

CITY OF HARRINGTON, DELAWARE

FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2011

CITY OF HARRINGTON, DELAWARE

CONTENTS

JUNE 30, 2011

	<u>Pages</u>
<u>FINANCIAL SECTION:</u>	
Independent Auditor's Report	1 - 2
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	3 - 4
Management's Discussion and Analysis	5 - 14
<u>Basic Financial Statements:</u>	
Government-Wide Financial Statements:	
Statement of Net Assets	15
Statement of Activities	16
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	17
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	18
Statement of Revenues, Expenditures and Changes in Fund Balances	19 - 20
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	21
Proprietary Funds:	
Statement of Net Assets	22
Statement of Revenues, Expenses and Changes in Fund Net Assets	23
Statement of Operating Expenses	24
Statement of Cash Flows	25
Notes to Financial Statements	26 - 45
<u>Required Supplementary Information:</u>	
Schedule of Revenues and Expenditures – Budget and Actual – Combined Governmental and Proprietary Fund Types	46 - 53
<u>Supplementary Information:</u>	
Combining Balance Sheet – All Special Revenue Funds	54
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – All Special Revenue Funds	55
Statement of Revenues, Expenditures – Budget and Actual – All Special Revenue Funds	56

CITY OF HARRINGTON, DELAWARE

CONTENTS
(Continued)

JUNE 30, 2011

	<u>Pages</u>
<u>Single Audit Section:</u>	
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	57 - 58
Schedule of Findings and Questioned Costs	59 - 61
Corrective Action Plan	62
Summary Schedule of Prior Audit Findings	63
Schedule of Expenditures of Federal Awards	64



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

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

Phone: 302.730.4560
Fax: 302.730.4562

Website: www.horty.com

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, 2011, 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 opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business – type activities, each major fund, and the aggregate remaining fund information of the City of Harrington, Delaware, as of June 30, 2011, 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 December 3, 2012, 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



Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and budgetary comparison information on pages 5 through 14 and 46 through 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Dover, Delaware
December 3, 2012



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, 2011, and have issued our report thereon dated December 3, 2012. 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

Management of the City of Harrington, Delaware is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Harrington, Delaware's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, 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 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.

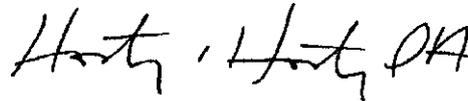
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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 December 3, 2012.

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
December 3, 2012

CITY OF HARRINGTON, DELAWARE

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

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, 2011. We encourage users to read it in conjunction with the City's financial statements, which follow this section.

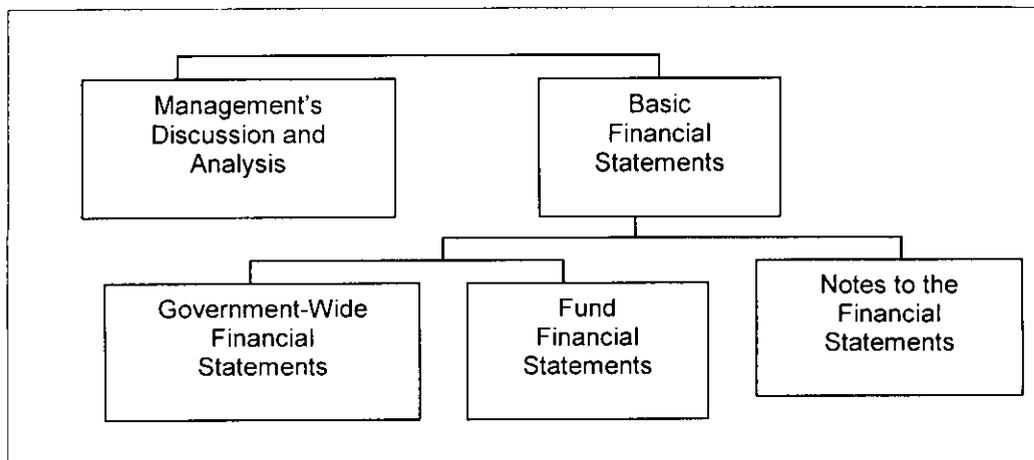
Financial Highlights For Fiscal Year 2011

- The assets of the City exceeded its liabilities at the close of the 2011 fiscal year resulting in net assets of \$10,669,972. Of this amount, \$3,456,568 is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors, and \$5,192,784 is invested in capital assets, net of related debt.
- As of June 30, 2011, the City's governmental funds reported combined ending fund balances of \$3,340,097.

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 15 and 16 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 54 and 55 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 17 through 21 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 22 through 25 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 26 through 45 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 54 through 55 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, 2011.

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 \$10,669,972 at the close of the fiscal year, June 30, 2011.

By far the largest portion of the City's net assets (66 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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and other assets	\$3,625,419	\$2,818,219	\$ 2,589,784	\$1,641,497	\$ 6,215,203	\$ 4,459,716
Capital assets	<u>2,030,948</u>	<u>1,550,438</u>	<u>11,362,713</u>	<u>6,051,323</u>	<u>13,393,661</u>	<u>7,601,761</u>
Total Assets	\$5,656,367	\$4,368,657	\$13,952,497	\$7,692,820	\$19,608,864	\$12,061,477
Long-term liabilities	\$ 14,476	\$ 22,283	\$ 6,291,323	\$4,182,149	\$ 6,305,799	\$ 4,204,432
Other liabilities	<u>340,303</u>	<u>196,376</u>	<u>2,292,790</u>	<u>143,774</u>	<u>2,633,093</u>	<u>340,150</u>
Total Liabilities	\$ 354,779	\$ 218,659	\$ 8,584,113	\$4,325,923	\$ 8,938,892	\$ 4,544,582

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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<u>Net Assets:</u>						
Contributed capital			\$1,813,990	\$ 405,115	\$ 1,813,990	\$ 405,115
Restricted	\$ 206,630	\$ 156,131			206,630	156,131
Invested in capital assets	2,008,665	1,515,644	3,184,119	1,405,493	5,192,784	2,921,137
Unrestricted	<u>3,086,293</u>	<u>2,478,223</u>	<u>370,275</u>	<u>1,556,289</u>	<u>3,456,568</u>	<u>4,034,512</u>
<u>Total Net Assets</u>	<u>\$5,301,588</u>	<u>\$4,149,998</u>	<u>\$5,368,384</u>	<u>\$3,366,897</u>	<u>\$10,669,972</u>	<u>\$7,516,895</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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
REVENUES						
<u>Program Revenues:</u>						
Charges for services	\$1,427,294	\$1,363,666	\$1,892,624	\$1,672,126	\$ 3,319,918	\$3,035,792
Operating grants and contributions	366,816	85,845			366,816	85,845
Capital grants and contributions	532,883	312,706	1,419,570	177,000	1,952,453	489,706
<u>General Revenues:</u>						
Property taxes	740,931	679,666			740,931	679,666
Transfer tax	209,711	87,836			209,711	87,836
Other revenue	<u>450,968</u>	<u>78,841</u>	<u>26,568</u>	<u>145,925</u>	<u>477,536</u>	<u>224,766</u>
<u>Total Revenues</u>	<u>3,728,603</u>	<u>2,608,560</u>	<u>3,338,762</u>	<u>1,995,051</u>	<u>7,067,365</u>	<u>4,603,611</u>
EXPENSES						
General government	951,193	787,984			951,193	787,984
Police	1,010,282	961,811			1,010,282	961,811
Public works	446,323	448,185			446,323	448,185
Parks and recreation	186,591	226,586			186,591	226,586
Trash	232,620	195,256			232,620	195,256
Library	162,440	160,450			162,440	160,450
Fire company	97,301	97,846			97,301	97,846
Sewer			664,987	683,035	664,987	683,035
Water			162,551	134,109	162,551	134,109
<u>Total Expenses</u>	<u>3,086,750</u>	<u>2,878,118</u>	<u>827,538</u>	<u>817,144</u>	<u>3,914,288</u>	<u>3,695,262</u>
<u>Change in Net Assets</u>						
<u>Before Transfers</u>	641,853	(269,558)	2,511,224	1,177,907	3,153,077	908,349
<u>Transfers</u>	<u>509,737</u>	<u>1,101,259</u>	<u>(509,737)</u>	<u>(1,101,259)</u>		
<u>Change in Net Assets</u>	<u>1,151,590</u>	<u>831,701</u>	<u>2,001,487</u>	<u>76,648</u>	<u>3,153,077</u>	<u>908,349</u>
<u>Net Assets - Beginning of year</u>	<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>
<u>Net Assets - End of year</u>	<u>\$5,301,588</u>	<u>\$4,149,998</u>	<u>\$5,368,384</u>	<u>\$3,366,897</u>	<u>\$10,669,972</u>	<u>\$7,516,895</u>

For the year ended June 30, 2011, 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, 2011, the City's governmental funds reported a combined ending fund balance of \$3,340,097.

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, 2011, the general fund balance is \$3,150,832.

Proprietary Funds - The City's proprietary funds provide the same information found in the government-wide financial statements, but in more detail. The sewer fund had income before transfers and capital contributions of \$610,809. Income before transfers and capital contributions of \$480,845 were reported in the water fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City adopted the fiscal year 2011 budget on June 21, 2010. The City's practice is to get approval from the Council if the budget is amended. During 2011 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, 2011, was \$13,393,661 (net of accumulated depreciation). Additions of \$797,521 in 2011 exceeded depreciation by \$313,283.

Major capital asset additions for the year ended June 30, 2011, included the following:

- Forced main improvements in the amount of \$5,378,816 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 35 through 37 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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Construction in progress	\$ 171,292	\$ 91,103	\$ 5,857,068	\$ 458,640	\$ 6,028,360	\$ 549,743
Land improvements	1,078,205	631,553			1,078,205	631,553
Building improvements	522,942	551,482	5,443,949	5,521,413	5,966,891	6,072,895
Equipment	112,008	115,374	51,014	57,951	163,022	173,325
Vehicles	<u>146,501</u>	<u>160,926</u>	<u>10,682</u>	<u>13,319</u>	<u>157,183</u>	<u>174,245</u>
Total	<u>\$2,030,948</u>	<u>\$1,550,438</u>	<u>\$11,362,713</u>	<u>\$6,051,323</u>	<u>\$13,393,661</u>	<u>\$7,601,761</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 \$6,364,604 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 five to ten years are as follows:

Water

The City understands that significant upgrades are required to both sustain their existing system and increase water availability for future users. In 2009, the City completed a hydraulic water model to evaluate the necessity for improvements to their system. The study revealed that the City needs to upgrade their system to include an additional well, an above ground water storage tank, piping replacement, and addition of new piping to loop the existing potable water system. The City will review these needs and provide a mechanism to implement the additional facilities required to maintain and expand the potable water system.

Projects that have already been identified include water main replacements on Liberty Street, S.R. 14 (westbound), and S.R. 13, installation of a new 500,000 gallon above ground water storage tank and installation of a new 350 gpm potable well. The City initially applied for a loan to pay for the water main replacement on Liberty, S.R. 13 and S.R. 14 and the new well through the Drinking Water State Revolving Fund, and will complete its formal application in February 2013. The loan request is for \$2.24 million. Alternate funding options are being explored to fund the new above ground water storage tank.

In 2012, the City installed 1,141 new water meters at all residential properties and 71 new water meters at commercial properties. This improvement will allow the City to not only accurately measure water usage but also the corresponding wastewater usage and develop fees accordingly.

Wastewater

The City owns and operates five pump stations within the collection and conveyance system to provide service within the City of Harrington. These pump stations with their associated capacities are listed in the table below. The pump stations are in adequate condition but will likely require upgrades and maintenance in the foreseeable future.

City of Harrington, Delaware Wastewater Pump Stations				
LOCATION	Peak Flow (gpm)	Pump Station Operating Point	Force Main Diameter	Length (feet)
N. Calvin Street	14	30 FT TDH @ 60 gpm	2"	50
Clark's Corner	43.5	70 FT TDH @ 60 gpm	3" 4"	45 2050
Misphillion Street	50	25 FT TDH @ 60 gpm	2"	40
Smith Avenue	30	25 FT TDH @ 60 gpm	3"	800
Second Avenue	37.5	30 FT TDH @ 60 gpm	2" 4"	36 810
WWTP Pump Station	---	55 FT TDH @ 1100 gpm	8"	315

Inflow & Infiltration (I & I) issues have been investigated several times since 1996. Areas where I & I is a significant concern have been identified and are being addressed over time.

Condition of Facilities

The collection and conveyance system is in need of repair. As noted above, I & I in the collection and conveyance system provides a persistent operational problem particularly with respect to elevated groundwater conditions and wet weather conditions.

System Operation and Maintenance

Due to persistent flow capacity concerns, the conveyance system is in need of significant renovations in order to accommodate continued development and growth, and address unnecessary treatment fees for I & I.

Wastewater Improvements

In 2009, the City began exploring alternatives for its sanitary sewage impacts to address the need for reduced wastewater treatment plant discharge nutrient loadings. The options included wastewater treatment plant expansion, land application of treated effluent, conversion of the existing wastewater treatment facilities to a pump/transfer station with discharge to the Kent County (the County) wastewater treatment plant, and continue with current operating practices. The alternative that provided the most technically feasible, environmentally sound, and fiscally responsible option was the transfer of raw sewage to the County wastewater treatment plant by construction of a pump station and force main.

The project resulted in the construction of a force main that connects the City's sanitary sewer collection and conveyance system to the County collection and conveyance system, and the construction of a pump station on the grounds of the existing City wastewater treatment plant. The force main is approximately 10.5 miles in length and is located within the right-of-way of State highways.

This project is scheduled to be completed in January 2013 and as such the City will no longer handle wastewater treatment. Currently, the plans to close the wastewater treatment plant and lagoons are being reviewed by the Department of Natural Resources and Environmental Control. The City will then be responsible for the maintenance of its pump stations and gravity sewer system.

The City was awarded two wastewater planning grants for two I&I studies; one \$25,000 grant was used to study the northwest quadrant of the City, and; one \$25,000 grant was used to study the southwest quadrant. Based on these two studies and the problems that were identified, the City was awarded a \$1,000,000 low interest loan in 2012 for I & I removal throughout the northwest and southwest portion of the City. This work will commence as soon as possible.

In addition, the City was awarded a \$25,000 matching grant for a sewer capacity evaluation to identify areas where infilling and development may hydraulically stress small diameter collection sewers which may ultimately be needed to serve as interceptor lines.

The evaluation will also examine existing interceptor sewers relative to their current capacities and estimate the need for additional capacity. After the assessment is complete, the City will have a better understanding of where planning and construction efforts can be maximized.

Library

The City is currently investigating preliminary plans for a new Library. The City's existing Library is inadequate for the volume of visitors and is in need of repair. A needs assessment is anticipated for the spring of 2013.

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, 2011

ASSETS

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Current Assets:</u>			
Cash and cash equivalents	\$ 1,932,049	\$ 1,139,751	\$ 3,071,800
Taxes receivable (net of allowances)	99,330		99,330
Accounts receivable	159,029		159,029
Intragovernment receivable	5,522		5,522
Service charges receivable		509,681	509,681
Due from other Governments	220,330	940,352	1,160,682
Land held for sale	1,187,778		1,187,778
Prepaid expenses	21,381		21,381
	<u>3,625,419</u>	<u>2,589,784</u>	<u>6,215,203</u>
<u>Noncurrent Assets:</u>			
Water and sewer systems		10,293,127	10,293,127
Construction in progress	171,292	5,857,068	6,028,360
Land and buildings	2,175,245		2,175,245
Furniture, fixtures and equipment	1,369,476		1,369,476
<u>Less: Accumulated depreciation</u>	<u>(1,685,065)</u>	<u>(4,787,482)</u>	<u>(6,472,547)</u>
	<u>2,030,948</u>	<u>11,362,713</u>	<u>13,393,661</u>
	<u>\$ 5,656,367</u>	<u>\$ 13,952,497</u>	<u>\$ 19,608,864</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	\$ 7,807		\$ 7,807
Accounts payable and other	285,322	\$ 2,211,442	2,496,764
Intragovernment payable		5,522	5,522
Bonds and notes payable		73,281	73,281
Accrued compensated absences	<u>47,174</u>	<u>2,545</u>	<u>49,719</u>
<u>Total Current Liabilities</u>	340,303	2,292,790	2,633,093
<u>Noncurrent Liabilities:</u>			
Bonds and note payable		6,291,323	6,291,323
Capital lease obligation - Net of current portion	<u>14,476</u>		<u>14,476</u>
<u>Total Liabilities</u>	<u>354,779</u>	<u>8,584,113</u>	<u>8,938,892</u>
<u>Net Assets:</u>			
Contributed capital		1,813,990	1,813,990
Restricted for:			
Library expenditures	151,044		151,044
Police expenditures	18,987		18,987
Street rehabilitation expenditures	36,599		36,599
Invested in capital assets, net of related debt	2,008,665	3,184,119	5,192,784
Unrestricted	<u>3,086,293</u>	<u>370,275</u>	<u>3,456,568</u>
<u>Total Net Assets</u>	<u>\$ 5,301,588</u>	<u>\$ 5,368,384</u>	<u>\$ 10,669,972</u>

CITY OF HARRINGTON, DELAWARE

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2011

	<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	\$ 951,193	\$ 15,619	
Police	1,010,282	540,634	\$ 366,816
Public works	446,323	292,889	
Trash	232,620	233,768	
Library	162,440	126,758	
Fire company	97,301	55,112	
Parks and recreation	186,591	161,200	
Other		1,314	
	<u>3,086,750</u>	<u>1,427,294</u>	<u>366,816</u>
Business-Type Activities:			
Sewer	664,987	1,259,177	
Water	162,551	633,447	
	<u>827,538</u>	<u>1,892,624</u>	
<u>Total</u>	<u>\$ 3,914,288</u>	<u>\$ 3,319,918</u>	<u>\$ 366,816</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>
\$ 532,883	(\$ 402,691)		(\$ 402,691)
	(102,832)		(102,832)
	(153,434)		(153,434)
	1,148		1,148
	(35,682)		(35,682)
	(42,189)		(42,189)
	(25,391)		(25,391)
	<u>1,314</u>		<u>1,314</u>
<u>532,883</u>	<u>(759,757)</u>		<u>(759,757)</u>
1,419,570		\$ 2,013,760	2,013,760
		<u>470,896</u>	<u>470,896</u>
<u>1,419,570</u>		<u>2,484,656</u>	<u>2,484,656</u>
<u>\$ 1,952,453</u>	<u>(759,757)</u>	<u>2,484,656</u>	<u>1,724,899</u>
	740,931		740,931
	209,711		209,711
	21,218	26,568	47,786
	1,000		1,000
	22,445		22,445
	406,305		406,305
	<u>509,737</u>	<u>(509,737)</u>	
	<u>1,911,347</u>	<u>(483,169)</u>	<u>1,428,178</u>
	1,151,590	2,001,487	3,153,077
	<u>4,149,998</u>	<u>3,366,897</u>	<u>7,516,895</u>
	<u>\$ 5,301,588</u>	<u>\$ 5,368,384</u>	<u>\$ 10,669,972</u>

CITY OF HARRINGTON, DELAWARE

BALANCE SHEET
(GOVERNMENTAL FUNDS)

JUNE 30, 2011

<u>ASSETS</u>	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,742,784	\$ 189,265	\$ 1,932,049
Taxes receivable (net of allowances)	99,330		99,330
Accounts receivable	159,029		159,029
Intragovernment receivable	5,522		5,522
Grants receivable	220,330		220,330
Land held for sale	1,187,778		1,187,778
Prepaid expenses	<u>21,381</u>		<u>21,381</u>
 <u>Total Assets</u>	 <u>\$ 3,436,154</u>	 <u>\$ 189,265</u>	 <u>\$ 3,625,419</u>
<u>LIABILITY</u>			
Accounts payable and other	<u>\$ 285,322</u>		<u>\$ 285,322</u>
<u>FUND BALANCE</u>			
<u>Fund Balances:</u>			
Nonspendable:			
Land held for sale	1,187,778		1,187,778
Prepaid expenses	21,381		21,381
Restricted for:			
Library	17,365		17,365
Police		\$ 18,987	18,987
Street rehabilitation		36,599	36,599
Committed for:			
Police	224,870		224,870
Library building		133,679	133,679
Assigned:			
Contingency	264,734		264,734
Unassigned	<u>1,434,704</u>		<u>1,434,704</u>
 <u>Total Fund Balance</u>	 <u>3,150,832</u>	 <u>189,265</u>	 <u>3,340,097</u>
 <u>Total Liability and Fund Balance</u>	 <u>\$ 3,436,154</u>	 <u>\$ 189,265</u>	 <u>\$ 3,625,419</u>

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

CITY OF HARRINGTON, DELAWARE

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

JUNE 30, 2011

<u>Total Fund Balances, Governmental Funds</u> (Page 17)	\$ 3,340,097
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.	2,030,948
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	(47,174)
Capital lease obligation	<u>(22,283)</u>
<u>Net Assets of Governmental Activities in the Statement of Net Assets</u> (Page 15)	<u>\$ 5,301,588</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2011

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Revenue</u> <u>Funds</u>	<u>Total</u>
<u>Revenues:</u>			
Taxes	\$ 740,931		\$ 740,931
Transfer tax	209,711		209,711
Rental income	15,619		15,619
Building permits	77,502		77,502
Planning and zoning fees	66,947		66,947
Vacant buildings	15,100		15,100
Miscellaneous	414,230		414,230
Contractors license fees	14,500		14,500
Intergovernmental revenues		\$ 366,816	366,816
Fire company	55,112		55,112
Interest	19,056	2,162	21,218
Fines and penalties	20,047		20,047
Business licenses	95,100		95,100
Police revenue	544,654		544,654
Public works	14,193		14,193
Library revenue	126,758		126,758
Trash fees	233,768		233,768
Parks and recreation	161,200		161,200
Grants	532,883		532,883
Community impact fees	1,000		1,000
Other	1,314		1,314
	<u>3,359,625</u>	<u>368,978</u>	<u>3,728,603</u>
<u>Total Revenues</u>			
<u>Expenditures:</u>			
General government	1,444,081		1,444,081
Police	921,759	110,885	1,032,644
Public works	432,631		432,631
Trash	232,620		232,620
Library	165,147		165,147
Fire company	99,145		99,145
Parks and recreation	181,622		181,622
	<u>3,477,005</u>	<u>110,885</u>	<u>3,587,890</u>
<u>Total Expenditures</u>			
<u>Excess (Deficiency) of Revenues Over</u> <u>Expenditures Before Other Financing Sources</u>	<u>(117,380)</u>	<u>258,093</u>	<u>140,713</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2011

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total</u>
<u>Other Financing Sources:</u>			
Transfers in	<u>\$ 730,696</u>	<u>(\$220,959)</u>	<u>\$ 509,737</u>
<u>Excess of Revenues and Other Financing Sources Over Expenditures</u>	613,316	37,134	650,450
<u>Fund Balance - Beginning of year</u>	<u>2,537,516</u>	<u>152,131</u>	<u>2,689,647</u>
<u>Fund Balance - End of year</u>	<u>\$ 3,150,832</u>	<u>\$ 189,265</u>	<u>\$ 3,340,097</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, 2011

Net Change in Fund Balances, Governmental Funds (Page 20) \$ 650,450

Amounts Reported for Governmental Activities in the Statement
of Activities are Different Because:

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 (\$687,685) exceeded depreciation (\$207,388) , in the current period 480,297

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. 12,511

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 8,332

Change in Net Assets of Governmental Activities (Page 16) \$ 1,151,590

CITY OF HARRINGTON, DELAWARE
STATEMENT OF NET ASSETS
PROPRIETARY FUND - WATER AND SEWER FUND

JUNE 30, 2011

ASSETS

<u>Current Assets:</u>	
Cash and cash equivalents	\$ 1,139,751
Due from other Governments	940,352
Service charges receivable	<u>509,681</u>
<u>Total Current Assets</u>	<u>2,589,784</u>
<u>Noncurrent Assets:</u>	
Capital Assets:	
Water and sewer systems	10,293,127
Construction in progress	5,857,068
<u>Less: Accumulated depreciation</u>	<u>(4,787,482)</u>
<u>Total Noncurrent Assets</u>	<u>11,362,713</u>
<u>Total Assets</u>	<u>13,952,497</u>

LIABILITIES

<u>Current Liabilities:</u>	
Accounts payable and other	2,211,442
Bonds payable	73,281
Intragovernment payable	5,522
Accrued compensated absences	<u>2,545</u>
<u>Total Current Liabilities</u>	<u>2,292,790</u>
<u>Noncurrent Liabilities:</u>	
Bonds payable	<u>6,291,323</u>
<u>Total Liabilities</u>	<u>8,584,113</u>

NET ASSETS

Contributed capital	1,813,990
Invested in capital assets, net of related debt	3,184,119
Unrestricted retained earnings	<u>370,275</u>
<u>Total Net Assets</u>	<u>\$ 5,368,384</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2011

	Sewer	Water	Total
<u>Operating Revenues:</u>			
Sewer fees	\$ 1,241,993		\$ 1,241,993
Water fees		\$ 621,217	621,217
Hook ups	4,300	7,430	11,730
Miscellaneous	2,384	2,800	5,184
Sample testing charges	6,500		6,500
<u>Total Operating Revenues</u>	1,255,177	631,447	1,886,624
<u>Operating Expenses</u>	556,754	114,919	671,673
<u>Operating Income</u>	698,423	516,528	1,214,951
<u>Non-Operating Revenues (Expenses):</u>			
Interest expense	(108,233)	(47,632)	(155,865)
Impact fees	4,000	2,000	6,000
Interest income	16,619	9,949	26,568
<u>Income Before Transfers and</u>			
<u>Capital Contributions</u>	\$ 610,809	\$ 480,845	1,091,654
<u>Capital Contributions</u>			1,419,570
<u>Operating Transfers to Other Funds</u>			(509,737)
<u>Net Income After Operating Transfers</u>			2,001,487
<u>Net Assets - Beginning of year</u>			3,366,897
<u>Net Assets - End of year</u>			\$ 5,368,384

CITY OF HARRINGTON, DELAWARE
STATEMENT OF OPERATING EXPENSES
PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2011

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Salaries	\$ 51,347		\$ 51,347
Payroll taxes	4,141		4,141
Pension	3,171		3,171
Fringe benefits	10,459		10,459
Vehicle maintenance and repairs	3,621		3,621
Equipment maintenance and repairs		\$ 1,932	1,932
Office supplies	192		192
Telephone	3,077		3,077
Postage	1,564	2,137	3,701
Heat and electric	95,709	25,006	120,715
Dues and meetings	20		20
Safety	3,006		3,006
Maintenance agreements	5,411	265	5,676
Pagers	41		41
Building repairs and maintenance	3,075	1,108	4,183
Sample testing	8,452	825	9,277
Uniforms	2,202		2,202
Pump station repairs	24,188	2,099	26,287
Water line repairs		4,530	4,530
Mowing supplies	172		172
Chemicals	81,374	12,430	93,804
Lab supplies	7,092		7,092
Lagoon maintenance	500		500
Sludge application	6,311		6,311
Flow meter operations	799		799
Licenses and permits	125	200	325
Seminars/Training	25		25
Miscellaneous	24,318		24,318
Insurance	3,899		3,899
Depreciation	<u>212,463</u>	<u>64,387</u>	<u>276,850</u>
<u>Total Operating Expenses</u>	<u>\$ 556,754</u>	<u>\$ 114,919</u>	<u>\$ 671,673</u>

CITY OF HARRINGTON, DELAWARE

STATEMENT OF CASH FLOWS
(ALL PROPRIETARY FUNDS)

YEAR ENDED JUNE 30, 2011

<u>Cash Flows From Operating Activities:</u>	
Cash received from customers	\$ 981,150
Cash paid to suppliers	(475,154)
Cash paid to employees	(52,332)
<u>Net Cash Provided By Operating Activities</u>	<u>453,664</u>
<u>Cash Flows From Non-Capital Financing Activities:</u>	
Operating transfers to other funds	(509,737)
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Purchase of property and equipment	(3,415,809)
Proceeds received from general obligation debt	2,252,557
Principal paid on general obligation debt	(128,668)
Interest paid	(155,865)
Capital contribution received	<u>1,419,570</u>
<u>Net Cash Provided by Capital and Related Financing Activities</u>	<u>(28,215)</u>
<u>Cash Flows From Investing Activities:</u>	
Interest income	<u>26,568</u>
<u>Net Decrease In Cash and Cash Equivalents</u>	(57,720)
<u>Cash and Cash Equivalents:</u>	
Beginning of year	<u>1,197,471</u>
End of year	<u>\$ 1,139,751</u>

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>	\$ 1,214,951
<u>Adjustments To Reconcile Operating Income To Net</u>	
<u>Cash Provided By Operating Activities:</u>	
Depreciation	276,850
Non-operating revenues	6,000
Increase in:	
Due from other government	(911,474)
Service charges receivable	(94,533)
Decrease in:	
Accounts payable and other	(36,952)
Compensated absences	<u>(1,178)</u>
<u>Net Cash Provided By Operating Activities</u>	<u>\$ 453,664</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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, parks and recreation, water treatment and distribution and sewer treatment and transmission.

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. Program revenues 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, 2011

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 a 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, 2011

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.

DEA Funds – To account for funds seized by the police department during law enforcement activities.

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, 2011

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, 2011

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (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 bank accounts 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, 2011

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 - 40 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, 2011

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity

In 2011 the City adopted GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions," which redefined how fund balances are presented in fund financial statements. In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable - Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - Amounts that can be spent only for specific purposes because of the City Charter, City Code, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed - Amounts that can be used only for specific purposes determined by a formal action by City Council ordinance or resolution.

Assigned - Amounts that are designated as committed by the Mayor but are not spendable until budget ordinance is passed by City Council.

Unassigned - All amounts not included in other spendable classifications.

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.

CITY OF HARRINGTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

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 21, 2010. There were no changes to the fiscal 2011 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.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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.

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, 2011 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	2,821,800	2,933,688
Category 3	_____	_____
<u>Total Cash and Cash Equivalents</u>	<u>\$3,071,800</u>	<u>\$3,183,688</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Note 3 - Cash and Cash Equivalents (Continued)

At June 30, 2011, the City's cash and cash equivalents are comprised of the following:

Carrying value of unrestricted cash and cash equivalents	\$1,253,186
Restricted cash and cash equivalents	<u>1,818,614</u>
<u>Total</u>	<u>\$3,071,800</u>

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, 2011, amounts due from other governments consisted of the following:

	<u>General Fund</u>	<u>Enterprise Funds</u>	<u>Total</u>
<u>Governmental Unit:</u>			
United States Department of Agriculture	\$ 26,300		\$ 26,300
State of Delaware	<u>194,030</u>	<u>\$940,352</u>	<u>1,134,382</u>
Total	<u>\$220,330</u>	<u>\$940,352</u>	<u>\$1,160,682</u>

Note 5 - Property and Equipment

The following is a summary of changes in capital assets for the year ended June 30, 2011:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Transfers and Deletions</u>	<u>Balance June 30, 2011</u>
<u>Governmental Activities</u>				
Capital assets, not being depreciated:				
Construction in progress	\$ 91,103	<u>\$561,136</u>	<u>\$480,947</u>	<u>\$ 171,292</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Note 5 - Property and Equipment (Continued)

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Transfers and Deletions</u>	<u>Balance June 30, 2011</u>
Capital assets, being depreciated:				
Land improvements	\$ 735,029	\$491,250		\$ 1,226,279
Buildings and improvements	964,568			964,568
Equipment	672,516	69,838	\$ 32,944	709,410
Vehicles	<u>617,555</u>	<u>46,621</u>	<u>19,712</u>	<u>644,464</u>
Total capital assets being depreciated	<u>2,989,668</u>	<u>607,709</u>	<u>52,656</u>	<u>3,544,721</u>
Less accumulated depreciation for:				
Land improvements	103,688	44,386		148,074
Buildings and improvements	412,874	28,752		441,626
Equipment	557,142	73,204	32,944	597,402
Vehicles	<u>456,629</u>	<u>61,046</u>	<u>19,712</u>	<u>497,963</u>
Total accumulated depreciation	<u>1,530,333</u>	<u>207,388</u>	<u>52,656</u>	<u>1,685,065</u>
Governmental activities capital assets, net	<u>\$1,550,438</u>	<u>\$ 961,457</u>	<u>\$480,947</u>	<u>\$ 2,030,948</u>
<u>Business – Type Activities</u>				
Capital assets, not being depreciated:				
Construction in progress	<u>\$ 458,640</u>	<u>\$5,579,872</u>	<u>\$181,444</u>	<u>\$ 5,857,068</u>
Capital assets, being depreciated:				
Plants, maintenance and other improvements	9,945,003	180,862		10,125,865
Equipment	134,664	8,950		143,614
Vehicles	<u>23,648</u>	<u> </u>		<u>23,648</u>
Total capital assets being depreciated	<u>10,103,315</u>	<u>189,812</u>		<u>10,293,127</u>

CITY OF HARRINGTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Note 5 - Property and Equipment (Continued)

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Transfers and Deletions</u>	<u>Balance June 30, 2011</u>
Less accumulated depreciation for:				
Plants, maintenance and other improvements	\$4,423,590	258,326		4,681,916
Equipment	76,713	15,887		92,600
Vehicles	<u>10,329</u>	<u>2,637</u>		<u>12,966</u>
Total accumulated depreciation	<u>4,510,632</u>	<u>276,850</u>		<u>4,787,482</u>
Total capital assets being depreciated, net	<u>5,592,683</u>	<u>(87,038)</u>		<u>5,505,645</u>
Business-type activities capital assets, net	<u>\$6,051,323</u>	<u>\$5,492,834</u>	<u>\$181,444</u>	<u>\$11,362,713</u>

Depreciation expense for the year ended June 30, 2011 was charged to the functions of the primary government as follows:

Governmental Activities:

General government	\$ 92,458
Police	79,903
Public works	25,532
Parks and recreation	6,831
Library	<u>2,664</u>

Total Depreciation Expense – Governmental
Activities

\$207,388

Note 6 - Accounts Payable and Other

Accounts payable and other at June 30, 2011 consists of the following:

	<u>General Fund</u>	<u>Enterprise Funds</u>	<u>Total</u>
Accounts payable	\$248,619	\$2,201,501	\$2,450,120
Accrued expenses	<u>36,703</u>	<u>9,941</u>	<u>46,644</u>
<u>Total</u>	<u>\$285,322</u>	<u>\$2,211,442</u>	<u>\$2,496,764</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Note 7 - Long-Term Debt

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 \$1,624,582 at June 30, 2011 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 \$411,321 at June 30, 2011 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 \$648,528 at June 30, 2011 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 \$169,036 at June 30, 2011 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 \$71,788 at June 30, 2011 and is payable in quarterly payments of principal and interest at 3.25%. Final payment is due in July 2045.

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 \$846,674 at June 30, 2011 and is payable in quarterly payments of principal and interest at 2.4%. Final payment is due April 2051.

CITY OF HARRINGTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Note 7 - Long-Term Debt (Continued)

Enterprise Funds Debt

The City increased its 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, 2011 is \$600,000. Final payment is due August 1, 2027.

In October 2010, 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 rate of 2%, beginning February 2012. The balance at June 30, 2011 is \$1,992,675. Final payment is due in February 2031. The loan is secured by a general obligation bond.

The City established a line of credit with First National Bank of Wyoming for interim financing of the Water Main Improvement Project in the amount of \$1,600,000. Interest payments are due monthly at a rate of 3.5%. The line is unsecured and the outstanding balance was \$ -0- at June 30, 2011.

	Balance July 1, 2010	<u>Additions</u>	<u>Repayments</u>	Balance June 30, 2011
<u>Business-Type Activities</u>				
USDA 1996 Loan	\$1,658,601		\$ 34,019	\$1,624,582
USDA 1999 Loan	419,963		8,642	411,321
USDA 2001 Loan	701,050		52,522	648,528
USDA 2003 Loan	194,321		25,285	169,036
USDA 2005 Loan	76,661		4,873	71,788
USDA 2009 Loan	850,000		3,326	846,674
DNREC Loan	340,119	\$ 259,881		600,000
DNREC Loan	<u> </u>	<u>1,992,675</u>	<u> </u>	<u>1,992,675</u>
<u>Total</u>	<u>\$4,240,715</u>	<u>\$2,252,556</u>	<u>\$128,667</u>	<u>\$6,364,604</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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>
2012	\$ 73,281	\$ 177,567	\$ 250,848
2013	76,502	197,764	274,266
2014	79,259	194,585	273,844
2015	82,438	191,273	273,711
2016	85,748	187,821	273,569
Thereafter	<u>5,967,376</u>	<u>2,157,808</u>	<u>8,125,184</u>
<u>Total</u>	<u>\$6,364,604</u>	<u>\$3,106,818</u>	<u>\$9,471,422</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, 2011 are as follows:

2012	\$ 9,493
2013	9,493
2014	<u>5,694</u>
<u>Total Minimum Lease Payments</u>	24,680
<u>Less: Amount representing interest at 7.75%</u>	<u>2,397</u>
<u>Present Value of net Minimum Lease Payments</u>	22,283
<u>Less: Current portion</u>	<u>7,807</u>
<u>Long-Term Portion</u>	<u>\$14,476</u>

Equipment under capital leases has a cost of \$39,245 and accumulated depreciation of \$17,660 as of June 30, 2011.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 13.90% of covered payroll for the year ended June 30, 2011. The total amount contributed by the City for the year ended June 30, 2011 is \$56,079 of which \$48,831 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, 2011

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 6.20% of covered payroll for the year ended June 30, 2011. The total amount contributed by the City for the year ended June 30, 2011 is \$43,657.

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, 2011

Note 11 - Fund Equity

Fund Balance

The details of the fund balances are included in the balance sheet of Governmental Funds. As noted in Note 1, restricted funds are used first as appropriate. Assigned funds are reduced to the extent that expenditure authority has been budgeted by Council or the assignment has been changed by the Mayor. Decreases to fund balance first reduce unassigned fund balance; in the event that unassigned becomes zero, then assigned and committed fund balances are used in that order.

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, 2010	\$ 405,115
<u>Add:</u> Grant proceeds received	1,419,570
<u>Less:</u> Depreciation on capital assets acquired with grant proceeds	(10,695)
<u>Contributed Capital</u> – June 30, 2011	<u>\$1,813,990</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, 2011

Note 14 - Commitment and Contingencies

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 \$7.3 million and is anticipated to be completed in January 2013. In connection with this project, the City has authorized the issuance of up to \$5.2 million of General Obligation Bonds. Financing in the amount of \$2.0 million was obtained from the Delaware Department of Natural Resources and Environmental Control (DNREC) 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 April 2011 and the City began receiving borrowings from this loan in August 2011. 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. Additional financing in the amount of \$600,000 was obtained from DNREC in July 2011. The remainder of the project is being funded by various other awarded loans and grants. As of June 30, 2011, the City has expended approximately \$5.8 million toward this project.

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.

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, 2011 and for the year then ended is presented as follows:

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Operating revenues	\$1,255,177	\$631,447	\$1,886,624
Depreciation	212,463	64,387	276,850
Other operating expenses	344,291	50,532	394,823
Operating income	698,423	516,528	1,214,951
Non-operating revenues	20,619	11,949	32,568
Non-operating expenses	(108,233)	(47,632)	(155,865)
Net income before transfers and capital contributions	610,809	480,845	1,091,654

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Note 16 - Pronouncements Issues, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2011 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.

Note 17 - Subsequent Events

On November 19, 2012, the City gave notice of its intention to borrow an aggregate amount of up to \$3.5 million through the issuance of two series of General Obligation Bonds in order to finance costs associated with improvements to the City's municipal wastewater collection and conveyance system and improvements to the City's water distribution system. The City has received a commitment from the Delaware Department of Natural Resources (DNREC) to lend the City \$1.0 million. The City has applied for a loan through the Delaware Department of Health and Social Services (DHSS) for an amount of up to \$2.5 million.

Management has evaluated all subsequent events through December 3, 2012, 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, 2011

	<u>Budget</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
<u>City:</u>				
Property taxes	\$ 685,000	\$ 685,000	\$ 726,006	\$ 41,006
Capitation taxes	12,000	12,000	14,925	2,925
Transfer tax			209,711	209,711
Rental income	5,500	5,500	15,619	10,119
Miscellaneous	9,400	9,400	414,230	404,830
Grants			532,883	532,883
Community impact fees			1,000	1,000
Other			1,314	1,314
Interest	<u>16,000</u>	<u>16,000</u>	<u>19,056</u>	<u>3,056</u>
<u>Total City</u>	<u>727,900</u>	<u>727,900</u>	<u>1,934,744</u>	<u>1,206,844</u>
<u>Police:</u>				
Fines	282,000	282,000	407,418	125,418
Other	41,300	41,300	8,692	(32,608)
Grants			<u>128,544</u>	<u>128,544</u>
<u>Total Police</u>	<u>323,300</u>	<u>323,300</u>	<u>544,654</u>	<u>221,354</u>
<u>Library:</u>				
Grants	35,000	35,000	69,738	34,738
Reciprocal borrowing	41,000	41,000	46,462	5,462
Miscellaneous	<u>5,000</u>	<u>5,000</u>	<u>10,558</u>	<u>5,558</u>
<u>Total Library</u>	<u>81,000</u>	<u>81,000</u>	<u>126,758</u>	<u>45,758</u>
<u>Trash:</u>				
Fees	229,272	229,272	230,803	1,531
Penalties and fines	<u>1,400</u>	<u>1,400</u>	<u>2,965</u>	<u>1,565</u>
<u>Total Trash</u>	<u>230,672</u>	<u>230,672</u>	<u>233,768</u>	<u>3,096</u>
<u>Sewer:</u>				
Fees and fines	1,112,000	1,112,000	1,241,993	129,993
Hook ups	2,000	2,000	4,300	2,300
Sample testing charges	9,000	9,000	6,500	(2,500)
Impact fees			4,000	4,000
Other			2,384	2,384
Interest	<u>5,000</u>	<u>5,000</u>	<u>16,619</u>	<u>11,619</u>
<u>Total Sewer</u>	<u>1,128,000</u>	<u>1,128,000</u>	<u>1,275,796</u>	<u>147,796</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2011

	<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	\$ 525,000	\$ 525,000	\$ 621,217	\$ 96,217
Hook ups	4,000	4,000	7,430	3,430
Impact fees			2,000	2,000
Other	2,000	2,000	2,800	800
Interest	6,000	6,000	9,949	3,949
<u>Total Water</u>	<u>537,000</u>	<u>537,000</u>	<u>643,396</u>	<u>106,396</u>
<u>Fire Company:</u>				
Fire company personnel	50,200	50,200	55,112	4,912
<u>Total Fire Company</u>	<u>50,200</u>	<u>50,200</u>	<u>55,112</u>	<u>4,912</u>
<u>Public Works:</u>				
Building permits			77,502	77,502
Planning and zoning fees			66,947	66,947
Contractors license fees	18,000	18,000	14,500	(3,500)
Vacant buildings	11,000	11,000	15,100	4,100
Fines and penalties	8,000	8,000	20,047	12,047
Business licenses	97,500	97,500	95,100	(2,400)
Miscellaneous			14,193	14,193
<u>Total Public Works</u>	<u>134,500</u>	<u>134,500</u>	<u>303,389</u>	<u>168,889</u>
<u>Parks and Recreation:</u>				
DHSS	23,000	23,000	21,200	(1,800)
Grants in aid	9,000	9,000	8,100	(900)
Program income	76,450	76,450	82,381	5,931
Miscellaneous	17,600	17,600	16,525	(1,075)
Fundraiser funds	30,841	30,841	32,994	2,153
<u>Total Parks and Recreation</u>	<u>156,891</u>	<u>156,891</u>	<u>161,200</u>	<u>4,309</u>
<u>Total Revenues</u>	<u>3,369,463</u>	<u>3,369,463</u>	<u>5,278,817</u>	<u>1,909,354</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2011

	<u>Budget</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Expenditures:</u>				
<u>General Government:</u>				
<u>City:</u>				
Salaries	\$ 282,470	\$ 282,470	\$ 248,601	\$ 33,869
Payroll taxes	21,610	21,610	22,365	(755)
Health insurance	34,092	34,092	31,447	2,645
Pension	15,100	15,100	14,385	715
Vehicle maintenance	1,000	1,000	708	292
Office supplies	8,500	8,500	4,414	4,086
Telephone	3,300	3,300	2,808	492
Postage	3,500	3,500	3,828	(328)
Heat and electric	11,000	11,000	8,758	2,242
Capital outlay			585,019	(585,019)
Debt services			658	(658)
Legal	25,000	25,000	106,304	(81,304)
Advertising	2,500	2,500	2,941	(441)
Accounting services	4,620	4,620	4,499	121
Travel and food	1,000	1,000	832	168
Engineering	6,000	6,000	130,663	(124,663)
Dues and meetings	2,600	2,600	1,830	770
Bank charges	500	500	2,305	(1,805)
Inspection fees			95,660	(95,660)
Building maintenance and repairs	2,750	2,750	1,145	1,605
Computer maintenance and repairs	12,600	12,600	5,819	6,781
Election expense	700	700	1,190	(490)
Miscellaneous	17,450	17,450	15,086	2,364
Heritage park	250	250	111	139
Clean up fees			6,740	(6,740)
Training	1,800	1,800	1,078	722
Maintenance agreement			863	(863)
Lease equipment	4,000	4,000	2,373	1,627
Contingency	5,000	5,000	17,425	(12,425)
Insurance	125,000	125,000	19,127	105,873
Equipment Rental	2,000	2,000	87	1,913
Accounting and auditing	32,000	32,000	105,012	(73,012)
<u>Total City</u>	<u>626,342</u>	<u>626,342</u>	<u>1,444,081</u>	<u>(817,739)</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2011

	<u>Budget</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Expenditures: (Continued)</u>				
<u>Police:</u>				
Salaries	\$ 421,389	\$ 421,389	\$ 468,934	(\$ 47,545)
Overtime	121,473	121,473	107,863	13,610
Payroll taxes	41,529	41,529	47,590	(6,061)
Pension	58,087	58,087	7,248	50,839
Health insurance	86,844	86,844	91,254	(4,410)
Medical	300	300	704	(404)
Vehicle maintenance and repairs	34,100	34,100	49,451	(15,351)
Radar/special electronics	2,500	2,500	3,666	(1,166)
Training	9,600	9,600	400	9,200
K-9 police dog	1,000	1,000	748	252
Office supplies	3,000	3,000	3,107	(107)
Telephone	9,350	9,350	8,044	1,306
Postage	300	300	304	(4)
Heat and electric	11,500	11,500	10,431	1,069
Capital outlay			56,521	(56,521)
National nite out			1,098	(1,098)
Advertising	250	250	141	109
Insurance			36,077	(36,077)
Debt services			516	(516)
Dues and meetings	600	600	580	20
Travel and food	400	400	627	(227)
Freight and shipping	300	300	222	78
Computer maintenance and repairs	250	250	29	221
Furniture and office equipment	300	300	906	(606)
Building repairs and maintenance	2,300	2,300	3,999	(1,699)
Maintenance agreement	550	550	2,022	(1,472)
Miscellaneous	1,700	1,700	3,653	(1,953)
Uniforms	1,200	1,200	625	575
Ammo and targets	2,500	2,500	2,289	211
Officer's equipment	1,200	1,200	2,034	(834)
Police forms	600	600	500	100
Clothing allowance	9,000	9,000	6,990	2,010
Lease equipment	3,060	3,060	1,862	1,198
Legal	1,200	1,200	1,324	(124)
<u>Total Police</u>	<u>826,382</u>	<u>826,382</u>	<u>921,759</u>	<u>(95,377)</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2011

	<u>Budget</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Expenditures: (Continued)</u>				
<u>Public Works:</u>				
Salaries	\$ 188,000	\$ 188,000	\$ 207,401	(\$ 19,401)
Payroll taxes	14,684	14,684	17,821	(3,137)
Pension	11,901	11,901	12,923	(1,022)
Health insurance	42,482	42,482	38,512	3,970
Per diem	4,160	4,160	2,080	2,080
Vehicle maintenance and repairs	13,000	13,000	14,072	(1,072)
Equipment maintenance and repairs	7,000	7,000	16,238	(9,238)
Office supplies	1,425	1,425	1,184	241
Telephone	2,400	2,400	2,299	101
Building maintenance	1,100	1,100	866	234
Heat and electric	5,400	5,400	5,660	(260)
Equipment rental	1,100	1,100	769	331
Insurance			17,430	(17,430)
Computer repairs and maintenance	500	500	68	432
Uniforms	4,800	4,800	4,831	(31)
Supplies	4,200	4,200	2,928	1,272
Street maintenance	15,000	15,000	8,279	6,721
Ditch cleaning	5,000	5,000	2,907	2,093
Street signs and markings	4,300	4,300	1,705	2,595
Street lights	50,000	50,000	51,367	(1,367)
Street sweeper	20,500	20,500	5,078	15,422
Snow and ice removal	3,000	3,000	2,385	615
Water line repairs	3,000	3,000	2,272	728
Chemicals	5,000	5,000	4,908	92
Miscellaneous	250	250	266	(16)
Capital outlay			7,320	(7,320)
Debt services	1,200	1,200	640	560
Safety	2,000	2,000	303	1,697
Wildlife control	250	250	119	131
	<u>411,652</u>	<u>411,652</u>	<u>432,631</u>	<u>(20,979)</u>
 <u>Trash:</u>				
Postage	672	672	1,558	(886)
Contract services	<u>230,000</u>	<u>230,000</u>	<u>231,062</u>	<u>(1,062)</u>
	<u>230,672</u>	<u>230,672</u>	<u>232,620</u>	<u>(1,948)</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2011

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable)</u>
<u>Expenditures: (Continued)</u>				
<u>Library:</u>				
Salaries	\$ 86,700	\$ 86,700	\$ 80,822	\$ 5,878
Payroll taxes	6,630	6,630	6,997	(367)
Pension	5,400	5,400	5,004	396
Health insurance	13,877	13,877	13,529	348
Furniture and office equipment	200	200	673	(473)
Training	150	150		150
Office supplies	1,600	1,600	3,272	(1,672)
Telephone	1,560	1,560	1,242	318
Postage	350	350	264	86
Heat and electric	11,000	11,000	11,289	(289)
Travel and food	300	300	267	33
Dues and meetings	3,400	3,400	35	3,365
Equipment repairs	365	365	24	341
Building repairs and maintenance	1,300	1,300	1,221	79
Books and subscriptions	22,000	22,000	26,601	(4,601)
Automation	2,650	2,650	1,694	956
Insurance			6,218	(6,218)
Debt services			370	(370)
Capital Outlay			3,803	(3,803)
Maintenance agreement			486	(486)
Lease equipment	<u>2,200</u>	<u>2,200</u>	<u>1,336</u>	<u>864</u>
<u>Total Library</u>	<u>159,682</u>	<u>159,682</u>	<u>165,147</u>	<u>(5,465)</u>
<u>Sewer:</u>				
Salaries	51,036	51,036	51,347	(311)
Payroll taxes	3,950	3,950	4,141	(191)
Pension	3,237	3,237	3,171	66
Health insurance	11,865	11,865	10,459	1,406
Vehicle maintenance and repairs	5,500	5,500	3,621	1,879
Equipment maintenance and repairs	200	200		200
Office supplies	240	240	192	48
Telephone	3,120	3,120	3,077	43
Postage	900	900	1,564	(664)
Heat and electric	75,200	75,200	95,709	(20,509)
Dues and meetings	50	50	20	30
Safety	4,500	4,500	3,006	1,494
Maintenance agreements	7,000	7,000	5,411	1,589
Pagers	90	90	41	49
Building repairs and maintenance	4,500	4,500	3,075	1,425
Sand filter	2,000	2,000		2,000
Sample testing	9,000	9,000	8,452	548

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2011

	<u>Budget</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Expenditures: (Continued)</u>				
<u>Sewer: (Continued)</u>				
Uniforms	\$ 1,300	\$ 1,300	\$ 2,202	(\$ 902)
Pump station repairs	20,500	20,500	24,188	(3,688)
Mowing supplies	450	450	172	278
Chemicals	85,000	85,000	81,374	3,626
Lab supplies	6,200	6,200	7,092	(892)
Small tools	150	150		150
Miscellaneous	5,800	5,800	24,318	(18,518)
Training	100	100	25	75
Lagoon maintenance	8,000	8,000	500	7,500
Sludge application	20,000	20,000	6,311	13,689
Flow meter operations	900	900	799	101
License and permits	200	200	125	75
Insurance			3,899	(3,899)
Interest	188,864	188,864	108,233	80,631
Depreciation			212,463	(212,463)
	<u>519,852</u>	<u>519,852</u>	<u>664,987</u>	<u>(145,135)</u>
<u>Total Sewer</u>				
<u>Water:</u>				
Postage	672	672	2,137	(1,465)
Heat and electric	25,000	25,000	25,006	(6)
Maintenance agreement	1,500	1,500	265	1,235
Building repair and maintenance	750	750	1,108	(358)
Water meters	2,500	2,500		2,500
Pump and motor repairs	2,500	2,500	2,099	401
Water line repairs	11,000	11,000	4,530	6,470
Chemicals	12,000	12,000	12,430	(430)
Licenses and permits	300	300	200	100
Equipment repair	750	750	1,932	(1,182)
Interest	111,781	111,781	47,632	64,149
Depreciation			64,387	(64,387)
Sample testing	1,200	1,200	825	375
	<u>169,953</u>	<u>169,953</u>	<u>162,551</u>	<u>7,402</u>
<u>Total Water</u>				
<u>Fire Company:</u>				
Salaries	69,376	69,376	73,584	(4,208)
Payroll taxes	5,308	5,308	4,696	612
Health insurance	16,178	16,178	14,302	1,876
Pension	4,468	4,468	4,563	(95)
Fuel	2,000	2,000	2,000	
	<u>97,330</u>	<u>97,330</u>	<u>99,145</u>	<u>(1,815)</u>
<u>Total Fire Company</u>				

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2011

	<u>Budget</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Expenditures: (Continued)</u>				
<u>Parks and Recreation Department:</u>				
Salaries	\$ 66,560	\$ 66,560	\$ 58,045	\$ 8,515
Payroll taxes	5,092	5,092	4,758	334
Health insurance	7,817	7,817	11,166	(3,349)
Pension	4,127	4,127	3,611	516
Office supplies	1,500	1,500	468	1,032
Telephone	3,000	3,000	3,046	(46)
Heat and electric	16,000	16,000	21,702	(5,702)
Debt services			516	(516)
Postage	500	500	91	409
Vehicle repairs and maintenance	6,000	6,000	4,785	1,215
Fundraisers			12,418	(12,418)
Computer maintenance and repair	2,500	2,500	1,625	875
Lease equipment	3,100	3,100	1,862	1,238
Maintenance agreement	1,595	1,595	2,364	(769)
Insurance			6,651	(6,651)
Programs	45,350	45,350	48,311	(2,961)
Miscellaneous	<u>1,000</u>	<u>1,000</u>	<u>203</u>	<u>797</u>
<u>Total Parks and Recreation</u>				
<u>Department</u>	<u>164,141</u>	<u>164,141</u>	<u>181,622</u>	<u>(17,481)</u>
<u>Total Expenditures</u>	<u>3,206,006</u>	<u>3,206,006</u>	<u>4,304,543</u>	<u>(1,098,537)</u>
	<u>\$ 163,457</u>	<u>\$ 163,457</u>	<u>\$ 974,274</u>	<u>\$ 810,817</u>

SUPPLEMENTARY INFORMATION

CITY OF HARRINGTON, DELAWARE

COMBINING BALANCE SHEET -
ALL SPECIAL REVENUE FUNDS

JUNE 30, 2011

	<u>Police Pension Fund</u>	<u>Municipal Street Aid</u>	<u>SLEAF</u>	<u>EIDE</u>	<u>SALLE</u>	<u>Library Building</u>	<u>DEA</u>	<u>Total</u>
<u>ASSETS</u>								
<u>Current Assets:</u>								
Cash and cash equivalents	\$ -0-	\$ 36,599	\$ -0-	\$ 10,897	\$ 8,090	\$ 133,679	\$ -0-	\$ 189,265
<u>Total Assets</u>	<u>\$ -0-</u>	<u>\$ 36,599</u>	<u>\$ -0-</u>	<u>\$ 10,897</u>	<u>\$ 8,090</u>	<u>\$ 133,679</u>	<u>\$ -0-</u>	<u>\$ 189,265</u>
 <u>FUND EQUITY</u>								
<u>Fund Balances:</u>								
Restricted	\$ -0-	\$ 36,599	\$ -0-	\$ 10,897	\$ 8,090	\$ -0-	\$ -0-	\$ 55,586
Committed	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>133,679</u>	<u>-0-</u>	<u>\$ 133,679</u>
<u>Total Fund Equity</u>	<u>\$ -0-</u>	<u>\$ 36,599</u>	<u>\$ -0-</u>	<u>\$ 10,897</u>	<u>\$ 8,090</u>	<u>\$ 133,679</u>	<u>\$ -0-</u>	<u>\$ 189,265</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2011

	<u>Police Pension Fund</u>	<u>Municipal Street Aid</u>	<u>SLEAF</u>	<u>EIDE</u>	<u>SALLE</u>	<u>DEA</u>	<u>Library Building</u>	<u>Total</u>
<u>Revenues:</u>								
Intergovernmental revenues	\$ 48,831	\$ 57,009	\$ 27,305	\$ 4,213	\$ 4,133	\$ 224,825	\$ 500	\$ 366,816
Interest		262		18	16	245	1,621	2,162
<u>Total Revenues</u>	48,831	57,271	27,305	4,231	4,149	225,070	2,121	368,978
<u>Expenditures</u>	48,831	21,000	26,641	5,430	5,987	2,996		110,885
<u>Excess (Deficiency) of Revenues Over Expenditures</u>		36,271	664	(1,199)	(1,838)	222,074	2,121	258,093
<u>Other Financing Sources:</u>								
Transfers - In (out)		(10)	(664)	809	980	(222,074)		(220,959)
<u>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures</u>	-0-	36,261	-0-	(390)	(858)	-0-	2,121	37,134
<u>Fund Balance - Beginning of year</u>		338		11,287	8,948		131,558	152,131
<u>Fund Balance - End of year</u>	\$ -0-	\$ 36,599	\$ -0-	\$ 10,897	\$ 8,090	\$ -0-	\$ 133,679	\$ 189,265

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

YEAR ENDED JUNE 30, 2011

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
<u>Municipal Street Aid:</u>				
Revenues	\$ 47,995	\$ 47,995	\$ 57,271	\$ 9,276
Expenditures			21,000	(21,000)
<u>Excess Revenues Over Expenditures</u>	<u>\$ 47,995</u>	<u>\$ 47,995</u>	<u>\$ 36,271</u>	<u>(\$ 11,724)</u>
<u>Police Pension Fund:</u>				
Revenues	\$	\$	\$ 48,831	\$ 48,831
Expenditures			48,831	(48,831)
<u>Excess Revenues Over Expenditures</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
<u>SLEAF:</u>				
Revenues	\$	\$	\$ 27,305	\$ 27,305
Expenditures			26,641	(26,641)
<u>Excess Revenues Over Expenditures</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 664</u>	<u>\$ 664</u>
<u>EIDE:</u>				
Revenues	\$	\$	\$ 4,231	\$ 4,231
Expenditures			5,430	(5,430)
<u>Deficiency of Revenues Under Expenditures</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>(\$ 1,199)</u>	<u>(\$ 1,199)</u>
<u>SALLE:</u>				
Revenues	\$	\$	\$ 4,149	\$ 4,149
Expenditures			5,987	(5,987)
<u>Deficiency of Revenues Under Expenditures</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>(\$ 1,838)</u>	<u>(\$ 1,838)</u>
<u>DEA:</u>				
Revenues	\$	\$	\$ 225,070	\$ 225,070
Expenditures			2,996	(2,996)
<u>Excess Revenues Over Expenditures</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 222,074</u>	<u>\$ 222,074</u>
<u>Library Building Fund:</u>				
Revenues			\$ 2,121	\$ 2,121
Expenditures				
<u>Excess Revenues Over Expenditures</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 2,121</u>	<u>\$ 2,121</u>

SINGLE AUDIT SECTION



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 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, 2011. 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, 2011. 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 2011-1.

Internal Control Over Compliance

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.

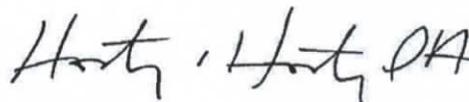
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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
December 3, 2012



Handwritten signature: Harty, Harty PA

CITY OF HARRINGTON, DELAWARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

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
- Significant deficiency(ies)? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over the program:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies)? 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>
State and Tribal Assistance Grant	66.202
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, 2011

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, 2011

III. Findings And Questioned Costs For Federal Awards

EACH FINDING IS CONSIDERED A REPORTABLE CONDITION AND COMPLIANCE FINDING

Finding 2011-1
Environmental Protection Agency
CFDA #66.202 (Major Program)

Criteria:

The City is 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, 2011 were not submitted to the Federal Audit Clearinghouse by the required deadline.

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 the issue sited above was related to management of the program.

Context:

The City should comply with the Federal Audit Clearinghouse financial reporting requirements to avoid jeopardizing the receipt of future Federal awards.

Effect:

The City did not meet their reporting compliance requirements.

Cause:

The City experienced employee turnover with the City Manager and Finance Director positions.

Recommendation:

We 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, 2011

III. Federal Award Findings and Questioned Costs

Finding #: 2011-1

Name of Contact Person:

Robert E. Price, Jr., Mayor

Corrective Action Plan:

The City will submit our June 30, 2011 and June 30, 2012 data collection forms along with our audited financial statements to the Federal Audit Clearinghouse upon completion. We will also complete our June 30, 2013 year end close process timely to make sure we adhere to the Federal Audit Clearinghouse reporting requirements and deadline.

Proposed Completion Date:

To be determined.

CITY OF HARRINGTON, DELAWARE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2011

The prior year audit finding item (2010-1) related to the timeliness of submitting necessary reports to program agencies as well as the financial audit reporting package to the Federal Audit Clearinghouse within the necessary time frame. The City is continually attempting to complete their audit within the necessary filing deadlines.

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2011

<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	\$ 51,068
Community Facilities Loans and Grants	10.766	30,596
<u>U.S. Department of Energy:</u>		
Energy Efficiency and Conservation Block Grant Program	81.128	147,992
<u>U.S. Department of Justice:</u>		
Public Safety Partnership and Community Policing Grants	16.710	45,778
Criminal Justice Council	16.803	7,144
<u>U.S. Environmental Protection Agency:</u>		
States and Tribal Assistance Grant	66.202	780,570
Department of Natural Resources and Environmental Control	66.758	<u>2,399</u>
<u>Total Federal Pass-Through Expenditures</u>		<u>\$1,065,547</u>

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.