	5,676	...
Current portion of long-term debt	48,310	33,197	81,507	...	48,392	31,837	80,229	...
Payroll deductions and withholdings	1,600	...	1,600	...	6,232	...	6,232	...
Deferred revenues due within one year	5,810	...	5,810	1,563	40,398	...	40,398	3,945
Refundable advances and deposits	390,312	12,700	403,012	...	383,901	12,700	396,601	...
Total current liabilities	449,354	51,573	500,927	1,563	480,532	50,213	530,745	3,945
Noncurrent liabilities:								
Long-term debt, net of current portion	838,154	787,832	1,625,986	...	885,977	821,038	1,707,015	...
Long-term portion of compensated absences	9,374	...	9,374	...	3,061	...	3,061	...
Total noncurrent liabilities	847,528	787,832	1,635,360	...	889,038	821,038	1,710,076	...
TOTAL LIABILITIES	1,296,882	839,405	2,136,287	1,563	1,369,570	871,251	2,240,821	3,945
NET ASSETS (LIABILITIES)								
Invested in capital assets, net of related debt	7,644,211	74,728	7,718,939	...	7,486,136	168,791	7,654,927	...
Restricted for specific programs	65,641	...	65,641	41,752	62,136	...	62,136	45,506
Unrestricted	416,288	(11,085)	405,203	...	354,767	(11,085)	343,682	...
TOTAL NET ASSETS	\$ 8,126,140	\$ 63,643	\$ 8,189,783	\$ 41,752	\$ 7,903,039	\$ 157,706	\$ 8,060,745	\$ 45,506

Accompanying notes are an integral part of these financial statements

CITY OF DELAWARE CITY, DELAWARE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

Functions	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets			Discretely Presented Component Unit
		Charges for Services	Grants and Contributions Operating	Capital	Activity Type			
					Governmental	Business	Total	
GOVERNMENTAL ACTIVITIES								
General government	\$ 486,926	\$ 2,017	\$ 589	\$ 447,076	\$ (37,244)	\$...	\$ (37,244)	\$...
Public safety-police	283,439	5,628	54,512	60,576	(162,723)	...	(162,723)	...
Public works-streets	144,163	...	62,234	83,214	1,285	...	1,285	...
Public works-sanitation	197,576	4,665	1,901	26,370	(164,640)	...	(164,640)	...
Parks and recreation	87,613	...	35,583	12,590	(39,440)	...	(39,440)	...
Community Center	41,455	190	43,991	...	2,726	...	2,726	...
Interest on long-term debt	31,306	...	...	8,775	(22,531)	...	(22,531)	...
Depreciation-unallocated	337,908	...	...	...	(337,908)	...	(337,908)	...
Total governmental activities	1,610,386	12,500	198,810	638,601	(760,475)	...	(760,475)	...
BUSINESS-TYPE ACTIVITIES								
Water system	354,528	259,413	...	...	...	(95,115)	(95,115)	...
Total business-type activities	354,528	259,413	...	...	...	(95,115)	(95,115)	...
TOTAL PRIMARY GOVERNMENT	1,964,914	271,913	198,810	638,601	(760,475)	(95,115)	(855,590)	...
DISCRETELY PRESENTED COMPONENT UNIT	59,775	12,853	43,103	...	...	...	...	(3,819)
TOTAL PRIMARY GOV'T AND COMPONENT UNIT	\$ 2,024,689	\$ 284,766	\$ 241,913	\$ 638,601	(760,475)	(95,115)	(855,590)	(3,819)
GENERAL REVENUES AND TRANSFERS								
Property taxes levied for general purposes					810,718	...	810,718	...
Cable franchise taxes					17,093	...	17,093	...
Investment earnings and rents					156,667	...	156,667	65
Gain from sale of capital assets					...	...	...	...
Miscellaneous revenues					...	150	150	...
Transfers between governmental, BT activities					(902)	902	...	...
Total general revenues and transfers					983,576	1,052	984,628	65
CHANGES IN NET ASSETS (LIABILITIES)					223,101	(94,063)	129,038	(3,754)
NET ASSETS								
Beginning of year					<u>7,903,039</u>	<u>157,706</u>	<u>8,060,745</u>	<u>45,506</u>
End of year					\$ 8,126,140	\$ 63,643	\$ 8,189,783	\$ 41,752

Accompanying notes are an integral part of these financial statements

CITY OF DELAWARE CITY, DELAWARE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

Functions	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets			Discretely Presented Component Unit
		Charges for Services	Grants and Contributions Operating	Capital	Activity Type			
					Governmental	Business	Total	
GOVERNMENTAL ACTIVITIES								
General government	\$ 213,821	\$ 2,507	\$...	\$ 29,660	\$ (181,654)	\$...	\$ (181,654)	\$...
Public safety-police	355,879	7,947	101,963	206	(245,763)	...	(245,763)	...
Public works-streets	107,849	...	75,926	38,296	6,373	...	6,373	...
Public works-sanitation	194,343	4,186	442	...	(189,715)	...	(189,715)	...
Parks and recreation	52,792	...	6,803	489,852	443,863	...	443,863	...
Community Center	33,551	76	22,700	...	(10,775)	...	(10,775)	...
Interest on long-term debt	34,612	...	...	9,000	(25,612)	...	(25,612)	...
Depreciation-unallocated	319,786	...	...	...	(319,786)	...	(319,786)	...
Total governmental activities	1,312,633	14,716	207,834	567,014	(523,069)	...	(523,069)	...
BUSINESS-TYPE ACTIVITIES								
Water system	345,696	272,726	...	...	...	(72,970)	(72,970)	...
Total business-type activities	345,696	272,726	...	...	...	(72,970)	(72,970)	...
TOTAL PRIMARY GOVERNMENT	1,658,329	287,442	207,834	567,014	(523,069)	(72,970)	(596,039)	...
DISCRETELY PRESENTED COMPONENT UNIT	35,082	12,223	43,809	...	...	...	...	20,950
TOTAL PRIMARY GOV'T AND COMPONENT UNIT	\$ 1,693,411	\$ 299,665	\$ 251,643	\$ 567,014	(523,069)	(72,970)	(596,039)	20,950
GENERAL REVENUES AND TRANSFERS								
Property taxes levied for general purposes					852,348	...	852,348	...
Cable franchise taxes					16,863	...	16,863	...
Investment earnings and rents					114,732	...	114,732	167
Gain from sale of capital assets					5,000	...	5,000	...
Miscellaneous revenues					10,000	1,450	11,450	...
Transfers between governmental, BT activities					25,028	(25,028)	...	...
Total general revenues and transfers					1,023,971	(23,578)	1,000,393	167
CHANGES IN NET ASSETS (LIABILITIES)					500,902	(96,548)	404,354	21,117
NET ASSETS								
Beginning of year					7,402,137	254,254	7,656,391	24,389
End of year					\$ 7,903,039	\$ 157,706	\$ 8,060,745	\$ 45,506

Accompanying notes are an integral part of these financial statements

CITY OF DELAWARE CITY, DELAWARE
BALANCE SHEETS-GOVERNMENTAL FUNDS
June 30, 2012 and 2011

	2012			2011		
	Governmental Fund Types			Governmental Fund Types		
	General	Special Revenue	Total	General	Special Revenue	Total
ASSETS						
ASSETS						
Cash and equivalents	\$ 143,769	\$ 115,179	\$ 258,948	\$ 112,008	\$ 71,235	\$ 183,243
Receivables, net:						
Taxes	5,435	...	5,435	4,943	...	4,943
Other	36,934	...	36,934	21,810	...	21,810
Due from other governments	...	221,191	221,191	...	272,307	272,307
Prepayments and other assets	...	...	...	...	...	...
Restricted assets:						
Cash and equivalents	...	369,839	369,839	...	369,801	369,801
Interfund receivables (payables)	<u>241,104</u>	<u>(241,104)</u>	<u>...</u>	<u>258,207</u>	<u>(258,207)</u>	<u>...</u>
TOTAL ASSETS	<u>\$ 427,242</u>	<u>\$ 465,105</u>	<u>\$ 892,347</u>	<u>\$ 396,968</u>	<u>\$ 455,136</u>	<u>\$ 852,104</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Line of credit	\$...	\$...	\$...	\$...	\$...	\$...
Accounts payable	3,322	...	3,322	1,609	...	1,609
Payroll deductions and withholdings	1,600	...	1,600	6,232	...	6,232
Deferred revenues	5,810	...	5,810	40,398	...	40,398
Refundable advances and deposits	...	390,312	390,312	...	383,901	383,901
Total liabilities	<u>10,732</u>	<u>390,312</u>	<u>401,044</u>	<u>48,239</u>	<u>383,901</u>	<u>432,140</u>
FUND BALANCES						
Restricted-Specific programs	...	65,641	65,641	...	62,136	62,136
Unassigned	416,510	9,152	425,662	348,729	9,099	357,828
Total fund balances	<u>416,510</u>	<u>74,793</u>	<u>491,303</u>	<u>348,729</u>	<u>71,235</u>	<u>419,964</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 427,242</u>	<u>\$ 465,105</u>	<u>\$ 892,347</u>	<u>\$ 396,968</u>	<u>\$ 455,136</u>	<u>\$ 852,104</u>

Accompanying notes are an integral part of these financial statements

CITY OF DELAWARE CITY, DELAWARE

RECONCILIATION OF THE BALANCE SHEETS OF GOVERNMENTAL FUNDS
TO THE STATEMENTS OF NET ASSETS
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Amounts reported for governmental activities in the statement of net assets are different because:		
Total fund balances-governmental funds	\$ 491,303	\$ 419,964
Capital assets used in governmental activities are not financial resources and, therefore are not reported as capital assets in the governmental funds. The cost of capital assets is \$10,712,626 and \$10,264,548 and the related accumulated depreciation is \$2,181,951 and \$1,844,043 as of June 30, 2012 and 2011, respectively.	8,530,675	8,420,505
Long-term liabilities are not due and payable within the current period and are therefore not reported as liabilities in the governmental fund types.		
Long-term debt:	<u>2012</u>	<u>2011</u>
Current portion	\$ (48,310)	\$ (48,392)
Net of current portion	<u>(838,154)</u>	<u>(885,977)</u>
	(886,464)	(934,369)
Compensated absences are not due and payable within the current period and, therefore are not reported in the governmental fund types.	<u>(9,374)</u>	<u>(3,061)</u>
Total net assets-governmental activities	<u>\$ 8,126,140</u>	<u>\$ 7,903,039</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, 2012 and 2011

	2012			2011		
	Governmental Fund Types			Governmental Fund Types		
	General	Special Revenue	Total	General	Special Revenue	Total
REVENUES						
Taxes:						
Real estate taxes	\$ 775,072	\$...	\$ 775,072	\$ 698,708	\$...	\$ 698,708
Real estate transfer taxes	35,646	...	35,646	153,640	...	153,640
Cable franchise taxes	17,093	...	17,093	16,863	...	16,863
Licenses and permits	1,520	...	1,520	1,970	...	1,970
Intergovernmental revenues:						
Federal	88,564	516,575	605,139	49,368	126,574	175,942
State	...	212,932	212,932	...	598,175	598,175
Local	...	...	...	...	731	731
Police fines and court fees	5,628	...	5,628	7,947	...	7,947
Charges for services	5,352	...	5,352	4,799	...	4,799
Interest and rents	156,614	53	156,667	114,465	267	114,732
Miscellaneous revenues	19,340	...	19,340	...	...	...
Total revenues	<u>1,104,829</u>	<u>729,560</u>	<u>1,834,389</u>	<u>1,047,760</u>	<u>725,747</u>	<u>1,773,507</u>
EXPENDITURES						
Current:						
General government	270,562	...	270,562	219,625	...	219,625
Public safety-police	228,253	52,164	280,417	204,177	101,963	306,140
Public works-streets	115,463	28,700	144,163	81,291	26,558	107,849
Public works-sanitation	195,675	1,901	197,576	193,901	442	194,343
Parks and recreation	52,030	35,583	87,613	45,989	6,803	52,792
Community Center	27,835	13,620	41,455	10,851	22,700	33,551
Capital outlay	89,860	571,291	661,151	120,027	558,014	678,041
Debt service:						
Principal	42,742	5,163	47,905	56,804	4,816	61,620
Interest and other fees	27,694	3,612	31,306	30,428	4,184	34,612
Total expenditures	<u>1,050,114</u>	<u>712,034</u>	<u>1,762,148</u>	<u>963,093</u>	<u>725,480</u>	<u>1,688,573</u>
EXCESS (DEFICIT) REVENUES OVER EXPENDITURES	<u>54,715</u>	<u>17,526</u>	<u>72,241</u>	<u>84,667</u>	<u>267</u>	<u>84,934</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of capital assets	...	...	...	5,000	...	5,000
Refund of prior year expenditures	...	...	...	10,000	...	10,000
Interfund transfers in (out)	13,066	(13,968)	(902)	25,028	...	25,028
Total other financing sources (uses)	<u>13,066</u>	<u>(13,968)</u>	<u>(902)</u>	<u>40,028</u>	<u>...</u>	<u>40,028</u>
NET CHANGES IN FUND BALANCES	<u>67,781</u>	<u>3,558</u>	<u>71,339</u>	<u>124,695</u>	<u>267</u>	<u>124,962</u>
FUND BALANCES						
Beginning of year	<u>348,729</u>	<u>71,235</u>	<u>419,964</u>	<u>224,034</u>	<u>70,968</u>	<u>295,002</u>
End of year	<u>\$ 416,510</u>	<u>\$ 74,793</u>	<u>\$ 491,303</u>	<u>\$ 348,729</u>	<u>\$ 71,235</u>	<u>\$ 419,964</u>

Accompanying notes are an integral part of these financial statements

CITY OF DELAWARE CITY, DELAWARE

RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENTS OF ACTIVITIES
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Amounts reported for governmental activities in the statement of activities are different because:		
Net changes in fund balance-total governmental funds	\$ 71,339	\$ 124,962
The governmental funds report capital outlay as expenditures. However, in the statement of activities, capital assets with an initial individual cost of \$1,500 or more are capitalized and the cost of those capital assets is allocated over their estimated useful lives as depreciation expense. The following is the difference between capital outlay and depreciation expense.		
	<u>2012</u>	<u>2011</u>
Capital outlay	\$ 448,078	\$ 627,567
Depreciation expense	<u>(337,908)</u>	<u>(319,786)</u>
	110,170	307,781
The governmental funds report loan proceeds as other financing sources, while repayment of loan principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. However, in the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of long-term liabilities and related items is as follows:		
	<u>2012</u>	<u>2011</u>
Long-term financing:		
Proceeds received	\$ 47,905	\$ 61,620
Principal payments made	<u>47,905</u>	<u>61,620</u>
	47,905	61,620
Some expenses reported in the statement of activities do not require current financial resources and, are therefore not reported as expenditures in the governmental funds.		
	<u>2012</u>	<u>2011</u>
Capital assets:		
Proceeds from sale	\$...	\$ 5,000
Gain (loss) from sale	<u>...</u>	<u>5,000</u>

In the statement of activities, certain operating expenses such as compensated absences for vacation are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. The difference reflected represents the amount used versus the amount earned.		
	<u>(6,313)</u>	<u>6,539</u>
Changes in net assets-governmental activities	\$ 223,101	\$ 500,902

Accompanying notes are an integral part of these financial statements

CITY OF DELAWARE CITY, DELAWARE
STATEMENTS OF NET ASSETS-PROPRIETARY FUND
June 30, 2012 and 2011

	Water Fund	
	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$...	\$...
Accounts receivable, net	7,291	7,291
Total current assets	<u>7,291</u>	<u>7,291</u>
NONCURRENT ASSETS		
Capital assets, net:		
Nondepreciable	18,331	18,331
Depreciable	857,264	981,775
Bond issue costs, net of amortization	<u>20,162</u>	<u>21,560</u>
Total noncurrent assets	<u>895,757</u>	<u>1,021,666</u>
TOTAL ASSETS	<u>903,048</u>	<u>1,028,957</u>
LIABILITIES		
CURRENT LIABILITIES		
Accrued interest payable	5,676	5,676
Current portion of long-term debt	33,197	31,837
Refundable deposits	<u>12,700</u>	<u>12,700</u>
Total current liabilities	51,573	50,213
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	<u>787,832</u>	<u>821,038</u>
TOTAL LIABILITIES	<u>839,405</u>	<u>871,251</u>
NET ASSETS (LIABILITIES)		
Invested in capital assets, net of related debt	74,728	168,791
Unrestricted	<u>(11,085)</u>	<u>(11,085)</u>
TOTAL NET ASSETS	<u>\$ 63,643</u>	<u>\$ 157,706</u>

Accompanying notes are an integral part of these financial statements

CITY OF DELAWARE CITY, DELAWARESTATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS-PROPRIETARY FUND
Years Ended June 30, 2012 and 2011

	Water Fund	
	2012	2011
OPERATING REVENUES		
Charges for services	\$ 259,413	\$ 272,726
OPERATING EXPENSES		
Salaries	43,032	33,207
Payroll taxes	3,881	3,068
Employee benefits	4,244	3,105
Contractual services	48,180	48,180
Insurance	13,486	17,119
Telephone	3,711	4,105
Electricity	24,529	29,575
Professional fees	16,044	14,171
Distribution system maintenance	30,346	22,508
Office supplies	914	1,074
Materials and supplies	2,302	3,499
Fuel for heating	790	1,892
Miscellaneous	310	310
Depreciation and amortization	125,909	125,909
Total operating expenses	<u>317,678</u>	<u>307,722</u>
OPERATING INCOME (LOSS)	<u>(58,265)</u>	<u>(34,996)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest expense	(36,850)	(37,974)
Miscellaneous revenues	150	1,450
Total nonoperating revenues (expenses)	<u>(36,700)</u>	<u>(36,524)</u>
INCOME (LOSS) BEFORE OTHER FINANCING SOURCES (USES)	<u>(94,965)</u>	<u>(71,520)</u>
TRANSFERS FROM (TO) GOVERNMENTAL ACTIVITIES	<u>902</u>	<u>(25,028)</u>
CHANGES IN NET ASSETS (LIABILITIES)	<u>(94,063)</u>	<u>(96,548)</u>
NET ASSETS		
Beginning of year	<u>157,706</u>	<u>254,254</u>
End of year	<u>\$ 63,643</u>	<u>\$ 157,706</u>

Accompanying notes are an integral
part of these financial statements

CITY OF DELAWARE CITY, DELAWARE
STATEMENTS OF CASH FLOWS-PROPRIETARY FUND
Years Ended June 30, 2012 and 2011

	Water Fund	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 259,562	\$ 275,536
Cash payments to suppliers for goods and services	(140,611)	(142,433)
Cash payments to employees for services	(51,157)	(39,380)
Net cash provided (used) by operating activities	<u>67,794</u>	<u>93,723</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	...	...
Principal paid on general obligation bonds and notes	(31,846)	(30,537)
Interest paid on general obligation bonds and notes	(36,850)	(38,158)
Cash received (paid) from/(to) governmental activities	902	(25,028)
Net cash provided (used) by capital and related financing activities	<u>(67,794)</u>	<u>(93,723)</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	...	...
CASH AND EQUIVALENTS		
Beginning of year	...	...
End of year	<u>\$...</u>	<u>\$...</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (58,265)	\$ (34,996)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	124,511	124,511
Amortization	1,398	1,398
Other nonoperating revenues	150	1,450
Changes in assets and liabilities:		
Receivables	...	...
Refundable deposits	...	1,360
Total adjustments	<u>126,059</u>	<u>128,719</u>
Net cash provided from operating activities	<u>\$ 67,794</u>	<u>\$ 93,723</u>

Accompanying notes are an integral part of these financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Delaware City, Delaware [the "City"] have been prepared in conformity with U.S. generally accepted accounting principles as applied to local 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. In the government-wide and proprietary fund financial statements, 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 electing to apply FASB pronouncements issued after November 30, 1989. The City elected not to apply those pronouncements. The significant accounting policies of the City are described below.

Reporting Entity

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

Discretely Presented Component Unit

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

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

Use of Estimates

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-Wide and Fund Financial Statements

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

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

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

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

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

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to assign that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in governmental funds. Encumbrances as of the year end are reported as assigned fund balance since they do not constitute expenditures or liabilities but serve as authorization for expenditures in the subsequent year. At June 30, 2012 and 2011, the City had no encumbrances outstanding.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting, & Financial Statement Presentation

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

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

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

The City reports the following major governmental funds:

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

Additionally, the City reports the following business fund type:

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgetary Accounting

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

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

Cash and Equivalents

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

Receivable-Taxes

At June 30, 2012 and 2011, taxes receivable are reflected net of the estimated uncollectible allowances of \$43,329 and \$43,329, respectively. The allowances for uncollectible accounts are based upon historical data established according to experience and other factors which in the judgment of City officials deserve recognition in estimating the possible losses. Management believes that they have adequately provided for future probable losses.

Receivable-Accounts

At June 30, 2012 and 2011, accounts receivable are reflected net of the estimated uncollectible allowances of \$25,747 and \$25,747, respectively. The allowances for uncollectible accounts are based upon historical data established according to experience and other factors which in the judgment of City officials deserve recognition in estimating the possible losses. Management believes that they have adequately provided for future probable losses.

Internal Balances

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

Advances between funds, as reported in the fund financial statements, are offset by an assigned fund balance account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. At June 30, 2012 and 2011, the City had no such activity.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted Assets

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

Prepayments and Other Assets

Payments to vendors reflecting costs applicable to future periods are recorded as prepayments in both the government-wide and fund financial statements.

Capital Assets and Depreciation

The capital assets, which include property, plant, equipment, and infrastructure assets completed after June 30, 2003 [such as roads, sidewalks, traffic signals, street lights, and similar items], are reported in the applicable governmental activities or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as capital assets with an initial, individual cost of \$1,500 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of a capital asset or materially extends its life is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the capital assets constructed. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. During fiscal years 2012 and 2011, no interest costs were capitalized.

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

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

Bond Issue Costs

Bond issue costs of \$27,969 resulted from the Bond Issue, Series 2006. The costs are being amortized over the twenty-year life of the bond using the straight-line method. At June 30, 2012 and 2011, the accumulated amortization is \$7,807 and \$6,409, respectively. The annual amortization expense is \$1,398.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Revenues

Deferred revenues represent funds received in advance which will be recognized in future years when the revenue recognition criteria is met. At June 30, 2012 and 2011, deferred revenues in the general fund are \$5,810 and \$40,398, respectively.

Refundable Advances

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

Compensated Absences

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

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

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

Long-Term Obligations

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

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

Reclassifications

Certain amounts in the prior year basic financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets and Fund Equity

In government-wide and proprietary fund 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 any 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.

The City has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for its governmental funds. Under GASB Statement No. 54, fund balances are required to be reported according to the following classifications:

- **Nonspendable fund balance**-Includes resources that cannot be spent because the resources are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepayments and other assets, assets held for sale, and long-term receivables.
- **Restricted fund balance**-Constraints placed on the use of these resources 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**-Resources 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**-Resources that are constrained by the City's intent to be used for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by City Council, or by an official to whom that authority has been given. With the exception of the general fund, this is the residual fund balance classification for all governmental funds with positive balances.
- **Unassigned fund balance**-This is the residual classification of the general fund. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amounts had been restricted, committed or assigned.

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

Evaluation of Subsequent Events

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

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - PROPERTY TAXES

The tax on real estate within the City limits is \$1.09 per \$100 of assessed valuation for the fiscal year 2012 and \$1.09 per \$100 of assessed valuation for the fiscal year 2011 as levied by City Council. The City bills and collects its own property taxes. The delinquent property taxes are levied by the City. The schedule of property taxes levied for fiscal years 2012 and 2011 follows:

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

NOTE 3 - CASH AND INVESTMENTS

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

Cash and Equivalents

The City's deposits [cash and equivalents] are categorized to give an indication of the level of risk assumed at June 30, 2012 and 2011. The categories are described below:

Description	2012		2011	
	Book	Bank	Book	Bank
Category 1	\$ 190,393	\$ 258,674	\$ 174,777	\$ 250,140
Category 2	68,255	68,255	8,166	8,166
Category 3	300	...	300	...
Totals	<u>\$ 258,948</u>	<u>\$ 326,929</u>	<u>\$ 183,243</u>	<u>\$ 258,306</u>

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

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

Category 3- Uncollateralized and uninsured deposits.

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

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

The primary government receivables due from other governmental units represent revenues earned by the City. At June 30, 2012 and 2011, the receivables consist of the following:

Description	Activity Type			
	2012		2011	
	Governmental	Business	Governmental	Business
U.S. Department of Justice	\$ 15,089	\$...	\$ 11,909	\$...
Delaware Land and Water Conservation Trust	...	...	201,461	...
Delaware Department of Transportation	92,542	...	20,404	...
Delaware Department of Natural Resources	96,868	...	29,659	...
Delaware Criminal Justice Council	1,938	...	5,337	...
Delaware Department of Agriculture	...	...	2,476	...
Federal pass-thru agency:				
American Lung Association	9,224	...	697	...
Delaware Division of				
Historical and Cultural Affairs	...	...	364	...
Various other state agencies	5,530	...	...	...
Total intergovernmental receivables	<u>\$ 221,191</u>	<u>\$...</u>	<u>\$ 272,307</u>	<u>\$...</u>

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2012 follows:

Description	Beginning Balances	Additions	Deletions	Ending Balances
Governmental activities:				
Capital assets, not depreciated:				
Land	\$ 421,737	\$...	\$...	\$ 421,737
Construction in progress:				
Buildings and improvements	...	307,000	...	307,000
Streets and sidewalks	29,003	77,424	106,427	...
Trees, trails and landscape	693,329	...	598,564	94,765
Total capital assets, not being depreciated	1,144,069	384,424	704,991	823,502
Capital assets, being depreciated:				
Buildings and improvements	6,387,621	...	...	6,387,621
Furniture and office equipment	57,520	...	...	57,520
Vehicles and equipment	284,329	63,654	...	347,983
Streets and sidewalks	1,332,287	80,287	...	1,412,574
Trees, trails and landscape	1,058,722	624,704	...	1,683,426
Total being depreciated	9,120,479	768,645	...	9,889,124
Less accumulated depreciation:				
Buildings and improvements	905,667	167,549	...	1,073,216
Furniture and office equipment	56,191	1,329	...	57,520
Vehicles and equipment	229,129	26,585	...	255,714
Streets and sidewalks	446,576	69,290	...	515,866
Trees, trails and landscape	206,480	73,155	...	279,635
Accumulated depreciation	1,844,043	337,908	...	2,181,951
Total capital assets, being depreciated	7,276,436	430,737	...	7,707,173
Governmental activities capital assets, net	\$ 8,420,505	\$ 815,161	\$ 704,991	\$ 8,530,675
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	320,990	10,502	...	331,492
Water distribution system	1,824,511	114,009	...	1,938,520
Machinery and equipment	...	...	...	...
Accumulated depreciation	2,145,501	124,511	...	2,270,012
Total capital assets, being depreciated	981,775	(124,511)	...	857,264
Business-type activities capital assets, net	\$ 1,000,106	\$ (124,511)	\$...	\$ 875,595

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - CAPITAL ASSETS (continued)

Capital assets activity for the year ended June 30, 2011 follows:

Description	Beginning Balances	Additions	Deletions	Ending Balances
Governmental activities:				
Capital assets, not depreciated:				
Land	\$ 421,737	\$...	\$...	\$ 421,737
Construction in progress:				
Buildings and improvements	...	...	...	...
Streets and sidewalks	...	29,003	...	29,003
Trees, trails and landscape	94,765	598,564	...	693,329
Total capital assets, not being depreciated	516,502	627,567	...	1,144,069
Capital assets, being depreciated:				
Buildings and improvements	6,387,621	...	...	6,387,621
Furniture and office equipment	57,520	...	...	57,520
Vehicles and equipment	284,329	...	...	284,329
Streets and sidewalks	1,332,287	...	...	1,332,287
Trees, trails and landscape	1,058,722	...	...	1,058,722
Total being depreciated	9,120,479	...	...	9,120,479
Less accumulated depreciation:				
Buildings and improvements	737,611	168,056	...	905,667
Furniture and office equipment	49,883	6,308	...	56,191
Vehicles and equipment	192,677	36,452	...	229,129
Streets and sidewalks	379,962	66,614	...	446,576
Trees, trails and landscape	164,124	42,356	...	206,480
Accumulated depreciation	1,524,257	319,786	...	1,844,043
Total capital assets, being depreciated	7,596,222	(319,786)	...	7,276,436
Governmental activities capital assets, net	\$ 8,112,724	\$ 307,781	\$...	\$ 8,420,505
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	310,489	10,501	...	320,990
Water distribution system	1,710,501	114,010	...	1,824,511
Machinery and equipment	...	...	...	...
Accumulated depreciation	2,020,990	124,511	...	2,145,501
Total capital assets, being depreciated	1,106,286	(124,511)	...	981,775
Business-type activities capital assets, net	\$ 1,124,617	\$ (124,511)	\$...	\$ 1,000,106

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM DEBT OBLIGATIONS

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

Description	Year Ended June 30, 2012				
	Beginning Balances	Additions	Deletions	Ending Balances	
				Long-term Portion	Due Within One Year
Governmental Activities:					
General obligation notes:					
Sun National Bank	\$ 268,000	\$...	\$ 12,000	\$ 244,000	\$ 12,000
Sun National Bank	178,667	...	8,000	162,667	8,000
Stoltz Foundation	1,459	...	1,459	...	...
Total note obligations	448,126	...	21,459	406,667	20,000
General obligation bonds:					
Citizens Bank	262,458	...	21,055	219,243	22,160
2008 Series	223,785	...	5,391	212,244	6,150
Total governmental	\$ 934,369	\$...	\$ 47,905	\$ 838,154	\$ 48,310
Business-Type Activities:					
General obligation bonds:					
1995 Series	\$ 553,103	\$...	\$ 10,914	\$ 530,728	\$ 11,461
2006 Series	235,557	...	11,446	212,347	11,764
Total bond obligations	788,660	...	22,360	743,075	23,225
General obligation notes:					
SERCAP	64,215	...	9,486	44,757	9,972
Total business-type	\$ 852,875	\$...	\$ 31,846	\$ 787,832	\$ 33,197

General Obligation Bonds and Notes

Sun National Bank-Lines of Credit

On October 25, 2007, the City opened two non-revolving lines of credit with Sun National Bank in the amounts of \$300,000 and \$200,000. The lines of credit required nine monthly payments of interest only at the bank's prime rate minus 1%, floating, beginning with the payment due November 25, 2007. The principal balance outstanding on the lines of credit was subsequently converted into five year term loans with fixed principal payments based on a twenty-five year amortization with the final payment due on July 25, 2013. The lines of credit are collateralized with real property located within the City limits in New Castle County, Delaware, as stipulated in the security agreement.

At June 30, 2012, the \$300,000 loan repayment schedule [based on an effective interest rate of 2.25%] follows:

Years Ending June 30	Principal	Interest	Total
2013	\$ 12,000	\$ 5,636	\$ 17,636
2014	244,000	458	244,458
Total required payments	\$ 256,000	\$ 6,094	\$ 262,094

At June 30, 2012, the \$200,000 loan repayment schedule [based on an effective interest rate of 2.25%] follows:

Years Ending June 30	Principal	Interest	Total
2013	\$ 8,000	\$ 3,758	\$ 11,758
2014	162,667	305	162,972
Total required payments	\$ 170,667	\$ 4,063	\$ 174,730

NOTE 6 - LONG-TERM DEBT OBLIGATIONS (continued)

General Obligation Bonds and Notes (continued)

Stoltz Foundation-Note

On September 3, 2008, the City issued a promissory note in the amount of \$25,000 which matured on September 29, 2011. The note carried a fixed interest rate of 3.50% and required monthly payments of \$732.55 [principal and interest]. Note proceeds were used to purchase a 2008 Dodge Charger.

Citizens Bank-Bond

On June 15, 2006, the City issued a General Obligation Bond in the amount of \$355,000 carrying a maturity date of June 15, 2021. The bond carries an annual interest rate of 5.125% and requires monthly payments of \$2,830.49 [principal and interest]. The note was issued for the purpose of funding the City's 2006 Capital Improvement Project. The bond is secured with the full faith and credit of the City. At June 30, 2012, the repayment schedule is as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 22,160	\$ 11,806	\$ 33,966
2014	23,322	10,644	33,966
2015	24,546	9,420	33,966
2016	25,834	8,132	33,966
2017	27,190	6,776	33,966
2018-2021	<u>118,351</u>	<u>11,851</u>	<u>130,202</u>
Total required payments	<u>\$ 241,403</u>	<u>\$ 58,629</u>	<u>\$ 300,032</u>

General Obligation Bonds, Series 2008

The general obligation bonds, Series 2008 [originally issued in the amount of \$234,000] carry a maturity date of August 14, 2034. The proceeds of the general obligation bonds were used to finance the City's "Community Center Roof Replacement Project". The bonds carry a fixed interest rate of 4.125% per annum and are payable in monthly installments of \$1,252 [principal and interest]. At June 30, 2012, the repayment schedule is as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 6,150	\$ 8,874	\$ 15,024
2014	6,409	8,615	15,024
2015	6,678	8,346	15,024
2016	6,937	8,087	15,024
2017	7,251	7,773	15,024
2018-2022	40,230	34,890	75,120
2023-2027	50,127	24,993	75,120
2028-2032	61,589	13,531	75,120
2033-2035	<u>33,023</u>	<u>3,061</u>	<u>36,084</u>
Total required payments	<u>\$ 218,394</u>	<u>\$ 118,170</u>	<u>\$ 336,564</u>

CITY OF DELAWARE CITY, DELAWARE
 NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM DEBT OBLIGATIONS (continued)

General Obligation Bonds and Notes (continued)

General Obligation Bonds, Series 1995

The general obligation bonds, Series 1995 [originally issued in the amount of \$662,000] carry a maturity date of February 21, 2037. The proceeds of the general obligation bonds were used to finance the City's "Water System Improvement Project". The bonds carry a fixed interest rate of 5.00% per annum and are payable in quarterly installments of \$9,593 [principal and interest]. At June 30, 2012, the repayment schedule is as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 11,461	\$ 26,911	\$ 38,372
2014	12,044	26,328	38,372
2015	12,658	25,714	38,372
2016	13,303	25,069	38,372
2017	13,981	24,391	38,372
2018-2022	81,611	110,249	191,860
2023-2027	104,282	87,578	191,860
2028-2032	133,694	58,166	191,860
2033-2037	<u>159,155</u>	<u>21,040</u>	<u>180,195</u>
Total required payments	<u>\$ 542,189</u>	<u>\$ 405,446</u>	<u>\$ 947,635</u>

General Obligation Bond, Series 2006

On October 11, 2006, the City issued a General Obligation Bond to the Delaware Safe Drinking Water Revolving Fund, Delaware Department of Health & Social Services, Division of Public Health in the amount of \$273,237, with a maturity date of August 1, 2027. The bond carries an annual interest rate of 2.76% on the principal amount thereof, and requires semiannual payments of \$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, 2012, the repayment schedule is as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 11,764	\$ 6,105	\$ 17,869
2014	12,091	5,778	17,869
2015	12,428	5,441	17,869
2016	12,773	5,096	17,869
2017	13,128	4,741	17,869
2018-2022	71,319	18,028	89,347
2023-2027	81,795	7,552	89,347
2028	<u>8,813</u>	<u>124</u>	<u>8,937</u>
Total required payments	<u>\$ 224,111</u>	<u>\$ 52,865</u>	<u>\$ 276,976</u>

CITY OF DELAWARE CITY, DELAWARE
 NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM DEBT OBLIGATIONS (continued)

General Obligation Bonds and Notes (continued)

SERCAP Note

On May 21, 2002, the City issued a general obligation note to the Southeast Rural Community Assistance Project, Inc. [SERCAP] in the amount of \$131,250, with an annual interest rate of 5.00%. The note requires monthly payments of \$1,037.90 [principal and interest] for fifteen years and matures on May 21, 2017. The note was issued for the City's "Well No. 4 Water Filter Rehabilitation Project". The note is secured with an interest in land [parcel no. 22.008.00.055] located at 321 Washington Street, Delaware City, Delaware. At June 30, 2012, the repayment schedule is as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 9,972	\$ 2,483	\$ 12,455
2014	10,482	1,973	12,455
2015	11,018	1,437	12,455
2016	11,582	873	12,455
2017	<u>11,675</u>	<u>(254)</u>	<u>11,421</u>
Total required payments	<u>\$ 54,729</u>	<u>\$ 6,512</u>	<u>\$ 61,241</u>

Future maturities of principal and interest payments follow:

<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>	
<u>Governmental Activities:</u>					
2013	\$ 28,310	\$ 20,680	\$ 20,000	\$ 9,394	\$ 78,384
2014	29,731	19,259	406,667	763	456,420
2015	31,224	17,766	...	...	48,990
2016	32,771	16,219	...	...	48,990
2017	34,441	14,549	...	...	48,990
2018-2022	158,581	46,741	...	...	205,322
2023-2027	50,127	24,993	...	...	75,120
2028-2032	61,589	13,531	...	...	75,120
2033-2035	<u>33,023</u>	<u>3,061</u>	<u>...</u>	<u>...</u>	<u>36,084</u>
Totals	<u>\$ 459,797</u>	<u>\$ 176,799</u>	<u>\$ 426,667</u>	<u>\$ 10,157</u>	<u>\$ 1,073,420</u>

Business-Type Activities:

2013	\$ 23,225	\$ 33,016	\$ 9,972	\$ 2,483	\$ 68,696
2014	24,135	32,106	10,482	1,973	68,696
2015	25,086	31,155	11,018	1,437	68,696
2016	26,076	30,165	11,582	873	68,696
2017	27,109	29,132	11,675	(254)	67,662
2018-2022	152,930	128,277	...	...	281,207
2023-2027	186,077	95,130	...	...	281,207
2028-2032	142,507	58,290	...	...	200,797
2033-2037	<u>159,155</u>	<u>21,040</u>	<u>...</u>	<u>...</u>	<u>180,195</u>
Totals	<u>\$ 766,300</u>	<u>\$ 458,311</u>	<u>\$ 54,729</u>	<u>\$ 6,512</u>	<u>\$ 1,285,852</u>

CITY OF DELAWARE CITY, DELAWARE
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - ECONOMIC DEPENDENCY

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

NOTE 8 - LEASING ARRANGEMENTS AS LESSEE

The City leases the following office equipment under an operating leasing arrangement. Total rental cost was \$5,008 and \$5,008 for the years ended June 30, 2012 and 2011, respectively.

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

At June 30, 2012, the minimum future rental payments under the non-cancelable leasing arrangement having remaining terms in excess of one year in the aggregate are:

Years Ending June 30	Amount
2013	\$ 2,629
2014	2,868
2015	2,868
2016	<u>239</u>
Total minimum future rental payments required	<u>\$ 8,604</u>

NOTE 9 - LEASING ARRANGEMENTS AS LESSOR

The City is the lessor of certain real property under operating leasing arrangements expiring at various dates. The following is a summary of property held for lease at June 30, 2012:

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

The leasing arrangements are generally based on a percentage of lessee collections and as such the rentals cannot be estimated for future periods. Total rentals received for the years ended June 30, 2012 and 2011 was \$144,267 and \$101,963, respectively.

NOTE 10 - LINE OF CREDIT

On August 12, 2011, the City issued a general obligation note for \$150,000 to Wilmington Savings Fund Society, FSB. The note [a line of credit] carries a variable interest rate [currently at 4.00%] and is on demand. The note is for the purpose of providing working capital and is secured with the full faith and credit of the City and the assignment of tax revenues. At June 30, 2012, the City had no balance outstanding.

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 Awards Subject to OMB A-133

The City participates in a number of federal and state [pass-thru] grant awards subject to OMB Circular A-133 compliance requirements. The City's compliance audit of the federal grant awards was conducted for the year ended June 30, 2012. The federal compliance audit revealed no significant questioned costs, grant costs which could be potentially disallowed by a federal oversight agency(ies). The disallowed costs resulting from such audits could become a liability to the City. The City's management believes such disallowance, if any, would be immaterial to the financial statements.

Required Supplemental Information [RSI] Section

CITY OF DELAWARE CITY, DELAWARE

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND
Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes:				
Real estate taxes	\$ 772,362	\$ 772,362	\$ 775,072	\$ 2,710
Real estate transfer taxes	20,000	20,000	35,646	15,646
Cable franchise taxes	14,000	14,000	17,093	3,093
Licenses and permits	3,500	3,500	1,520	(1,980)
Intergovernmental revenues	...	...	88,564	88,564
Police fines and court fees	15,000	15,000	5,628	(9,372)
Charges for services	5,000	5,000	5,352	352
Interest and rents	95,800	95,800	156,614	60,814
Miscellaneous revenues	2,000	2,000	19,340	17,340
Total revenues	<u>927,662</u>	<u>927,662</u>	<u>1,104,829</u>	<u>177,167</u>
EXPENDITURES				
Current:				
General government	276,870	276,870	270,562	6,308
Public safety-police	220,362	220,362	228,253	(7,891)
Public works-streets	84,770	84,770	115,463	(30,693)
Public works-sanitation	200,000	200,000	195,675	4,325
Parks and recreation	40,000	40,000	52,030	(12,030)
Community Center	16,000	16,000	27,835	(11,835)
Capital outlay	22,410	22,410	89,860	(67,450)
Debt service	72,250	72,250	70,436	1,814
Total expenditures	<u>932,662</u>	<u>932,662</u>	<u>1,050,114</u>	<u>(117,452)</u>
EXCESS (DEFICIT)				
REVENUES OVER EXPENDITURES	<u>(5,000)</u>	<u>(5,000)</u>	<u>54,715</u>	<u>59,715</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from new financing	...	...	...	(5,000)
Proceeds from sale of capital assets	5,000	5,000	...	(5,000)
Refund of prior year expenditures	...	...	...	...
Operating transfers in (out)	5,000	...	13,066	13,066
Total other financing sources (uses)	<u>10,000</u>	<u>5,000</u>	<u>13,066</u>	<u>8,066</u>
NET CHANGE IN FUND BALANCE	5,000	...	67,781	67,781
FUND BALANCE				
Beginning of year	25,000	...	348,729	348,729
End of year	<u>\$ 30,000</u>	<u>\$...</u>	<u>\$ 416,510</u>	<u>\$ 416,510</u>

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City annually adopts a budget for the general fund financial statements. The budgets are integrated into the accounting system, and the budgetary data, as presented in the financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. The budgets for the governmental funds are presented on the modified accrual basis of accounting. Accordingly, the accompanying budgetary comparison schedule for the general fund presents actual expenditures in accordance with the U.S. generally accepted accounting principles on a basis consistent with the legally adopted budgets as amended. 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 2012.

See Report of Independent Auditor

Supplementary Information Section

CITY OF DELAWARE CITY, DELAWARE
 COMBINING BALANCE SHEET-SPECIAL REVENUE FUND
 June 30, 2012 With Comparative Totals for 2011

	Federal Funding	State Funding			Local Funding	Revolving Loan Fund	Totals	
		Municipal Street Aid	SALLE and EIDE	Other			2012	2011
ASSETS								
ASSETS								
Cash and equivalents	\$...	\$ 44,027	\$...	\$...	\$...	\$ 71,152	\$ 115,179	\$ 71,235
Due from other governments	123,994	...	...	97,197	...	...	221,191	272,307
Restricted assets:								
Cash and equivalents	...	...	...	...	369,839	...	369,839	369,801
Interfund balances	(118,494)	(40,386)	11,982	(92,210)	(1,996)	...	(241,104)	(258,207)
TOTAL ASSETS	<u>\$ 5,500</u>	<u>\$ 3,641</u>	<u>\$ 11,982</u>	<u>\$ 4,987</u>	<u>\$ 367,843</u>	<u>\$ 71,152</u>	<u>\$ 465,105</u>	<u>\$ 455,136</u>
LIABILITIES AND FUND BALANCES								
LIABILITIES								
Refundable advances and deposits	\$ 5,500	\$...	\$ 11,982	\$ 4,987	\$ 367,843	\$...	\$ 390,312	\$ 383,901
Total liabilities	<u>5,500</u>	<u>...</u>	<u>11,982</u>	<u>4,987</u>	<u>367,843</u>	<u>...</u>	<u>390,312</u>	<u>383,901</u>
FUND BALANCES								
Restricted-Specific programs	...	3,641	...	...	...	62,000	65,641	62,136
Unassigned	...	...	...	...	...	9,152	9,152	9,099
Total fund balances	<u>...</u>	<u>3,641</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>71,152</u>	<u>74,793</u>	<u>71,235</u>
TOTAL ASSETS	<u>\$ 5,500</u>	<u>\$ 3,641</u>	<u>\$ 11,982</u>	<u>\$ 4,987</u>	<u>\$ 367,843</u>	<u>\$ 71,152</u>	<u>\$ 465,105</u>	<u>\$ 455,136</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, 2012 With Comparative Totals for 2011

	Federal Funding	State Funding			Local Funding	Revolving Loan Fund	Totals	
		Municipal Street Aid	SALLE and EIDE	Other			2012	2011
REVENUES								
Intergovernmental revenues:								
Federal	\$ 516,575	\$...	\$...	\$...	\$...	\$...	\$ 516,575	\$ 126,574
State	...	43,891	479	168,562	...	...	212,932	598,175
Local	...	...	...	...	...	...	...	731
Interest revenue	...	...	...	...	...	53	53	267
Total revenues	<u>516,575</u>	<u>43,891</u>	<u>479</u>	<u>168,562</u>	<u>...</u>	<u>53</u>	<u>729,560</u>	<u>725,747</u>
EXPENDITURES								
Current:								
Public safety-police	51,685	...	479	...	...	...	52,164	101,963
Public works-streets	...	26,324	...	2,376	...	...	28,700	26,558
Public works-sanitation	...	...	...	1,901	...	...	1,901	442
Parks and recreation	9,300	...	...	26,283	...	...	35,583	6,803
Community Center	...	...	...	13,620	...	...	13,620	22,700
Capital outlay:								
General government	447,076	...	...	...	...	...	447,076	29,660
Public safety-police	...	...	...	2,041	...	...	2,041	206
Public works-streets	8,166	5,287	...	69,761	...	...	83,214	38,296
Public works-sanitation	...	...	...	26,370	...	...	26,370	...
Parks and recreation	...	...	...	12,590	...	...	12,590	489,852
Debt service:								
Principal	...	5,163	...	...	...	...	5,163	4,816
Interest and other fees	...	3,612	...	...	...	...	3,612	4,184
Total expenditures	<u>516,227</u>	<u>40,386</u>	<u>479</u>	<u>154,942</u>	<u>...</u>	<u>...</u>	<u>712,034</u>	<u>725,480</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>348</u>	<u>3,505</u>	<u>...</u>	<u>13,620</u>	<u>...</u>	<u>53</u>	<u>17,526</u>	<u>267</u>
OTHER FINANCING SOURCES (USES)								
Operating transfers in	...	...	...	...	...	...	...	...
Operating transfers out	(348)	...	...	(13,620)	...	...	(13,968)	...
Total other financing sources (uses)	<u>(348)</u>	<u>...</u>	<u>...</u>	<u>(13,620)</u>	<u>...</u>	<u>...</u>	<u>(13,968)</u>	<u>...</u>
NET CHANGES IN FUND BALANCES	<u>...</u>	<u>3,505</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>53</u>	<u>3,558</u>	<u>267</u>
FUND BALANCES								
Beginning of year	...	136	...	...	...	71,099	71,235	70,968
End of year	<u>\$...</u>	<u>\$ 3,641</u>	<u>\$...</u>	<u>\$...</u>	<u>\$...</u>	<u>\$ 71,152</u>	<u>\$ 74,793</u>	<u>\$ 71,235</u>

See Report of Independent Auditor