

CITY OF HARRINGTON, DELAWARE

FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2010

CITY OF HARRINGTON, DELAWARE

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JUNE 30, 2010

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CITY OF HARRINGTON, DELAWARE

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Horty & Horty, P.A.
Certified Public Accountants

29 Bancroft Mills Road, 4th Floor
Wilmington, DE 19806

Phone: 302.652.4194
Toll Free: 888.968.7168
Fax: 302.656.9846

3702 North DuPont Highway
Dover, DE 19901

Phone: 302.730.4560
Fax: 302.730.4562

Website: www.horty.com

To the Mayor, Budget and Finance Committee
and Council
City of Harrington, Delaware

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business – type activities, each major fund, and the aggregate remaining fund information of the City of Harrington, Delaware, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Harrington, Delaware's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 of Harrington, Delaware'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. 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 opinion.

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, each major fund, and the aggregate remaining fund information of the City of Harrington, Delaware, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 15, 2011, on our consideration of the City of Harrington Delaware's internal control over financial reporting and 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.

To the Mayor, Budget and Finance Committee
and Council
City of Harrington, Delaware



The Management's Discussion and Analysis and budgetary comparison information on pages 5 through 12 and pages 44 through 51 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Harrington, Delaware's basic financial statements. The individual and combining nonmajor fund financial statements and other schedules listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations," and is 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, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read 'Horty, Horty PA'.

Dover, Delaware
June 15, 2011



Horty & Horty, P.A.
Certified Public Accountants

29 Bancroft Mills Road, 4th Floor
Wilmington, DE 19806

Phone: 302.652.4194
Toll Free: 888.968.7168
Fax: 302.656.9846

3702 North DuPont Highway
Dover, DE 19901

Phone: 302.730.4560
Fax: 302.730.4562

Website: www.horty.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Mayor, Budget and Finance Committee
and Council
City of Harrington, Delaware

We have audited the financial statements of the City of Harrington, Delaware, as of and for the year ended June 30, 2010, and have issued our report thereon dated June 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Harrington, Delaware'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 an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Harrington, Delaware's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

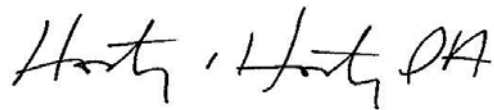
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Harrington, Delaware's financial statements are free of material misstatement, we performed tests of its compliance with certain provision 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.

We noted certain matters that we have reported to management of the City of Harrington, Delaware in a separate letter dated June 15, 2011.

This report is intended solely for the information and use of the Budget and Finance Committee, management, others within the City, Mayor and Council and is not intended to be and should not be used by anyone other than these specified parties.



Dover, Delaware
June 15, 2011

CITY OF HARRINGTON, DELAWARE

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

The following management discussion and analysis of the City of Harrington, Delaware's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2010. We encourage users to read it in conjunction with the City's financial statements, which follow this section.

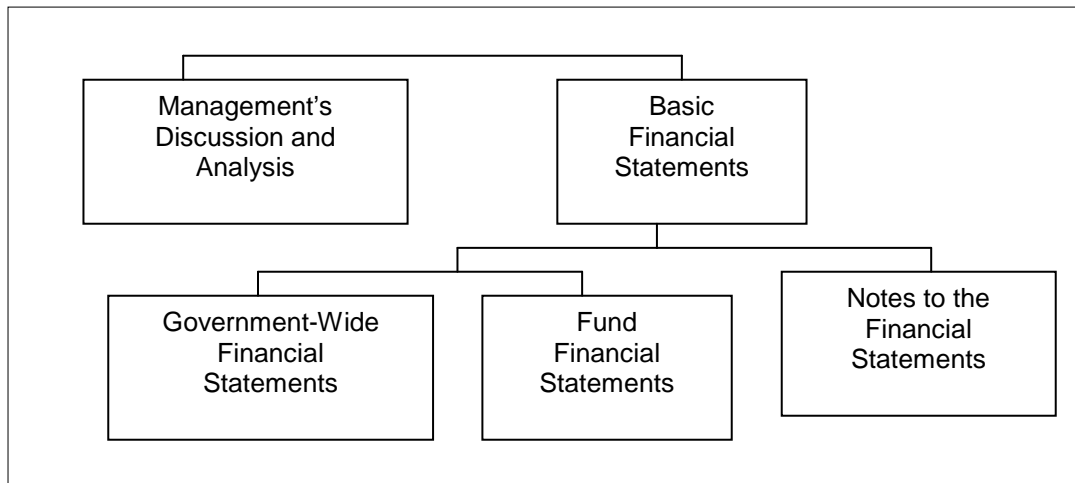
Financial Highlights For Fiscal Year 2010

- The assets of the City exceeded its liabilities at the close of the 2010 fiscal year resulting in net assets of \$7,516,895. Of this amount, \$4,034,512 is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors, and \$3,326,252 is invested in capital assets, net of related debt.
- As of June 30, 2010, the City's governmental funds reported combined ending fund balances of \$2,689,647.

Overview Of The Financial Statements

The management discussion and analysis is an introduction to the City's basic financial statements. These basic financial statements have three components; government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements to enhance the readers understanding of the financial condition of the City of Harrington, Delaware.

Required Components of Annual Financial Report



Basic Financial Statements - The first two statements in the basic financial statements are the **Government-Wide Financial Statements**. They provide both short and long-term information about the City's financial status, using the full-accrual basis of accounting, in a manner similar to a private-sector business.

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements; 1) the governmental fund statements; and 2) the proprietary fund statements.

The next section of the basic financial statements is the **Notes to the Financial Statements**. The notes are essential to a full understanding of the data provided in the government-wide and fund financial statements because they explain in detail some of the data contained in those statements.

After the notes, **supplemental information** is provided to show details about the City's non-major governmental funds, all of which are added together in one column on the basic financial statements. Budgetary information can also be found in this part of the statements.

Government-Wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of City finances as a whole in a manner similar to a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The statement of net assets presents information on all the City's assets and liabilities, with the difference between the two reported as net assets. Increases or decreases in net assets, over time, is an indicator of whether the financial position of the City is improving or declining.

The statement of activities presents information showing how the City's net assets changed during the past fiscal year. All changes in net assets are reported when the underlying event or transaction occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in a future fiscal period such as uncollected income taxes and earned but unused vacation leave.

Both of these 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 cover their costs primarily from user fees and charges and are business-type activities. The governmental activities of the City include general government, police, public works, trash, library, fire company and parks and recreation. The business-type activities of the City are water and sewer.

The government-wide statements can be found on pages 13 and 14 of this report.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories; governmental funds and proprietary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City has seven governmental funds. Information is presented separately in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, which is considered to be a major fund. The special revenue funds comprise the other six governmental funds. Data for these funds is combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is presented in the form of combining statements on pages 52 and 53 of this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 15 through 19 of this report.

Proprietary Funds - The City maintains only one type of proprietary fund which is an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the major funds.

The basic proprietary fund financial statements can be found on pages 20 through 23 of this report.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 through 43 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 52 through 53 of this report.

Government-Wide Financial Analysis

The following analysis discusses the financial position and changes to the financial position for the City as a whole as of and for the year ended June 30, 2010.

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position and condition. In the case of the City, assets exceeded liabilities by \$7,516,895 at the close of the fiscal year, June 30, 2010.

By far the largest portion of the City's net assets (44 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

CITY OF HARRINGTON, DELAWARE'S NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>June 30,</u>		<u>June 30,</u>		<u>June 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$2,818,219	\$2,189,345	\$1,641,497	\$1,142,139	\$ 4,459,716	\$ 3,331,484
Capital assets	<u>1,550,438</u>	<u>1,358,165</u>	<u>6,051,323</u>	<u>6,054,769</u>	<u>7,601,761</u>	<u>7,412,934</u>
Total Assets	<u>\$4,368,657</u>	<u>\$3,547,510</u>	<u>\$7,692,820</u>	<u>\$7,196,908</u>	<u>\$12,061,477</u>	<u>\$10,744,418</u>
Long-term liabilities	\$ 22,283	\$ 35,018	\$4,182,149	\$3,152,584	\$ 4,204,432	\$ 3,187,602
Other liabilities	<u>196,376</u>	<u>194,195</u>	<u>143,774</u>	<u>754,075</u>	<u>340,150</u>	<u>948,270</u>
Total Liabilities	<u>\$ 218,659</u>	<u>\$ 229,213</u>	<u>\$4,325,923</u>	<u>\$3,906,659</u>	<u>\$ 4,544,582</u>	<u>\$ 4,135,872</u>

CITY OF HARRINGTON DELAWARE'S NET ASSETS, (Continued)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>June 30,</u>		<u>June 30,</u>		<u>June 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Net Assets:						
Contributed capital			\$ 405,115	\$ 390,810	\$ 405,115	\$ 390,810
Restricted	\$ 156,131	\$ 147,946			156,131	147,946
Invested in capital assets	1,515,644	1,296,534	1,405,493	1,920,140	2,921,137	3,216,674
Unrestricted	<u>2,478,223</u>	<u>1,873,817</u>	<u>1,556,289</u>	<u>979,299</u>	<u>4,034,512</u>	<u>2,853,116</u>
Total Net Assets	<u>\$4,149,998</u>	<u>\$3,318,297</u>	<u>\$3,366,897</u>	<u>\$3,290,249</u>	<u>\$7,516,895</u>	<u>\$6,608,546</u>

The following table indicates the changes in net assets for governmental and business type activities:

CITY OF HARRINGTON DELAWARE'S NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>June 30,</u>		<u>June 30,</u>		<u>June 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
REVENUES						
Program Revenues:						
Charges for services	\$1,363,666	\$1,143,123	\$1,672,126	\$1,424,946	\$3,035,792	\$2,568,069
Operating grants and contributions	85,845	79,149			85,845	79,149
Capital grants and contributions	312,706	74,153	177,000	275,496	489,706	349,649
General Revenues:						
Property taxes	679,666	670,651			679,666	670,651
Transfer tax	87,836	79,361			87,836	79,361
Municipal Street Aid		86,526				86,526
Other revenue (expense)	<u>78,841</u>	<u>1,272,317</u>	<u>145,925</u>	<u>(36,961)</u>	<u>224,766</u>	<u>1,235,356</u>
Total Revenues	<u>2,608,560</u>	<u>3,405,280</u>	<u>1,995,051</u>	<u>1,663,481</u>	<u>4,603,611</u>	<u>5,068,761</u>
EXPENSES						
General government	787,984	749,020			787,984	749,020
Police	961,811	1,075,965			961,811	1,075,965
Public works	448,185	483,692			448,185	483,692
Parks and recreation	226,586	242,484			226,586	242,484
Trash	195,256	195,874			195,256	195,874
Library	160,450	175,190			160,450	175,190
Fire company	97,846	104,150			97,846	104,150
Water			134,109	128,252	134,109	128,252
Sewer			683,035	709,169	683,035	709,169
Total Expenses	<u>2,878,118</u>	<u>3,026,375</u>	<u>817,144</u>	<u>837,421</u>	<u>3,695,262</u>	<u>3,863,796</u>
Change in Net Assets						
Before Transfers	(269,558)	378,905	1,177,907	826,060	908,349	1,204,965
Transfers	<u>1,101,259</u>	<u>762,915</u>	<u>(1,101,259)</u>	<u>(762,915)</u>		
Change in Net Assets	831,701	1,141,820	76,648	63,145	908,349	1,204,965
Net Assets - Beginning of year	<u>3,318,297</u>	<u>2,176,477</u>	<u>3,290,249</u>	<u>3,227,104</u>	<u>6,608,546</u>	<u>5,403,581</u>
Net Assets - End of year	<u>\$4,149,998</u>	<u>\$3,318,297</u>	<u>\$3,366,897</u>	<u>\$3,290,249</u>	<u>\$7,516,895</u>	<u>\$6,608,546</u>

For the year ended June 30, 2010, the City reported positive balances in all categories of net assets.

Financial Analysis of the City's Funds

As noted previously, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information on current inflows, outflows, and balances of available, spendable resources. Such information is useful in assessing the City's financing requirements. The amount of unreserved fund balance is a measure of the City's net resources available at fiscal year end. Unreserved fund balance provides a reserve for emergencies, enables the City Council to stabilize tax rates, and provides working capital from which to pay City bills between tax collection due dates.

At June 30, 2010, the City's governmental funds reported a combined ending fund balance of \$2,689,647.

The general fund is the chief operating fund of the City and accounts for major functions of the government including police, public works, trash, library, fire company and parks and recreation. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to general fund expenditures. At June 30, 2010, the general fund balance is \$2,537,516.

Proprietary Funds - The City's proprietary funds provide the same information found in the government-wide financial statements, but in more detail. Income before transfers and capital contributions of \$494,564 was reported in the water fund. The sewer fund had income before transfers and capital contributions of \$658,343.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City adopted the fiscal year 2010 budget on June 30, 2009. The City's practice is to get approval from the Council if the budget is amended. During 2010 there were no changes or amendments to the original budget.

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2010, was \$7,601,761 (net of accumulated depreciation). Additions of \$2,088,420 in 2010 exceeded depreciation by \$1,616,527.

Major capital asset additions for the year ended June 30, 2010, included the following:

- Forced main improvements in the amount of \$184,622 were made during the year, this project is held in construction in progress until completion.

A table of the City's capital assets by type is listed below. Additional information can be found in Note 5 on pages 33 through 35 of this report.

CITY OF HARRINGTON, DELAWARE'S CAPITAL ASSETS
 (Net Of Depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>June 30,</u>		<u>June 30,</u>		<u>June 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Construction in progress	\$ 91,103	\$ 80,839	\$ 458,640	\$ 1,054,748	\$ 549,743	\$1,135,587
Land improvements	631,553	318,081			631,553	318,081
Building improvements	551,482	584,486	5,521,413	4,923,283	6,072,895	5,507,769
Equipment	115,374	176,755	57,951	60,782	173,325	237,537
Vehicles	<u>160,926</u>	<u>198,004</u>	<u>13,319</u>	<u>15,956</u>	<u>174,245</u>	<u>213,960</u>
Total	<u>\$1,550,438</u>	<u>\$1,358,165</u>	<u>\$6,051,323</u>	<u>\$6,054,769</u>	<u>\$7,601,761</u>	<u>\$7,412,934</u>

Under GASB Statement No. 34, the City is not required to and has chosen not to capitalize highway, state and bridge infrastructure added in prior years; thus it is not reporting a value for those assets.

Debt Services

At year end, the City had \$4,245,793 in bonds and mortgages/notes payable outstanding. More detailed information about the City's long-term liabilities is presented in the notes to the financial statements.

CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS BEARING ON THE CITY'S FUTURE

The major issues facing the City over the next 5 to 10 years are as follows:

Water - Phase I of USDA water projects – Completed well improvements in the spring of 2009 and completed water tower painting project in the fall of 2010. Well #3 and its related building were completed in June 2010. These projects were combined for a total cost of \$850,000 and funded by a loan from the USDA.

Water - Phase II will include a new water tower and well for an estimated cost of \$2.8 million and will be funded by a loan from the USDA. This project is currently on hold.

Sewer - The sewer to County connection project planning began in the summer of 2009 and the project is anticipated to be completed in the fall of 2011 for an estimated cost of \$6.8 million and will be partially funded by loans from the USDA and DNREC.

Library - The City is planning to construct a new library for an estimated cost of \$1.8 million. This project is currently on hold.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, customers and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Harrington, 106 Dorman Street, Harrington, Delaware 19952.

BASIC FINANCIAL STATEMENTS

CITY OF HARRINGTON, DELAWARE

STATEMENT OF NET ASSETS

JUNE 30, 2010

ASSETS

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Current Assets:</u>			
Cash and cash equivalents	\$ 1,366,870	\$ 1,197,471	\$ 2,564,341
Taxes receivable (net of allowances)	78,617		78,617
Accounts receivable	102,398		102,398
Intragovernment receivable	5,522		5,522
Service charges receivable		415,148	415,148
Due from other Governments	45,250	28,878	74,128
Prepaid expenses	31,784		31,784
Land held for sale	<u>1,187,778</u>		<u>1,187,778</u>
<u>Total Current Assets</u>	<u>2,818,219</u>	<u>1,641,497</u>	<u>4,459,716</u>
 <u>Noncurrent Assets:</u>			
Water and sewer systems		10,103,315	10,103,315
Construction in progress	91,103	458,640	549,743
Land and buildings	1,679,980		1,679,980
Furniture, fixtures and equipment	1,309,688		1,309,688
<u>Less: Accumulated depreciation</u>	<u>(1,530,333)</u>	<u>(4,510,632)</u>	<u>(6,040,965)</u>
<u>Total Capital Assets, Net of Accumulated Depreciation</u>	<u>1,550,438</u>	<u>6,051,323</u>	<u>7,601,761</u>
<u>Total Assets</u>	<u>\$ 4,368,657</u>	<u>\$ 7,692,820</u>	<u>\$ 12,061,477</u>

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Current Liabilities:</u>			
Current portion of capital lease obligation	\$ 7,433		\$ 7,433
Accounts payable and other	128,572	\$ 75,963	204,535
Intragovernment payable		5,522	5,522
Bonds and notes payable	5,078	58,566	63,644
Accrued compensated absences	<u>55,293</u>	<u>3,723</u>	<u>59,016</u>
<u>Total Current Liabilities</u>	196,376	143,774	340,150
<u>Noncurrent Liabilities:</u>			
Bonds and note payable		4,182,149	4,182,149
Capital lease obligation - Net of current portion	<u>22,283</u>		<u>22,283</u>
<u>Total Liabilities</u>	<u>218,659</u>	<u>4,325,923</u>	<u>4,544,582</u>
<u>Net Assets:</u>			
Contributed capital		405,115	405,115
Restricted for:			
Library expenditures	135,558		135,558
Police expenditures	20,573		20,573
Invested in capital assets, net of related debt	1,515,644	1,405,493	2,921,137
Unrestricted	<u>2,478,223</u>	<u>1,556,289</u>	<u>4,034,512</u>
<u>Total Net Assets</u>	<u>\$ 4,149,998</u>	<u>\$ 3,366,897</u>	<u>\$ 7,516,895</u>

CITY OF HARRINGTON, DELAWARE

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2010

	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
<u>FUNCTIONS/PROGRAMS:</u>			
Governmental Activities:			
General government	\$ 787,984	\$ 14,226	
Police	961,811	463,425	\$ 67,582
Public works	448,185	308,109	18,263
Trash	195,256	211,757	
Library	160,450	91,842	
Fire company	97,846	54,501	
Parks and recreation	226,586	215,706	
Other		4,100	
	<hr/>	<hr/>	<hr/>
<u>Total Governmental Activities</u>	<u>2,878,118</u>	<u>1,363,666</u>	<u>85,845</u>
Business-Type Activities:			
Sewer	683,035	1,128,406	
Water	134,109	543,720	
	<hr/>	<hr/>	<hr/>
<u>Total Business-Type Activities</u>	<u>817,144</u>	<u>1,672,126</u>	<hr/>
	<hr/>	<hr/>	<hr/>
<u>Total</u>	<u>\$ 3,695,262</u>	<u>\$ 3,035,792</u>	<u>\$ 85,845</u>

General Revenues and Transfers:

- Taxes:
 - Property taxes
 - Transfer tax
- Interest
- Community impact fees
- Net gain on disposal of property and equipment
- Miscellaneous
- Transfers in (out)

Total General Revenues
and Transfers

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ 312,706	(\$ 461,052)		(\$ 461,052)
	(430,804)		(430,804)
	(121,813)		(121,813)
	16,501		16,501
	(68,608)		(68,608)
	(43,345)		(43,345)
	(10,880)		(10,880)
	<u>4,100</u>		<u>4,100</u>
<u>312,706</u>	<u>(1,115,901)</u>		<u>(1,115,901)</u>
76,000		\$ 521,371	521,371
<u>101,000</u>		<u>510,611</u>	<u>510,611</u>
<u>177,000</u>		<u>1,031,982</u>	<u>1,031,982</u>
<u>\$ 489,706</u>	<u>(1,115,901)</u>	<u>1,031,982</u>	<u>(83,919)</u>
	679,666		679,666
	87,836		87,836
	19,479	26,811	46,290
	29,000		29,000
	11,684	119,114	130,798
	18,678		18,678
	<u>1,101,259</u>	<u>(1,101,259)</u>	
	<u>1,947,602</u>	<u>(955,334)</u>	<u>992,268</u>
	831,701	76,648	908,349
	<u>3,318,297</u>	<u>3,290,249</u>	<u>6,608,546</u>
	<u>\$ 4,149,998</u>	<u>\$ 3,366,897</u>	<u>\$ 7,516,895</u>

CITY OF HARRINGTON, DELAWARE

BALANCE SHEET
(GOVERNMENTAL FUNDS)

JUNE 30, 2010

<u>ASSETS</u>	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,214,739	\$ 152,131	\$ 1,366,870
Taxes receivable (net of allowances)	78,617		78,617
Accounts receivable	102,398		102,398
Intragovernment receivable	5,522		5,522
Grants receivable	45,250		45,250
Land held for sale	1,187,778		1,187,778
Prepaid expenses	31,784		31,784
<u>Total Assets</u>	<u>\$ 2,666,088</u>	<u>\$ 152,131</u>	<u>\$ 2,818,219</u>
<u>LIABILITY</u>			
Accounts payable and other	<u>\$ 128,572</u>		<u>\$ 128,572</u>
<u>FUND BALANCE</u>			
<u>Fund Balances:</u>			
Designated	4,000	\$ 152,131	156,131
Unreserved and undesignated	<u>2,533,516</u>		<u>2,533,516</u>
<u>Total Fund Balance</u>	<u>2,537,516</u>	<u>152,131</u>	<u>2,689,647</u>
<u>Total Liability and Fund Balance</u>	<u>\$ 2,666,088</u>	<u>\$ 152,131</u>	<u>\$ 2,818,219</u>

CITY OF HARRINGTON, DELAWARE

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS

JUNE 30, 2010

<u>Total Fund Balances, Governmental Funds</u> (Page 15)	\$ 2,689,647
Capital assets used in governmental activities are not financial resources and are therefore not reported in the fund financial statements, but are reported in the governmental activities of the statement of net assets.	1,550,438
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the fund financial statements.	
<u>Long-Term Liabilities at Year-End Consist of:</u>	
Accrued compensated absences	(55,293)
Mortgage and notes payable	<u>(34,794)</u>
<u>Net Assets of Governmental Activities in the Statement of Net Assets</u> (Page 13)	<u>\$ 4,149,998</u>

CITY OF HARRINGTON, DELAWARE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(GOVERNMENTAL FUNDS)

YEAR ENDED JUNE 30, 2010

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total</u>
<u>Revenues:</u>			
Taxes	\$ 679,666		\$ 679,666
Transfer tax	87,836		87,836
Rental income	14,226		14,226
Building permits	58,543		58,543
Planning and zoning fees	65,940		65,940
Vacant buildings	20,800		20,800
Miscellaneous	18,678		18,678
Contractors license fee	21,500		21,500
Intergovernmental revenues		\$ 67,582	67,582
Fire company	54,501		54,501
Interest	17,102	2,377	19,479
Fines and penalties	16,499		16,499
Business licenses	113,764		113,764
Police revenue	468,025		468,025
Public works	29,326		29,326
Library revenue	91,842		91,842
Trash fees	211,757		211,757
Parks and recreation	230,806		230,806
Grants	312,706		312,706
Community impact fees	29,000		29,000
Other	4,100		4,100
	<u>2,546,617</u>	<u>69,959</u>	<u>2,616,576</u>
<u>Total Revenues</u>			
<u>Expenditures:</u>			
General government	1,035,388		1,035,388
Police	903,258	70,279	973,537
Public works	426,895		426,895
Trash	195,256		195,256
Library	158,425		158,425
Fire company	96,293		96,293
Parks and recreation	220,996		220,996
	<u>3,036,511</u>	<u>70,279</u>	<u>3,106,790</u>
<u>Total Expenditures</u>			
<u>Deficiency of Revenues Over Expenditures</u>			
<u>Before Other Financing Sources</u>	<u>(489,894)</u>	<u>(320)</u>	<u>(490,214)</u>

CITY OF HARRINGTON, DELAWARE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(GOVERNMENTAL FUNDS) - CONTINUED

YEAR ENDED JUNE 30, 2010

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total</u>
<u>Other Financing Sources:</u>			
Transfers in	<u>\$ 1,096,754</u>	<u>\$ 4,505</u>	<u>\$ 1,101,259</u>
<u>Excess of Revenues and Other Financing Sources Over Expenditures</u>	606,860	4,185	611,045
<u>Fund Balance - Beginning of year</u>	<u>1,930,656</u>	<u>147,946</u>	<u>2,078,602</u>
<u>Fund Balance - End of year</u>	<u>\$ 2,537,516</u>	<u>\$ 152,131</u>	<u>\$ 2,689,647</u>

CITY OF HARRINGTON, DELAWARE

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2010

<u>Net Change in Fund Balances, Governmental Funds (Page 18)</u>	\$ 611,045
 <u>Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:</u>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$406,212) exceeded depreciation (\$205,717) , in the current period	200,495
The issuance of long-term debt (i.e. Notes payable) provides current financial resources. Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	26,837
Gains as a result of the sale of capital assets are not financial resources and are therefore not reported in the fund financial statements but are reported in the governmental activities of the statement of activities.	(8,016)
Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These activities consist of: Decrease in compensated absences	<u>1,340</u>
<u>Change in Net Assets of Governmental Activities (Page 14)</u>	<u>\$ 831,701</u>

CITY OF HARRINGTON, DELAWARE

STATEMENT OF NET ASSETS
PROPRIETARY FUND - WATER AND SEWER FUND

JUNE 30, 2010

ASSETS

Current Assets:

Cash and cash equivalents	\$ 1,197,471
Due from other Governments	28,878
Service charges receivable	<u>415,148</u>

Total Current Assets 1,641,497

Noncurrent Assets:

Capital Assets:

Water and sewer systems	10,103,315
Construction in progress	458,640
<u>Less: Accumulated depreciation</u>	<u>(4,510,632)</u>

Total Noncurrent Assets 6,051,323

Total Assets 7,692,820

LIABILITIES

Current Liabilities:

Accounts payable and other	75,963
Bonds payable	58,566
Intragovernment payable	5,522
Accrued compensated absences	<u>3,723</u>

Total Current Liabilities 143,774

Noncurrent Liabilities:

Bonds payable	<u>4,182,149</u>
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Total Liabilities 4,325,923

NET ASSETS

Contributed capital	405,115
Invested in capital assets, net of related debt	1,405,493
Unrestricted retained earnings	<u>1,556,289</u>

Total Net Assets \$ 3,366,897

CITY OF HARRINGTON, DELAWARE

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2010

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
<u>Operating Revenues:</u>			
Sewer fees	\$ 1,118,225		\$ 1,118,225
Water fees		\$ 529,678	529,678
Hook ups	4,300	9,515	13,815
Miscellaneous	502	4,527	5,029
Sample testing charges	<u>5,379</u>		<u>5,379</u>
<u>Total Operating Revenues</u>	1,128,406	543,720	1,672,126
<u>Operating Expenses</u>	<u>573,095</u>	<u>111,385</u>	<u>684,480</u>
<u>Operating Income</u>	555,311	432,335	987,646
<u>Non-Operating Revenues (Expenses):</u>			
Interest expense	(109,940)	(22,724)	(132,664)
Impact fees	76,000	76,000	152,000
Interest income	15,203	11,608	26,811
Gain (loss) on disposal of property and equipment	<u>121,769</u>	<u>(2,655)</u>	<u>119,114</u>
<u>Income Before Transfers and</u>			
<u>Capital Contributions</u>	<u>\$ 658,343</u>	<u>\$ 494,564</u>	1,152,907
<u>Capital Contributions</u>			25,000
<u>Operating Transfers to Other Funds</u>			<u>(1,101,259)</u>
<u>Net Income After Operating Transfers</u>			76,648
<u>Net Assets - Beginning of year</u>			<u>3,290,249</u>
<u>Net Assets - End of year</u>			<u>\$ 3,366,897</u>

CITY OF HARRINGTON, DELAWARE
STATEMENT OF OPERATING EXPENSES
PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2010

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Salaries	\$ 82,354		\$ 82,354
Payroll taxes	6,743		6,743
Pension	4,510		4,510
Fringe benefits	12,968		12,968
Vehicle maintenance and repairs	4,379		4,379
Equipment maintenance and repairs	113	\$ 25	138
Office supplies	46		46
Telephone	3,510		3,510
Postage	735	641	1,376
Heat and electric	97,748	26,139	123,887
Dues and meetings	20		20
Safety	3,428		3,428
Maintenance agreements	5,973	1,160	7,133
Pagers	81		81
Building repairs and maintenance	3,003	888	3,891
Sample testing	7,589	681	8,270
Water meters		3,018	3,018
Uniforms	2,443		2,443
Pump station repairs	14,807	86	14,893
Water line repairs		4,423	4,423
Mowing supplies	665		665
Engineering fees		6,525	6,525
Chemicals	80,583	11,880	92,463
Lab supplies	5,559		5,559
Small tools	29		29
Lagoon maintenance	7,499		7,499
Sludge application	7,983		7,983
Flow meter operations	2,235		2,235
License and permits	100		100
Insurance	7,735		7,735
Depreciation	<u>210,257</u>	<u>55,919</u>	<u>266,176</u>
<u>Total Operating Expenses</u>	<u>\$573,095</u>	<u>\$ 111,385</u>	<u>\$684,480</u>

CITY OF HARRINGTON, DELAWARE

STATEMENT OF CASH FLOWS
(ALL PROPRIETARY FUNDS)

YEAR ENDED JUNE 30, 2010

Cash Flows From Operating Activities:

Cash received from customers	\$ 1,968,982
Cash paid to suppliers	(398,450)
Cash paid to employees	<u>(83,153)</u>

Net Cash Provided By Operating
Activities

1,487,379

Cash Flows From Non-Capital Financing Activities:

Net advances from other funds	5,522
Operating transfers to other funds	<u>(1,101,259)</u>

Net Cash Used For Non-Capital Financing
Activities

(1,095,737)

Cash Flows From Capital and Related
Financing Activities:

Purchase of property and equipment	(488,672)
Proceeds from disposal of property and equipment	225,942
Proceeds received from general obligation debt	1,101,717
Principal paid on general obligation debt	(604,821)
Interest paid	(132,664)
Capital contribution received	<u>25,000</u>

Net Cash Provided by Capital and
Related Financing Activities

126,502

Cash Flows From Investing Activities:

Interest income	<u>26,811</u>
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Net Increase In Cash and Cash Equivalents

544,955

Cash and Cash Equivalents:

Beginning of year	<u>652,516</u>
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End of year	<u>\$ 1,197,471</u>
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The accompanying notes are an integral part of these financial statements.

RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES
(ALL PROPRIETARY FUNDS)

<u>Operating Income</u>	\$ 987,646
<u>Adjustments To Reconcile Operating Income To Net</u>	
<u>Cash Provided By Operating Activities:</u>	
Depreciation	266,176
Non-operating revenues	152,000
Loss on disposal of property and equipment	119,114
Decrease in:	
Due from other government	25,742
Service charges receivable	19,855
Decrease in:	
Accounts payable and other	(81,832)
Compensated absences	<u>(1,322)</u>
<u>Net Cash Provided By Operating Activities</u>	<u>\$ 1,487,379</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 1 - Summary of Significant Accounting Policies

Operations

The City of Harrington, Delaware (hereinafter referred to as the City or Mayor and Council) is located in south-central Delaware and it operates under a Mayor-Council form of government. The City provides the following services: police, public works, trash, library, fire company and parks and recreation.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Reporting Entity

In accordance with GASB Statement No. 14, "The Financial Reporting Entity," the financial statements are constructed around the concept of a primary government and therefore encompass the primary government. There are no material component units (legally separate entities for which the City is accountable, that would be included in the City's financial statements) within the City of Harrington, Delaware.

Government-Wide And Fund Financial Statements

The government-wide financial statements report information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported as general revenues.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 1 - Summary of Significant Accounting Policies (Continued)

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

The City adopted the provisions of GASB Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments," as modified by GASB Statement No. 37. These statements affect the manner in which the City records transactions and presents financial information. State and local governments have traditionally used a financial reporting model substantially different from the one used to prepare private-sector financial reports.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments. The statement was developed to make annual reports of state and local governments easier to understand and more useful to the people who use governmental financial information to make decisions.

The retroactive reporting of roads and certain other infrastructure as capital assets is not required for the City under GASB reporting principles and has not been implemented.

Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, reserves, fund balance/net assets, revenues, and expenditures or expenses, as appropriate. The City has the following funds:

Governmental Fund Types – Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used; current liabilities are assigned to the fund from which they are paid, the fund equity, is referred to as "fund balance". The measurement focus is upon determination of changes in financial position, rather than upon net income determination.

The following comprise the City's major governmental funds:

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 1 - Summary of Significant Accounting Policies (Continued)

General Fund – The general fund is the general operating fund of the City. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. Many of the most important activities of the City, including operation of the City's general service departments; police, public works, trash, library, fire company and parks and recreation are accounted for in this fund.

Special Revenue Funds – Special revenue funds are used to account for revenues derived from specific sources, which are usually required by law or regulation to be accounted for in separate funds.

The following nonmajor funds are included in this fund type:

Municipal Street Aid – To account for certain street improvements within the City and reimbursement for police enforcement.

Police Pension Fund – To account for police retirement benefits reimbursed by the State of Delaware.

EIDE Grants – To account for grant revenue provided to the City for certain police salaries and equipment.

SALLE Grants – To account for grant revenue provided to the City for police equipment.

SLEAF Grants – To account for grant revenue provided to the City for police equipment.

Library Building Fund – To account for certain revenue to be used by the City for construction of a new library.

Proprietary Fund Types – Proprietary fund types are used to account for a government's ongoing organizations and activities which are similar to those often found in the private-sector. The measurement focus is upon income determination, financial position, and cash flows.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 1 - Summary of Significant Accounting Policies (Continued)

Enterprise Funds – Enterprise funds are used to finance and account for the acquisition, operation, and maintenance of the City's facilities and services which are supported primarily by user charges. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the City has elected to apply all applicable FASB pronouncements, including those on or before November 30, 1989, except for those pronouncements which conflict with or contradict GASB pronouncements.

The following comprise the City's major enterprise funds:

Water Fund – To account for the City's water utility operations that provide services to users.

Sewer Fund – To account for the operation and maintenance of the City's sanitary sewer system.

Measurement Focus and Basis of Accounting

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 and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 1 - Summary of Significant Accounting Policies (Continued)

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded and the availability criteria. In the other, monies are virtually unrestricted as to purpose of expenditure, and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt, or earlier if the susceptible to accrual criteria are met.

Licenses and permits, fines and forfeitures, charges for sales and services (other than utility), and miscellaneous revenues are generally recorded as revenue when received in cash, but investment earnings are recorded as earned, since they are measurable and available.

Property taxes are recognized as a receivable at the time an enforceable legal claim is established. This is determined to occur when the taxes are levied.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

Except where otherwise required, the City maintains all deposits in a bank account in the name of the City. These deposits are invested on a short term basis with interest income being recorded in the general fund, except for interest income allocated to enterprise funds and where specifically required by law to be recorded in other funds. The balance reported in each fund represents an equity interest in the commingled pool of cash, which is under the management of the City. For purposes of the statement of cash flows, the City considers all highly liquid debt instruments (including restricted cash) with an original maturity of three months or less to be cash equivalents.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 1 - Summary of Significant Accounting Policies (Continued)

Fixed Assets and Depreciation

Capital assets, including land, building, improvements, and equipment assets 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 more than \$1,000 and an initial useful life of one year or greater. Such assets are recorded at historical cost if purchased or constructed. Donated fixed assets are valued at their estimated fair value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Under GASB Statement No. 34, the City is not required and therefore has elected not to reconstruct public domain or infrastructure assets added in years' prior to its implementation such as roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, that are immovable and of value only to the City government.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Buildings, improvements, infrastructure and equipment assets are depreciated using the straight-line method over the following estimated useful lives:

Building and improvements	15 - 39 years
Equipment	5 - 7 years

Compensated Absences

Full-time permanent employees are granted vacation benefits.

Unearned Revenues

Unearned revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity

Reservations of fund balance represent amounts that are not appropriated or are legally segregated for a specific purpose. Restrictions of net assets are limited to outside third-party restrictions. Designations of fund balances represent tentative management plans that are subject to change.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriation.

The City first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Budgetary Data

Budget Policy and Practice – The City follows these procedures in establishing the budgetary data reflected in the financial statements:

The City Manager submits to the Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means for funding them.

CITY OF HARRINGTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 1 - Summary of Significant Accounting Policies (Continued)

Prior to July 1, the budget is legally enacted through a majority vote of the Council.

Transfers of appropriations between functions require approval of the Council.

Formal budgetary integration is employed as a management control device during the year for the General Fund.

Budgeted amounts were originally adopted by the Council on June 30, 2009. There were no changes to the fiscal 2010 original budget as presented.

Encumbrances – Encumbrance accounting is used for the General Fund. Encumbrances, consisting of contracts and other commitments outstanding at year end, are reported as a reservation of fund balance on the balance sheet. Encumbrances do not lapse at the close of the fiscal year but are carried forward as reserved fund balances until liquidated.

Budget Basis of Accounting – The budgets are prepared on the cash and expenditure/encumbrance basis. Revenues are budgeted in the year receipt is expected; and expenditures, which include encumbrances, are budgeted in the year that the applicable purchases are expected. The budget and actual financial statements are reported on this basis. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

Note 2 - Property Taxes

Property taxes are levied on July 1. City property taxes are recognized when levied since they result in current receivables. The City bills and collects its own real estate taxes. Delinquent taxes are levied by the City. The schedule for real estate taxes for the fiscal year is as follows:

- | | |
|---------------------|--|
| • July 1 | Levy date. |
| • July – October 31 | Face payment period with a 3% discount if paid by July 31. |
| • November 1 | 2% penalty for each subsequent month not paid. |

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 3 - Cash and Cash Equivalents

The City's cash and cash equivalents on deposit with financial institutions are subject to prudent business practices. They are held in federally regulated financial institutions whose balances are covered by the Federal Deposit Insurance Corporation (FDIC). The City's deposits are categorized to give an indication of the level of risk assumed by the City at fiscal year-end. The categories are as follows:

- 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.

Carrying amounts differ from bank balances as a result of normal reconciling items. A summary of these deposits at June 30, 2010 is shown below:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
<u>Cash and Cash Equivalents:</u>		
Category 1	\$ 250,000	\$ 250,000
Category 2	2,314,341	2,353,589
Category 3	<u> </u>	<u> </u>
<u>Total Cash and Cash Equivalents</u>	<u>\$2,564,341</u>	<u>\$2,603,589</u>

At June 30, 2010, the City's cash and cash equivalents are comprised of the following:

Carrying value of unrestricted cash and cash equivalents	\$2,361,142
Restricted cash and cash equivalents	<u>203,199</u>
<u>Total</u>	<u>\$2,564,341</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 4 - Due From Other Governments

The amount due from other governments represents revenues earned by the City or collections made by other governmental units on behalf of the City. At June 30, 2010, amounts due from other governments consisted of the following:

	<u>General Fund</u>	<u>Enterprise Funds</u>	<u>Total</u>
<u>Governmental Unit:</u>			
Department of Justice	\$10,293		\$10,293
Delaware Emergency Management Agency	18,262		18,262
State of Delaware	<u>16,695</u>	<u>\$28,878</u>	<u>45,573</u>
Total	<u>\$45,250</u>	<u>\$28,878</u>	<u>\$74,128</u>

Note 5 - Property and Equipment

The following is a summary of changes in capital assets for the year ended June 30, 2010:

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Transfers and Deletions</u>	<u>Balance June 30, 2010</u>
<u>Governmental Activities</u>				
Capital assets, not being depreciated:				
Construction in progress	\$ 80,839	\$340,076	\$329,812	\$ 91,103
Capital assets, being depreciated:				
Land improvements	402,047	332,982		735,029
Buildings and improvements	964,568			964,568
Equipment	762,778	39,622	129,884	672,516
Vehicles	<u>592,423</u>	<u>49,813</u>	<u>24,681</u>	<u>617,555</u>
Total capital assets being depreciated	<u>2,721,816</u>	<u>422,417</u>	<u>154,565</u>	<u>2,989,668</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 5 - Property and Equipment (Continued)

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Transfers</u> <u>and</u> <u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>
Less accumulated depreciation for:				
Land improvements	\$ 83,966	\$ 19,722		\$ 103,688
Buildings and improvements	380,082	32,792		412,874
Equipment	586,023	67,518	\$ 96,399	557,142
Vehicles	<u>394,419</u>	<u>85,685</u>	<u>23,475</u>	<u>456,629</u>
Total accumulated depreciation	<u>1,444,490</u>	<u>205,717</u>	<u>119,874</u>	<u>1,530,333</u>
Governmental activities capital assets, net	<u>\$1,358,165</u>	<u>\$ 556,776</u>	<u>\$ 364,503</u>	<u>\$1,550,438</u>
<u>Business – Type</u> <u>Activities</u>				
Capital assets, not being depreciated:				
Construction in progress	<u>\$1,054,748</u>	<u>\$ 360,261</u>	<u>\$ 956,369</u>	<u>\$ 458,640</u>
Capital assets, being depreciated:				
Plants, maintenance and other improvements	9,098,635	956,441	110,073	9,945,003
Equipment	125,439	9,225		134,664
Vehicles	<u>23,648</u>	<u> </u>	<u> </u>	<u>23,648</u>
Total capital assets being depreciated	<u>9,247,722</u>	<u>965,666</u>	<u>110,073</u>	<u>10,103,315</u>
Less accumulated depreciation for:				
Plants, maintenance and other improvements	4,175,352	248,238		4,423,590
Equipment	64,657	15,301	3,245	76,713
Vehicles	<u>7,692</u>	<u>2,637</u>	<u> </u>	<u>10,329</u>
Total accumulated depreciation	<u>4,247,701</u>	<u>266,176</u>	<u>3,245</u>	<u>4,510,632</u>
Total capital assets being depreciated, net	<u>5,000,021</u>	<u>699,490</u>	<u>106,828</u>	<u>5,592,683</u>
Business-type activities capital assets, net	<u>\$6,054,769</u>	<u>\$1,059,751</u>	<u>\$1,063,197</u>	<u>\$6,051,323</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 5 - Property and Equipment (Continued)

Depreciation expense for the year ended June 30, 2010 was charged to the functions of the primary government as follows:

Governmental Activities:

General government	\$ 69,244
Police	85,832
Public works	41,400
Parks and recreation	6,831
Library	<u>2,410</u>

<u>Total Depreciation Expense – Governmental Activities</u>	<u>\$205,717</u>
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Note 6 - Accounts Payable and Other

Accounts payable and other at June 30, 2010 consists of the following:

	<u>General Fund</u>	<u>Enterprise Funds</u>	<u>Total</u>
Accounts payable	\$ 86,518	\$74,414	\$160,932
Accrued expenses	<u>42,054</u>	<u>1,549</u>	<u>43,603</u>
<u>Total</u>	<u>\$128,572</u>	<u>\$75,963</u>	<u>\$204,535</u>

Note 7 - Long-Term Debt

General Fund Debt

The City has a note payable for equipment purchased. The loan balance is \$5,078 at June 30, 2010 and is payable in monthly principal and interest payments of \$1,607, at 4.75% interest. This loan was repaid in October 2010.

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance June 30, 2010</u>
<u>Governmental Activities:</u>				
Note Payable	<u>\$24,799</u>	<u>\$ -0-</u>	<u>\$19,721</u>	<u>\$5,078</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 7 - Long-Term Debt (Continued)

Enterprise Funds Debt

In July, 1996, the City entered into a loan agreement with the Farmers Home Administration. Proceeds of the loan paid off loans from Wilmington Trust Company, which were used for wastewater treatment plant upgrades. The loan balance is \$1,658,601 at June 30, 2010 and is payable in quarterly payments of principal and interest at 4.5%. Final payment is due in July 2036. The loan is secured by a general obligation bond.

In December, 1999, the City entered into a similar loan agreement with the Farmers Home Administration. Proceeds of the loan paid down loans from Wilmington Trust Company, which were used for various water and sewer projects. The loan balance is \$419,963 at June 30, 2010 and is payable in quarterly payments of principal and interest at 3.25%. Final payment is due in December 2039.

In June, 2001, the City entered into a similar loan agreement with the Farmers Home Administration. Proceeds of the loan paid down loans from Wilmington Trust Company, which were used for various water and sewer projects. The loan balance is \$701,050 at June 30, 2010 and is payable in quarterly payments of principal and interest at 4.5%. Final payment is due in June 2041.

In May, 2003, the City entered into a similar loan agreement with the Farmers Home Administration. Proceeds of the loan paid down loans from Wilmington Trust Company, which were used for various water and sewer projects. The loan balance is \$194,321 at June 30, 2010 and is payable in quarterly payments of principal and interest at 4.5%. Final payment is due in May 2043.

In July, 2005, the City entered into a similar loan agreement for \$81,800 with the Farmers Home Administration. Proceeds of the loan paid down loans from Wilmington Trust Company, which were used for various water and sewer projects. The loan balance is \$76,661 at June 30, 2010 and is payable in quarterly payments of principal and interest at 3.25%. Final payment is due in July 2045.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 7 - Long-Term Debt (Continued)

In November 2009, the City entered into a similar loan agreement with the Farmers Home Administration. Proceeds of the loan were used to fund a water improvement project. The loan balance is \$850,000 at June 30, 2010 and is payable in quarterly payments of principal and interest at 2.4%. Final payment is due April 2051.

The City entered into a Clean Water State Revolving Fund loan with the State of Delaware Department of Natural Resources (DNREC). Interest is paid monthly at a rate of 2.7%. The balance at June 30, 2010 is \$340,119. Final payment is due August 1, 2027.

The City maintains a \$500,000 line of credit with First National Bank of Wyoming for financing of the Water Main Improvement Project. Interest payments are due monthly at a rate of 5.75%. The line is unsecured and the outstanding balance was \$ -0- at June 30, 2010. The line of credit has since been closed.

The Water Main Improvement Project note with the National Rural Water Association was repaid during the year ended June 30, 2010.

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance</u> <u>June 30, 2010</u>
<u>Business-Type Activities</u>				
USDA 1996 Loan	\$1,691,134		\$ 32,533	\$1,658,601
USDA 1999 Loan	428,329		8,366	419,963
USDA 2001 Loan	711,302		10,252	701,050
USDA 2003 Loan	196,851		2,530	194,321
USDA 2005 Loan	77,801		1,140	76,661
USDA 2009 Loan		\$ 850,000		850,000
DNREC Loan	88,402	251,717		340,119
First National Bank of Wyoming Line	450,000		450,000	
National Rural Water Association Loan	<u>100,000</u>	<u> </u>	<u>100,000</u>	<u> </u>
<u>Total</u>	<u>\$3,743,819</u>	<u>\$1,101,717</u>	<u>\$604,821</u>	<u>\$4,240,715</u>

CITY OF HARRINGTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 7 - Long-Term Debt (Continued)

The annual debt service requirements to maturity, including principal and interest, for long-term debt are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 58,566	\$ 156,872	\$ 215,438
2012	73,281	153,944	227,225
2013	76,502	150,893	227,395
2014	79,259	147,715	226,974
2015	82,438	144,403	226,841
Thereafter	<u>3,870,669</u>	<u>1,962,375</u>	<u>5,833,044</u>
<u>Total</u>	<u>\$4,240,715</u>	<u>\$2,716,202</u>	<u>\$6,956,917</u>

Note 8 - Capital Lease Obligations

The City leases certain equipment under capital lease agreements. The future minimum lease payments under the leases together with the present value of the net minimum lease payments as of June 30, 2010 are as follows:

2011	\$ 9,493
2012	9,493
2013	9,493
2014	<u>5,694</u>
<u>Total Minimum Lease Payments</u>	34,173
<u>Less: Amount representing interest at 7.75%</u>	<u>4,457</u>
<u>Present Value of net Minimum Lease Payments</u>	29,716
<u>Less: Current portion</u>	<u>7,433</u>
<u>Long-Term Portion</u>	<u>\$22,283</u>

Equipment under capital leases has a cost of \$39,245 and accumulated depreciation of \$2,811 as of June 30, 2010.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 9 - State Of Delaware Police Pension Fund

Under Resolution 89-R12, the City participates in the State of Delaware Police Pension Plan for uniformed police officers whose employment with the City started on or after July 1, 1989. This is a "multiple-employer, cost-sharing" pension plan. This is a contributory plan with the employee contributing 7% of gross salary exclusive of overtime. The City's employer contributions are based upon actuarial valuations which was 13.7% of covered payroll for the year ended June 30, 2010. The total amount contributed by the City for the year ended June 30, 2010 is \$48,526 of which \$37,504 was reimbursed by the State of Delaware.

This contribution covers the City's total liability for funding, as determined by the State of Delaware. The City does not have any unfunded liability in this plan. The pension plan is managed by the State of Delaware. The Comprehensive Annual Financial Report of the Delaware Public Employees' Retirement System can be obtained from the Office of Pensions, McArdle Building, Suite #1, 860 Silver Lake Blvd., Dover, Delaware 19904.

The State of Delaware Police Pension Plan provides benefits equal to 2½% of final average monthly compensation for up to twenty years of service and 3½% of final average compensation beyond twenty years of service, multiplied by years of credited service. Vesting occurs after five consecutive years of credited service; and, retirement is at age sixty-two with five consecutive years of credited service, age plus credited service (but not less than ten years) equals seventy-five, or twenty years of service at any age.

Disability benefits paid to a participant who is totally disabled in the performance of duty are 75% of final average compensation plus 10% for each dependent not to exceed 25% for all dependents. Partial disability benefits for duty-related or ordinary disability are calculated the same as a service pension (subject to maximum and minimum limitations).

If a retired participant dies, the eligible survivor receives 50% of the monthly benefit. If an active employee dies, the survivor receives 50% of the month benefit that the employee would have received at age sixty-two.

Significant actuarial assumptions are as follows:

Actuarial Cost Method – Entry Age Normal
Amortization Method – Level Percent Open
Remaining Amortization Period – 10 Years
Asset Valuation Method – 5 Year Smoothed Market
Actuarial Assumptions:
Investment Rate Of Return – 8.00%
Projected Salary Increases – 4.3% – 15.7%
Cost-Of-Living Adjustments – Ad Hoc

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 9 - State Of Delaware Police Pension Fund (Continued)

Assets of the plan are managed by many investment firms approved by the State Pension Board. Details are available from the Office of Pensions, Dover, Delaware.

Note 10 - State Of Delaware County And Municipal Other Employees' Pension Plan

The City participates in the State of Delaware County and Municipal Other Employees' Pension Plan for employees who previously participated in the City of Harrington Retirement Plan. This is a "multiple-employer, cost-sharing" pension plan. This is a contributory plan with the employee contributing 3.0% of gross salary. The City's employer contributions are based upon actuarial valuations which was 6.15% of covered payroll for the year ended June 30, 2010. The total amount contributed by the City for the year ended June 30, 2010 is \$39,995.

This contribution covers the City's total liability for funding, as determined by the State of Delaware. The City does not have any unfunded liability in this plan. The pension plan is managed by the State of Delaware. The Comprehensive Annual Financial Report of the Delaware Public Employees' Retirement System can be obtained from the Office of Pensions, McArdle Building, Suite #1, 860 Silver Lake Blvd., Dover, Delaware 19904.

The State of Delaware County and Municipal Other Employees' Pension Plan provides benefits equal to 1/60th of final average monthly compensation multiplied by years of credited service. Vesting occurs after five years of credited service; and, retirement is at age sixty-two with five years service, age sixty with fifteen years of service or thirty years of service.

Disability benefits paid to a participant are the same as service benefits.

If an employee who is receiving a pension or one who has five years of service and dies, the survivor receives 50% of the monthly benefit that the employee would have received at age sixty-two.

Significant actuarial assumptions are as follows:

Actuarial Cost Method – Entry Age Normal
Amortization Method – Level Percent Open
Remaining Amortization Period – 10 Years
Asset Valuation Method – 5 Year Smoothed Market
Actuarial Assumptions:
Investment Rate Of Return – 8.00%
Projected Salary Increases – 4.3% To 10.1%
Cost-Of-Living Adjustments – Ad Hoc

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 11 - Fund Equity

Designated Fund Balance

Designations of fund balance are used to show amounts within unreserved fund balance which are intended to be used for specific purposes, but are not legally restricted. Designated fund balance in the Special Revenue Funds is to provide funding for appropriations in the subsequent fiscal year.

Contributed Capital

Contributed capital in the proprietary fund consists of amounts awarded to the City in the form of grants and used to construct or acquire fixed assets. The change in contributed capital is as follows:

<u>Contributed Capital</u> – July 1, 2009	\$390,810
<u>Add</u> : Grant proceeds received	25,000
<u>Less</u> : Depreciation on capital assets acquired with grant proceeds	(<u>10,695</u>)
<u>Contributed Capital</u> – June 30, 2010	<u>\$405,115</u>

Note 12 - Compensated Absences

The City allows the accumulation of vacation and sick leave which may be carried over to subsequent years. Employees obtain a vested right in their accumulated vacation. Compensated absences are accounted for in the government-wide and proprietary fund financial statements when earned.

Note 13 - Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; and other claims of various nature for which it purchases insurance.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 14 - Contingencies

Litigation – The City is party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the City. In addition, it is believed in the event of an unfavorable outcome, the damages would be covered by the City's insurance coverage. Accordingly, no contingent liability has been recorded.

Governmental Grants – In the normal course of operations, the City receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Note 15 - Segment Information

The City maintains two enterprise funds which provide water and wastewater public services. Selected financial information for business segments of enterprise funds at June 30, 2010 and for the year then ended is presented as follows:

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Operating revenues	\$1,128,406	\$543,720	\$1,672,126
Depreciation	210,257	55,919	266,176
Other operating expenses	362,838	55,466	418,304
Operating income	555,311	432,335	987,646
Non-operating revenues	212,972	87,608	300,580
Non-operating expenses	(109,940)	(25,379)	(135,319)
Net income before transfers and capital contributions	658,343	494,564	1,152,907

Note 16 - Pronouncements Issues, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2010 that have effective dates that may impact future financial presentations. Management has not currently determined what, if any impact the implementation may have on the financial statements of the City.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 17 - Subsequent Events

Planning for the City's sewer system connection to Kent County's sewer system project began in the summer of 2009. The total estimated cost of this project is \$6.8 million and is anticipated to be completed in the fall of 2011. In connection with this project, the City has authorized the issuance of up to \$5.2 million of General Obligation Bonds. The City entered into contracts totaling \$6.5 million in September 2010. Financing in the amount of \$2.0 million was obtained from the Delaware Department of Natural Resources and Environmental Control in October 2010 through the issuance of a General Obligation Bond from the City. Interim financing in the amount of \$1.6 million was obtained by the City from the First National Bank of Wyoming in November 2010. The City anticipates repaying this financing with a loan from the United States Department of Agriculture through the issuance of a previously authorized General Obligation Bond. The remainder of the project is being funded by various other awarded loans and grants.

Management has evaluated all subsequent events through June 15, 2011, the date the financial statements are available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL -
COMBINED GOVERNMENTAL AND PROPRIETARY FUND TYPES

YEAR ENDED JUNE 30, 2010

	<u>Budget</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
<u>Revenues:</u>				
<u>City:</u>				
Property taxes	\$ 650,000	\$ 650,000	\$ 664,711	\$ 14,711
Capitation taxes	12,000	12,000	14,955	2,955
Transfer tax	96,000	96,000	87,836	(8,164)
Rental income	5,500	5,500	14,226	8,726
Miscellaneous	70,750	70,750	18,678	(52,072)
Grants	140,783	140,783	312,706	171,923
Community impact fees	40,000	40,000	29,000	(11,000)
Other			4,100	4,100
Interest	<u>16,000</u>	<u>16,000</u>	<u>17,102</u>	<u>1,102</u>
<u>Total City</u>	<u>1,031,033</u>	<u>1,031,033</u>	<u>1,163,314</u>	<u>132,281</u>
<u>Police:</u>				
Fines	278,100	278,100	306,963	28,863
Other	3,300	3,300	9,489	6,189
Grants	<u>89,011</u>	<u>89,011</u>	<u>151,573</u>	<u>62,562</u>
<u>Total Police</u>	<u>370,411</u>	<u>370,411</u>	<u>468,025</u>	<u>97,614</u>
<u>Library:</u>				
Grants	41,000	41,000	40,826	(174)
Reciprocal borrowing	40,000	40,000	44,677	4,677
Miscellaneous	<u>5,000</u>	<u>5,000</u>	<u>6,339</u>	<u>1,339</u>
<u>Total Library</u>	<u>86,000</u>	<u>86,000</u>	<u>91,842</u>	<u>5,842</u>
<u>Trash:</u>				
Fees	220,042	220,042	208,996	(11,046)
Penalties and fines	<u>200</u>	<u>200</u>	<u>2,761</u>	<u>2,561</u>
<u>Total Trash</u>	<u>220,242</u>	<u>220,242</u>	<u>211,757</u>	<u>(8,485)</u>
<u>Sewer:</u>				
Fees and fines	960,000	960,000	1,118,225	158,225
Hook ups	2,000	2,000	4,300	2,300
Sample testing charges	7,000	7,000	5,379	(1,621)
Impact fees			76,000	76,000
Gain on sale of property			121,769	121,769
Miscellaneous			502	502
Interest	<u>1,000</u>	<u>1,000</u>	<u>15,203</u>	<u>14,203</u>
<u>Total Sewer</u>	<u>970,000</u>	<u>970,000</u>	<u>1,341,378</u>	<u>371,378</u>

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL -
COMBINED GOVERNMENTAL AND PROPRIETARY FUND TYPES - (CONTINUED)

YEAR ENDED JUNE 30, 2010

	<u>Budget</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues: (Continued)</u>				
<u>Water:</u>				
Fees and fines	\$ 460,000	\$ 460,000	\$ 529,678	\$ 69,678
Hook ups	4,500	4,500	9,515	5,015
Miscellaneous			4,527	4,527
Impact fees			76,000	76,000
Interest	<u>10,000</u>	<u>10,000</u>	<u>11,608</u>	<u>1,608</u>
<u>Total Water</u>	<u>474,500</u>	<u>474,500</u>	<u>631,328</u>	<u>156,828</u>
<u>Fire Company</u>	<u>50,200</u>	<u>50,200</u>	<u>54,501</u>	<u>4,301</u>
<u>Public Works:</u>				
Grants			18,263	18,263
Building permits			58,543	58,543
Planning and zoning fees	60,000	60,000	65,940	5,940
Contractors license fees	18,000	18,000	21,500	3,500
Vacant buildings	11,000	11,000	20,800	9,800
Fines and penalties	8,000	8,000	16,499	8,499
Business licenses	100,000	100,000	113,764	13,764
Fundraiser funds			<u>11,063</u>	<u>11,063</u>
<u>Total Public Works</u>	<u>197,000</u>	<u>197,000</u>	<u>326,372</u>	<u>129,372</u>
<u>Parks and Recreation Department:</u>				
DHSS	26,000	26,000	23,500	(2,500)
Grants in aid	12,000	12,000	9,000	(3,000)
Program income	112,355	112,355	125,961	13,606
Miscellaneous	19,000	19,000	37,766	18,766
Fundraiser funds	<u>22,000</u>	<u>22,000</u>	<u>34,579</u>	<u>12,579</u>
<u>Total Parks and Recreation Department</u>	<u>191,355</u>	<u>191,355</u>	<u>230,806</u>	<u>39,451</u>
<u>Total Revenues</u>	<u>3,590,741</u>	<u>3,590,741</u>	<u>4,519,323</u>	<u>928,582</u>

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL -
COMBINED GOVERNMENTAL AND PROPRIETARY FUND TYPES - (CONTINUED)

YEAR ENDED JUNE 30, 2010

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Expenditures:				
<u>General Government:</u>				
<u>City:</u>				
Salaries	\$ 302,709	\$ 302,709	\$ 257,787	\$ 44,922
Payroll taxes	22,156	22,156	21,430	726
Health insurance	29,500	29,500	27,957	1,543
Pension	15,975	15,975	12,842	3,133
Vehicle maintenance	700	700	881	(181)
Office supplies	8,000	8,000	6,436	1,564
Telephone	3,000	3,000	3,150	(150)
Postage	3,300	3,300	4,954	(1,654)
Heat and electric	11,000	11,000	7,845	3,155
Capital outlay			316,393	(316,393)
Debt services			760	(760)
Legal	28,000	28,000	25,127	2,873
Advertising	7,000	7,000	2,022	4,978
Accounting services	4,500	4,500	4,513	(13)
Travel and food	1,000	1,000	667	333
Engineering	101,000	101,000	159,336	(58,336)
Dues and meetings	2,500	2,500	1,890	610
Bank charges	4,126	4,126	3,564	562
Inspection fees	1,000	1,000	34,520	(33,520)
Building maintenance and repairs	5,250	5,250	1,206	4,044
Computer maintenance and repairs	26,100	26,100	11,363	14,737
Cleaning services	250	250		250
Election expense	2,900	2,900	772	2,128
Miscellaneous	24,290	24,290	15,864	8,426
Heritage park	300	300	119	181
Clean up fees			6,736	(6,736)
Training	1,650	1,650	733	917
Maintenance agreement	260	260	866	(606)
Lease equipment	4,000	4,000	2,268	1,732
Contingency	85,060	85,060	7,855	77,205
Insurance	123,935	123,935	24,315	99,620
Accounting and auditing	46,000	46,000	71,217	(25,217)
<u>Total City</u>	<u>865,461</u>	<u>865,461</u>	<u>1,035,388</u>	<u>(169,927)</u>

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL -
COMBINED GOVERNMENTAL AND PROPRIETARY FUND TYPES - (CONTINUED)

YEAR ENDED JUNE 30, 2010

<u>Expenditures: (Continued)</u>	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable)</u>
<u>Police:</u>				
Salaries	\$ 505,702	\$ 505,702	\$ 470,516	\$ 35,186
Overtime	131,702	131,702	104,272	27,430
Payroll taxes	47,717	47,717	47,210	507
Pension	58,026	58,026	11,022	47,004
Health insurance	87,600	87,600	69,500	18,100
Medical	300	300	1,285	(985)
Vehicle maintenance and repairs	34,100	34,100	31,139	2,961
Radar/special electronics	2,500	2,500	1,488	1,012
Training	10,800	10,800	200	10,600
K-9 police dog	1,000	1,000	773	227
Office supplies	2,500	2,500	2,446	54
Telephone	8,260	8,260	7,533	727
Postage	300	300	238	62
Heat and electric	11,500	11,500	355	11,145
Capital outlay			65,845	(65,845)
Mid-Del grant expense			2,000	(2,000)
National nite out	482	482	1,118	(636)
Advertising	250	250	106	144
Insurance			45,314	(45,314)
Debt services			594	(594)
Dues and meetings	600	600	320	280
Travel and food	400	400	870	(470)
Freight and shipping	200	200	190	10
Computer maintenance and repairs	500	500	92	408
Furniture and office equipment	300	300	8,015	(7,715)
Building repairs and maintenance	1,800	1,800	2,629	(829)
Maintenance agreement	550	550	1,227	(677)
Miscellaneous	1,779	1,779	1,518	261
Professional fees	1,100	1,100	1,191	(91)
Uniforms	1,200	1,200	859	341
Ammo and targets	6,500	6,500	5,537	963
Officer's equipment	986	986	6,107	(5,121)
Police forms	600	600	405	195
Clothing allowance	9,000	9,000	6,736	2,264
Grant expense			2,823	(2,823)
Lease equipment	3,060	3,060	1,785	1,275
<u>Total Police</u>	<u>931,314</u>	<u>931,314</u>	<u>903,258</u>	<u>28,056</u>

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL -
COMBINED GOVERNMENTAL AND PROPRIETARY FUND TYPES - (CONTINUED)

YEAR ENDED JUNE 30, 2010

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
<u>Expenditures: (Continued)</u>				
<u>Public Works:</u>				
Salaries	\$ 213,600	\$ 213,600	\$ 194,639	\$ 18,961
Payroll taxes	16,340	16,340	15,990	350
Pension	13,911	13,911	10,482	3,429
Health insurance	30,500	30,500	34,556	(4,056)
Per diem	4,160	4,160	2,120	2,040
Vehicle maintenance and repairs	13,000	13,000	10,441	2,559
Equipment maintenance and repairs	7,000	7,000	10,634	(3,634)
Office supplies	1,300	1,300	1,102	198
Telephone	2,400	2,400	2,231	169
Building maintenance	1,100	1,100	1,668	(568)
Heat and electric	5,100	5,100	8,676	(3,576)
Equipment rental	1,100	1,100	51	1,049
Insurance			23,281	(23,281)
Computer repairs and maintenance	1,200	1,200		1,200
Uniforms	5,300	5,300	4,694	606
Supplies	1,200	1,200	1,359	(159)
Street maintenance	4,000	4,000	10,693	(6,693)
Ditch cleaning	3,400	3,400	6,553	(3,153)
Street signs and markings	4,250	4,250	3,927	323
Street lights	50,000	50,000	48,988	1,012
Street sweeper	20,500	20,500	19,721	779
Snow and ice removal	1,200	1,200	7,907	(6,707)
Water line repairs	1,000	1,000	25	975
Chemicals	7,000	7,000	4,246	2,754
Miscellaneous	250	250	162	88
Capital outlay			835	(835)
Debt services			752	(752)
Safety	2,215	2,215	1,152	1,063
Wildlife control	250	250	10	240
	<u>411,276</u>	<u>411,276</u>	<u>426,895</u>	<u>(15,619)</u>
<u>Total Public Works</u>				
<u>Trash:</u>				
Postage	672	672	641	31
Contract services	219,570	219,570	194,615	24,955
	<u>220,242</u>	<u>220,242</u>	<u>195,256</u>	<u>24,986</u>
<u>Total Trash</u>				

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL -
COMBINED GOVERNMENTAL AND PROPRIETARY FUND TYPES - (CONTINUED)

YEAR ENDED JUNE 30, 2010

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<u>Expenditures: (Continued)</u>				
<u>Library:</u>				
Salaries	\$ 86,700	\$ 86,700	\$ 82,967	\$ 3,733
Payroll taxes	6,633	6,633	6,750	(117)
Pension	5,540	5,540	4,478	1,062
Health insurance	15,400	15,400	12,512	2,888
Furniture and office equipment	200	200	299	(99)
Training	150	150	155	(5)
Office supplies	1,600	1,600	1,953	(353)
Telephone	1,560	1,560	1,506	54
Postage	200	200	264	(64)
Heat and electric	11,000	11,000	8,923	2,077
Travel and food	300	300	298	2
Dues and meetings	3,900	3,900	3,039	861
Equipment repairs	615	615	57	558
Building repairs and maintenance	1,100	1,100	1,853	(753)
Books and subscriptions	22,000	22,000	22,092	(92)
Special library programs	2,650	2,650	1,351	1,299
Insurance			7,737	(7,737)
Debt services			427	(427)
Maintenance agreement			487	(487)
Lease equipment	2,200	2,200	1,277	923
	<u>161,748</u>	<u>161,748</u>	<u>158,425</u>	<u>3,323</u>
<u>Total Library</u>				
<u>Sewer:</u>				
Salaries	81,821	81,821	82,354	(533)
Payroll taxes	6,260	6,260	6,743	(483)
Pension	5,270	5,270	4,510	760
Fringe benefits	15,500	15,500	12,968	2,532
Vehicle maintenance and repairs	5,500	5,500	4,379	1,121
Equipment maintenance and repairs	200	200	113	87
Office supplies	240	240	46	194
Telephone	3,600	3,600	3,510	90
Postage	900	900	735	165
Heat and electric	97,000	97,000	97,748	(748)
Dues and meetings	50	50	20	30
Safety	4,500	4,500	3,428	1,072
Maintenance agreements	4,160	4,160	5,973	(1,813)
Pagers	90	90	81	9
Building repairs and maintenance	4,500	4,500	3,003	1,497
Sand filter	2,000	2,000		2,000
Sample testing	9,000	9,000	7,589	1,411

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL -
COMBINED GOVERNMENTAL AND PROPRIETARY FUND TYPES - (CONTINUED)

YEAR ENDED JUNE 30, 2010

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
<u>Expenditures: (Continued)</u>				
<u>Sewer: (Continued)</u>				
Uniforms	\$ 2,300	\$ 2,300	\$ 2,443	(\$ 143)
Pump station repairs	37,497	37,497	14,807	22,690
Mowing supplies	450	450	665	(215)
Chemicals	85,000	85,000	80,583	4,417
Lab supplies	6,200	6,200	5,559	641
Small tools	150	150	29	121
Training	100	100		100
Lagoon maintenance	8,000	8,000	7,499	501
Sludge application	20,000	20,000	7,983	12,017
Flow meter operations	900	900	2,235	(1,335)
License and permits	250	250	100	150
Insurance			7,735	(7,735)
Interest			109,940	(109,940)
Depreciation			210,257	(210,257)
	<u>401,438</u>	<u>401,438</u>	<u>683,035</u>	<u>(281,597)</u>
 <u>Water:</u>				
Postage	672	672	641	31
Heat and electric	24,000	24,000	26,139	(2,139)
Maintenance agreement	1,850	1,850	1,160	690
Building repair and maintenance	750	750	888	(138)
Water meters	2,500	2,500	3,018	(518)
Pump and motor repairs	2,500	2,500	86	2,414
Water line repairs	11,000	11,000	4,423	6,577
Engineering fees			6,525	(6,525)
Chemicals	12,000	12,000	11,880	120
Licenses and permits	300	300		300
Equipment repair	750	750	25	725
Loss on sale of equipment			2,655	(2,655)
Interest			22,724	(22,724)
Depreciation			55,919	(55,919)
Sample testing	1,200	1,200	681	519
	<u>57,522</u>	<u>57,522</u>	<u>136,764</u>	<u>(79,242)</u>
 <u>Fire Company:</u>				
Salaries	69,376	69,376	72,951	(3,575)
Payroll taxes	5,308	5,308	5,865	(557)
Health insurance	16,000	16,000	11,553	4,447
Pension	4,468	4,468	3,924	544
Fuel	2,000	2,000	2,000	
	<u>97,152</u>	<u>97,152</u>	<u>96,293</u>	<u>859</u>

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL -
COMBINED GOVERNMENTAL AND PROPRIETARY FUND TYPES - (CONTINUED)

YEAR ENDED JUNE 30, 2010

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable)</u>
<u>Expenditures: (Continued)</u>				
<u>Parks and Recreation Department:</u>				
Salaries	\$ 69,200	\$ 69,200	\$ 68,223	\$ 977
Payroll taxes	5,294	5,294	5,518	(224)
Health insurance	5,350	5,350	7,492	(2,142)
Pension	4,457	4,457	3,759	698
Office supplies	1,680	1,680	561	1,119
Telephone	3,000	3,000	2,932	68
Heat and electric	16,950	16,950	15,298	1,652
Debt services			594	(594)
Postage	500	500	227	273
Vehicle repairs and maintenance	2,500	2,500	841	1,659
Building repairs and maintenance	4,000	4,000	3,162	838
Fundraisers	750	750	12,177	(11,427)
Computer maintenance and repair	1,500	1,500	4,243	(2,743)
Lease equipment	3,060	3,060	1,785	1,275
Maintenance agreement	725	725	1,618	(893)
Advertising			35	(35)
Bank charges			20	(20)
Insurance			6,633	(6,633)
Programs	81,175	81,175	85,878	(4,703)
Miscellaneous	<u>1,000</u>	<u>1,000</u>		<u>1,000</u>
<u>Total Parks and Recreation</u>				
<u>Department</u>	<u>201,141</u>	<u>201,141</u>	<u>220,996</u>	<u>(19,855)</u>
<u>Total Expenditures</u>	<u>3,347,294</u>	<u>3,347,294</u>	<u>3,856,310</u>	<u>(509,016)</u>
	<u>\$ 243,447</u>	<u>\$ 243,447</u>	<u>\$ 663,013</u>	<u>\$ 419,566</u>

SUPPLEMENTARY INFORMATION

CITY OF HARRINGTON, DELAWARE

COMBINING BALANCE SHEET -
ALL SPECIAL REVENUE FUNDS

JUNE 30, 2010

	<u>Police Pension Fund</u>	<u>Municipal Street Aid</u>	<u>SLEAF</u>	<u>EIDE</u>	<u>SALLE</u>	<u>Library Building</u>	<u>Total</u>
<u>ASSETS</u>							
<u>Current Assets:</u>							
Cash and cash equivalents	\$ -0-	\$ 338	\$ -0-	\$ 11,287	\$ 8,948	\$ 131,558	\$ 152,131
<u>Total Assets</u>	<u>\$ -0-</u>	<u>\$ 338</u>	<u>\$ -0-</u>	<u>\$ 11,287</u>	<u>\$ 8,948</u>	<u>\$ 131,558</u>	<u>\$ 152,131</u>
<u>FUND EQUITY</u>							
<u>Designated Fund Balance</u>	<u>\$ -0-</u>	<u>\$ 338</u>	<u>\$ -0-</u>	<u>\$ 11,287</u>	<u>\$ 8,948</u>	<u>\$ 131,558</u>	<u>\$ 152,131</u>
<u>Total Fund Equity</u>	<u>\$ -0-</u>	<u>\$ 338</u>	<u>\$ -0-</u>	<u>\$ 11,287</u>	<u>\$ 8,948</u>	<u>\$ 131,558</u>	<u>\$ 152,131</u>

CITY OF HARRINGTON, DELAWARE

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - ALL SPECIAL REVENUE FUNDS

YEAR ENDED JUNE 30, 2010

	<u>Police Pension Fund</u>	<u>Municipal Street Aid</u>	<u>SLEAF</u>	<u>EIDE</u>	<u>SALLE</u>	<u>Library Building</u>	<u>Total</u>
<u>Revenues:</u>							
Intergovernmental revenues	\$ 37,504		\$ 20,315	\$ 4,623	\$ 5,140		\$ 67,582
Interest		\$ 10		97	108	\$ 2,162	2,377
<u>Total Revenues</u>	37,504	10	20,315	4,720	5,248	2,162	69,959
<u>Expenditures</u>	<u>37,504</u>		<u>20,291</u>	<u>2,113</u>	<u>10,371</u>		<u>70,279</u>
<u>Excess (Deficiency) of Revenues Over/Under Expenditures</u>		10	24	2,607	(5,123)	2,162	(320)
<u>Other Financing Sources:</u>							
Transfers - In (out)			(24)	1,619	2,910		4,505
<u>Excess (Deficiency) of Revenues and Other Financing sources Over/Under Expenditures</u>	-0-	10	-0-	4,226	(2,213)	2,162	4,185
<u>Fund Balance - Beginning of year</u>		<u>328</u>		<u>7,061</u>	<u>11,161</u>	<u>129,396</u>	<u>147,946</u>
<u>Fund Balance - End of year</u>	<u>\$ -0-</u>	<u>\$ 338</u>	<u>\$ -0-</u>	<u>\$ 11,287</u>	<u>\$ 8,948</u>	<u>\$ 131,558</u>	<u>\$ 152,131</u>

CITY OF HARRINGTON, DELAWARE

STATEMENT OF REVENUES, EXPENDITURES -
BUDGET AND ACTUAL - ALL SPECIAL REVENUE FUNDS

YEAR ENDED JUNE 30, 2010

	<u>Budget</u>			Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<u>Municipal Street Aid:</u>				
Revenues	\$ 72,000	\$ 72,000	\$ 10	(\$ 71,990)
Expenditures	_____	_____	_____	_____
<u>Excess Revenues Over Expenditures</u>	<u>\$ 72,000</u>	<u>\$ 72,000</u>	<u>\$ 10</u>	<u>(\$ 71,990)</u>
 <u>Police Pension Fund:</u>				
Revenues	\$ 40,000	\$ 40,000	\$ 37,504	(\$ 2,496)
Expenditures	_____	_____	37,504	(37,504)
<u>Excess Revenues Over Expenditures</u>	<u>\$ 40,000</u>	<u>\$ 40,000</u>	<u>\$ -0-</u>	<u>(\$ 40,000)</u>
 <u>SLEAF:</u>				
Revenues	\$ 4,102	\$ 4,102	\$ 20,315	\$ 16,213
Expenditures	7,462	7,462	20,291	(12,829)
<u>Excess Revenues Over Expenditures</u>	<u>(\$ 3,360)</u>	<u>(\$ 3,360)</u>	<u>\$ 24</u>	<u>\$ 3,384</u>
 <u>EIDE:</u>				
Revenues	\$ 15,238	\$ 15,238	\$ 4,720	(\$ 10,518)
Expenditures	1,000	1,000	2,113	(1,113)
<u>Excess Revenues Over Expenditures</u>	<u>\$ 14,238</u>	<u>\$ 14,238</u>	<u>\$ 2,607</u>	<u>(\$ 11,631)</u>
 <u>SALLE:</u>				
Revenues	\$ 12,282	\$ 12,282	\$ 5,248	(\$ 7,034)
Expenditures	5,336	5,336	10,371	(5,035)
<u>Deficiency of Revenues</u>				
<u>Under Expenditures</u>	<u>\$ 6,946</u>	<u>\$ 6,946</u>	<u>(\$ 5,123)</u>	<u>(\$ 12,069)</u>
 <u>Library Building Fund:</u>				
Revenues	_____	_____	\$ 2,162	\$ 2,162
Expenditures	_____	_____	_____	_____
<u>Excess Revenues Over Expenditures</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 2,162</u>	<u>\$ 2,162</u>

SINGLE AUDIT SECTION

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

To the Mayor, Budget and Finance Committee and Council
City of Harrington, Delaware

Compliance

We have audited the compliance of the City of Harrington, Delaware with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The City of Harrington, Delaware's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Harrington, Delaware's management. Our responsibility is to express an opinion on the City of Harrington, Delaware's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Harrington, Delaware's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Harrington, Delaware's compliance with those requirements.

In our opinion, the City of Harrington, Delaware complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying *Schedule of Findings and Questioned Costs* as item 2010-1.

Mayor, Budget and Finance Committee and Council
City of Harrington, Delaware

Internal Control Over Compliance

The management of the City of Harrington, Delaware is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Harrington, Delaware's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Harrington, Delaware's internal control over compliance.

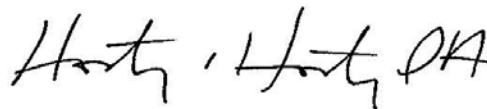
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be a material weaknesses, as defined above.

The City of Harrington, Delaware's response to the findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs*. We did not audit the City of Harrington, Delaware's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Budget and Finance Committee, others within the City, Mayor and Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Dover, Delaware
June 15, 2011



CITY OF HARRINGTON, DELAWARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2010

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued - unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over the program:

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weakness(es)? Yes None Reported

Type of auditor's report issued on compliance for the program - unqualified

- Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

Identification of major federal programs:

<u>Program Name</u>	<u>CFDA</u>
Water and Waste Disposal Systems for Rural Communities	10.760
Dollar threshold used to distinguish between Type A and Type B Programs	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

CITY OF HARRINGTON, DELAWARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

II. Financial Statement Findings

STATUS OF PRIOR YEAR FINDINGS

None

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None

CITY OF HARRINGTON, DELAWARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

III. Findings And Questioned Costs For Federal Awards

EACH FINDING IS CONSIDERED A REPORTABLE CONDITION AND COMPLIANCE FINDING

Finding 2010-1
Department of Agriculture Rural Development
CFDA #10.760 (Major Program)

Criteria:

The City is required to provide the USDA with audited financial statements as soon possible, but in no event later than 150 days following the period covered by the audit. The City is also required to complete a data collection form and submit it along with its audited financial statements to the Federal Audit Clearinghouse within nine months after the end of the audit period.

Condition:

The City's audited financial statements and/or data collection form for the year ended June 30, 2010 were not submitted to the USDA and Federal Audit Clearinghouse by the required deadlines.

Questioned Costs:

There were no questioned costs related to Federal awards that were required to be reported in accordance with OMB Circular A-133, section 510(a)(3) and 510(a)(4) as all issues sited above were related to management of the program.

Context:

The City should comply with these USDA and Federal Audit Clearinghouse financial reporting requirements to avoid jeopardizing the receipt of future Federal awards and prevent any possible negative impact on the loan repayment terms.

Effect:

The City did not meet their reporting compliance requirements.

Cause:

The City was unaware that these requirements existed.

Recommendation:

We recommend that the City submit its June 30, 2010 audited financial statements to the USDA as soon as administratively possible and review its reporting compliance requirements with the USDA so that required financial information is reported timely. We also recommend that the City complete its year end close process timely to allow adequate time necessary to complete the audit process so that the required financial information is reported to the Federal Audit Clearinghouse timely.

CITY OF HARRINGTON, DELAWARE

CORRECTIVE ACTION PLAN

YEAR ENDED JUNE 30, 2010

III. Federal Award Findings and Questioned Costs

Finding #: 2010-1

Name of Contact Person:

Robert E. Price, Jr., Mayor

Corrective Action Plan:

The City will submit our June 30, 2010 audited financial statements to the USDA upon completion. We will also complete our June 30, 2011 year end close process timely and meet with the USDA to make sure we adhere to all of their reporting requirements.

Proposed Completion Date:

August 31, 2011

CITY OF HARRINGTON, DELAWARE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2010

A single audit was not required in the prior year, and no significant uncorrected or unresolved findings exist from any prior single audits.

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2010

<u>Federal Grantor/Pass- Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture Rural Development:</u>		
Water and Waste Disposal Systems for Rural Communities	10.760	\$798,932*
Community Facilities Loans and Grants	10.766	27,924
<u>U.S. Department of Energy:</u>		
Energy Efficiency and Conservation Block Grant Program	81.128	23,300
<u>Department of Homeland Security:</u>		
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	18,263
<u>U.S. Department of Justice:</u>		
Public Safety Partnership and Community Policing Grants	16.710	19,657
Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government	16.804	<u>29,938</u>
<u>Total Federal Pass-Through Expenditures</u>		<u>\$918,014</u>

*During the year ended June 30, 2010, the USDA approved an \$850,000 loan with the City and disbursed these funds for reimbursement of allowable project costs incurred during previous years and the current year. The remaining \$51,068 has been approved by the USDA to be spent during the year ended June 30, 2011 for authorized costs of another rural water project.

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant and loan activity of the City of Harrington, Delaware and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-profit Organizations". Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.