

CITY OF HARRINGTON, DELAWARE

FINANCIAL STATEMENTS  
SUPPLEMENTARY INFORMATION  
AND  
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2016

CITY OF HARRINGTON, DELAWARE

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JUNE 30, 2016

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CITY OF HARRINGTON, DELAWARE

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## Independent Auditor's Report

To the Honorable Mayor and Members of Council  
City of Harrington, Delaware

### Report on the Financial Statements

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, 2016, and the related notes to the financial statements, which collectively comprise the City of Harrington, Delaware's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness or significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business - type activities, each major fund, and the aggregate remaining fund information of the City of Harrington, Delaware, as of June 30, 2016, and the respective changes in financial position and, when applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and budgetary comparison information on pages 6 through 16 and 54 through 62, proportionate share of the net pension asset - Delaware Municipal Police/Firefighter and Delaware County and Municipal Other Employees' Pension Plans on pages 63 and 64 and Schedules of City's contributions for the Delaware Municipal Police/Firefighter and Delaware County and Municipal Other Employees' Pension Plan on pages 65 and 66 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 inquires, 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.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harrington, Delaware's basic financial statements. The accompanying combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and*

To the Honorable Mayor and Members of Council  
City of Harrington, Delaware

*Audit Requirements for Federal Awards* are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic financial statement 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.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2017 on our consideration of the City of Harrington, Delaware's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Harrington, Delaware's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Harrington, Delaware's internal control over financial reporting and compliance.

Dover, Delaware  
December 18, 2017



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**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**

**Independent Auditor's Report**

To the Honorable Mayor and Members of Council  
City of Harrington, Delaware

We have audited, in accordance with the 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, the financial statements of the governmental activities, 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, 2016, and the related notes to the financial statements, which collectively comprise the City of Harrington, Delaware's basic financial statements, and have issued our report thereon dated December 18, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Harrington, Delaware's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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. Accordingly, we do not express an opinion on the effectiveness of the City of Harrington, Delaware's internal control.

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 a 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention to those charged with governance.

To the Honorable Mayor and Members of Council  
City of Harrington, Delaware

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

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

We noted certain matters that we have reported to management of the City of Harrington, Delaware in a separate letter dated December 18, 2017.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dover, Delaware  
December 18, 2017



CITY OF HARRINGTON, DELAWARE

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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, 2016. We encourage users to read it in conjunction with the City's financial statements, which follow this section.

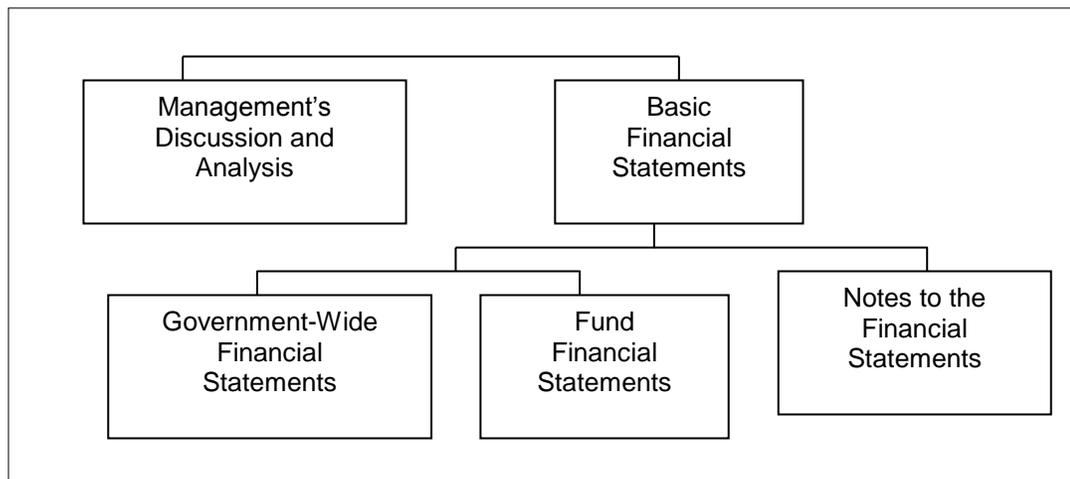
Financial Highlights For Fiscal Year 2016

- The assets of the City exceeded its liabilities at the close of the 2016 fiscal year resulting in a net position of \$13,288,768. Of this amount, \$5,615,212 is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors, and \$5,348,350 is invested in capital assets, net of related debt.
- As of June 30, 2016, the City's governmental funds reported combined ending fund balances of \$3,235,350.

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.

In addition to the basic financial statements and accompanying notes, the **Required Supplementary Information**, presents certain required supplementary information concerning the City. A budgetary comparison schedule has been provided for the general fund. Certain information regarding the City's pension plans has also been presented.

After the required supplementary information, **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.

**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 position presents information on all the City's assets and liabilities, with the difference between the two reported as net position. Increases or decreases in net position, 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 position changed during the past fiscal year. All changes in net position 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 17 and 18 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 67 and 68 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 19 through 23 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 24 through 27 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 28 through 53 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 67 and 68 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, 2016.

#### **Statement of Net Position**

As noted earlier, net position 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 \$13,288,768 at the close of the fiscal year, June 30, 2016.

By far the largest portion of the City's net position (55 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 POSITION

	<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>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$3,823,134	\$3,866,418	\$ 3,185,137	\$ 2,768,019	\$ 7,008,271	\$ 6,634,437
Capital assets	3,437,910	2,923,297	12,023,184	11,822,764	15,461,094	14,746,061
Other noncurrent asset	45,219	92,344			45,219	92,344
Deferred outflows of resources	<u>120,846</u>	<u>112,096</u>	<u>9,084</u>	<u>8,180</u>	<u>129,930</u>	<u>120,276</u>
<u>Total Assets and Deferred Outflows of Resources</u>	<u>\$7,427,109</u>	<u>\$6,994,155</u>	<u>\$15,217,405</u>	<u>\$14,598,963</u>	<u>\$22,644,514</u>	<u>\$21,593,118</u>

City of Harrington, Delaware  
Management's Discussion and Analysis

CITY OF HARRINGTON, DELAWARE'S NET POSITION (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>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current liabilities	\$ 654,095	\$ 452,612	\$ 753,728	\$ 735,685	\$ 1,407,823	\$ 1,188,297
Noncurrent liabilities	14,672	21,659	7,833,970	7,529,204	7,848,642	7,550,863
Deferred inflows of resources	<u>91,986</u>	<u>173,070</u>	<u>7,295</u>	<u>12,282</u>	<u>99,281</u>	<u>185,352</u>
<u>Total Liabilities and Deferred Inflows of Resources</u>	<u>\$ 760,753</u>	<u>\$ 647,341</u>	<u>\$8,594,993</u>	<u>\$8,277,171</u>	<u>\$ 9,355,746</u>	<u>\$ 8,924,512</u>
Contributed capital			\$2,005,872	\$1,944,709	\$ 2,005,872	\$ 1,944,709
Restricted	\$ 319,334	\$ 435,332			319,334	435,332
Invested in capital assets	3,416,251	2,894,874	1,932,099	2,085,303	5,348,350	4,980,177
Unrestricted	<u>2,930,771</u>	<u>3,016,608</u>	<u>2,684,441</u>	<u>2,291,780</u>	<u>5,615,212</u>	<u>5,308,388</u>
<u>Total Net Position</u>	<u>\$6,666,356</u>	<u>\$6,346,814</u>	<u>\$6,622,412</u>	<u>\$6,321,792</u>	<u>\$13,288,768</u>	<u>\$12,668,606</u>

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

CITY OF HARRINGTON, DELAWARE'S CHANGES IN NET POSITION

	<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>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>REVENUES</b>						
<u>Program Revenues</u>						
Charges for services	\$1,670,641	\$1,599,539	\$2,078,649	\$2,143,962	\$3,749,290	\$ 3,743,501
Operating grants and contributions	284,709	283,440			284,709	283,440
Capital grants and contributions	363,542	299,628	391,988	263,163	755,530	562,791
<u>General Revenues</u>						
Property taxes	1,059,881	1,088,837			1,059,881	1,088,837
Transfer tax	121,740	284,264			121,740	284,264
Gain on sale of assets	75,631	16,450			75,631	16,450
Other revenue	<u>85,248</u>	<u>76,899</u>	<u>34,995</u>	<u>21,159</u>	<u>120,243</u>	<u>98,058</u>
<u>Total Revenues</u>	<u>3,661,392</u>	<u>3,649,057</u>	<u>2,505,632</u>	<u>2,428,284</u>	<u>6,167,024</u>	<u>6,077,341</u>
<b>EXPENSES</b>						
General government	988,683	915,394			988,683	915,394
Police	1,328,249	1,190,470			1,328,249	1,190,470
Public works	391,465	324,372			391,465	324,372
Parks and recreation	187,194	181,421			187,194	181,421
Trash	240,134	232,671			240,134	232,671
Library	179,145	167,948			179,145	167,948
Fire company	141,244	120,471			141,244	120,471
Sewer			1,671,526	1,729,578	1,671,526	1,729,578
Water			<u>419,222</u>	<u>438,972</u>	<u>419,222</u>	<u>438,972</u>
<u>Total Expenses</u>	<u>3,456,114</u>	<u>3,132,747</u>	<u>2,090,748</u>	<u>2,168,550</u>	<u>5,546,862</u>	<u>5,301,297</u>
<u>Change in Net Position Before Transfers</u>	205,278	516,310	414,884	259,734	620,162	776,044

CITY OF HARRINGTON, DELAWARE'S CHANGES IN NET POSITION (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>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Transfers	\$ 114,264		\$ (114,264)			
<u>Change in Net Position</u>	319,542	516,310	300,620	\$ 259,734	\$ 620,162	\$ 776,044
<u>Net Position - Beginning of year</u>	<u>6,346,814</u>	<u>5,830,504</u>	<u>6,321,792</u>	<u>6,062,058</u>	<u>12,668,606</u>	<u>11,892,562</u>
<u>Net Position - End of year</u>	<u>\$6,666,356</u>	<u>\$6,346,814</u>	<u>\$6,622,412</u>	<u>\$6,321,792</u>	<u>\$13,288,768</u>	<u>\$12,668,606</u>

For the year ended June 30, 2016, the City reported positive balances in all categories of net position.

***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, 2016, the City's governmental funds reported a combined ending fund balance of \$3,235,350

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, 2016, the general fund balance is \$2,916,016.

***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 a loss before transfers and capital contributions of \$101,652. Income before transfers and capital contributions of \$124,548 were reported in the water fund.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

The City adopted the fiscal year 2016 budget on June 15, 2015. The City's practice is to get approval from the Council if the budget is amended. During 2016 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, 2016, was \$15,461,094 (net of accumulated depreciation). Capital assets include land, building and improvements, furniture and fixtures, equipment and streets. Additions of \$1,679,984 exceeded depreciation by \$675,436.

More detailed information about the City's capital assets is presented in the notes to the basic financial statements.

### ***Debt Services***

At year end, the City had \$8,085,213 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 has recently begun work with DNREC Financial Group and USDA to provide a mechanism to implement the additional facilities required to maintain and expand the potable water system.

In 2014, the City installed 1,141 new water meters at all residential properties and 71 new water meters at commercial properties. This improvement has allowed the City to accurately measure water usage but also the corresponding wastewater usage. In September 2014, the City implemented usage billing. As a result, water production at the City's wells has decreased.

In August of 2015, a referendum passed allowing the City to refinance old debt through the State of Delaware Revolving Loan Programs. This will save the City approximately \$5,137 per year in debt service or \$135,588 in debt service over the remaining terms of the original loans.

In the spring of 2016, the city applied to the DWSRF and USDA for a new loan package for needed water projects. The proposed loan projects include design and construction of new larger mains including 2,500 LF of 8 inch water main, 6,800 LF of 10 inch water main, 27 fire hydrants, 15 water connections, 3,750 KF of 1 inch service laterals, valves meters and connections for users along Liberty Street, South Dupont Highway and Clark Street. In addition, the project calls for construction of a new 800 foot deep 12 inch well, a 500,000 gallon elevated storage tower, control and disinfection systems, building, and associated utilities.

The City was offered the following financing package:

USDA Loan	\$2,115,000
USDA Grant	201,000
DNREC Funding	<u>1,866,100</u>
 Total Cost	 4,182,100
 DNREC Forgiveness	 1,866,100
Grant Value	<u>201,000</u>
 Final Loan	 <u>\$2,115,000</u>

The Loan will be repaid over a period of 40 years at 1.625%. Payments will be \$18,020 quarterly or \$72,080 annually.

The City's referendum passed on October 25, 2016.

### Wastewater

The City owns and operates nine pump stations within the collection and conveyance system to provide service within the City of Harrington, Delaware. 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. In 2014, the City connected all nine of its pump stations to Kent County's SCADA monitoring system. This provides 24/7 monitoring of the pump stations and alerts the City if an issue occurs.

City of Harrington, Delaware Wastewater Pump Stations				
LOCATION	Peak Flow (gpm)	Pump Station Operating Point	Force Main Diameter	Length (feet)
N. Calvin Street	14	30 FT TDH @ 60 gpm	2"	50
Clark's Corner	43.5	70 FT TDH @ 60 gpm	3" 4"	45 2050

<b>Misipillion 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. During the summer of 2015, the City received a \$1.1 million loan and grant package, \$520,000 and \$580,000, respectively from the USDA and work began to remediate the City's wastewater transmission system. This work was completed in May 2016 resulting in significant savings in the City's sewer charges to Kent County.

### **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. During the spring of 2015, the City began work to expand the sewer line on Dorman Street using grants from the USDA of approximately \$378,000. The City has recently begun work with DNREC Finance Group and USDA to provide a mechanism to implement additional improvements to the collection and conveyance system.

### **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.

### **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 January 2013 and as such the City contracts its wastewater treatment with the County.

Currently, the plans to close the lagoons are being reviewed by DNREC. The approximate cost is \$3-5 million. The City will then be responsible for the maintenance of its pump stations and gravity sewer system.

In August of 2015, a referendum passed allowing the City to refinance old debt through the State of Delaware Revolving Loan Program. This will save the City approximately \$33,889 per year in debt service or \$774,679 in debt service over the remaining terms of the original loans. The City has recently begun work with DNREC Financial Group and USDA to provide a mechanism to implement the additional improvements required to maintain the conveyance and transmission system.

In the summer of 2016, the City applied to the CWSRF and USDA for a new loan package for needed water projects. The proposed project will upgrade 1,600 LF of aging and undersized pipes to 10", 1,250 LF to 12", 500 LF to 15". The City was offered the following financing package:

Construction Financing	CWSRF Loan	<u>\$1,462,925</u>
Funding at project completion		
	CWSRF Principle Forgiveness	306,120
	USDA Grant Amount	<u>306,120</u>
		<u>612,240</u>
Final USDA Loan Amount		<u>\$ 850,685</u>

The loan will be repaid over a period of 40 years at 1.75%. Payments will be \$7,404 quarterly and \$29,616 annually.

## 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 was completed in 2014. In July 2017, the City purchased 4.15 acres of land

on Dorman St. for \$206,761. The City has recently engaged an architecture to work with the Library Building Committee on the design of the new building.

### **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 POSITION

JUNE 30, 2016

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 1,699,114	\$ 2,124,113	\$ 3,823,227
Taxes receivable (net of allowances)	70,116		70,116
Accounts receivable	145,769	91,987	237,756
Intragovernment receivable	334,775	124,776	459,551
Service charges receivable		611,273	611,273
Due from other Governments	266,982	232,488	499,470
Assets held for sale	41,500		41,500
Land held for sale	1,247,725		1,247,725
Prepaid expenses	17,153	500	17,653
<u>Total Current Assets</u>	<u>3,823,134</u>	<u>3,185,137</u>	<u>7,008,271</u>
<u>Noncurrent Assets</u>			
<u>Capital Assets</u>			
Water and sewer systems		19,510,188	19,510,188
Construction in progress	83,524	83,324	166,848
Land and buildings	3,716,284		3,716,284
Furniture, fixtures and equipment	2,363,630		2,363,630
<u>Less: Accumulated depreciation</u>	<u>(2,725,528)</u>	<u>(7,570,328)</u>	<u>(10,295,856)</u>
<u>Total Capital Assets, Net of Accumulated Depreciation</u>	<u>3,437,910</u>	<u>12,023,184</u>	<u>15,461,094</u>
<u>Other Noncurrent asset</u>			
Net pension asset	45,219		45,219
<u>Total Assets</u>	<u>7,306,263</u>	<u>15,208,321</u>	<u>22,514,584</u>
<u>Deferred Outflows of Resources</u>			
Deferred outflows of resources - Delaware Public Employees Retirement System	120,846	9,084	129,930
<u>Total Assets and Deferred Outflows of Resources</u>	<u>\$ 7,427,109</u>	<u>\$ 15,217,405</u>	<u>\$ 22,644,514</u>

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Current portion of capital lease obligation	\$ 6,987		\$ 6,987
Accounts payable and other	207,198	\$ 401,368	608,566
Intragovernment payable	380,586	78,965	459,551
Bonds and notes payable		261,962	261,962
Accrued compensated absences	59,324	11,433	70,757
	<u>654,095</u>	<u>753,728</u>	<u>1,407,823</u>
<u>Total Current Liabilities</u>			
<u>Noncurrent Liabilities</u>			
Bonds and notes payable		7,823,251	7,823,251
Net pension liability		10,719	10,719
Capital lease obligation - Net of current portion	14,672		14,672
	<u>668,767</u>	<u>8,587,698</u>	<u>9,256,465</u>
<u>Total Liabilities</u>			
<u>Deferred Inflows of Resources</u>			
Deferred inflows of resources - Delaware Public Employees Retirement System	91,986	7,295	99,281
	<u>760,753</u>	<u>8,594,993</u>	<u>9,355,746</u>
<u>Total Liabilities and Deferred Inflows of Resources</u>			
<u>Net Position</u>			
Contributed capital		2,005,872	2,005,872
Restricted for:			
Library expenditures	222,394		222,394
Police expenditures	10,854		10,854
Street rehabilitation expenditures	86,086		86,086
Invested in capital assets, net of related debt	3,416,251	1,932,099	5,348,350
Unrestricted	2,930,771	2,684,441	5,615,212
	<u>\$ 6,666,356</u>	<u>\$ 6,622,412</u>	<u>\$ 13,288,768</u>
<u>Total Net Position</u>			

CITY OF HARRINGTON, DELAWARE

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 988,683	\$ 57,395		\$ 343,342	\$ (587,946)		\$ (587,946)
Police	1,328,249	406,753	\$ 284,709		(636,787)		(636,787)
Public works	391,465	128,649			(262,816)		(262,816)
Trash	240,134	238,858			(1,276)		(1,276)
Library	179,145	84,261		20,200	(74,684)		(74,684)
Fire company	141,244	76,002			(65,242)		(65,242)
Parks and recreation	187,194	175,891			(11,303)		(11,303)
Interfund service fee		502,832			502,832		502,832
<u>Total Governmental Activities</u>	<u>3,456,114</u>	<u>1,670,641</u>	<u>284,709</u>	<u>363,542</u>	<u>(1,137,222)</u>		<u>(1,137,222)</u>
Business-Type Activities:							
Sewer	1,671,526	1,547,390		391,988		\$ 267,852	267,852
Water	419,222	531,259				112,037	112,037
<u>Total Business-Type Activities</u>	<u>2,090,748</u>	<u>2,078,649</u>		<u>391,988</u>		<u>379,889</u>	<u>379,889</u>
<u>Total</u>	<u>\$ 5,546,862</u>	<u>\$ 3,749,290</u>	<u>\$ 284,709</u>	<u>\$ 755,530</u>	<u>(1,137,222)</u>	<u>379,889</u>	<u>(757,333)</u>
General Revenues and Transfers:							
Taxes:							
Property taxes					1,059,881		1,059,881
Transfer tax					121,740		121,740
Interest					6,562	34,995	41,557
Community impact fees					3,000		3,000
Gain on sale of assets					75,631		75,631
Mobile home park license					24,750		24,750
City clean up fees					20,659		20,659
Miscellaneous					30,277		30,277
Transfers In (out)					114,264	(114,264)	
<u>Total General Revenues and Transfers</u>					<u>1,456,764</u>	<u>(79,269)</u>	<u>1,377,495</u>
<u>Change in Net Position</u>					<u>319,542</u>	<u>300,620</u>	<u>620,162</u>
<u>Net Position - Beginning of year</u>					<u>6,346,814</u>	<u>6,321,792</u>	<u>12,668,606</u>
<u>Net Position - End of year</u>					<u>\$ 6,666,356</u>	<u>\$ 6,622,412</u>	<u>\$ 13,288,768</u>

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

CITY OF HARRINGTON, DELAWARE

BALANCE SHEET  
(GOVERNMENTAL FUNDS)

JUNE 30, 2016

<u>ASSETS</u>	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,214,360	\$ 484,754	\$ 1,699,114
Taxes receivable (net of allowances)	70,116		70,116
Accounts receivable	145,769		145,769
Intragovernment receivable	288,723	46,052	334,775
Grants receivable	266,982		266,982
Assets held for sale	41,500		41,500
Land held for sale	1,247,725		1,247,725
Prepaid expenses	17,153		17,153
<u>Total Assets</u>	<u>\$ 3,292,328</u>	<u>\$ 530,806</u>	<u>\$ 3,823,134</u>
<u>LIABILITIES</u>			
Accounts payable and other	\$ 207,198		\$ 207,198
Intragovernment payable	169,114	\$ 211,472	380,586
<u>Total Liabilities</u>	<u>376,312</u>	<u>211,472</u>	<u>587,784</u>
<u>FUND BALANCE</u>			
<u>Fund Balances</u>			
Nonspendable:			
Land held for sale	1,247,725		1,247,725
Assets held for sale	41,500		41,500
Prepaid expenses	17,153		17,153
Restricted for:			
Police		10,854	10,854
Street rehabilitation		86,086	86,086
Committed for:			
City capital improvements	309,644		309,644
Library building		222,394	222,394
Assigned:			
Contingency	279,922		279,922
Unassigned	1,020,072		1,020,072
<u>Total Fund Balance</u>	<u>2,916,016</u>	<u>319,334</u>	<u>3,235,350</u>
<u>Total Liabilities and Fund Balance</u>	<u>\$ 3,292,328</u>	<u>\$ 530,806</u>	<u>\$ 3,823,134</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 POSITION

JUNE 30, 2016

<u>Total Fund Balances, Governmental Funds (Page 19)</u>	\$ 3,235,350
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 position.	3,437,910
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	(59,324)
Capital lease obligation	(21,659)
Net pension assets	45,219
Deferred charges - Delaware Public Employees Retirement System	<u>28,860</u>
<u>Net Position of Governmental Activities in the Statement of Net Position (Page 17)</u>	<u>\$ 6,666,356</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total</u>
<u>Revenues</u>			
Taxes	\$ 1,059,881		\$ 1,059,881
Transfer tax	121,740		121,740
Rental income	57,395		57,395
Building permits	31,701		31,701
Planning and zoning fees	350		350
Vacant buildings	1,350		1,350
Gain on sale of assets	75,631		75,631
Mobile home park license	24,750		24,750
City clean up fees	20,659		20,659
Miscellaneous	30,417		30,417
Contractors license fees	15,500		15,500
Intergovernmental revenues		\$ 214,035	214,035
Fire company	76,002		76,002
Interest	3,959	2,603	6,562
Fines and penalties	19,437		19,437
Business licenses	60,171		60,171
Police revenue	489,127		489,127
Library revenue	84,261		84,261
Trash fees	238,858		238,858
Parks and recreation	175,891		175,891
Grants	343,342		343,342
Community impact fees	3,000		3,000
Interfund service fee	502,832		502,832
	<u>3,436,254</u>	<u>216,638</u>	<u>3,652,892</u>
<u>Total Revenues</u>			
<u>Expenditures</u>			
General government	1,425,257		1,425,257
Police	1,173,896	332,636	1,506,532
Public works	323,319		323,319
Trash	240,134		240,134
Library	176,652		176,652
Fire company	143,128		143,128
Parks and recreation	195,079		195,079
	<u>3,677,465</u>	<u>332,636</u>	<u>4,010,101</u>
<u>Total Expenditures</u>			
<u>Deficiency of Revenues Over Expenditures</u>			
<u>Before Other Financing Sources</u>	<u>(241,211)</u>	<u>(115,998)</u>	<u>(357,209)</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total</u>
<u>Other Financing Sources:</u>			
Transfers in	<u>114,264</u>		<u>114,264</u>
<u>Deficiency of Revenues and Other     Financing Sources Over Expenditures</u>	(126,947)	(115,998)	(242,945)
<u>Fund Balances</u> - Beginning of year	<u>3,042,963</u>	<u>435,332</u>	<u>3,478,295</u>
<u>Fund Balances</u> - End of year	<u>\$ 2,916,016</u>	<u>\$ 319,334</u>	<u>\$ 3,235,350</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, 2016

Net Change in Fund Balances, Governmental Funds (Page 22) \$ (242,945)

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 (\$884,672) exceeded depreciation (\$370,059) , in the current period 514,613

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. 6,763

Expenses accrued for compensated absences and pensions and reported in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the governmental funds 41,111

Change in Net Position of Governmental Activities (Page 18) \$ 319,542

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

JUNE 30, 2016

Assets

Current Assets

Cash and cash equivalents	\$ 2,124,113
Accounts receivable	91,987
Intragovernment receivable	124,776
Service charges receivable	611,273
Due from other Governments	232,488
Prepaid Expenses	<u>500</u>

Total Current Assets 3,185,137

Noncurrent Assets

Capital Assets

Water and sewer systems	19,510,188
Construction in progress	83,324
<u>Less: Accumulated depreciation</u>	<u>(7,570,328)</u>

Total Capital Assets, Net of Accumulated 12,023,184  
Depreciation

Total Assets 15,208,321

Deferred Outflow of Resources

Deferred outflows of resources - Delaware Public Employees Retirement System	<u>9,084</u>
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Total Assets and Deferred Outflows of Resources \$ 15,217,405

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

Liabilities

Current Liabilities

Accounts payable and other	\$ 401,368
Intragovernment payable	78,965
Bonds and notes payable	261,962
Accrued compensated absences	<u>11,433</u>

Total Current Liabilities 753,728

Noncurrent Liabilities

Bonds and notes payable	7,823,251
Net pension liability	<u>10,719</u>

Total Liabilities 8,587,698

Deferred Inflows of Resources

Deferred Inflows of resources - Delaware Public Employees Retirement System	<u>7,295</u>
--	--------------

Total Liabilities and Deferred Inflows of Resources 8,594,993

Net Position

Contributed capital	2,005,872
Invested in capital assets, net of related debt	1,932,099
Unrestricted retained earnings	<u>2,684,441</u>

Total Net Position \$ 6,622,412

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2016

	Sewer	Water	Total
<u>Operating Revenues</u>			
Sewer fees	\$ 1,508,467		\$ 1,508,467
Water fees		\$ 494,457	494,457
Hook ups	7,800	15,775	23,575
Miscellaneous	1,000	17,517	18,517
<u>Total Operating Revenues</u>	1,517,267	527,749	2,045,016
<u>Operating Expenses</u>	1,124,851	265,348	1,390,199
<u>Operating Income</u>	392,416	262,401	654,817
<u>Non-Operating Revenues (Expenses)</u>			
Interest expense	(165,581)	(32,136)	(197,717)
Interfund service fee	(381,094)	(121,738)	(502,832)
Impact fees	30,123	3,510	33,633
Interest income	22,484	12,511	34,995
<u>Income (Loss) Before Transfers and</u>			
<u>Capital Contributions</u>	\$ (101,652)	\$ 124,548	22,896
<u>Capital Contributions</u>			391,988
<u>Operating Transfers to Other Funds</u>			(114,264)
<u>Net Income after Operating Transfers</u>			300,620
<u>Net Position - Beginning of year</u>			6,321,792
<u>Net Position - End of year</u>			\$ 6,622,412

CITY OF HARRINGTON, DELAWARE  
STATEMENT OF OPERATING EXPENSES  
PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2016

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Salaries	\$ 62,928	\$ 72,991	\$ 135,919
Payroll taxes	9,485	11,270	20,755
Pension	2,924	3,581	6,505
Health insurance	17,079	21,203	38,282
Vehicle maintenance and repairs		1,703	1,703
Office supplies	205	205	410
Telephone	1,138		1,138
Postage	1,265	1,312	2,577
Dues and meetings		682	682
Heat and electric	7,798	17,056	24,854
Safety	795		795
Maintenance agreements	599	350	949
Building repairs and maintenance	1,735		1,735
Water meters		2,730	2,730
Sample testing	416	750	1,166
Pump station repairs	6,384		6,384
Water line repairs		4,753	4,753
Chemicals	1,840	18,500	20,340
Flow meter operations	780		780
Contingency	4,337	2,375	6,712
Insurance	25,560	9,940	35,500
Engineering	17,004	8,517	25,521
Legal and administrative fees	52,223		52,223
County sewer fee	363,297		363,297
Depreciation	<u>547,059</u>	<u>87,430</u>	<u>634,489</u>
<u>Total Operating Expenses</u>	<u>\$ 1,124,851</u>	<u>\$ 265,348</u>	<u>\$ 1,390,199</u>

CITY OF HARRINGTON, DELAWARE

STATEMENT OF CASH FLOWS  
(ALL PROPRIETARY FUNDS)

YEAR ENDED JUNE 30, 2016

<u>Cash Flows From Operating Activities</u>	
Cash received from customers and other government	\$ 1,904,402
Cash paid to suppliers	(923,160)
Cash paid to employees	<u>(134,493)</u>
<u>Net Cash Provided By Operating</u>	
<u>Activities</u>	<u>846,749</u>
<u>Cash Flows From Non-Capital Financing Activities</u>	
Operating transfers to other funds	<u>(617,096)</u>
<u>Cash Flows From Capital and Related</u>	
<u>Financing Activities</u>	
Purchase of property and equipment	(505,998)
Proceeds received from general obligation debt	3,093,803
Principal paid on general obligation debt	(2,801,342)
Interest paid	(197,717)
Capital contribution received	<u>391,988</u>
<u>Net Cash Used For Capital and</u>	
<u>Related Financing Activities</u>	<u>(19,266)</u>
<u>Cash Flows From Investing Activities</u>	
Interest income	<u>34,995</u>
<u>Net Increase In Cash and Cash Equivalents</u>	245,382
<u>Cash and Cash Equivalents</u>	
Beginning of year	<u>1,878,731</u>
End of year	<u>\$ 2,124,113</u>

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

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

<u>Operating Income</u>	\$ 654,817
<u>Adjustments To Reconcile Operating Income To Net</u>	
<u>Cash Provided By Operating Activities</u>	
Depreciation	634,489
Non-operating revenues	33,633
(Increase) decrease in:	
Accounts receivable	61,381
Due from other government	(232,488)
Service charges receivable	(3,140)
Prepaid expenses	2,511
Deferred outflows of resources	(904)
Increase (decrease) in:	
Accounts payable and other	(300,917)
Compensated absences	285
Net pension liability	2,069
Deferred inflows of resources	<u>(4,987)</u>
<u>Net Cash Provided By Operating Activities</u>	<u>\$ 846,749</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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.

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.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 position, 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:

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.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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:

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

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

Combat Violent Crime - 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.

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.

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.

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.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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.

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.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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. Property taxes have been determined to be fully collectible and therefore an allowance for doubtful accounts is not considered necessary.

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.

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 \$2,500 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.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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.

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.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Deferred Inflows/Outflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that are required to be reported in this category: (1) changes in employer proportionate share of the net pension assets that are being amortized over future periods and (2) differences between projected and actual investments earnings, which are both reported in the statement of net position which reported deferred inflows of resources - Delaware Public Employees Retirement System.

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditure) until the future period. The City has one item that is required to be reported in this category. Accordingly, this item, pension contributions made subsequent to the measurement date related to pensions, is reported in the statement of net position as deferred outflows of resources - Delaware Public Employees Retirement System.

Net Position

Net position represents the difference between assets and liabilities. Net investment 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 investment in capital assets, net of related debt excludes unspent debt proceeds. Net position is 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 position is available.

Use of Estimates

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

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 15, 2015. There were no significant changes to the fiscal 2016 original budget as presented.

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

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

Note 2 - Property Taxes

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

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

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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, 2016 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	3,573,227	3,644,871
Category 3	<hr/>	<hr/>
<u>Total Cash and Cash Equivalents</u>	<u>\$3,823,227</u>	<u>\$3,894,871</u>

At June 30, 2016, the City's cash and cash equivalents are comprised of the following:

Carrying value of unrestricted cash and cash equivalents	\$1,918,858
Restricted cash and cash equivalents	<u>1,904,369</u>
<u>Total</u>	<u>\$3,823,227</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, 2016, amounts due from other governments consisted of the following:

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

<u>Governmental Unit</u>	<u>General Fund</u>	<u>Enterprise Funds</u>	<u>Total</u>
State of Delaware	\$266,982		\$266,982
United States Department Of Agriculture	_____	<u>\$232,488</u>	<u>232,488</u>
Total	<u>\$266,982</u>	<u>\$232,488</u>	<u>\$499,470</u>

Note 5 - Property and Equipment

The following is a summary of changes in capital assets for the year ended June 30, 2016:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
Capital assets, not being depreciated:				
Construction in progress	\$ 62,116	\$332,870	\$ 311,462	\$ 83,524
Capital assets, being depreciated:				
Furniture, fixtures and equipment	2,184,238	364,980	185,588	2,363,630
Land and buildings	<u>3,218,000</u>	<u>498,284</u>	_____	<u>3,716,284</u>
Total capital assets being depreciated	<u>5,402,238</u>	<u>863,264</u>	<u>185,588</u>	<u>6,079,914</u>
Less accumulated depreciation for:				
Furniture, fixtures and equipment	1,501,477	222,840	185,588	1,538,729
Land and buildings	<u>1,039,580</u>	<u>147,219</u>	_____	<u>1,186,799</u>
Total accumulated depreciation	<u>2,541,057</u>	<u>370,059</u>	<u>185,588</u>	<u>2,725,528</u>
Governmental activities capital assets, net	<u>\$ 2,923,297</u>	<u>\$826,075</u>	<u>\$311,462</u>	<u>\$ 3,437,910</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Business - Type

Activities

Capital assets, not  
being depreciated:

Construction in progress	<u>\$ 65,135</u>	<u>\$803,922</u>	<u>\$785,733</u>	<u>\$ 83,324</u>
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Capital assets, being  
depreciated:

Water and sewer systems	<u>18,693,468</u>	<u>816,720</u>		<u>19,510,188</u>
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Less accumulated  
depreciation for:

Water and sewer systems	<u>6,935,839</u>	<u>634,489</u>		<u>7,570,328</u>
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Total capital assets  
being depreciated,  
net

	<u>11,757,629</u>	<u>182,231</u>		<u>11,939,860</u>
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Business-type  
activities capital  
assets, net

	<u>\$11,822,764</u>	<u>\$986,153</u>	<u>\$785,733</u>	<u>\$12,023,184</u>
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Depreciation expense for the year ended June 30, 2016 was charged to the functions of the primary government as follows:

Governmental Activities

General government	\$171,319
Police	104,202
Public works	80,572
Parks and recreation	8,793
Library	<u>5,173</u>

Total Depreciation Expense - Governmental  
Activities

\$370,059

Note 6 - Accounts Payable and Other

Accounts payable and other at June 30, 2016 consists of the following:

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

	<u>Governmental Funds</u>	<u>Enterprise Funds</u>	<u>Total</u>
Accounts payable	\$181,167	\$396,009	\$577,176
Accrued expenses	<u>26,031</u>	<u>5,359</u>	<u>31,390</u>
<u>Total</u>	<u>\$207,198</u>	<u>\$401,368</u>	<u>\$608,566</u>

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. This loan was refinanced in February 2016 with proceeds received from the Delaware Department of Natural Resources (DNREC) resulting in a loan balance of \$-0- at June 30, 2016.

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. This loan was refinanced in February 2016 with proceeds received from the Delaware Department of Natural Resources (DNREC) resulting in a loan balance of \$-0- at June 30, 2016.

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. This loan was refinanced in February 2016 with proceeds received from the Delaware Department of Natural Resources (DNREC) resulting in a loan balance of \$-0- at June 30, 2016.

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. This loan was refinanced in February 2016 with proceeds received from the Delaware Department of Natural Resources (DNREC) resulting in a loan balance of \$-0- at June 30, 2016.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 \$67,642 at June 30, 2016 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 \$775,887 at June 30, 2016 and is payable in quarterly payments of principal and interest at 2.4%. Final payment is due April 2051.

In March 2013, the City entered into a similar loan agreement with the Farmers Home Administration. Proceeds from the loan paid down interim financing from the First National Bank of Wyoming, which were used for the Water Main Improvement Project. The loan balance is \$1,552,292 at June 30, 2016 and is payable in quarterly payments of principal and interest at 1.875%. Final payment is due March 2053.

In June 2012, 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, 2016 is \$468,177. 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 a rate of 2%, beginning February 2014. The balance at June 30, 2016 is \$1,633,378. Final payment is due in February 2031. The loan is secured by a general obligation bond.

In June 2014, 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, 2016 is \$495,145. Final payment is due in August of 2031. The loan is secured by a general obligation bond.

In June 2016, the City entered into a loan with the United States Department of Agriculture. Proceeds were used to remediate the City's wastewater transmission system. The loan balance is \$520,000 at June 30, 2016 and is payable in quarterly payments of principal and interest at 1.75%, beginning in September 2016. Final payment is due June 2046. The loan is secured by a general obligation bond.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

In February 2016, the City entered into a Clean Water State Revolving Fund loan with the State of Delaware Department of Natural Resources (DNREC). Proceeds of the loan paid off loans from the Farmers Home Administration, which were used for the waste water treatment plant. The loan balance is \$1,453,841 at June 30, 2016 and is payable in semi-annual payments of principal and interest at 2%, beginning in March 2017. Final payment is due September 2037. The loan is secured by a general obligation bond.

In February 2016, the City entered into a Clean Water State Revolving Fund loan with the State of Delaware Department of Natural Resources (DNREC). Proceeds of the loan paid off loans from the Farmers Home Administration, which were used for the Farmington sewer extension. The loan balance is \$590,730 at June 30, 2016 and is payable in semi-annual payments of principal and interest at 2%, beginning in March 2017. Final payment is due September 2042. The loan is secured by a general obligation bond.

In February 2016, the City entered into a Clean Water State Revolving Fund loan with the State of Delaware Department of Natural Resources (DNREC). Proceeds of the loan paid off loans from the Farmers Home Administration, which were used for the emergency water main project. The loan balance is \$374,321 at June 30, 2016 and is payable in semi-annual payments of principal and interest at 2%, beginning in March 2017. Final payment is due September 2040. The loan is secured by a general obligation bond.

In February 2016, the City entered into a Clean Water State Revolving Fund loan with the State of Delaware Department of Natural Resources (DNREC). Proceeds of the loan paid off loans from the Farmers Home Administration, which were used for the Clark Street sewer project. The loan balance is \$153,800 at June 30, 2016 and is payable in semi-annual payments of principal and interest at 2%, beginning in March 2017. Final payment is due September 2044. The loan is secured by a general obligation bond.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Decreases</u>	<u>Balance June 30, 2016</u>
<u>Business-Type Activities</u>				
USDA 1996 Loan	\$1,472,007		\$1,472,007	
USDA 1999 Loan	373,806		373,806	
USDA 2001 Loan	592,288		592,288	
USDA 2003 Loan	152,796		152,796	
USDA 2005 Loan	66,531	\$ 1,111		\$ 67,642
USDA 2009 Loan	790,779		14,892	775,887
USDA 2013 Loan	1,594,027		41,735	1,552,292
DNREC 2012 Loan	502,470		34,293	468,177
DNREC 2010 Loan	1,725,901		92,523	1,633,378

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

DNREC 2014 Loan	522,147		27,002	495,145
USDA 2016 Loan		520,000		520,000
DNREC 2016 Loan		1,453,841		1,453,841
DNREC 2016 Loan		590,730		590,730
DNREC 2016 Loan		374,321		374,321
DNREC 2016 Loan		<u>153,800</u>		<u>153,800</u>
<u>Total</u>	<u>\$7,792,752</u>	<u>\$3,093,803</u>	<u>\$2,801,342</u>	<u>\$8,085,213</u>

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>
2017	\$ 261,962	\$ 177,283	\$ 439,245
2018	313,091	158,464	471,555
2019	319,626	151,910	471,536
2020	326,346	145,239	471,585
2021	333,253	138,381	471,634
Thereafter	<u>6,530,935</u>	<u>1,488,186</u>	<u>8,019,121</u>
<u>Total</u>	<u>\$8,085,213</u>	<u>\$2,259,463</u>	<u>\$10,344,676</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, 2016 are as follows:

2017	7,587
2018	7,587
2019	<u>7,587</u>
<u>Total Minimum Lease Payments</u>	22,761
<u>Less: Amount representing interest at 3.25%</u>	<u>1,102</u>
<u>Present Value of net Minimum Lease Payments</u>	21,659
<u>Less: Current portion</u>	<u>6,987</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Long-Term Portion

\$14,672

Equipment under capital leases has a cost of \$34,970 and accumulated depreciation of \$13,988 as of June 30, 2016.

Note 9 - State of Delaware Municipal Police/Firefighter Pension Plan

The City participates in the State of Delaware Municipal Police/Firefighter 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" contributory pension plan, with the employee contributing 7% of gross salary exclusive of overtime. The City's employer contributions are based upon actuarial valuations which was 13.85% of covered payroll for the year ended June 30, 2016. The total amount contributed by the City for the year ended June 30, 2016 is \$78,432 of which \$48,835 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 pension plan is managed by the State of Delaware.

The State of Delaware Municipal Police/Firefighter 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 for up to twenty years of service, multiplied by years of credited service. Vesting occurs after 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 any active employee dies, the survivor receives 50% of the monthly benefit that the employee would have received at age sixty-two.

The total pension liability (asset) for the June 30, 2015 measurement date was determined by an actuarial valuation as of June 30, 2014, and update procedures were used to roll forward the total pension liability (asset) to June 30, 2015. These actuarial valuations used the following actuarial assumptions, applied to all periods:

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 - 7.2%  
Projected Salary Increases - 4.0% - 11.5%  
Inflation - 3%  
Cost-of-Living Adjustments - Ad Hoc

The total pension liabilities (assets) are measured based on the assumptions pertaining to the interest rates, inflation rates, and employee demographics behavior in future years. The assumptions used were based on results of an actuarial experience study conducted in 2011. It is likely that future experiences will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities (assets) may be higher or lower than anticipated. The more the experience deviates the larger the impact on future financial statements.

Mortality rates were based on the Sex distinct RP - 2000 combined Mortality Table projected to 2015 using scale AA for Males and Females, as appropriate, for mortality improvement.

Projected benefit payments do not include the effects of projected ad hoc cost-of-living adjustments (ad hoc COLAs) as they are not substantively automatic. The primary consideration relevant to making this determination include the historical pattern of granting the changes and the consistency in the amounts of the changes.

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.

Pension Asset and Expense, and Deferred Outflows and Inflows of Resources

At June 30, 2016, the City reported a pension asset of \$35,677 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015, and the total pension liability (asset) used to calculate the net pension asset was determined by rolling forward the plan's total pension liability (asset) as of June 30, 2014 to June 30, 2015. The City's proportion of the net pension asset was calculated utilizing the employer's one-year actual reported contributions. At June 30, 2015, the City's proportion was 0.6769%, which was a decrease of 0.0002% from its proportion measured as of June 30, 2014.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

For the year ended June 30, 2016, the City recognized a net negative pension expense of \$26,947. At June 30, 2016 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between projected and actual investment earnings		\$ 34,878
Changes in proportions	\$ 464	9
Difference between employer contributions and proportionate share of total contributions		20,362
Contributions subsequent to the measurement date	<u>78,432</u>	
	<u>\$ 78,896</u>	<u>\$ 55,249</u>

An amount of \$78,432 is reported as deferred outflows of resources resulting from the City's contribution subsequent to the measurement date (June 30, 2015) and will be recognized as a reduction of the net pension liability (asset) in the year ended June 30, 2017. Other amounts will be reported as deferred inflows of resources related to pensions, and will be recognized in pension expense as follows:

Year ended June 30,	
2017	\$ (17,764)
2018	(17,764)
2019	(17,764)
2020	10,450
2021	(1,991)
Thereafter	<u>(9,952)</u>
	<u>\$ (54,785)</u>

The difference between expected and actual experience and the change in assumptions with regard to economic and demographic factors, and the change in employer proportionate share are amortized over the average of the expected remaining service life of active and inactive members which is 11 years.

The difference between the actual earnings on plan investments compared to the plan's expected rate of return of 7.2% is amortized over a closed period of 5 years.

The long-term expected rate of return on pension plan investments was determined using the building-block method in which best-estimate ranges of expected future real rates of return

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

(expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by an asset allocation percentage, which is based on the nature and mix of current and expected plan investments, and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the system's current and expected asset allocation are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	5.7%
International equity	5.7%
Fixed income	2.0%
Alternative investments	7.8%
Cash and cash equivalents	0.0%

Discount Rate

The discount rate used to measure the total pension liability (asset) was 7.2%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at rates determined by the Board of Pension Trustees, actuarially determined. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of the City's Proportionate Share of the Net Pension Liability (Asset) to  
Changes in the Discount Rate

The following presents the collective net pension liability (asset), calculated using the discount rate of 7.2%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

	1% Decrease 6.20%	Current Discount Rate 7.20%	1% Increase 8.20%
City's proportionate share of the net pension liability (asset)	\$154,793	\$ (35,677)	\$ (321,927)

Pension Plan Fiduciary Net Position

Detailed information about Delaware Public Employees' Retirement Systems' fiduciary net position is available in Delaware Public Employees' Retirement System Comprehensive Annual Financial Report, which are available from the pension office in 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. This is a "multiple-employer, cost-sharing" contributory pension plan, with the employee contributing 3% of gross salary. The City's employer contributions are based upon actuarial valuations which was 6.21% of covered payroll for the year ended June 30, 2016. The total amount contributed by the City for the year ended June 30, 2016 is \$51,034. This contribution covers the City's total liability for funding, as determined by the State of Delaware. The pension plan is managed by the State of Delaware.

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 years of service and dies, the survivor receives 50% of the monthly benefit that the employee would have received at age sixty-two.

The total pension liability (asset) for the June 30, 2015 measurement date was determined by an actuarial valuation as of June 30, 2014, and update procedures were used to roll forward the total pension liability (asset) to June 30, 2015. These actuarial valuations used the following actuarial assumptions, applied to all periods:

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 - 7.2%  
    Projected Salary Increases - 3.5% - 11.5%  
    Inflation - 3%  
Cost-Of-Living Adjustments - Ad Hoc.

The total pension liabilities (assets) are measured based on the assumptions pertaining to the interest rates, inflation rates, and employee demographics behavior in future years. The assumptions used were based on results of an actuarial experience study conducted in 2011. It is likely that future experiences will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities (assets) may be higher or lower than anticipated. The more the experience deviates the larger the impact on future financial statements.

Mortality rates were based on the Sex distinct RP - 2000 combined Mortality Table projected to 2015 using scale AA for Males and Females, as appropriate, for mortality improvement.

Projected benefit payments do not include the effects of projected ad hoc cost-of-living adjustments (ad hoc COLAs) as they are not substantively automatic. The primary consideration relevant to making this determination include the historical pattern of granting the changes and the consistency in the amounts of the changes.

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.

Pension Liability (Asset) and Expense, and Deferred Outflows and Inflows of Resources

At June 30, 2016, the City reported a pension asset of \$9,542 for the governmental activities and a net pension liability of \$10,719 for the business-type activities for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015, and the total pension liability (asset) used to calculate the net pension asset was determined by rolling forward the plan's total pension liability (asset) as of June 30, 2014 to June 30, 2015. The City's proportion of the net pension asset was calculated utilizing the employer's one-year actual reported contributions. At June 30, 2015, the City's proportion was 2.7587%, which was a decrease of 0.0522% from its proportion measured as of June 30, 2014.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

For the year ended June 30, 2016, the City recognized a net negative pension expense of \$15,762 for the governmental activities and a net negative pension expense of \$2,579 for its business-type activities. At June 30, 2016 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between projected and actual investment earnings		\$ 18,467
Changes in proportions		8,698
Difference between actual and expected experience		16,867
Contributions subsequent to the measurement date	\$ 51,034	
	<u>\$ 51,034</u>	<u>\$ 44,032</u>

An amount of \$41,950 for governmental activities and \$9,084 for business-type activities is reported as deferred outflows of resources resulting from the City's contribution subsequent to the measurement date (June 30, 2015) and will be recognized as a reduction of the net pension liability (asset) in the year ended June 30, 2017. Other amounts will be reported as deferred inflows of resources related to pensions, and will be recognized in pension expense as follows:

Year ended June 30,	
2017	\$ (12,148)
2018	(12,148)
2019	(12,147)
2020	3,364
2021	(3,653)
Thereafter	<u>(7,300)</u>
	<u>\$ (44,032)</u>

The difference between expected and actual experience and the change in assumptions with regard to economic and demographic factors, and the change in employer proportionate share are amortized over the average of the expected remaining service life of active and inactive members which is 11 years.

The difference between the actual earnings on plan investments compared to the plan's expected rate of return of 7.2% is amortized over a closed period of 5 years.

The long-term expected rate of return on pension plan investments was determined using the building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by an asset allocation percentage, which is based on the nature and mix of current and expected plan investments, and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the system's current and expected asset allocation are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	5.7%
International equity	5.7%
Fixed income	2.0%
Alternative investments	7.8%
Cash and cash equivalents	0.0%

Discount Rate

The discount rate used to measure the total pension liability (asset) was 7.2%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at rates determined by the Board of Pension Trustees, actuarially determined. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of the City's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the collective net pension liability (asset), calculated using the discount rate of 7.2%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

	<u>1% Decrease 6.20%</u>	<u>Current Discount Rate 7.20%</u>	<u>1% Increase 8.20%</u>
City's proportionate share of the net pension liability (asset)	\$95,772	\$1,177	\$ (165,526)

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Pension Plan Fiduciary Net Position

Detailed information about Delaware Public Employees' Retirement Systems' fiduciary net position is available in Delaware Public Employees' Retirement System Comprehensive Annual Financial Report, which are available from the pension office in Dover, Delaware.

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, 2015	\$1,944,709
<u>Add:</u> Grant proceeds received	391,988
<u>Less:</u> Depreciation on capital assets acquired with grant proceeds	<u>(330,825)</u>
<u>Contributed Capital</u> - June 30, 2016	<u>\$2,005,872</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.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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.

Note 14 - Commitment and Contingencies

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

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

Note 15 - Segment Information

The City maintains two enterprise funds which provide water and wastewater public services. Selected financial information for business segments of enterprise funds at June 30, 2016 and for the year then ended is presented as follows:

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Operating revenues	\$1,517,267	\$527,749	\$2,045,016
Depreciation	547,059	87,430	634,489
Other operating expenses	577,792	177,918	755,710
Operating income	392,416	262,401	654,817
Non-operating revenues	52,607	16,021	68,628
Non-operating expenses	546,675	153,874	700,549
Income (loss) before Capital contributions	(101,652)	124,548	22,896

Note 16 - Pronouncements Issues, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2016 that have effective dates that may impact future

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

financial presentations. Management has not currently determined what, if any impact the implementation may have on the financial statements of the City.

Note 18 - Excess of Expenditures over Appropriations

The general fund incurred expenditures in excess of appropriations in the amount of \$219,839 for the year ended June 30, 2016. The expenditures were funded through the use of operating reserves.

Note 19 - Subsequent Events

In July 2017, the City purchased land for its new library using its special revenue funds in the amount of \$206,761.

Management has evaluated all subsequent events through December 18, 2017, the date the financial statements were 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, 2016

	<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	\$ 1,060,750	\$ 1,060,750	\$ 1,059,881	\$ (869)
Transfer tax			121,740	121,740
Rental income	56,745	56,745	57,395	650
Mobile home park license	29,250	29,250	24,750	(4,500)
Miscellaneous	8,625	8,625	23,489	14,864
Grants			343,342	343,342
Community impact fees			3,000	3,000
Interfund service fee	502,832	502,832	502,832	
Interest	3,250	3,250	3,959	709
<u>Total City</u>	<u>1,661,452</u>	<u>1,661,452</u>	<u>2,140,388</u>	<u>478,936</u>
<u>Police</u>				
Fines	324,300	324,300	333,794	9,494
Other			90,874	90,874
Grants			64,459	64,459
<u>Total Police</u>	<u>324,300</u>	<u>324,300</u>	<u>489,127</u>	<u>164,827</u>
<u>Library</u>				
Grants	37,000	37,000	37,939	939
Reciprocal borrowing	35,000	35,000	39,013	4,013
Miscellaneous	8,200	8,200	7,309	(891)
<u>Total Library</u>	<u>80,200</u>	<u>80,200</u>	<u>84,261</u>	<u>4,061</u>
<u>Trash</u>				
Fees	239,752	239,752	234,923	(4,829)
Penalties and fines	2,600	2,600	3,935	1,335
<u>Total Trash</u>	<u>242,352</u>	<u>242,352</u>	<u>238,858</u>	<u>(3,494)</u>
<u>Sewer</u>				
Fees	1,468,000	1,468,000	1,508,467	40,467
Hook ups			7,800	7,800
Impact fees			30,123	30,123
Other			1,000	1,000
Interest	8,800	8,800	22,484	13,684
<u>Total Sewer</u>	<u>1,476,800</u>	<u>1,476,800</u>	<u>1,569,874</u>	<u>93,074</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2016

	<u>Budget</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>Revenues</u></b> (Continued)				
<u>Water</u>				
Fees	\$ 484,000	\$ 484,000	\$ 494,457	\$ 10,457
Hook ups	11,640	11,640	15,775	4,135
Impact fees			3,510	3,510
Other	17,517	17,517	17,517	
Interest	9,450	9,450	12,511	3,061
<u>Total Water</u>	<u>522,607</u>	<u>522,607</u>	<u>543,770</u>	<u>21,163</u>
<u>Fire Company</u>				
Fire company personnel	76,384	76,384	76,002	(382)
<u>Total Fire Company</u>	<u>76,384</u>	<u>76,384</u>	<u>76,002</u>	<u>(382)</u>
<u>Public Works</u>				
Building permits	24,000	24,000	31,701	7,701
Planning and zoning fees	1,600	1,600	350	(1,250)
Contractors license fees	16,000	16,000	15,500	(500)
Vacant buildings	1,440	1,440	1,350	(90)
Fines and penalties	15,000	15,000	19,437	4,437
Business licenses	58,255	58,255	60,171	1,916
Gain on sale of assets			75,631	75,631
City clean up fees	44,000	44,000	20,659	(23,341)
Other	6,700	6,700	6,928	228
<u>Total Public Works</u>	<u>166,995</u>	<u>166,995</u>	<u>231,727</u>	<u>64,732</u>
<u>Parks and Recreation</u>				
Grants in aid	32,000	32,000	32,000	
Program income	96,440	96,440	99,261	2,821
Miscellaneous	12,000	12,000	11,925	(75)
Fundraiser funds	24,000	24,000	32,705	8,705
<u>Total Parks and Recreation</u>	<u>164,440</u>	<u>164,440</u>	<u>175,891</u>	<u>11,451</u>
<u>Total Revenues</u>	<u>4,715,530</u>	<u>4,715,530</u>	<u>5,549,898</u>	<u>834,368</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2016

	<u>Budget</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>Expenditures</u></b>				
<b><u>General Government</u></b>				
<b><u>City:</u></b>				
Salaries	\$ 303,817	\$ 303,817	\$ 303,299	\$ 518
Payroll taxes	29,501	29,501	30,120	(619)
Health insurance	53,082	53,082	52,181	901
Pension	17,397	17,397	17,991	(594)
Vehicle maintenance	900	900	849	51
Office supplies	4,650	4,650	3,995	655
Telephone	5,500	5,500	5,453	47
Postage	2,000	2,000	2,293	(293)
Heat and electric	6,950	6,950	5,722	1,228
Capital outlay			633,278	(633,278)
Debt services			377	(377)
Legal	65,000	65,000	68,043	(3,043)
Advertising	2,000	2,000	3,014	(1,014)
Accounting services	5,500	5,500	5,816	(316)
Travel and food	1,000	1,000	880	120
Engineering	3,100	3,100	2,408	692
Dues and meetings	6,055	6,055	6,277	(222)
Inspection fees	66,775	66,775	70,067	(3,292)
Building maintenance and repairs	3,300	3,300	4,955	(1,655)
Computer maintenance and repairs	24,800	24,800	25,050	(250)
Election expense	2,600	2,600	2,737	(137)
Miscellaneous	19,200	19,200	15,227	3,973
Bad debt expense			40,166	(40,166)
Clean up fees	3,300	3,300	2,530	770
Training	3,870	3,870	4,033	(163)
Lease equipment	8,739	8,739	8,271	468
Insurance	16,572	16,572	15,885	687
Accounting and auditing	57,000	57,000	94,340	(37,340)
<b><u>Total City</u></b>	<b><u>712,608</u></b>	<b><u>712,608</u></b>	<b><u>1,425,257</u></b>	<b><u>(712,649)</u></b>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2016

<u>Expenditures (Continued)</u>	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable)</u>
<u>Police</u>				
Salaries	\$ 539,145	\$ 539,145	\$ 608,651	\$ (69,506)
Overtime	107,000	107,000	100,406	6,594
Payroll taxes	78,643	78,643	98,223	(19,580)
Pension	24,206	24,206	29,597	(5,391)
Health insurance	149,310	149,310	145,382	3,928
Vehicle maintenance and repairs	44,000	44,000	41,366	2,634
Radar/special electronics	2,500	2,500	6,451	(3,951)
Training	1,200	1,200	693	507
Office supplies	3,300	3,300	3,261	39
Telephone	11,300	11,300	11,247	53
Postage	800	800	644	156
Heat and electric	11,000	11,000	10,408	592
National nite out			16,799	(16,799)
Insurance	21,000	21,000	21,369	(369)
Debt services			156	(156)
Dues and meetings	800	800	640	160
Travel and food	1,200	1,200	1,285	(85)
Computer maintenance and repairs	100	100	25	75
Building repairs and maintenance	2,500	2,500	2,299	201
Maintenance agreement	590	590	656	(66)
Miscellaneous	5,250	5,250	52,885	(47,635)
Uniforms	1,200	1,200	1,178	22
Ammo and targets	2,500	2,500	3,090	(590)
Clothing allowance	9,000	9,000	11,704	(2,704)
Lease equipment	1,500	1,500	1,274	226
Legal	5,000	5,000	4,207	793
<u>Total Police</u>	<u>1,023,044</u>	<u>1,023,044</u>	<u>1,173,896</u>	<u>(150,852)</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2016

	<u>Budget</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>Expenditures (Continued)</u></b>				
<u>Public Works</u>				
Salaries	\$ 114,506	\$ 114,506	\$ 124,198	\$ (9,692)
Payroll taxes	14,987	14,987	17,877	(2,890)
Pension	7,110	7,110	7,664	(554)
Health insurance	32,095	32,095	32,021	74
Per diem	2,080	2,080	2,080	
Vehicle maintenance and repairs	14,000	14,000	15,077	(1,077)
Equipment maintenance and repairs	11,000	11,000	11,087	(87)
Office supplies	1,166	1,166	1,223	(57)
Telephone	3,442	3,442	3,598	(156)
Building maintenance	1,850	1,850	1,898	(48)
Heat and electric	4,200	4,200	4,120	80
Engineering	5,000	5,000	5,608	(608)
Insurance	3,550	3,550	3,550	
Dues and meeting	450	450	246	204
Uniforms	5,050	5,050	5,049	1
Supplies	2,000	2,000	1,738	262
Street maintenance	25,000	25,000	21,042	3,958
Ditch cleaning	3,000	3,000	2,874	126
Street signs and markings	500	500	673	(173)
Street lights	55,600	55,600	58,835	(3,235)
Training	100	100		100
Snow and ice removal	3,000	3,000	2,111	889
Safety	1,100	1,100	710	390
Wildlife control	500	500	40	460
	<u>311,286</u>	<u>311,286</u>	<u>323,319</u>	<u>(12,033)</u>
<u>Trash</u>				
Postage	550	550	938	(388)
Insurance	3,550	3,550	3,550	
Contract services	235,420	235,420	235,646	(226)
	<u>239,520</u>	<u>239,520</u>	<u>240,134</u>	<u>(614)</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2016

<u>Expenditures (Continued)</u>	<u>Budget</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Library</u>				
Salaries	\$ 101,545	\$ 101,545	\$ 100,483	\$ 1,062
Payroll taxes	10,072	10,072	10,067	5
Pension	6,306	6,306	6,440	(134)
Health insurance	19,935	19,935	19,893	42
Office supplies	1,650	1,650	1,612	38
Telephone	1,600	1,600	1,732	(132)
Postage	100	100	49	51
Heat and electric	8,000	8,000	7,152	848
Travel and food	50	50	39	11
Dues and meetings	70	70	70	
Debt services			144	(144)
Building repairs and maintenance	1,200	1,200	1,126	74
Books and subscriptions	22,000	22,000	22,037	(37)
Automation	2,500	2,500	3,169	(669)
Insurance	1,420	1,420	1,420	
Advertising	50	50	50	
Lease equipment	1,375	1,375	1,169	206
<u>Total Library</u>	<u>177,873</u>	<u>177,873</u>	<u>176,652</u>	<u>1,221</u>
<u>Sewer</u>				
Salaries	62,534	62,534	62,928	(394)
Payroll taxes	8,683	8,683	9,485	(802)
Pension	3,882	3,882	2,924	958
Health insurance	17,099	17,099	17,079	20
Training	500	500		500
Office supplies	300	300	205	95
Telephone	1,000	1,000	1,138	(138)
Postage	1,500	1,500	1,265	235
Heat and electric	8,200	8,200	7,798	402
Safety	800	800	795	5
Maintenance agreements	400	400	599	(199)
Building repairs and maintenance	1,000	1,000	1,735	(735)
Sample testing	700	700	416	284

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2016

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b><u>Expenditures</u></b> (Continued)				
<u>Sewer</u> (Continued)				
Pump station repairs	\$ 12,500	\$ 12,500	\$ 6,384	\$ 6,116
Chemicals	500	500	1,840	(1,340)
Flow meter operations	1,000	1,000	780	220
License and permits	125	125		125
Insurance	26,000	26,000	25,560	440
Engineering	10,000	10,000	17,004	(7,004)
Legal and administrative fee	30,000	30,000	52,223	(22,223)
Contingency	70,300	70,300	4,337	65,963
Interfund service fee	381,094	381,094	381,094	
County sewer fee	395,000	395,000	363,297	31,703
Interest	375,334	375,334	165,581	209,753
Depreciation			547,059	(547,059)
	<u>1,408,451</u>	<u>1,408,451</u>	<u>1,671,526</u>	<u>(263,075)</u>
 <u>Water</u>				
Salaries	72,708	72,708	72,991	(283)
Payroll taxes	10,338	10,338	11,270	(932)
Pension	4,515	4,515	3,581	934
Health insurance	20,943	20,943	21,203	(260)
Vehicle maintenance and repairs	2,300	2,300	1,703	597
Office supplies	300	300	205	95
Postage	1,700	1,700	1,312	388
Dues and meetings	1,000	1,000	682	318
Heat and electric	21,500	21,500	17,056	4,444
Maintenance agreement	400	400	350	50
Water meters	2,000	2,000	2,730	(730)
Sample testing	800	800	750	50
Water line repairs	9,500	9,500	4,753	4,747
Chemicals	15,000	15,000	18,500	(3,500)
Contingency	125,972	125,972	2,375	123,597
Insurance	9,940	9,940	9,940	
Engineering	10,000	10,000	8,517	1,483
Interfund service fee	121,738	121,738	121,738	
Interest	53,140	53,140	32,136	21,004
License & Permits	200	200		200
Depreciation			87,430	(87,430)
	<u>483,994</u>	<u>483,994</u>	<u>419,222</u>	<u>64,772</u>
 <u>Fire Company</u>				
Salaries	89,253	89,253	90,673	(1,420)
Payroll taxes	12,692	12,692	13,343	(651)
Health insurance	26,613	26,613	26,569	44
Insurance	710	710	710	
Pension	5,812	5,812	5,833	(21)
Fuel	6,000	6,000	6,000	
	<u>141,080</u>	<u>141,080</u>	<u>143,128</u>	<u>(2,048)</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2016

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable)</u>
<b><u>Expenditures</u></b> (Continued)				
<u>Parks and Recreation Department</u>				
Salaries	\$ 62,448	\$ 62,448	\$ 62,779	\$ (331)
Payroll taxes	5,687	5,687	5,727	(40)
Health insurance	13,485	13,485	11,501	1,984
Pension	3,878	3,878	4,022	(144)
Office supplies	400	400	853	(453)
Telephone	2,800	2,800	2,824	(24)
Heat and electric	12,600	12,600	11,128	1,472
Debt services			146	(146)
Postage	100	100	119	(19)
Vehicle repairs and maintenance	450	450	171	279
Fundraisers	15,000	15,000	11,259	3,741
Building repairs and maintenance	2,500	2,500	1,510	990
Capital outlay			14,680	(14,680)
Lease equipment	1,410	1,410	1,200	210
Maintenance agreement	1,500	1,500	1,039	461
Insurance	4,700	4,700	4,526	174
Programs	59,624	59,624	61,477	(1,853)
Advertising	100	100	118	(18)
	<u>186,682</u>	<u>186,682</u>	<u>195,079</u>	<u>(8,397)</u>
<u>Total Parks and Recreation Department</u>				
	<u>186,682</u>	<u>186,682</u>	<u>195,079</u>	<u>(8,397)</u>
<u>Total Expenditures</u>	<u>4,684,538</u>	<u>4,684,538</u>	<u>5,768,213</u>	<u>(1,083,675)</u>
	<u>\$ 30,992</u>	<u>\$ 30,992</u>	<u>\$ (218,315)</u>	<u>\$ (249,307)</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2016

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
<u>Police Pension Fund</u>				
Revenues	\$ 47,995	\$ 47,995	\$ 48,835	\$ 840
Expenditures			48,835	( 48,835)
<u>Excess Revenues Over Expenditures</u>	<u>\$ 47,995</u>	<u>\$ 47,995</u>	<u>\$ -0-</u>	<u>(\$ 47,995)</u>
<u>Municipal Street Aid</u>				
Revenues	\$	\$	\$ 70,997	\$ 70,997
Expenditures			213,681	( 213,681)
<u>Deficiency of Revenues Over Expenditures</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>(\$ 142,684)</u>	<u>(\$ 142,684)</u>
<u>Combat Violent Crime</u>				
Revenues	\$	\$	\$ 21,075	\$ 21,075
Expenditures			20,066	( 20,066)
<u>Excess Revenues Over Expenditures</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,009</u>	<u>\$ 1,009</u>
<u>SLEAF</u>				
Revenues	\$	\$	\$ 42,370	\$ 42,370
Expenditures			39,920	( 39,920)
<u>Excess Revenues Over Expenditures</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 2,450</u>	<u>\$ 2,450</u>
<u>EIDE</u>				
Revenues	\$	\$	\$ 5,808	\$ 5,808
Expenditures			5,573	( 5,573)
<u>Excess Revenues Over Expenditures</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 235</u>	<u>\$ 235</u>
<u>SALLE</u>				
Revenues	\$	\$	\$ 5,023	\$ 5,023
Expenditures			4,561	( 4,561)
<u>Excess Revenues Over Expenditures</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 462</u>	<u>\$ 462</u>
<u>Library Building Fund</u>				
Revenues			\$ 22,530	\$ 22,530
Expenditures				
<u>Excess Revenues Over Expenditures</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 22,530</u>	<u>\$ 22,530</u>

CITY OF HARRINGTON, DELAWARE

PROPORTIONATE SHARE OF NET PENSION ASSET - DELAWARE MUNICIPAL  
POLICE/FIREFIGHTER PENSION PLAN

YEAR ENDED JUNE 30, 2016

City's proportionate share of the net pension asset	0.6769%
City's proportionate share of the net pension asset	\$ 35,677
City's covered employee payroll	\$ 614,628
City's proportionate share of the net pension asset as a percentage of its covered employee payroll	5.8%
Plan fiduciary net position as a percentage of the total pension asset	102.0%

CITY OF HARRINGTON, DELAWARE

PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET) - DELAWARE  
COUNTY AND MUNICIPAL OTHER EMPLOYEES' PENSION PLAN

YEAR ENDED JUNE 30, 2016

City's proportionate share of the net pension liability (asset)	2.7587%
City's proportionate share of the net pension (asset) liability	\$ 1,177
City's covered employee payroll	\$ 783,321
City's proportionate share of the net pension (asset) liability as a percentage of its covered employee payroll	0.2%
Plan fiduciary net position as a percentage of the total pension liability (asset)	99.9%

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF CITY CONTRIBUTIONS - DELAWARE MUNICIPAL  
POLICE/FIREFIGHTER PENSION PLAN

YEAR ENDED JUNE 30, 2016

Required contribution	\$ 68,149
Contribution in relation to the required contribution	<u>72,019</u>
Contribution deficiency (excess)	<u>\$ (3,870)</u>
City's covered employee payroll	\$ 614,628
Contributions as a percentage of covered employee payroll	11.7%

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF CITY CONTRIBUTIONS - DELAWARE COUNTY AND  
MUNICIPAL OTHER EMPLOYEES' PENSION PLAN

YEAR ENDED JUNE 30, 2016

Required contribution	\$ 52,993
Contribution in relation to the required contribution	<u>48,257</u>
Contribution deficiency (excess)	<u>\$ 4,736</u>
City's covered employee payroll	\$ 783,321
Contributions as a percentage of covered employee payroll	6.2%

SUPPLEMENTARY INFORMATION

CITY OF HARRINGTON, DELAWARE

COMBINING BALANCE SHEET -  
ALL SPECIAL REVENUE FUNDS

JUNE 30, 2016

	<u>Police Pension Fund</u>	<u>Municipal Street Aid</u>	<u>Combat Violent Crime</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		\$ 153,738	\$ 11,377		\$ 10,789	\$ 12,056	\$ 296,794	\$ 484,754
Interfund receivable				\$ 42,370	1,768	1,314	600	46,052
<u>Total Assets</u>	<u>\$ -0-</u>	<u>\$ 153,738</u>	<u>\$ 11,377</u>	<u>\$ 42,370</u>	<u>\$ 12,557</u>	<u>\$ 13,370</u>	<u>\$ 297,394</u>	<u>\$ 530,806</u>
<u>LIABILITY</u>								
Intragovernment payable		\$ 67,652	\$ 10,319	\$ 39,920	\$ 7,251	\$ 11,330	\$ 75,000	\$ 211,472
<u>FUND EQUITY</u>								
<u>Fund Balances</u>								
Restricted		86,086	1,058	2,450	5,306	2,040		96,940
Committed							222,394	222,394
<u>Total Fund Equity</u>		<u>86,086</u>	<u>1,058</u>	<u>2,450</u>	<u>5,306</u>	<u>2,040</u>	<u>222,394</u>	<u>319,334</u>
<u>Total Liabilities and Fund Equity</u>	<u>\$ -0-</u>	<u>\$ 153,738</u>	<u>\$ 11,377</u>	<u>\$ 42,370</u>	<u>\$ 12,557</u>	<u>\$ 13,370</u>	<u>\$ 297,394</u>	<u>\$ 530,806</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2016

	<u>Police Pension Fund</u>	<u>Municipal Street Aid</u>	<u>Combat Violent Crime</u>	<u>SLEAF</u>	<u>EIDE</u>	<u>SALLE</u>	<u>Library Building</u>	<u>Total</u>
<u>Revenues</u>								
Intergovernmental revenues	\$ 48,835	\$ 70,759	\$ 21,062	\$ 42,370	\$ 5,798	\$ 5,011	\$ 20,200	\$ 214,035
Interest		238	13		10	12	2,330	2,603
<u>Total Revenues</u>	48,835	70,997	21,075	42,370	5,808	5,023	22,530	216,638
<u>Expenditures</u>	48,835	213,681	20,066	39,920	5,573	4,561		332,636
<u>Excess (Deficiency) of Revenues Over Expenditures</u>		(142,684)	1,009	2,450	235	462	22,530	(115,998)
<u>Fund Balance - Beginning of year</u>		228,770	49		5,071	1,578	199,864	435,332
<u>Fund Balance - End of year</u>	\$ -0-	\$ 86,086	\$ 1,058	\$ 2,450	\$ 5,306	\$ 2,040	\$ 222,394	\$ 319,334

SINGLE AUDIT SECTION

**Report On Compliance For Each Major Federal Program;  
Report On Internal Control Over Compliance; And Report On Schedule Of  
Expenditures Of Federal Awards Required By the Uniform Guidance**

**Independent Auditor's Report**

To the Mayor and Council  
City of Harrington, Delaware

**Report on Compliance for Each Major Federal Program**

We have audited the City of Harrington, Delaware's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. 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*.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City of Harrington, Delaware's major federal programs based on our audit of the types 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination on the City of Harrington, Delaware's compliance.

### **Opinion on Each Major Federal Program**

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, 2016.

### **Report on Internal Control Over Compliance**

Management of the City of Harrington, Delaware is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Harrington, Delaware's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be a material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the City of Harrington, Delaware as of and for the year ended June 30, 2016, and have issued our report thereon dated December 18, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Horty, Horty PA*

Dover, Delaware  
December 18, 2017

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2016

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued - unmodified

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 - unmodified

- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  Yes  No

Identification of major federal programs:

<u>Program Name</u>	<u>CFDA</u>
Water and Waste Disposal Systems for Rural Communities	10.760
Capitalization Grants for Clean Water State Revolving Funds Delaware Department of Natural Resources and Environmental Control (DNREC)	66.458
Capitalization Grants for Drinking Water State Revolving Funds Delaware Department of Natural Resources and Environmental Control (DNREC)	66.468

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2016

Dollar threshold used to distinguish between  
Type A and Type B Programs

\$750,000

Auditee qualified as low-risk auditee?

Yes  No

II. Financial Statement Findings

STATUS OF PRIOR YEAR FINDINGS

*None*

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

*None*

III. Findings And Questioned Costs For Federal Awards

EACH FINDING IS CONSIDERED A REPORTABLE CONDITION AND  
COMPLIANCE FINDING

*Finding 2016-1*  
*All Major Programs*

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, 2016 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 2 CFR 200.516(a) as the issue cited above was related to management of the program.

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2016

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 position.

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 timely reported to the Federal Audit Clearinghouse.

CITY OF HARRINGTON, DELAWARE

CORRECTIVE ACTION PLAN

YEAR ENDED JUNE 30, 2016

III. Federal Award Findings and Questioned Costs

Finding #: 2016-1

Name of Contact Person:

Anthony Moyer, Mayor

Corrective Action Plan:

The City will submit our June 30, 2016 data collection form along with our audited financial statements to the Federal Audit Clearinghouse upon completion. We will also complete subsequent year end closes 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, 2016

A single audit was not required in the prior year.

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2016

<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	\$ 911,988
<u>U.S. Environmental Protection Agency:</u>		
Capitalization Grants for Clean Water State Revolving Funds Delaware Department of Natural Resources and Environmental Control (DNREC)	66.458	2,044,571
Capitalization Grants for Drinking Water State Revolving Funds Delaware Department of Natural Resources and Environmental Control (DNREC)	66.468	<u>528,121</u>
<u>Total Federal Pass-Through Expenditures</u>		<u>\$3,484,680</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant and loan activity of the City of Harrington, Delaware under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City of Harrington, Delaware, it is not intended and does not present the financial position, changes in net assets or cash flows of the City of Harrington, Delaware

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.