

CITY OF HARRINGTON, DELAWARE

FINANCIAL STATEMENTS  
SUPPLEMENTARY INFORMATION  
AND  
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2012

# CITY OF HARRINGTON, DELAWARE

## CONTENTS

JUNE 30, 2012

	<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 - 15
<u>Basic Financial Statements:</u>	
Government-Wide Financial Statements:	
Statement of Net Assets	16
Statement of Activities	17
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	19
Statement of Revenues, Expenditures and Changes in Fund Balances	20 - 21
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	22
Proprietary Funds:	
Statement of Net Assets	23
Statement of Revenues, Expenses and Changes in Fund Net Assets	24
Statement of Operating Expenses	25
Statement of Cash Flows	26
Notes to Financial Statements	27 - 46
<u>Required Supplementary Information:</u>	
Schedule of Revenues and Expenditures – Budget and Actual – Combined Governmental and Proprietary Fund Types	47 - 54
<u>Supplementary Information:</u>	
Combining Balance Sheet – All Special Revenue Funds	55
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – All Special Revenue Funds	56
Statement of Revenues, Expenditures – Budget and Actual – All Special Revenue Funds	57

CITY OF HARRINGTON, DELAWARE

CONTENTS  
(Continued)

JUNE 30, 2012

	<u>Pages</u>
<u>Single Audit Section:</u>	
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	58 - 59
Schedule of Findings and Questioned Costs	60 - 62
Corrective Action Plan	63
Summary Schedule of Prior Audit Findings	64
Schedule of Expenditures of Federal Awards	65

To the Mayor and Council  
City of Harrington, Delaware

### Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business - type activities, each major fund, and the aggregate remaining fund information of the City of Harrington, Delaware, as of and for the year ended June 30, 2012, 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business - type activities, each major fund, and the aggregate remaining fund information of the City of Harrington, Delaware, as of June 30, 2012, 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 April 7, 2014, 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 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 15 and 47 through 54, respectively, 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 an opinion on the financial statements that collectively comprise the City of Harrington, Delaware's basic financial statements. The individual and combining nonmajor fund financial statements and other schedules listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations," and is not a required part of the basic financial statements. Such information 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.

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

Dover, Delaware  
April 7, 2014

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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 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, 2012, and have issued our report thereon dated April 7, 2014. 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.

To the Mayor and Council  
City of Harrington, Delaware



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 April 7, 2014.

This report is intended solely for the information and use of 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.

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

Dover, Delaware  
April 7, 2014

CITY OF HARRINGTON, DELAWARE

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

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, 2012. We encourage users to read it in conjunction with the City's financial statements, which follow this section.

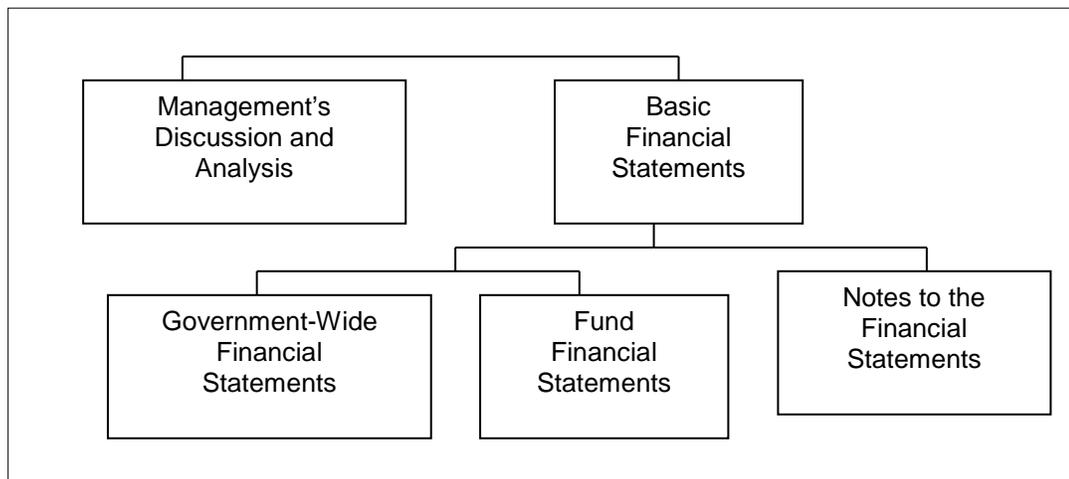
Financial Highlights For Fiscal Year 2012

- The assets of the City exceeded its liabilities at the close of the 2012 fiscal year resulting in net assets of \$12,161,914. Of this amount, \$5,402,377 is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors, and \$3,884,416 is invested in capital assets, net of related debt.
- As of June 30, 2012, the City's governmental funds reported combined ending fund balances of \$3,400,008.

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 16 and 17 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 55 and 56 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 18 through 22 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 23 through 26 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 27 through 46 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 55 through 56 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, 2012.

**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 \$12,161,914 at the close of the fiscal year, June 30, 2012.

By far the largest portion of the City's net assets (53 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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$3,546,760	\$3,625,419	\$ 3,271,970	\$ 2,589,784	\$ 6,818,730	\$ 6,215,203
Capital assets	<u>2,296,624</u>	<u>2,030,948</u>	<u>12,625,146</u>	<u>11,362,713</u>	<u>14,921,770</u>	<u>13,393,661</u>
<b>Total Assets</b>	<b>\$5,843,384</b>	<b>\$5,656,367</b>	<b>\$15,897,116</b>	<b>\$13,952,497</b>	<b>\$21,740,500</b>	<b>\$19,608,864</b>
Long-term liabilities	\$ 5,802	\$ 14,476	\$ 6,664,982	\$ 6,291,323	\$6,670,784	\$ 6,305,799
Other liabilities	<u>201,981</u>	<u>340,303</u>	<u>2,705,821</u>	<u>2,292,790</u>	<u>2,907,802</u>	<u>2,633,093</u>
<b>Total Liabilities</b>	<b>\$ 207,783</b>	<b>\$ 354,779</b>	<b>\$ 9,370,803</b>	<b>\$ 8,584,113</b>	<b>\$ 9,578,586</b>	<b>\$ 8,938,892</b>

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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<u>Net Assets:</u>						
Contributed capital			\$2,575,776	\$1,813,990	\$ 2,575,776	\$ 1,813,990
Restricted	\$ 299,345	\$ 206,630			299,345	206,630
Invested in capital assets	2,282,147	2,008,665	1,602,269	3,184,119	3,884,416	5,192,784
Unrestricted	<u>3,054,109</u>	<u>3,086,293</u>	<u>2,348,268</u>	<u>370,275</u>	<u>5,402,377</u>	<u>3,456,568</u>
<u>Total Net Assets</u>	<u>\$5,635,601</u>	<u>\$5,301,588</u>	<u>\$6,526,313</u>	<u>\$5,368,384</u>	<u>\$12,161,914</u>	<u>\$10,669,972</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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>REVENUES</b>						
<u>Program Revenues:</u>						
Charges for services	\$1,303,131	\$1,427,294	\$1,954,729	\$1,892,624	\$ 3,257,860	\$ 3,319,918
Operating grants and contributions	219,605	366,816			219,605	366,816
Capital grants and contributions	133,431	532,883	893,742	1,419,570	1,027,173	1,952,453
<u>General Revenues:</u>						
Property taxes	722,537	740,931			722,537	740,931
Transfer tax	70,029	209,711			70,029	209,711
Other revenue	<u>79,507</u>	<u>450,968</u>	<u>22,225</u>	<u>26,568</u>	<u>101,732</u>	<u>477,536</u>
<u>Total Revenues</u>	<u>2,528,240</u>	<u>3,728,603</u>	<u>2,870,696</u>	<u>3,338,762</u>	<u>5,398,936</u>	<u>7,067,365</u>
<b>EXPENSES</b>						
General government	694,771	951,193			694,771	951,193
Police	1,071,515	1,010,282			1,071,515	1,010,282
Public works	411,947	446,323			411,947	446,323
Parks and recreation	173,962	186,591			173,962	186,591
Trash	226,878	232,620			226,878	232,620
Library	173,089	162,440			173,089	162,440
Fire company	100,818	97,301			100,818	97,301
Sewer			885,550	664,987	885,550	664,987
Water			<u>168,464</u>	<u>162,551</u>	<u>168,464</u>	<u>162,551</u>
<u>Total Expenses</u>	<u>2,852,980</u>	<u>3,086,750</u>	<u>1,054,014</u>	<u>827,538</u>	<u>3,906,994</u>	<u>3,914,288</u>
<u>Change in Net Assets Before Transfers</u>	( 324,740)	641,853	1,816,682	2,511,224	1,491,942	3,153,077
<u>Transfers</u>	<u>658,753</u>	<u>509,737</u>	<u>( 658,753)</u>	<u>( 509,737)</u>		
<u>Change in Net Assets</u>	<u>334,013</u>	<u>1,151,590</u>	<u>1,157,929</u>	<u>2,001,487</u>	<u>1,491,942</u>	<u>3,153,077</u>
<u>Net Assets - Beginning 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>
<u>Net Assets - End of year</u>	<u>\$5,635,601</u>	<u>\$5,301,588</u>	<u>\$6,526,313</u>	<u>\$5,368,384</u>	<u>\$12,161,914</u>	<u>\$10,669,972</u>

For the year ended June 30, 2012, 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, 2012, the City's governmental funds reported a combined ending fund balance of \$3,400,008.

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, 2012, the general fund balance is \$3,132,964.

***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 \$422,161. Income before transfers and capital contributions of \$500,779 were reported in the water fund.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

The City adopted the fiscal year 2012 budget on June 20, 2011. The City's practice is to get approval from the Council if the budget is amended. During 2012 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, 2012, was \$14,921,770 (net of accumulated depreciation). Additions of \$7,918,073 in 2012 exceeded depreciation by \$7,289,551.

Major capital asset additions for the year ended June 30, 2012, included the following:

- Forced main improvements in the amount of \$1,629,616 were made during the year. This project has been completed and placed in service during the year ended June 30, 2012 for a total cost of \$7,199,162.

A table of the City's capital assets by type is listed below. Additional information can be found in Note 5 on pages 36 through 38 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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Construction in progress	\$ 3,727	\$ 171,292	\$ 287,522	\$ 5,857,068	\$ 291,249	\$ 6,028,360
Land improvements	1,281,939	1,078,205			1,281,939	1,078,205
Building & Improvements	539,658	522,942	12,290,861	5,443,949	12,830,519	5,966,891
Equipment	202,659	112,008	36,301	51,014	238,960	163,022
Vehicles	<u>268,641</u>	<u>146,501</u>	<u>10,462</u>	<u>10,682</u>	<u>279,103</u>	<u>157,183</u>
<u>Total</u>	<u>\$2,296,624</u>	<u>\$2,030,948</u>	<u>\$ 12,625,146</u>	<u>\$11,362,713</u>	<u>\$14,921,770</u>	<u>\$13,393,661</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 \$8,447,101 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 completed its formal application in February 2013. The loan request was for \$2.24 million. This application did not pass referendum. In February 2014, the City is making application to USDA for a loan and refinancing of old debt. A new referendum is planned. 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 accurately measure water usage but also the corresponding wastewater usage. In February 2014, a new fee structure for water and wastewater was developed and reviewed that will bill for usage. Implementation of the usage rate is anticipated to occur for the first billing quarter of fiscal year 2015.

### **Wastewater**

The City owns and operates nine 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.

<b>City of Harrington, Delaware Wastewater Pump Stations</b>				
<b>LOCATION</b>	<b>Peak Flow (gpm)</b>	<b>Pump Station Operating Point</b>	<b>Force Main Diameter</b>	<b>Length (feet)</b>
<b>N. Calvin Street</b>	14	30 FT TDH @ 60 gpm	2"	50
<b>Clark's Corner</b>	43.5	70 FT TDH @ 60 gpm	3" 4"	45 2050
<b>Misphillion Street</b>	50	25 FT TDH @ 60 gpm	2"	40
<b>Smith Avenue</b>	30	25 FT TDH @ 60 gpm	3"	800
<b>Second Avenue</b>	37.5	30 FT TDH @ 60 gpm	2" 4"	36 810
<b>WWTP Pump Station</b>	---	55 FT TDH @ 1100 gpm	8"	315
<b>Farmington</b>	50	25 FT TDH @ 1000 gpm	4"	19,008
<b>Friendship Village</b>	45	30 FT TDH @ 60 gpm	4"	1,584
<b>Messicks</b>	30	25 FT TDH @ 1000 gpm	4"	3,168

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 was completed in February 2013 and as such the City contracts its wastewater treatment to Kent County.

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 is required by DNREC to dismantle the WWTP outfall and restore Browns Branch to settle a penalty assessment from prior breach. These projects are currently underway and are anticipated being completed by June 2014.

In addition, the lagoons need to be cleaned and closed and the remaining WWTP tanks, structures, etc., cleaned and/or dismantled. Approximate cost is \$1.0 million. The City will then be responsible for the maintenance of its pump stations and gravity sewer system.

The City studied the northwest and southwest quadrants of the City. 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 application did not pass a referendum. In February 2014, the City is making application to USDA for a loan and refinancing of old debt. A new referendum is planned in the fall of 2014. The City will also need to conduct further studies on the two remaining quadrants of the City. The approximate cost of these studies is \$100,000. Grant funding will be pursued through DNREC wastewater planning grants.

The City was awarded a \$25,000 matching grant for a sewer capacity evaluation and identified areas where infilling and development may hydraulically stressed 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. The following upgrades were recommended based on the study:

1. Existing Sewer Capacity Upgrades:
  - a. Liberty Street (between Thomas and Dixon Streets) increase from 10" to 12". Approximate cost = \$122,175.
  - b. Gordon Street (between Dixon Street and US 13) increase from 10" to 15". Approximate cost = \$177,188.
  - c. Dixon Street (between Liberty and Gordon Street) increase from 10" to 12". Approximate cost = \$299,362.
  - d. Dorman Street (between Friendship Village and Center Street) increase from 6" to 8". Approximate cost = \$353,970.Total = \$952,695 for Year 1 Upgrades.
  
2. Maximum Buildout Sewer Improvement Recommendations:
  - a. Clark Street (between Dixon Street and East Streets) increase from 8" to 10". Approximate cost = \$360,956.
  - b. Route 14 to Main Pump station increase from 15" to 18". Approximate cost = \$304,425.Total = \$665,381 for Year 2 Upgrades to occur in subsequent years as needed to accommodate future development.

In February 2014, the City made application to USDA for refinancing of old debt. In April 2014, it was determined that the USDA does not allow refinancing of existing debt. It is estimated that approximately \$3.6 million will be requested from the USDA for all of the sewer projects.

## **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 began in the fall of 2013.

## **Parks and Recreation**

The City has applied for a \$17,000 USDA grant to assist with repairing the roof (total estimated cost of \$35,000) at Parks and Recreation. The City also plans to install a gas heating system. Longer term plans include replacing the gymnasium floor.

## **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, 2012

ASSETS

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Current Assets:</u>			
Cash and cash equivalents	\$ 1,992,088	\$ 1,814,277	\$ 3,806,365
Taxes receivable (net of allowances)	86,965		86,965
Accounts receivable	186,906	2,401	189,307
Intragovernment receivable	29,430		29,430
Due from other Governments	2,079	881,042	883,121
Service charges receivable		574,250	574,250
Assets held for sale	29,950		29,950
Land held for sale	1,187,778		1,187,778
Prepaid expenses	31,564		31,564
	<u>3,546,760</u>	<u>3,271,970</u>	<u>6,818,730</u>
<u>Noncurrent Assets:</u>			
Water and sewer systems		17,325,012	17,325,012
Furniture, fixtures and equipment	1,611,538	198,639	1,810,177
Land and buildings	2,512,906		2,512,906
Construction in progress	3,727	287,522	291,249
Less: Accumulated depreciation	<u>( 1,831,547)</u>	<u>( 5,186,027)</u>	<u>( 7,017,574)</u>
	<u>2,296,624</u>	<u>12,625,146</u>	<u>14,921,770</u>
	<u>\$ 5,843,384</u>	<u>\$ 15,897,116</u>	<u>\$ 21,740,500</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	\$ 8,675		\$ 8,675
Accounts payable and other	146,752	\$ 890,323	1,037,075
Intragovernment payable		29,430	29,430
Bonds and notes payable		1,782,119	1,782,119
Accrued compensated absences	<u>46,554</u>	<u>3,949</u>	<u>50,503</u>
<u>Total Current Liabilities</u>	201,981	2,705,821	2,907,802
<u>Noncurrent Liabilities:</u>			
Bonds and note payable		6,664,982	6,664,982
Capital lease obligation - Net of current portion	<u>5,802</u>		<u>5,802</u>
<u>Total Liabilities</u>	<u>207,783</u>	<u>9,370,803</u>	<u>9,578,586</u>
<u>Net Assets:</u>			
Contributed capital		2,575,776	2,575,776
Restricted for:			
Library expenditures	160,419		160,419
Police expenditures	23,415		23,415
Street rehabilitation expenditures	115,511		115,511
Invested in capital assets, net of related debt	2,282,147	1,602,269	3,884,416
Unrestricted	<u>3,054,109</u>	<u>2,348,268</u>	<u>5,402,377</u>
<u>Total Net Assets</u>	<u>\$ 5,635,601</u>	<u>\$ 6,526,313</u>	<u>\$ 12,161,914</u>

CITY OF HARRINGTON, DELAWARE

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2012

	<u>Program Revenues</u>			<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>FUNCTIONS/PROGRAMS:</b>							
Governmental Activities:							
General government	\$ 694,771	\$ 63,900		\$ 133,431	(\$ 497,440)		(\$ 497,440)
Police	1,071,515	475,947	\$ 219,605		( 375,963)		( 375,963)
Public works	411,947	209,098			( 202,849)		( 202,849)
Parks and recreation	173,962	169,493			( 4,469)		( 4,469)
Trash	226,878	230,403			3,525		3,525
Library	173,089	99,232			( 73,857)		( 73,857)
Fire company	100,818	52,585			( 48,233)		( 48,233)
Other		2,473			2,473		2,473
<u>Total Governmental Activities</u>	<u>2,852,980</u>	<u>1,303,131</u>	<u>219,605</u>	<u>133,431</u>	<u>( 1,196,813)</u>		<u>( 1,196,813)</u>
Business-Type Activities:							
Sewer	885,550	1,295,193		893,742		\$ 1,303,385	1,303,385
Water	168,464	659,536				491,072	491,072
<u>Total Business-Type Activities</u>	<u>1,054,014</u>	<u>1,954,729</u>		<u>893,742</u>		<u>1,794,457</u>	<u>1,794,457</u>
<u>Total</u>	<u>\$ 3,906,994</u>	<u>\$ 3,257,860</u>	<u>\$ 219,605</u>	<u>\$ 1,027,173</u>	<u>( 1,196,813)</u>	<u>1,794,457</u>	<u>597,644</u>
<u>General Revenues and Transfers:</u>							
Taxes:							
Property taxes					722,537		722,537
Transfer tax					70,029		70,029
Interest					18,491	22,225	40,716
Community impact fees					1,000		1,000
Net gain on disposal of property and equipment					12,385		12,385
Miscellaneous					47,631		47,631
Transfers in (out)					658,753	( 658,753)	
<u>Total General Revenues and Transfers</u>					<u>1,530,826</u>	<u>( 636,528)</u>	<u>894,298</u>
<u>Change in Net Assets</u>					<u>334,013</u>	<u>1,157,929</u>	<u>1,491,942</u>
<u>Net Assets - Beginning of year</u>					<u>5,301,588</u>	<u>5,368,384</u>	<u>10,669,972</u>
<u>Net Assets - End of year</u>					<u>\$ 5,635,601</u>	<u>\$ 6,526,313</u>	<u>\$ 12,161,914</u>

CITY OF HARRINGTON, DELAWARE

BALANCE SHEET  
(GOVERNMENTAL FUNDS)

JUNE 30, 2012

<u>ASSETS</u>	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,725,044	\$ 267,044	\$ 1,992,088
Taxes receivable (net of allowances)	86,965		86,965
Accounts receivable	186,906		186,906
Intragovernment receivable	29,430		29,430
Grants receivable	2,079		2,079
Assets held for sale	29,950		29,950
Land held for sale	1,187,778		1,187,778
Prepaid expenses	31,564		31,564
<u>Total Assets</u>	<u>\$ 3,279,716</u>	<u>\$ 267,044</u>	<u>\$ 3,546,760</u>
<u>LIABILITY</u>			
Accounts payable and other	<u>\$ 146,752</u>		<u>\$ 146,752</u>
<u>FUND BALANCE</u>			
<u>Fund Balances:</u>			
Nonspendable:			
Land held for sale	1,187,778		1,187,778
Assets held for sale	29,950		29,950
Prepaid expenses	31,564		31,564
Restricted for:			
Library	24,260		24,260
Police	1,621	\$ 21,794	23,415
Street rehabilitation	6,420	109,091	115,511
Committed for:			
Police	74,082		74,082
Library building		136,159	136,159
Assigned:			
Contingency	268,627		268,627
Unassigned	1,508,662		1,508,662
<u>Total Fund Balance</u>	<u>3,132,964</u>	<u>267,044</u>	<u>3,400,008</u>
<u>Total Liability and Fund Balance</u>	<u>\$ 3,279,716</u>	<u>\$ 267,044</u>	<u>\$ 3,546,760</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, 2012

<u>Total Fund Balances, Governmental Funds</u> (Page 18)	\$ 3,400,008
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.	2,296,624
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	( 46,554)
Capital lease obligation	<u>( 14,477)</u>
<u>Net Assets of Governmental Activities in the Statement of Net Assets</u> (Page 16)	<u>\$ 5,635,601</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2012

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total</u>
<u>Revenues:</u>			
Taxes	\$ 722,537		\$ 722,537
Transfer tax	70,029		70,029
Rental income	63,900		63,900
Building permits	29,456		29,456
Planning and zoning fees	750		750
Vacant buildings	24,929		24,929
Miscellaneous	74,649		74,649
Contractors license fees	14,400		14,400
Intergovernmental revenues		\$ 142,548	142,548
Fire company	52,585		52,585
Interest	15,724	2,767	18,491
Fines and penalties	14,584		14,584
Business licenses	20,541		20,541
Franchise fees	34,588		34,588
Police revenue	565,504		565,504
Library revenue	99,232		99,232
Trash fees	230,403		230,403
Public Works revenue	69,850		69,850
Parks and recreation	169,493		169,493
Grants	133,431		133,431
Community impact fees	1,000		1,000
Other	2,473		2,473
	<u>2,410,058</u>	<u>145,315</u>	<u>2,555,373</u>
<u>Total Revenues</u>			
<u>Expenditures:</u>			
General government	775,414		775,414
Police	1,138,195	73,275	1,211,470
Public works	484,398		484,398
Trash	226,878		226,878
Library	175,776		175,776
Fire company	100,986		100,986
Parks and recreation	179,293		179,293
	<u>3,080,940</u>	<u>73,275</u>	<u>3,154,215</u>
<u>Total Expenditures</u>			
<u>Excess (Deficiency) of Revenues Over</u>			
<u>Expenditures Before Other Financing Sources</u>	<u>( 670,882)</u>	<u>72,040</u>	<u>(598,842)</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2012

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total</u>
<u>Other Financing Sources:</u>			
Transfers in	\$ 653,014	\$ 5,739	\$ 658,753
<u>Excess (Deficiency) of Revenues and Other     Financing Sources Over Expenditures</u>	( 17,868)	77,779	59,911
<u>Fund Balance - Beginning of year</u>	<u>3,150,832</u>	<u>189,265</u>	<u>3,340,097</u>
<u>Fund Balance - End of year</u>	<u>\$ 3,132,964</u>	<u>\$ 267,044</u>	<u>\$ 3,400,008</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, 2012

Net Change in Fund Balances, Governmental Funds (Page 21) \$ 59,911

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 (\$522,007) exceeded depreciation (\$229,977) , in the current period 292,030

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. 8,585

Gains as a result of the sale of capital assets are not financial resources and are therefore not reported in the fund financial statements but are reported in the governmental activities of the statement of activities ( 27,133)

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 620

Change in Net Assets of Governmental Activities (Page 17) \$ 334,013

CITY OF HARRINGTON, DELAWARE

STATEMENT OF NET ASSETS  
PROPRIETARY FUND - WATER AND SEWER FUND

JUNE 30, 2012

ASSETS

Current Assets:

Cash and cash equivalents	\$ 1,814,277
Accounts receivable	2,401
Due from other Governments	881,042
Service charges receivable	<u>574,250</u>

Total Current Assets 3,271,970

Noncurrent Assets:

Capital Assets:

Water and sewer systems	17,325,012
Equipment and vehicles	198,639
Construction in progress	287,522
Less: Accumulated depreciation	<u>( 5,186,027)</u>

Total Noncurrent Assets 12,625,146

Total Assets 15,897,116

LIABILITIES

Current Liabilities:

Accounts payable and other	890,323
Bonds payable	1,782,119
Intragovernment payable	29,430
Accrued compensated absences	<u>3,949</u>

Total Current Liabilities 2,705,821

Noncurrent Liabilities:

Bonds payable	<u>6,664,982</u>
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Total Liabilities 9,370,803

NET ASSETS

Contributed capital	2,575,776
Invested in capital assets, net of related debt	1,602,269
Unrestricted retained earnings	<u>2,348,268</u>

Total Net Assets \$ 6,526,313

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2012

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
<u>Operating Revenues:</u>			
Sewer fees	\$ 1,286,611		\$ 1,286,611
Water fees		\$ 632,392	632,392
Hook ups		6,192	6,192
Miscellaneous		20,952	20,952
Sample testing charges	<u>4,882</u>		<u>4,882</u>
 <u>Total Operating Revenues</u>	 1,291,493	 659,536	 1,951,029
 <u>Operating Expenses</u>	 <u>781,791</u>	 <u>127,560</u>	 <u>909,351</u>
 <u>Operating Income</u>	 509,702	 531,976	 1,041,678
 <u>Non-Operating Revenues (Expenses):</u>			
Interest expense	( 103,759)	( 40,904)	( 144,663)
Impact fees	3,700		3,700
Interest income	<u>12,518</u>	<u>9,707</u>	<u>22,225</u>
 <u>Income Before Transfers and</u>			
<u>Capital Contributions</u>	<u>\$ 422,161</u>	<u>\$ 500,779</u>	922,940
 <u>Capital Contributions</u>			893,742
 <u>Operating Transfers to Other Funds</u>			<u>( 658,753)</u>
 <u>Net Income After Operating Transfers</u>			1,157,929
 <u>Net Assets - Beginning of year</u>			<u>5,368,384</u>
 <u>Net Assets - End of year</u>			<u>\$ 6,526,313</u>

CITY OF HARRINGTON, DELAWARE  
STATEMENT OF OPERATING EXPENSES  
PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2012

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Salaries	\$ 52,232		\$ 52,232
Payroll taxes	4,770		4,770
Pension	3,433		3,433
Health insurance	12,495		12,495
Vehicle maintenance and repairs	8,581		8,581
Equipment maintenance and repairs		\$ 228	228
Office supplies	403		403
Telephone	2,767		2,767
Postage	2,291	1,554	3,845
Heat and electric	61,821	28,423	90,244
Dues and meetings	45		45
Safety	6,100		6,100
Maintenance agreements	2,297	4,188	6,485
Building repairs and maintenance	2,928		2,928
Water meters		641	641
Professional fees	2,469		2,469
Sample testing	9,320	1,024	10,344
Pump station repairs	16,667	874	17,541
Water line repairs		14,101	14,101
Chemicals	59,659	12,371	72,030
Lab supplies	1,147		1,147
Small tools	96		96
Miscellaneous	445	365	810
Lagoon maintenance	500		500
Sludge application	4,474		4,474
Flow meter operations	1,365		1,365
Licenses and permits	175		175
Insurance	4,804		4,804
Engineering	15,334	145	15,479
Legal and administrative fees	4,345		4,345
County sewer fee	165,929		165,929
Depreciation	<u>334,899</u>	<u>63,646</u>	<u>398,545</u>
<u>Total Operating Expenses</u>	<u>\$ 781,791</u>	<u>\$ 127,560</u>	<u>\$ 909,351</u>

CITY OF HARRINGTON, DELAWARE

STATEMENT OF CASH FLOWS  
(ALL PROPRIETARY FUNDS)

YEAR ENDED JUNE 30, 2012

Cash Flows From Operating Activities:

Cash received from customers	\$ 1,947,069
Cash paid to suppliers	( 1,756,175)
Cash paid to employees	( 50,438)

Net Cash Provided By Operating  
Activities

140,456

Cash Flows From Non-Capital Financing Activities:

Operating transfers to other funds	( 658,753)
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Cash Flows From Capital and Related  
Financing Activities:

Purchase of property and equipment	( 1,660,978)
Proceeds received from general obligation debt	2,158,813
Principal paid on general obligation debt	( 76,316)
Interest paid	( 144,663)
Capital contribution received	<u>893,742</u>

Net Cash Provided by Capital and  
Related Financing Activities

1,170,598

Cash Flows From Investing Activities:

Interest income	<u>22,225</u>
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Net Increase In Cash and Cash Equivalents

674,526

Cash and Cash Equivalents:

Beginning of year	<u>1,139,751</u>
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End of year	<u>\$ 1,814,277</u>
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The accompanying notes are an integral part of these financial statements.

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

<u>Operating Income</u>	\$ 1,041,678
<u>Adjustments To Reconcile Operating Income To Net</u>	
<u>Cash Provided By Operating Activities:</u>	
Depreciation	398,545
Non-operating revenues	3,700
(Increase) decrease in:	
Accounts receivable	2,401
Due from other Governments	54,508
Service charges receivable	( 64,569)
Increase (decrease) in:	
Accounts payable and other	( 1,321,119)
Intragovernment payable	23,908
Compensated absences	<u>1,404</u>
<u>Net Cash Provided By Operating Activities</u>	<u>\$ 140,456</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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, 2012

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, 2012

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

The following nonmajor funds are included in this fund type:

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

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

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

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

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

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

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

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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, 2012

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, 2012

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, 2012

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity

The City has 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 a 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, 2012

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 20, 2011. There were no changes to the fiscal 2012 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, 2012

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, 2012 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	3,556,365	3,641,853
Category 3	<hr/>	<hr/>
<u>Total Cash and Cash Equivalents</u>	<u>\$3,806,365</u>	<u>\$3,891,853</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Note 3 - Cash and Cash Equivalents (Continued)

At June 30, 2012, the City's cash and cash equivalents are comprised of the following:

Carrying value of unrestricted cash and cash equivalents	\$2,230,702
Restricted cash and cash equivalents	<u>1,575,663</u>
<u>Total</u>	<u>\$3,806,365</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, 2012, 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		\$671,512	\$671,512
State of Delaware	<u>\$2,079</u>	<u>209,530</u>	<u>211,609</u>
<u>Total</u>	<u>\$2,079</u>	<u>\$881,042</u>	<u>\$883,121</u>

Note 5 - Property and Equipment

The following is a summary of changes in capital assets for the year ended June 30, 2012:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Transfers and Deletions</u>	<u>Balance June 30, 2012</u>
<u>Governmental Activities</u>				
Capital assets, not being depreciated:				
Construction in progress	\$ <u>171,292</u>	\$ <u>40,087</u>	\$ <u>207,652</u>	\$ <u>3,727</u>

CITY OF HARRINGTON, DELAWARE  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Note 5 - Property and Equipment (Continued)

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Transfers</u> <u>and</u> <u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Capital assets, being depreciated:				
Land improvements	\$ 1,226,279	\$ 265,912		\$1,492,191
Buildings and improvements	964,568	56,147		1,020,715
Equipment	709,410	160,493		869,903
Vehicles	<u>644,464</u>	<u>204,997</u>	\$ 107,826	<u>741,635</u>
Total capital assets being depreciated	<u>3,544,721</u>	<u>687,549</u>	<u>107,826</u>	<u>4,124,444</u>
Less accumulated depreciation for:				
Land improvements	148,074	62,178		210,252
Buildings and improvements	441,626	39,431		481,057
Equipment	597,402	69,842		667,244
Vehicles	<u>497,963</u>	<u>58,526</u>	<u>83,495</u>	<u>472,994</u>
Total accumulated depreciation	<u>1,685,065</u>	<u>229,977</u>	<u>83,495</u>	<u>1,831,547</u>
Governmental activities capital assets, net	<u>\$ 2,030,948</u>	<u>\$ 497,659</u>	<u>\$ 231,983</u>	<u>\$2,296,624</u>
<u>Business – Type</u> <u>Activities</u>				
Capital assets, not being depreciated:				
Construction in progress	<u>\$ 5,857,068</u>	<u>\$1,629,616</u>	<u>\$7,199,162</u>	<u>\$ 287,522</u>
Capital assets, being depreciated:				
Plants, maintenance and other improvements	10,125,865	7,199,162		17,325,027
Equipment	143,614	31,362		174,976
Vehicles	<u>23,648</u>	<u>          </u>		<u>23,648</u>
Total capital assets being depreciated	<u>10,293,127</u>	<u>7,230,524</u>		<u>17,523,651</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Note 5 - Property and Equipment (Continued)

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Transfers and Deletions</u>	<u>Balance June 30, 2012</u>
Less accumulated depreciation for:				
Plants, maintenance and other improvements	\$ 4,681,916	\$ 352,250		\$ 5,034,166
Equipment	92,600	46,075		138,675
Vehicles	<u>12,966</u>	<u>220</u>		<u>13,186</u>
Total accumulated depreciation	<u>4,787,482</u>	<u>398,545</u>		<u>5,186,027</u>
Total capital assets being depreciated, net	<u>5,505,645</u>	<u>6,831,979</u>		<u>12,337,624</u>
Business-type activities capital assets, net	<u>\$11,362,713</u>	<u>\$8,461,595</u>	<u>\$7,199,162</u>	<u>\$12,625,146</u>

Depreciation expense for the year ended June 30, 2012 was charged to the functions of the primary government as follows:

Governmental Activities:

General government	\$103,719
Police	97,241
Public works	21,676
Parks and recreation	4,010
Library	<u>3,331</u>

Total Depreciation Expense – Governmental  
Activities

\$229,977

Note 6 - Accounts Payable and Other

Accounts payable and other at June 30, 2012 consists of the following:

	<u>General Fund</u>	<u>Enterprise Funds</u>	<u>Total</u>
Accounts payable	\$ 75,927	\$879,746	\$ 955,673
Accrued expenses	<u>70,825</u>	<u>10,577</u>	<u>81,402</u>
<u>Total</u>	<u>\$146,752</u>	<u>\$890,323</u>	<u>\$1,037,075</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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 \$1,588,810 at June 30, 2012 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 \$402,393 at June 30, 2012 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 \$635,402 at June 30, 2012 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 \$165,236 at June 30, 2012 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 \$70,580 at June 30, 2012 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 \$833,192 at June 30, 2012 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, 2012

Note 7 - Long-Term Debt (Continued)

Enterprise Funds Debt (Continued)

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, 2012 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, 2012 is \$1,992,675. Final payment is due in February 2031. The loan is secured by a general obligation bond.

In June 2012, the City entered into a Clean Water State Revolving Fund loan with the State of Delaware Department of Natural Resources (DNREC). Interest is paid monthly at a rate of 2%, beginning August 1, 2013. The balance at June 30, 2012 is \$600,000. Final payment is due in August of 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 \$1,558,813 at June 30, 2012. This loan was extended with a maturity of March 31, 2013.

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance</u> <u>June 30, 2012</u>
<u>Business-Type Activities</u>				
USDA 1996 Loan	\$1,624,582		\$35,772	\$1,588,810
USDA 1999 Loan	411,321		8,928	402,393
USDA 2001 Loan	648,528		13,126	635,402
USDA 2003 Loan	169,036		3,800	165,236
USDA 2005 Loan	71,788		1,208	70,580
USDA 2009 Loan	846,674		13,482	833,192
DNREC Loan	600,000			600,000
DNREC Loan	1,992,675			1,992,675
DNREC Loan		\$ 600,000		600,000
First National Bank of Wyoming	<u>                    </u>	<u>1,558,813</u>	<u>                    </u>	<u>1,558,813</u>
<u>Total</u>	<u>\$6,364,604</u>	<u>\$2,158,813</u>	<u>\$76,316</u>	<u>\$8,447,101</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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>
2013	\$1,782,119	\$ 209,191	\$ 1,991,310
2014	229,615	202,881	432,496
2015	236,127	196,369	432,496
2016	242,850	189,646	432,496
2017	249,792	182,705	432,496
Thereafter	<u>5,706,598</u>	<u>1,956,531</u>	<u>7,663,130</u>
<u>Total</u>	<u>\$8,447,101</u>	<u>\$2,937,323</u>	<u>\$11,384,424</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, 2012 are as follows:

2013	\$ 9,493
2014	<u>5,961</u>
<u>Total Minimum Lease Payments</u>	15,454
<u>Less:</u> Amount representing interest at 7.75%	<u>977</u>
<u>Present Value of net Minimum Lease Payments</u>	14,477
<u>Less:</u> Current portion	<u>8,675</u>
<u>Long-Term Portion</u>	<u>\$ 5,802</u>

Equipment under capital leases has a cost of \$39,245 and accumulated depreciation of \$25,509 as of June 30, 2012.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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 14.53% of covered payroll for the year ended June 30, 2012. The total amount contributed by the City for the year ended June 30, 2012 is \$59,097 of which \$44,021 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 – 7.5%  
Projected Salary Increases – 4.3% – 11.8%  
Cost-Of-Living Adjustments – Ad Hoc

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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 6.55% of covered payroll for the year ended June 30, 2012. The total amount contributed by the City for the year ended June 30, 2012 is \$44,167.

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 1/60<sup>th</sup> 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 of 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 – 7.5%  
Projected Salary Increases – 4.3% To 9.6%  
Cost-Of-Living Adjustments – Ad Hoc

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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, 2011	\$1,813,990
<u>Add:</u> Grant proceeds received	893,742
<u>Less:</u> Depreciation on capital assets acquired with grant proceeds	( <u>131,956</u> )
<u>Contributed Capital</u> – June 30, 2012	<u>\$2,575,776</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, 2012

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 \$7.1 million and was substantially completed in February 2012. In connection with this project, the City 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 received borrowings from this loan during fiscal 2012. The outstanding balance was \$1.6 million at June 30, 2012. The City repaid this financing with a loan from the United States Department of Agriculture (USDA) in March 2013 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 outstanding balance was \$600,000 at June 30 2012. The remainder of the project was funded by various other awarded loans and grants.

Upon completion of the City's sewer system connection, their existing stabilization ponds, or lagoons, are no longer necessary and will need to be properly cleaned and closed. The total estimated cost of this project is \$1.0 million. The City has received a commitment from the Delaware Department of Natural Resources (DNREC) to lend the City \$1.0 million to fund 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.

CITY OF HARRINGTON, DELAWARE  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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, 2012 and for the year then ended is presented as follows:

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Operating revenues	\$1,291,493	\$659,586	\$1,951,079
Depreciation	334,899	63,646	398,545
Other operating expenses	446,892	63,914	510,806
Operating income	509,702	531,976	1,041,678
Non-operating revenues	16,218	9,707	25,925
Non-operating expenses	( 103,759)	( 40,904)	( 144,663)
Net income before transfers and capital contributions	422,161	500,779	922,940

Note 16 - Pronouncements Issues, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2012 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

Management has evaluated all subsequent events through April 7, 2014, 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, 2012

	<u>Budget</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>Revenues:</u></b>				
<u>City:</u>				
Property taxes	\$ 695,000	\$ 695,000	\$ 706,237	\$ 11,237
Capitation taxes	14,000	14,000	16,300	2,300
Transfer tax			70,029	70,029
Rental income	56,500	56,500	63,900	7,400
Miscellaneous	9,900	9,900	74,649	64,749
Grants			133,431	133,431
Community impact fees			1,000	1,000
Other			2,473	2,473
Interest	<u>12,000</u>	<u>12,000</u>	<u>15,724</u>	<u>3,724</u>
<u>Total City</u>	<u>787,400</u>	<u>787,400</u>	<u>1,083,743</u>	<u>296,343</u>
<u>Police:</u>				
Fines	283,000	283,000	376,811	93,811
Other	1,300	1,300	111,636	110,336
Grants			<u>77,057</u>	<u>77,057</u>
<u>Total Police</u>	<u>284,300</u>	<u>284,300</u>	<u>565,504</u>	<u>281,204</u>
<u>Library:</u>				
Grants	37,000	37,000	40,777	3,777
Reciprocal borrowing	41,000	41,000	48,009	7,009
Miscellaneous	<u>6,000</u>	<u>6,000</u>	<u>10,446</u>	<u>4,446</u>
<u>Total Library</u>	<u>84,000</u>	<u>84,000</u>	<u>99,232</u>	<u>15,232</u>
<u>Trash:</u>				
Fees	293,676	293,676	228,148	( 65,528)
Penalties and fines			<u>2,255</u>	<u>2,255</u>
<u>Total Trash</u>	<u>293,676</u>	<u>293,676</u>	<u>230,403</u>	<u>( 63,273)</u>
<u>Sewer:</u>				
Fees	1,085,000	1,085,000	1,214,580	129,580
Fines	40,000	40,000	72,031	32,031
Hook ups	2,000	2,000		( 2,000)
Sample testing charges	6,000	6,000	4,882	( 1,118)
Impact fees			3,700	3,700
Interest	<u>12,000</u>	<u>12,000</u>	<u>12,518</u>	<u>518</u>
<u>Total Sewer</u>	<u>1,145,000</u>	<u>1,145,000</u>	<u>1,307,711</u>	<u>162,711</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2012

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
<b><u>Revenues: (Continued)</u></b>				
<u>Water:</u>				
Fees and fines	\$ 565,000	\$ 565,000	\$ 632,392	\$ 67,392
Hook ups	4,000	4,000	6,192	2,192
Other			20,952	20,952
Interest	<u>9,000</u>	<u>9,000</u>	<u>9,707</u>	<u>707</u>
 <u>Total Water</u>	 <u>578,000</u>	 <u>578,000</u>	 <u>669,243</u>	 <u>91,243</u>
 <u>Fire Company:</u>				
Fire company personnel	<u>50,000</u>	<u>50,000</u>	<u>52,585</u>	<u>2,585</u>
 <u>Total Fire Company</u>	 <u>50,000</u>	 <u>50,000</u>	 <u>52,585</u>	 <u>2,585</u>
 <u>Public Works:</u>				
Building permits			29,456	29,456
Planning and zoning fees			750	750
Contractors license fees	14,000	14,000	14,400	400
Vacant buildings	6,000	6,000	24,929	18,929
Fines and penalties	10,000	10,000	14,584	4,584
Business licenses	16,000	16,000	20,541	4,541
Franchise fees	35,000	35,000	34,588	( 412)
Grants			12,850	12,850
Other			<u>57,000</u>	<u>57,000</u>
 <u>Total Public Works</u>	 <u>81,000</u>	 <u>81,000</u>	 <u>209,098</u>	 <u>128,098</u>
 <u>Parks and Recreation:</u>				
Grants in aid	27,000	27,000	30,920	3,920
Program income	72,400	72,400	91,026	18,626
Miscellaneous	15,000	15,000	17,398	2,398
Fundraiser funds	<u>27,900</u>	<u>27,900</u>	<u>30,149</u>	<u>2,249</u>
 <u>Total Parks and Recreation</u>	 <u>142,300</u>	 <u>142,300</u>	 <u>169,493</u>	 <u>27,193</u>
 <u>Total Revenues</u>	 <u>3,445,676</u>	 <u>3,445,676</u>	 <u>4,387,012</u>	 <u>941,336</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2012

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b><u>Expenditures:</u></b>				
<b><u>General Government:</u></b>				
<b><u>City:</u></b>				
Salaries	\$ 283,869	\$ 283,869	\$ 237,935	\$ 45,934
Payroll taxes	21,717	21,717	19,176	2,541
Health insurance	37,450	37,450	25,140	12,310
Pension	15,973	15,973	14,181	1,792
Vehicle maintenance	1,500	1,500	2,082	( 582)
Office supplies	9,500	9,500	8,092	1,408
Telephone	3,300	3,300	3,936	( 636)
Postage	2,500	2,500	2,628	( 128)
Heat and electric	9,000	9,000	7,610	1,390
Capital outlay			92,754	( 92,754)
Debt services			467	( 467)
Legal	25,000	25,000	38,749	( 13,749)
Advertising	2,500	2,500	2,542	( 42)
Accounting services	4,800	4,800	13,020	( 8,220)
Travel and food	1,000	1,000	805	195
Engineering	6,000	6,000	95,782	( 89,782)
Dues and meetings	2,600	2,600	2,504	96
Bank charges	750	750	1,415	( 665)
Inspection fees			23,832	( 23,832)
Building maintenance and repairs	3,000	3,000	3,234	( 234)
Computer maintenance and repairs	17,669	17,669	14,297	3,372
Election expense	1,500	1,500	1,009	491
Miscellaneous	19,450	19,450	10,087	9,363
Heritage park	250	250	103	147
Clean up fees			3,818	( 3,818)
Training	750	750	1,792	( 1,042)
Maintenance agreement			863	( 863)
Lease equipment	3,900	3,900	3,201	699
Planning on call	9,000	9,000		9,000
Insurance	100,935	100,935	19,363	81,572
Equipment rental			1,813	( 1,813)
Capital expenditures			94,644	( 94,644)
Accounting and auditing	<u>32,000</u>	<u>32,000</u>	<u>28,540</u>	<u>3,460</u>
<b><u>Total City</u></b>	<u>615,913</u>	<u>615,913</u>	<u>775,414</u>	<u>( 159,501)</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2012

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b><u>Expenditures: (Continued)</u></b>				
<u>Police:</u>				
Salaries	\$ 394,971	\$ 394,971	\$ 481,709	( \$ 86,738)
Overtime	121,473	121,473	104,438	17,035
Payroll taxes	39,508	39,508	47,143	( 7,635)
Pension	52,450	52,450	15,076	37,374
Health insurance	101,500	101,500	94,944	6,556
Medical	300	300	236	64
Vehicle maintenance and repairs	38,500	38,500	61,523	( 23,023)
Radar/special electronics	2,500	2,500	3,048	( 548)
Training	11,600	11,600	970	10,630
K-9 police dog	1,000	1,000	1,605	( 605)
Office supplies	3,000	3,000	2,869	131
Telephone	10,350	10,350	9,992	358
Postage	300	300	235	65
Heat and electric	11,500	11,500	9,280	2,220
Capital outlay			221,273	( 221,273)
National nite out			1,394	( 1,394)
Advertising	250	250		250
Insurance			47,860	( 47,860)
Debt services			367	( 367)
Dues and meetings	700	700	540	160
Travel and food	600	600	3,752	( 3,152)
Freight and shipping	300	300	245	55
Computer maintenance and repairs	250	250	112	138
Furniture and office equipment	300	300	178	122
Building repairs and maintenance	2,200	2,200	2,142	58
Maintenance agreement	1,350	1,350	2,022	( 672)
Miscellaneous	2,000	2,000	4,021	( 2,021)
Uniforms	1,200	1,200	657	543
Ammo and targets	2,500	2,500	698	1,802
Officer's equipment	1,200	1,200	8,146	( 6,946)
Police forms	1,700	1,700	1,521	179
Clothing allowance	9,000	9,000	6,908	2,092
Lease equipment	3,060	3,060	1,766	1,294
Grant expense			215	( 215)
Legal	1,350	1,350	1,310	40
<u>Total Police</u>	<u>816,912</u>	<u>816,912</u>	<u>1,138,195</u>	<u>( 321,283)</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2012

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
<b><u>Expenditures: (Continued)</u></b>				
<u>Public Works:</u>				
Salaries	\$ 232,078	\$ 232,078	\$ 193,700	\$ 38,378
Payroll taxes	17,913	17,913	16,740	1,173
Pension	15,337	15,337	11,621	3,716
Health insurance	51,250	51,250	35,036	16,214
Medical			505	( 505)
Per diem	2,080	2,080	2,040	40
Vehicle maintenance and repairs	17,000	17,000	15,374	1,626
Equipment maintenance and repairs	18,350	18,350	13,899	4,451
Office supplies	850	850	2,141	( 1,291)
Telephone	2,400	2,400	2,434	( 34)
Building maintenance	1,400	1,400	1,258	142
Heat and electric	5,800	5,800	8,456	( 2,656)
Equipment rental	2,175	2,175	251	1,924
Insurance			17,715	( 17,715)
Computer repairs and maintenance	500	500	580	( 80)
Uniforms	3,900	3,900	3,871	29
Supplies	5,300	5,300	3,828	1,472
Street maintenance	15,000	15,000	5,495	9,505
Ditch cleaning	6,000	6,000	2,584	3,416
Street signs and markings	4,700	4,700	711	3,989
Street lights	53,000	53,000	45,338	7,662
Snow and ice removal	3,000	3,000	513	2,487
Water line repairs	3,000	3,000	3,095	( 95)
Chemicals	5,000	5,000	481	4,519
Miscellaneous	250	250	249	1
Capital outlay	500	500	93,500	( 93,000)
Safety	2,000	2,000	646	1,354
Engineering			2,317	( 2,317)
Wildlife control	250	250	20	230
	<u>469,033</u>	<u>469,033</u>	<u>484,398</u>	<u>( 15,365)</u>
<u>Total Public Works</u>				
<u>Trash:</u>				
Postage	1,200	1,200	854	346
Contract services	290,546	290,546	226,024	64,522
Micellaneous	1,930	1,930		1,930
	<u>293,676</u>	<u>293,676</u>	<u>226,878</u>	<u>66,798</u>
<u>Total Trash</u>				

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2012

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b><u>Expenditures: (Continued)</u></b>				
<u>Library:</u>				
Salaries	\$ 88,137	\$ 88,137	\$ 89,515	(\$ 1,378)
Payroll taxes	6,743	6,743	7,770	( 1,027)
Pension	5,773	5,773	5,831	( 58)
Health insurance	15,264	15,264	12,634	2,630
Furniture and office equipment	200	200	140	60
Training	150	150		150
Office supplies	2,200	2,200	2,783	( 583)
Telephone	1,560	1,560	1,788	( 228)
Postage	200	200	119	81
Heat and electric	12,000	12,000	11,679	321
Travel and food	300	300	53	247
Dues and meetings	200	200	46	154
Equipment repairs	365	365		365
Building repairs and maintenance	1,300	1,300	3,112	( 1,812)
Books and subscriptions	22,500	22,500	23,487	( 987)
Automation	2,150	2,150	1,006	1,144
Insurance			8,316	( 8,316)
Debt services			263	( 263)
Capital outlay			5,386	( 5,386)
Maintenance agreement			486	( 486)
Miscellaneous			20	( 20)
Lease equipment	2,200	2,200	1,342	858
	<u>161,242</u>	<u>161,242</u>	<u>175,776</u>	<u>( 14,534)</u>
<u>Total Library</u>				
<u>Sewer:</u>				
Salaries	14,023	14,023	52,232	( 38,209)
Payroll taxes	1,073	1,073	4,770	( 3,697)
Pension	919	919	3,433	( 2,514)
Health insurance	3,333	3,333	12,495	( 9,162)
Vehicle maintenance and repairs	1,625	1,625	8,581	( 6,956)
Office supplies			403	( 403)
Telephone	2,370	2,370	2,767	( 397)
Postage	1,200	1,200	2,291	( 1,091)
Heat and electric	20,000	20,000	61,821	( 41,821)
Dues and meetings	50	50	45	5
Safety			6,100	( 6,100)
Maintenance agreements			2,297	( 2,297)
Building repairs and maintenance	2,500	2,500	2,928	( 428)
Professional fees			2,469	( 2,469)
Sample testing	6,038	6,038	9,320	( 3,282)

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2012

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b><u>Expenditures: (Continued)</u></b>				
<u>Sewer: (Continued)</u>				
Uniforms	\$ 300	\$ 300		\$ 300
Pump station repairs	12,500	12,500	\$ 16,667	( 4,167)
Mowing supplies	100	100		100
Chemicals	21,000	21,000	59,659	( 38,659)
Lab supplies	1,500	1,500	1,147	353
Small tools			96	( 96)
Miscellaneous	1,000	1,000	445	555
Lagoon maintenance			500	( 500)
Sludge application			4,474	( 4,474)
Flow meter operations			1,365	( 1,365)
License and permits			175	( 175)
Insurance			4,804	( 4,804)
Interest	288,990	288,990	103,759	185,231
Engineering			15,334	( 15,334)
Legal and administrative fees			4,345	( 4,345)
County sewer fee	375,000	375,000	165,929	209,071
Depreciation			334,899	( 334,899)
	<u>753,521</u>	<u>753,521</u>	<u>885,550</u>	<u>( 132,029)</u>
<u>Total Sewer</u>				
<u>Water:</u>				
Equipment maintenance and repair	750	750	228	522
Postage	1,200	1,200	1,554	( 354)
Heat and electric	25,000	25,000	28,423	( 3,423)
Maintenance agreements	1,500	1,500	4,188	( 2,688)
Building repair and maintenance	750	750		750
Water meters	2,500	2,500	641	1,859
Sample testing	1,200	1,200	1,024	176
Pump station repairs	2,500	2,500	874	1,626
Water line repairs	11,000	11,000	14,101	( 3,101)
Chemicals	14,000	14,000	12,371	1,629
Miscellaneous expense			365	( 365)
Engineering fees			145	( 145)
Licenses and permits	800	800		800
Interest	95,681	95,681	40,904	54,777
Depreciation			63,646	( 63,646)
	<u>156,881</u>	<u>156,881</u>	<u>168,464</u>	<u>( 11,583)</u>
<u>Total Water</u>				
<u>Fire Company:</u>				
Salaries	70,218	70,218	70,592	( 374)
Payroll taxes	5,372	5,372	6,195	( 823)
Health insurance	15,252	15,252	14,260	992
Pension	4,599	4,599	4,563	36
Fuel	3,000	3,000	3,000	
Insurance			2,376	( 2,376)
	<u>98,441</u>	<u>98,441</u>	<u>100,986</u>	<u>( 2,545)</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, 2012

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable)</u>
<b><u>Expenditures: (Continued)</u></b>				
<u>Parks and Recreation Department:</u>				
Salaries	\$ 55,104	\$ 55,104	\$ 55,427	( \$ 323)
Payroll taxes	4,215	4,215	4,649	( 434)
Health insurance	11,500	11,500	12,360	( 860)
Pension	3,610	3,610	4,538	( 928)
Office supplies	1,500	1,500	685	815
Telephone	3,100	3,100	3,208	( 108)
Heat and electric	16,000	16,000	10,775	5,225
Capital Outlay			7,715	( 7,715)
Debt services			367	( 367)
Postage	500	500	89	411
Advertising			35	( 35)
Vehicle repairs and maintenance	1,200	1,200	1,240	( 40)
Building Maintenance	5,000	5,000	2,930	2,070
Fundraisers			8,739	( 8,739)
Computer maintenance and repair	1,200	1,200		1,200
Lease equipment	3,100	3,100	2,276	824
Maintenance agreement	1,595	1,595	2,018	( 423)
Insurance	2,200	2,200	7,894	( 5,694)
Programs	44,500	44,500	54,185	( 9,685)
Miscellaneous	1,000	1,000	163	837
<u>Total Parks and Recreation</u>				
<u>Department</u>	<u>155,324</u>	<u>155,324</u>	<u>179,293</u>	<u>( 23,969)</u>
<u>Total Expenditures</u>	<u>3,520,943</u>	<u>3,520,943</u>	<u>4,134,954</u>	<u>( 614,011)</u>
	<u>( \$ 75,267)</u>	<u>( \$ 75,267)</u>	<u>\$ 252,058</u>	<u>\$ 327,325</u>

SUPPLEMENTARY INFORMATION

CITY OF HARRINGTON, DELAWARE

COMBINING BALANCE SHEET -  
ALL SPECIAL REVENUE FUNDS

JUNE 30, 2012

	<u>Police Pension Fund</u>	<u>Municipal Street Aid</u>	<u>SLEAF</u>	<u>EIDE</u>	<u>SALLE</u>	<u>Library Building</u>	<u>Total</u>
<u>ASSETS</u>							
<u>Current Assets:</u>							
Cash and cash equivalents	\$ -0-	\$ 109,091	\$ -0-	\$ 10,704	\$ 11,090	\$ 136,159	\$ 267,044
<u>Total Assets</u>	<u>\$ -0-</u>	<u>\$ 109,091</u>	<u>\$ -0-</u>	<u>\$ 10,704</u>	<u>\$ 11,090</u>	<u>\$ 136,159</u>	<u>\$ 267,044</u>
 <u>FUND EQUITY</u>							
<u>Fund Balances:</u>							
Restricted	\$ -0-	\$ 109,091	\$ -0-	\$ 10,704	\$ 11,090	\$ -0-	\$ 130,885
Committed	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>136,159</u>	<u>136,159</u>
<u>Total Fund Equity</u>	<u>\$ -0-</u>	<u>\$ 109,091</u>	<u>\$ -0-</u>	<u>\$ 10,704</u>	<u>\$ 11,090</u>	<u>\$ 136,159</u>	<u>\$ 267,044</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2012

	<u>Police Pension Fund</u>	<u>Municipal Street Aid</u>	<u>SLEAF</u>	<u>EIDE</u>	<u>SALLE</u>	<u>Library Building</u>	<u>Total</u>
<u>Revenues:</u>							
Intergovernmental revenues	\$ 44,021	\$ 72,205	\$ 17,762	\$ 3,877	\$ 4,683		\$ 142,548
Interest		287				\$ 2,480	2,767
<u>Total Revenues</u>	44,021	72,492	17,762	3,877	4,683	2,480	145,315
<u>Expenditures</u>	44,021		14,135	10,421	4,698		73,275
<u>Excess (Deficiency) of Revenues Over Expenditures</u>		72,492	3,627	( 6,544)	( 15)	2,480	72,040
<u>Other Financing Sources:</u>							
Transfers - In (out)			( 3,627)	6,351	3,015		5,739
<u>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures</u>	-0-	72,492	-0-	( 193)	3,000	2,480	77,779
<u>Fund Balance - Beginning of year</u>		36,599		10,897	8,090	133,679	189,265
<u>Fund Balance - End of year</u>	\$ -0-	\$ 109,091	\$ -0-	\$ 10,704	\$ 11,090	\$ 136,159	\$ 267,044

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2012

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
<u>Municipal Street Aid:</u>				
Revenues	\$	\$	\$ 72,492	\$ 72,492
Expenditures	_____	_____	_____	_____
<u>Excess Revenues Over Expenditures</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 72,492</u>	<u>\$ 72,492</u>
<u>Police Pension Fund:</u>				
Revenues	\$ 40,000	\$ 40,000	\$ 44,021	\$ 4,021
Expenditures	_____	_____	44,021	( 44,021)
<u>Excess Revenues Over Expenditures</u>	<u>\$ 40,000</u>	<u>\$ 40,000</u>	<u>\$ -0-</u>	<u>(\$ 40,000)</u>
<u>SLEAF:</u>				
Revenues	\$	\$	\$ 17,762	\$ 17,762
Expenditures	_____	_____	14,135	( 14,135)
<u>Excess Revenues Over Expenditures</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 3,627</u>	<u>\$ 3,627</u>
<u>EIDE:</u>				
Revenues	\$	\$	\$ 3,877	\$ 3,877
Expenditures	_____	_____	10,421	( 10,421)
<u>Deficiency of Revenues Over Expenditures</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>(\$ 6,544)</u>	<u>(\$ 6,544)</u>
<u>SALLE:</u>				
Revenues	\$	\$	\$ 4,683	\$ 4,683
Expenditures	_____	_____	4,698	( 4,698)
<u>Deficiency of Revenues Over Expenditures</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>(\$ 15)</u>	<u>(\$ 15)</u>
<u>Library Building Fund:</u>				
Revenues			\$ 2,480	\$ 2,480
Expenditures	_____	_____	_____	_____
<u>Excess Revenues Over Expenditures</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 2,480</u>	<u>\$ 2,480</u>

SINGLE AUDIT SECTION

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133

To the Mayor 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, 2012. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. 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 2012-1.

To the Mayor and Council  
City of Harrington, Delaware

### 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.

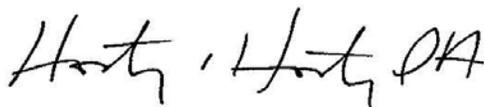
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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, 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  
April 7, 2014

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

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2012

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) identified that are not considered to be material weaknesses?  Yes  None Reported

Noncompliance material to financial statements noted?  Yes  No

Federal Awards

Internal control over the program:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  None Reported

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

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

Identification of major federal programs:

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

CITY OF HARRINGTON, DELAWARE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012

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, 2012

III. Findings And Questioned Costs For Federal Awards

EACH FINDING IS CONSIDERED A REPORTABLE CONDITION AND COMPLIANCE FINDING

*Finding 2012-1*

*U.S. Department of Agriculture*

*CFDA #10.760 (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, 2012 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, 2012

III. Federal Award Findings and Questioned Costs

Finding #: 2012-1

Name of Contact Person:

Anthony Moyer, Mayor

Corrective Action Plan:

The City will submit our June 30, 2012 data collection form along with our audited financial statements to the Federal Audit Clearinghouse upon completion. We will also complete our June 30, 2014 year end close process timely to make sure we adhere to any future Federal Audit Clearinghouse reporting requirements and deadlines.

Proposed Completion Date:

To be determined.

CITY OF HARRINGTON, DELAWARE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2012

The prior year audit finding item (2011-1) 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, 2012

<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 Utilities Service:</u> Water and Waste Disposal Systems for Rural Communities	10.760	\$2,329,512*
<u>U.S. Department of Energy:</u> Energy Efficiency and Conservation Block Grant Program	81.128	34,394
<u>U.S. Department of Justice:</u> Public Safety Partnership and Community Policing Grants	16.710	47,337
<u>U.S. Environmental Protection Agency:</u> Congressionally Mandated Projects - States and Tribal Assistance Grant- Delaware Department of Natural Resources and Environmental Control (DNREC)	66.202	<u>113,530</u>
<u>Total Federal Pass-Through Expenditures</u>		<u>\$2,524,773</u>

\* During the year ended June 30, 2012, the City paid for allowable project costs incurred during previous years and the current year, using interim financing proceeds received from the First National Bank of Wyoming and reimbursed by the USDA loan proceeds received in March 2013.

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.