

CITY OF HARRINGTON, DELAWARE

FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2019

CITY OF HARRINGTON, DELAWARE

CONTENTS

JUNE 30, 2019

	<u>Pages</u>
<u>FINANCIAL SECTION</u>	
Independent Auditor's Report	1 - 3
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with Government Auditing Standards	4 - 5
Management's Discussion and Analysis	6 - 16
<u>Basic Financial Statements</u>	
Government-Wide Financial Statements:	
Statement of Net Position	17
Statement of Activities	18
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	19
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	20
Statement of Revenues, Expenditures and Changes in Fund Balances	21
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	22
Proprietary Funds:	
Statement of Net Position	23
Statement of Revenues, Expenses and Changes in Fund Net Position	24
Statement of Operating Expenses	25
Statement of Cash Flows	26
Notes to Financial Statements	27 - 50
<u>Required Supplementary Information</u>	
Schedule of Revenues and Expenditures - Budget and Actual - Combined Governmental and Proprietary Fund Types	51 - 58
Statement of Revenues, Expenditures - Budget and Actual - All Special Revenue Funds	59
Proportionate Share of the Net Pension Liability (Asset) - Delaware Municipal Police/Firefighter Pension Plan	60
Proportionate Share of the Net Pension Liability (Asset) - Delaware County and Municipal Other Employees' Pension Plan	61

CITY OF HARRINGTON, DELAWARE

CONTENTS

JUNE 30, 2019

	<u>Pages</u>
Schedule of City Contributions - Delaware Municipal Police/Firefighter Pension Plan	62
Schedule of City Contributions - Delaware County and Municipal Other Employees' Pension Plan	63
<u>Supplementary Information</u>	
Combining Balance Sheet - All Special Revenue Funds	64
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - All Special Revenue Funds	65
<u>Single Audit Section</u>	
Independent Auditor's 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	66 - 68
Schedule of Findings and Questioned Costs	69 - 70
Schedule of Expenditures of Federal Awards	71

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, 2019, 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 on 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 of 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, 2019, 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.

Emphasis of Matter

As discussed in Note 16, the worldwide spread of the COVID-19 virus has resulted in adverse economic effects for many businesses and may negatively affect the City; however, the related impact and duration cannot be reasonably estimated at this time. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information on pages 6 through 16 and 51 through 59, respectively, proportionate share of the net pension liability (asset) - Delaware Municipal Police/Firefighter and Delaware County and Municipal Other Employees' Pension Plans on pages 60 and 61 and schedules of City contributions for the Delaware Municipal Police/Firefighter and Delaware County and Municipal Other Employees' Pension Plan on pages 62 and 63 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 special revenue fund financial statements and Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and*

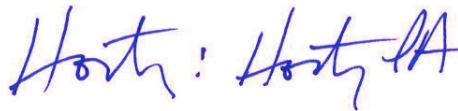
Audit Requirements for Federal Awards are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying combining and individual special revenue fund financial statements and Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and 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 April 5, 2021 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 solely 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
April 5, 2021



Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With Government Auditing Standards

To the 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, 2019, 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 April 5, 2021.

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) as a basis for designing 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.

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

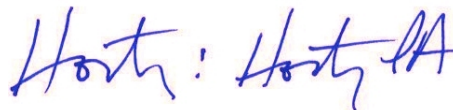
As part of obtaining reasonable assurance about whether the City of Harrington, Delaware’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have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

We noted certain matters that we have reported to management of the City of Harrington, Delaware in a separate letter dated April 5, 2021.

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
April 5, 2021



CITY OF HARRINGTON, DELAWARE

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

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, 2019. We encourage users to read it in conjunction with the City's financial statements, which follow this section.

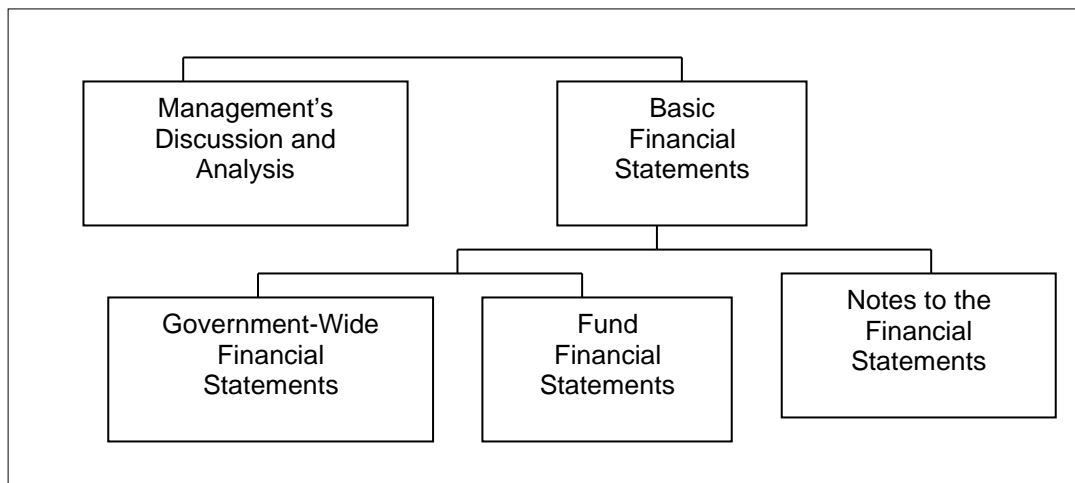
Financial Highlights For Fiscal Year 2019

- The assets of the City exceeded its liabilities at the close of the 2019 fiscal year resulting in a net position of \$15,437,584. Of this amount, \$5,985,773 is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors, and \$6,011,908 is invested in capital assets, net of related debt.
- As of June 30, 2019, the City's governmental funds reported combined ending fund balances of \$3,430,413.

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 reader's 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 funds statements; and 2) the proprietary funds 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 eight 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 seven governmental funds. Data for these funds is combined into a single, aggregated presentation.

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 22 of this report.

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

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

The basic proprietary fund financial statements can be found on pages 23 through 26 of this report.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27 through 50 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 64 and 65 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, 2019.

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 \$15,437,584 at the close of the fiscal year, June 30, 2019.

By far the largest portion of the City's net position (58 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>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Current and other assets	\$4,148,949	\$4,111,128	\$ 3,738,504	\$ 2,613,971	\$ 7,887,453	\$ 6,725,099
Capital assets	3,568,237	3,732,044	12,186,731	11,390,358	15,754,968	15,122,402
Deferred outflows of resources	<u>448,987</u>	<u>350,154</u>	<u>26,833</u>	<u>34,443</u>	<u>475,820</u>	<u>384,597</u>
<u>Total Assets and Deferred</u>						
<u>Outflows of Resources</u>	<u>\$8,166,173</u>	<u>\$8,193,326</u>	<u>\$15,952,068</u>	<u>\$14,038,772</u>	<u>\$24,118,241</u>	<u>\$22,232,098</u>

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>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Current liabilities	\$ 808,623	\$ 767,128	\$ 957,162	\$ 482,606	\$ 1,765,785	\$ 1,249,734
Noncurrent liabilities	214,349	185,977	6,515,302	6,817,878	6,729,651	7,003,855
Deferred inflows of resources	<u>171,648</u>	<u>114,481</u>	<u>13,573</u>	<u>8,915</u>	<u>185,221</u>	<u>123,396</u>
<u>Total Liabilities and Deferred Inflows of Resources</u>	<u>1,194,620</u>	<u>1,067,586</u>	<u>7,486,037</u>	<u>7,309,399</u>	<u>8,680,657</u>	<u>8,376,985</u>
Contributed capital			2,966,150	1,479,125	2,966,150	1,479,125
Restricted	473,753	381,935			473,753	381,935
Invested in capital assets	3,568,237	3,724,589	2,443,671	2,849,968	6,011,908	6,574,557
Unrestricted	<u>2,929,563</u>	<u>3,019,216</u>	<u>3,056,210</u>	<u>2,400,280</u>	<u>5,985,773</u>	<u>5,419,496</u>
<u>Total Net Position</u>	<u>\$6,971,553</u>	<u>\$7,125,740</u>	<u>\$8,466,031</u>	<u>\$6,729,373</u>	<u>\$15,437,584</u>	<u>\$13,855,113</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>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
REVENUES						
<u>Program Revenues</u>						
Charges for services	\$1,862,536	\$2,085,040	\$2,086,857	\$1,960,620	\$3,949,393	\$ 4,045,660
Operating grants and contributions	461,462	262,805			461,462	262,805
Capital grants and contributions		429,502	1,785,176	204,237	1,785,176	633,739
<u>General Revenues</u>						
Property taxes	1,055,476	1,096,063			1,055,476	1,096,063
Transfer tax	97,566	103,479			97,566	103,479
Community impact fees	16,500	12,471			16,500	12,471
Other revenue	<u>86,517</u>	<u>44,286</u>	<u>41,212</u>	<u>22,279</u>	<u>127,729</u>	<u>66,565</u>
<u>Total Revenues</u>	<u>3,580,057</u>	<u>4,033,646</u>	<u>3,913,245</u>	<u>2,187,136</u>	<u>7,493,302</u>	<u>6,220,782</u>
EXPENSES						
General government	989,189	990,573			989,189	990,573
Police	1,622,768	1,542,650			1,622,768	1,542,650
Public works	372,973	382,324			372,973	382,324
Parks and recreation	248,450	173,488			248,450	173,488
Trash	181,060	238,589			181,060	238,589
Library	153,103	179,680			153,103	179,680
Fire company	166,701	146,378			166,701	146,378
Sewer			1,731,196	1,619,217	1,731,196	1,619,217
Water			445,391	428,930	445,391	428,930
<u>Total Expenses</u>	<u>3,734,244</u>	<u>3,653,682</u>	<u>2,176,587</u>	<u>2,048,147</u>	<u>5,910,831</u>	<u>5,701,829</u>

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>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<u>Change in Net Position</u>	(154,187)	379,964	1,736,658	138,989	1,582,471	518,953
<u>Net Position</u> - Beginning of year	<u>7,125,740</u>	<u>6,745,776</u>	<u>6,729,373</u>	<u>6,590,384</u>	<u>13,855,113</u>	<u>13,336,160</u>
<u>Net Position</u> - End of year	<u>\$6,971,553</u>	<u>\$7,125,740</u>	<u>\$8,466,031</u>	<u>\$6,729,373</u>	<u>\$15,437,584</u>	<u>\$13,855,113</u>

For the year ended June 30, 2019, 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, 2019, the City's governmental funds reported a combined ending fund balance of \$3,430,413.

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, 2019, the general fund balance is \$2,956,660.

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 capital contributions of \$168,766. Income before capital contributions of \$120,248 was reported in the water fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City adopted the fiscal year 2019 budget on June 18, 2018. The City's practice is to get approval from the Council if the budget is amended. During 2019 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, 2019, was \$15,754,968 (net of accumulated depreciation). Capital assets include land, building and improvements, furniture and fixtures, equipment and streets. Depreciation of \$1,001,520 exceeded additions by \$828,157.

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 \$6,776,910 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 continues working 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 a water main transmission system comprised of 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, an above ground water storage tank and well 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.

The City prioritized its sewer capacity expansion project discussed on pages 15 and 16 to be completed before commencing construction of the water main transmission system and above ground water storage tank and well projects discussed above. Proposals for these projects were received in the summer of 2019. There was only bidder for the water main transmission system project which exceeded the City's engineering estimate of approximately \$1,999,000 by approximately \$3,280,000. The City has put this project on hold indefinitely until which time there is increased competition so that they may receive more than one proposal. The proposal received for the above ground water storage tank and well project was approximately \$4,368,00 which is comparable to the City's engineering estimate. Funding for these projects was modified by DNREC and the USDA so that the City has a total of approximately \$3,688,000 available for construction of both projects. The City intends to move forward with the above ground water storage tank and well project and is awaiting approval from the USDA for additional funding of \$700,000.

Wastewater

The City owns and operates ten 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 ten 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)
Taco Bell	41	55 FT TDH @ 55 gpm	2"	460
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
Misipillion Street	50	25 FT TDH @ 60 gpm	2"	40
Smith Avenue	30	25 FT TDH @ 60 gpm	3"	800
Second Avenue	37.5	30 FT TDH @ 60 gpm	2" 4"	36 810
WWTP Pump Station	---	55 FT TDH @ 1100 gpm	8"	315
Farmington	50	25 FT TDH @ 1000 gpm	4"	19,008
Friendship Village	45	30 FT TDH @ 60 gpm	4"	1,584
Messicks	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 continues working 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.

The City continues to work with DNREC on the cleanout and closure of its wastewater lagoons which will consist of three phases. The approximate total cost for all phases is between \$3 million and \$5 million. The western lagoon (Phases 1 and 2) has been closed and the City received final DNREC approval of its closure in October 2020. The City will be responsible for the maintenance of its pump stations and gravity sewer system once all lagoons are cleaned out and closed and the respective financing has been repaid. Cleanout of the other lagoons is ongoing.

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.

In the summer of 2016, the City applied to the CWSRF and USDA for a new loan package for needed wastewater projects. The proposed sewer capacity expansion 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(DNREC) Loan	<u>\$1,462,925</u>
Funding at project completion		
	CWSRF (DNREC) 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.

Construction of the sewer capacity expansion project commenced in the summer of 2018 and was completed in the summer of 2020 for a total cost of approximately \$2.2 million. During the project DNREC and the USDA modified their funding resulting in additional DNREC principle forgiveness of approximately \$200,000 and additional USDA grants of approximately \$600,000 for a final USDA loan amount of approximately \$776,000.

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 approximately \$207,000 and the Delaware Division of Libraries has reimbursed the City approximately \$90,000. The City engaged an architect to work with the Library Building Committee on the design of the new building and proposals for construction costs were obtained. This project is currently on hold since the proposals received exceeded the City's \$1,500,294 capital project budget by approximately \$2.5 million.

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, 2019

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 1,918,812	\$ 2,253,922	\$ 4,172,734
Taxes receivable (net of allowances)	40,981		40,981
Accounts receivable	138,149	6,375	144,524
Intragovernment receivable	762,851	124,776	887,627
Government receivable	65,380	805,025	870,405
Service charges receivable		540,406	540,406
Assets held for sale	12,000		12,000
Land held for sale	1,187,778		1,187,778
Prepaid expenses	22,998	8,000	30,998
	<u>4,148,949</u>	<u>3,738,504</u>	<u>7,887,453</u>
<u>Total Current Assets</u>			
<u>Noncurrent Assets</u>			
<u>Capital Assets</u>			
Water and sewer systems		19,806,063	19,806,063
Construction in progress	447,193	1,824,099	2,271,292
Land and buildings	4,236,479		4,236,479
Furniture, fixtures and equipment	2,435,448		2,435,448
<u>Less: Accumulated depreciation</u>	<u>(3,550,883)</u>	<u>(9,443,431)</u>	<u>(12,994,314)</u>
	<u>3,568,237</u>	<u>12,186,731</u>	<u>15,754,968</u>
<u>Total Capital Assets, Net of Accumulated Depreciation</u>			
	<u>7,717,186</u>	<u>15,925,235</u>	<u>23,642,421</u>
<u>Total Assets</u>			
<u>Deferred Outflows of Resources</u>			
Deferred outflows of resources - Delaware Public Employees Retirement System	448,987	26,833	475,820
	<u>448,987</u>	<u>26,833</u>	<u>475,820</u>
<u>Total Assets and Deferred Outflows of Resources</u>			
	<u>\$ 8,166,173</u>	<u>\$ 15,952,068</u>	<u>\$ 24,118,241</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>			
Accounts payable and other	\$ 178,827	\$ 313,901	\$ 492,728
Intragovernment payable	539,709	347,918	887,627
Bonds and notes payable		286,317	286,317
Accrued compensated absences	<u>90,087</u>	<u>9,026</u>	<u>99,113</u>
<u>Total Current Liabilities</u>	808,623	957,162	1,765,785
<u>Noncurrent Liabilities</u>			
Bonds and note payable		6,490,593	6,490,593
Net pension liability	<u>214,349</u>	<u>24,709</u>	<u>239,058</u>
<u>Total Liabilities</u>	<u>1,022,972</u>	<u>7,472,464</u>	<u>8,495,436</u>
<u>Deferred Inflows of Resources</u>			
Deferred inflows of resources - Delaware Public Employees Retirement System	<u>171,648</u>	<u>13,573</u>	<u>185,221</u>
<u>Total Liabilities and Deferred Inflows of Resources</u>	<u>1,194,620</u>	<u>7,486,037</u>	<u>8,680,657</u>
<u>Net Position</u>			
Contributed capital		2,966,150	2,966,150
Restricted for:			
Library expenditures	150,752		150,752
Police expenditures	8,166		8,166
Street rehabilitation expenditures	314,835		314,835
Invested in capital assets, net of related debt	3,568,237	2,443,671	6,011,908
Unrestricted	<u>2,929,563</u>	<u>3,056,210</u>	<u>5,985,773</u>
<u>Total Net Position</u>	<u>\$ 6,971,553</u>	<u>\$ 8,466,031</u>	<u>\$ 15,437,584</u>

CITY OF HARRINGTON, DELAWARE

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

FUNCTIONS/PROGRAMS	Program Revenues			Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions		Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 989,189	\$ 69,603	\$ 175,224		\$ (744,362)		\$ (744,362)
Police	1,622,768	493,874	286,238		(842,656)		(842,656)
Public works	372,973	219,199			(153,774)		(153,774)
Trash	248,450	243,724			(4,726)		(4,726)
Library	181,060	72,166			(108,894)		(108,894)
Fire company	153,103	76,029			(77,074)		(77,074)
Parks and recreation	166,701	113,033			(53,668)		(53,668)
Interfund service fee		574,908			574,908		574,908
<u>Total Governmental Activities</u>	<u>3,734,244</u>	<u>1,862,536</u>	<u>461,462</u>		<u>(1,410,246)</u>		<u>(1,410,246)</u>
Business-Type Activities:							
Sewer	1,731,196	1,547,189		\$ 1,785,176		\$ 1,601,169	1,601,169
Water	445,391	539,668				94,277	94,277
<u>Total Business-Type Activities</u>	<u>2,176,587</u>	<u>2,086,857</u>		<u>1,785,176</u>		<u>1,695,446</u>	<u>1,695,446</u>
<u>Total</u>	<u>\$ 5,910,831</u>	<u>\$ 3,949,393</u>	<u>\$ 461,462</u>	<u>\$ 1,785,176</u>	<u>(1,410,246)</u>	<u>1,695,446</u>	<u>285,200</u>
<u>General Revenues and Transfers:</u>							
Taxes:							
Property taxes					1,055,476		1,055,476
Transfer tax					97,566		97,566
Interest					20,758	41,212	61,970
Community impact fees					16,500		16,500
Miscellaneous					65,759		65,759
<u>Total General Revenues</u>					<u>1,256,059</u>	<u>41,212</u>	<u>1,297,271</u>
<u>Change in Net Position</u>					<u>(154,187)</u>	<u>1,736,658</u>	<u>1,582,471</u>
<u>Net Position - Beginning of year</u>					<u>7,125,740</u>	<u>6,729,373</u>	<u>13,855,113</u>
<u>Net Position - End of year</u>					<u>\$ 6,971,553</u>	<u>\$ 8,466,031</u>	<u>\$ 15,437,584</u>

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

CITY OF HARRINGTON, DELAWARE

BALANCE SHEET
(GOVERNMENTAL FUNDS)

JUNE 30, 2019

<u>ASSETS</u>	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,295,201	\$ 623,611	\$ 1,918,812
Taxes receivable (net of allowances)	40,981		40,981
Accounts receivable	138,149		138,149
Intragovernment receivable	630,457	132,394	762,851
Government receivable	65,380		65,380
Assets held for sale	12,000		12,000
Land held for sale	1,187,778		1,187,778
Prepaid expenses	22,998		22,998
	<u>3,392,944</u>	<u>756,005</u>	<u>4,148,949</u>
<u>Total Assets</u>	<u>\$ 3,392,944</u>	<u>\$ 756,005</u>	<u>\$ 4,148,949</u>
<u>LIABILITIES</u>			
Accounts payable and other	\$ 178,827		\$ 178,827
Intragovernment payable	257,457	\$ 282,252	539,709
	<u>436,284</u>	<u>282,252</u>	<u>718,536</u>
<u>Total Liabilities</u>	<u>436,284</u>	<u>282,252</u>	<u>718,536</u>
<u>FUND BALANCE</u>			
<u>Fund Balances</u>			
Nonspendable:			
Land held for sale	1,187,778		1,187,778
Assets held for sale	12,000		12,000
Prepaid expenses	22,998		22,998
Restricted for:			
Police		8,166	8,166
Street rehabilitation		314,835	314,835
Committed for:			
City capital improvements	493,516		493,516
Library building		150,752	150,752
Assigned:			
Contingency	291,986		291,986
Unassigned	948,382		948,382
	<u>2,956,660</u>	<u>473,753</u>	<u>3,430,413</u>
<u>Total Fund Balance</u>	<u>2,956,660</u>	<u>473,753</u>	<u>3,430,413</u>
	<u>\$ 3,392,944</u>	<u>\$ 756,005</u>	<u>\$ 4,148,949</u>
<u>Total Liabilities and Fund Balance</u>	<u>\$ 3,392,944</u>	<u>\$ 756,005</u>	<u>\$ 4,148,949</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, 2019

<u>Total Fund Balances, Governmental Funds (Page 19)</u>	\$ 3,430,413
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.	3,568,237
Some liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the fund financial statements. Those liabilities consist of:	
Accrued compensated absences	(90,087)
Net pension liability	(214,349)
	<u>304,436</u>
Deferred charges - Delaware Public Employees Retirement System	<u>277,339</u>
<u>Net Position of Governmental Activities in the Statement of Net Position (Page 17)</u>	<u>\$ 6,971,553</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2019

	General Fund	Special Revenue Funds	Total
	<u> </u>	<u> </u>	<u> </u>
<u>Revenues</u>			
Taxes	\$ 1,055,476		\$ 1,055,476
Transfer tax	97,566		97,566
Rental income	69,603		69,603
Building permits	49,804		49,804
Planning and zoning fees	375		375
Vacant buildings	1,200		1,200
Mobile home park license	18,290		18,290
City clean up fees	45,539		45,539
Miscellaneous	65,759		65,759
Contractors license fees	14,600		14,600
Intergovernmental revenues		\$ 197,895	197,895
Fire company	76,029		76,029
Interest	11,751	9,007	20,758
Fines and penalties	12,838		12,838
Business licenses	76,553		76,553
Police revenue	582,217		582,217
Library revenue	72,166		72,166
Trash fees	243,724		243,724
Parks and recreation	113,033		113,033
Grants	175,224		175,224
Community impact fees	16,500		16,500
Interfund service fee	574,908		574,908
	<u> </u>	<u> </u>	<u> </u>
<u>Total Revenues</u>	<u>3,373,155</u>	<u>206,902</u>	<u>3,580,057</u>
 <u>Expenditures</u>			
General government	958,648		958,648
Police	1,470,953	115,084	1,586,037
Public works	309,899		309,899
Trash	248,450		248,450
Library	179,584		179,584
Fire company	154,448		154,448
Parks and recreation	159,128		159,128
	<u> </u>	<u> </u>	<u> </u>
<u>Total Expenditures</u>	<u>3,481,110</u>	<u>115,084</u>	<u>3,596,194</u>
 <u>Excess (Deficiency) of Revenues Over</u> <u>Expenditures</u>	<u>(107,955)</u>	<u>91,818</u>	<u>(16,137)</u>
 <u>Fund Balances - Beginning of year</u>	<u>3,064,615</u>	<u>381,935</u>	<u>3,446,550</u>
 <u>Fund Balances - End of year</u>	<u>\$ 2,956,660</u>	<u>\$ 473,753</u>	<u>\$ 3,430,413</u>

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

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, 2019

<u>Net Change in Fund Balances, Governmental Funds (Page 21)</u>	\$ (16,137)
<u>Amounts Reported for Governmental Activities in the Statement of Activities are Different Because</u>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$221,579) is less than depreciation (\$385,386), in the current period	(163,807)
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.	7,455
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	<u>18,302</u>
<u>Change in Net Position of Governmental Activities (Page 18)</u>	<u>\$ (154,187)</u>

CITY OF HARRINGTON, DELAWARE

STATEMENT OF NET POSITION
PROPRIETARY FUND - WATER AND SEWER FUND

JUNE 30, 2019

Assets

Current Assets

Cash and cash equivalents	\$ 2,253,922
Accounts receivable	6,375
Intragovernment receivable	124,776
Government receivable	805,025
Service charges receivable	540,406
Prepaid expenses	<u>8,000</u>

Total Current Assets 3,738,504

Noncurrent Assets

Capital Assets

Water and sewer systems	19,806,063
Construction in progress	1,824,099
<u>Less: Accumulated depreciation</u>	<u>(9,443,431)</u>

Total Capital Assets, Net of Accumulated
Depreciation 12,186,731

Total Assets 15,925,235

Deferred Outflow of Resources

Deferred outflows of resources - Delaware Public Employees Retirement System	<u>26,833</u>
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Total Assets and Deferred Outflows of Resources \$ 15,952,068

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

Liabilities

Current Liabilities

Accounts payable and other	\$ 313,901
Intragovernment payable	347,918
Bonds and notes payable	286,317
Accrued compensated absences	<u>9,026</u>

Total Current Liabilities 957,162

Noncurrent Liabilities

Bonds and notes payable	6,490,593
Net pension liability	<u>24,709</u>

Total Liabilities 7,472,464

Deferred Inflows of Resources

Deferred Inflows of resources - Delaware Public Employees Retirement System	<u>13,573</u>
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Total Liabilities and Deferred Inflows of Resources 7,486,037

Net Position

Contributed capital	2,966,150
Invested in capital assets, net of related debt	2,443,671
Unrestricted retained earnings	<u>3,056,210</u>

Total Net Position \$ 8,466,031

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2019

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
<u>Operating Revenues</u>			
Sewer fees	\$ 1,508,844		\$ 1,508,844
Water fees		\$ 476,456	476,456
Hook ups	8,500	26,590	35,090
Miscellaneous		27,262	27,262
	<u>1,517,344</u>	<u>530,308</u>	<u>2,047,652</u>
<u>Total Operating Revenues</u>	1,517,344	530,308	2,047,652
<u>Operating Expenses</u>	<u>1,177,226</u>	<u>254,223</u>	<u>1,431,449</u>
<u>Operating Income</u>	<u>340,118</u>	<u>276,085</u>	<u>616,203</u>
<u>Non-Operating Revenues (Expenses)</u>			
Interest expense	(138,763)	(31,467)	(170,230)
Interfund service fee	(415,207)	(159,701)	(574,908)
Impact fees	29,845	9,360	39,205
Interest income	15,241	25,971	41,212
	<u>(408,924)</u>	<u>(155,137)</u>	<u>(564,061)</u>
<u>Income (Loss) Before Capital Contributions</u>	<u>\$ (168,766)</u>	<u>\$ 120,248</u>	<u>(48,518)</u>
<u>Capital Contributions</u>			<u>1,785,176</u>
<u>Net Income</u>			1,736,658
<u>Net Position - Beginning of year</u>			<u>6,729,373</u>
<u>Net Position - End of year</u>			<u>\$ 8,466,031</u>

CITY OF HARRINGTON, DELAWARE
STATEMENT OF OPERATING EXPENSES
PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2019

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Salaries	\$ 63,419	\$ 60,743	\$ 124,162
Payroll taxes	7,903	8,490	16,393
Pension	4,332	4,706	9,038
Health insurance	13,237	15,298	28,535
Office supplies	318	300	618
Telephone	332		332
Postage	1,572	1,781	3,353
Heat and electric	8,303	14,944	23,247
Safety	581		581
Maintenance agreement	404	15,821	16,225
Dues and meetings		861	861
Building repairs and maintenance	694		694
Equipment repair		1,461	1,461
Pump station repairs	3,260		3,260
Engineering	97,303	4,220	101,523
Chemicals	1,249	16,710	17,959
Water meters		3,522	3,522
Sample testing		1,555	1,555
Water line repairs		3,135	3,135
Flow meter operations	1,914		1,914
License and permits	626	962	1,588
Insurance	22,898	7,234	30,132
County sewer fee	425,227		425,227
Depreciation	<u>523,654</u>	<u>92,480</u>	<u>616,134</u>
<u>Total Operating Expenses</u>	<u>\$ 1,177,226</u>	<u>\$ 254,223</u>	<u>\$ 1,431,449</u>

CITY OF HARRINGTON, DELAWARE

STATEMENT OF CASH FLOWS
(ALL PROPRIETARY FUNDS)

YEAR ENDED JUNE 30, 2019

Cash Flows From Operating Activities

Cash received from customers and other government	\$ 2,082,261
Cash paid to suppliers	(8,061)
Cash paid to employees	<u>(124,824)</u>

Net Cash Provided By Operating
Activities

1,949,376

Cash Flows From Non-Capital Financing Activities

Operating transfers to other funds	<u>(574,908)</u>
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Cash Flows From Capital and Related
Financing Activities

Purchase of property and equipment	(1,632,029)
Principal paid on general obligation debt	(284,355)
Interest paid	(170,230)
Capital contribution received	<u>980,151</u>

Net Cash Used For Capital and
Related Financing Activities

(1,106,463)

Cash Flows From Investing Activities

Interest income	<u>41,212</u>
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Net Increase In Cash and Cash Equivalents

309,217

Cash and Cash Equivalents

Beginning of year	<u>1,944,705</u>
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End of year	<u>\$ 2,253,922</u>
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The accompanying notes are an integral part of these financial statements.

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

<u>Operating Income</u>	\$ 616,203
<u>Adjustments To Reconcile Operating Income To Net</u>	
<u>Cash Provided By Operating Activities</u>	
Depreciation	616,134
Non-operating revenues	39,205
(Increase) decrease in:	
Accounts receivable	(995)
Service charges receivable	(3,601)
Prepaid expenses	(5,695)
Deferred outflows of resources	7,610
Increase (decrease) in:	
Accounts payable and other	419,639
Intragovernment payable	268,953
Compensated absences	(127)
Net pension liability	(12,608)
Deferred inflows of resources	<u>4,658</u>
<u>Net Cash Provided By Operating Activities</u>	<u>\$ 1,949,376</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 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, 2019

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 funds 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, 2019

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, 2019

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, 2019

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, 2019

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, 2019

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 four items that are required to be reported in this category: (1) differences between projected and actual investment earnings, (2) changes in employer proportionate share of the net pension liabilities that are being amortized over future periods, (3) differences between actual and expected experience and (4) changes in pension plan assumptions which are all 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 four items that are required to be reported in this category: (1) pension contributions made subsequent to the measurement date related to pensions, (2) changes in pension plan assumptions, (3) differences between actual and expected experience and (4) changes in employer proportionate share of the net pension liabilities. Accordingly, these items are 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, 2019

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 18, 2018. There were no significant changes to the fiscal 2019 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, 2019

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, 2019 is shown below:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
<u>Cash and Cash Equivalents</u>		
Category 1	\$ 500,000	\$ 500,000
Category 2	3,672,734	3,722,472
Category 3	<hr/>	<hr/>
<u>Total Cash and Cash Equivalents</u>	<u>\$4,172,734</u>	<u>\$4,222,472</u>

At June 30, 2019, the City's cash and cash equivalents are comprised of the following:

Carrying value of unrestricted cash and cash equivalents	\$1,946,907
Restricted cash and cash equivalents	<u>2,225,827</u>
<u>Total</u>	<u>\$4,172,734</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 4 - Property and Equipment

The following is a summary of changes in capital assets for the year ended June 30, 2019:

	<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	\$ <u>348,378</u>	\$ <u>98,815</u>		\$ <u>447,193</u>
Capital assets, being depreciated:				
Furniture, fixtures and equipment	2,374,968	60,480		2,435,448
Land and buildings	<u>4,174,195</u>	<u>62,284</u>		<u>4,236,479</u>
Total capital assets being depreciated	<u>6,549,163</u>	<u>122,764</u>		<u>6,671,927</u>
Less accumulated depreciation for:				
Furniture, fixtures and equipment	1,624,594	187,874		1,812,468
Land and buildings	<u>1,540,903</u>	<u>197,512</u>		<u>1,738,415</u>
Total accumulated depreciation	<u>3,165,497</u>	<u>385,386</u>		<u>3,550,883</u>
Governmental activities capital assets, net	<u>\$ 3,732,044</u>	(<u>\$163,807</u>)		<u>\$ 3,568,237</u>
<u>Business - Type Activities</u>				
Capital assets, not being depreciated:				
Construction in progress	\$ <u>462,191</u>	\$ <u>1,396,743</u>	\$ <u>34,835</u>	\$ <u>1,824,099</u>
Capital assets, being depreciated:				
Water and sewer systems	19,755,464	50,599		19,806,063
Less accumulated depreciation for:				
Water and sewer systems	<u>8,827,297</u>	<u>616,134</u>		<u>9,443,431</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Total capital assets being depreciated, net	<u>10,928,167</u>	<u>(565,535)</u>		<u>10,362,632</u>
Business-type activities capital assets, net	<u>\$11,390,358</u>	<u>\$831,208</u>	<u>\$34,835</u>	<u>\$12,186,731</u>

Depreciation expense for the year ended June 30, 2019 was charged to the functions of the primary government as follows:

<u>Governmental Activities</u>	
General government	\$209,439
Police	99,132
Public works	64,607
Parks and recreation	9,040
Library	<u>3,168</u>
 <u>Total Depreciation Expense - Governmental Activities</u>	 <u>\$385,386</u>

Note 5 - Accounts Payable and Other

Accounts payable and other at June 30, 2019 consists of the following:

	<u>Governmental Funds</u>	<u>Enterprise Funds</u>	<u>Total</u>
Accounts payable	\$ 113,378	\$308,702	\$422,080
Accrued expenses	<u>65,449</u>	<u>5,199</u>	<u>70,648</u>
 <u>Total</u>	 <u>\$178,827</u>	 <u>\$313,901</u>	 <u>\$492,728</u>

Note 6 - Long-Term Debt

Enterprise Funds Debt

In November 2009, the City entered into a loan agreement with the Farmers Home Administration. Proceeds of the loan were used to fund a water improvement project. The loan balance is \$725,436 at June 30, 2019 and is payable in quarterly payments of principal and interest at 2.375%. Final payment is due October 2049.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 \$1,473,187 at June 30, 2019 and is payable in quarterly payments of principal and interest at 1.875%. Final payment is due March 2053.

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, 2019 is \$1,344,501. 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, 2019 is \$410,842. 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 \$479,372 at June 30, 2019 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.

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 wastewater treatment plant. The loan balance is \$1,310,892 at June 30, 2019 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 \$546,266 at June 30, 2019 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

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

emergency water main project. The loan balance \$343,133 at June 30, 2019 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 \$143,281 at June 30, 2019 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, 2019</u>
<u>Business-Type Activities</u>				
USDA 2009 Loan	\$ 745,002		\$ 19,566	\$ 725,436
USDA 2013 Loan	1,504,300		31,113	1,473,187
DNREC 2010 Loan	1,442,716		98,215	1,344,501
DNREC 2014 Loan	439,504		28,662	410,842
USDA 2016 Loan	493,152		13,780	479,372
DNREC 2016 Loan	1,368,926		58,034	1,310,892
DNREC 2016 Loan	564,318		18,052	546,266
DNREC 2016 Loan	355,795		12,662	343,133
DNREC 2016 Loan	<u>147,552</u>		<u>4,271</u>	<u>143,281</u>
 <u>Total</u>	 <u>\$7,061,265</u>	 <u>\$ -0-</u>	 <u>\$284,355</u>	 <u>\$6,776,910</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>
2020	\$ 286,317	\$ 133,701	\$ 420,018
2021	292,152	127,866	420,018
2022	297,947	122,071	420,018
2023	303,927	116,091	420,018
2024	310,012	110,006	420,018
Thereafter	<u>5,286,555</u>	<u>1,084,831</u>	<u>6,371,386</u>
 <u>Total</u>	 <u>\$6,776,910</u>	 <u>\$1,694,566</u>	 <u>\$8,471,476</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 7 - 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 16.68% of covered payroll for the year ended June 30, 2019. The total amount contributed by the City for the year ended June 30, 2019 is \$107,565 of which \$67,241 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 for the June 30, 2018 measurement date was determined by an actuarial valuation as of June 30, 2017, and update procedures were used to roll forward the total pension liability to June 30, 2018. These actuarial valuations used the following actuarial assumptions, applied to all periods:

Significant actuarial assumptions are as follows:

Actuarial Cost Method - Entry Age Normal
Amortization Method - Level Percent Open
Remaining Amortization Period - 8 Years
Asset Valuation Method - 5 Year Smoothed Market
Actuarial Assumptions:
Investment Rate of Return - 7.0%
Projected Salary Increases - 2.5% + Merit
Inflation - 2.5%
Cost-of-Living Adjustments - 0.00%

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

The total pension liabilities are measured based on the assumptions pertaining to the interest rates, inflation rates, and employee demographics behavior in future years. 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 may be higher or lower than anticipated. The more the experience deviates the larger the impact on future financial statements.

Mortality assumptions are based on the RP - 2014 tables with gender adjustments for healthy annuitants and disabled retirees and an adjusted version on MP - 2015 mortality improvement scale on a fully generational basis.

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 and Expense, and Deferred Outflows and Inflows of Resources

At June 30, 2019, the City reported a pension liability of \$171,659 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by rolling forward the plan's total pension liability as of June 30, 2017 to June 30, 2018. The City's proportion of the net pension liability was calculated utilizing the employer's one-year actual reported contributions. At June 30, 2018, the City's proportion was 0.7452%, which was an increase of 0.0220% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City recognized a net pension expense of \$107,376. At June 30, 2019 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		\$ 29,907
Changes in proportions	\$ 2,439	616
Difference between actual and expected experience	147,787	40,476
Changes in assumptions	56,379	24,222
Contributions subsequent to the measurement date	<u>111,036</u>	<u> </u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

\$ 317,641

\$ 95,221

An amount of \$111,036 is reported as deferred outflows of resources resulting from the City's contribution subsequent to the measurement date (June 30, 2018) and will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

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,	
2020	\$ (32,031)
2021	(18,334)
2022	17,552
2023	1,128
2024	(15,398)
Thereafter	<u>(64,301)</u>
	<u>\$ (111,384)</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 10 years for the 2018 amounts.

The difference between the actual earnings on plan investments compared to the plan's expected rate of return of 7.0% 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 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%

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 was 7.0%. 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

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

The following presents the collective net pension liability, calculated using the discount rate of 7.0%, 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

	1% Decrease 6.0%	Current Discount Rate 7.0%	1% Increase 8.0%
City's proportionate share of the net pension liability (asset)	\$629,128	\$171,620	\$ (198,700)

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 8 - State of Delaware County and Municipal Other Employees' Pension Plan

The City participates in the State of Delaware County and Municipal Other Employees'

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 7.29% of covered payroll for the year ended June 30, 2019. The total amount contributed by the City for the year ended June 30, 2019 is \$65,190.

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 Comprehensive Annual Financial Report of the Delaware Public Employees’ Retirement System can be obtained from the Office of Pensions, McArdle Building, Suite #1, 860 Silver Lake Blvd., Dover, Delaware 19904.

The State of Delaware County and Municipal Other Employees’ Pension Plan provides benefits equal to 1/60th of final average monthly compensation, multiplied by years of credited service, subject to maximum limitations. 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 dies, the survivor receives 75% of the pension. If an employee who has years of service dies, the eligible survivor receives 50% of pension that the employee would have received at age sixty-two.

The total pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of June 30, 2017, and update procedures were used to roll forward the total pension liability to June 30, 2018. These actuarial valuations used the following actuarial assumptions, applied to all periods:

Significant actuarial assumptions are as follows:

Actuarial Cost Method - Entry Age Normal
Amortization Method - Level Percent Open
Remaining Amortization Period - 8 Years
Asset Valuation Method - 5 Year Smoothed Market
Actuarial Assumptions:
Investment Rate of Return - 7.0%
Projected Salary Increases - 2.5% + Merit
Inflation - 2.5%
Cost-Of-Living Adjustments - 0.0%.

The total pension liabilities are measured based on the assumptions pertaining to the interest rates, inflation rates, and employee demographics behavior in future years. It is likely that future experiences will not exactly conform to these assumptions. To the extent that actual

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

experience deviates from these assumptions, the emerging liabilities 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 RP - 2014 tables with gender adjustments for healthy annuitants and disabled retirees and an adjusted version on MP-2015 mortality improvement scale on a fully generational basis.

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 and Expense, and Deferred Outflows and Inflows of Resources

At June 30, 2019, the City reported a pension liability of \$42,690 for the governmental activities and a pension liability of \$24,709 for the business-type activities for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by rolling forward the plan's total pension liability as of June 30, 2017 to June 30, 2018. The City's proportion of the net pension asset was calculated utilizing the employer's one-year actual reported contributions. At June 30, 2018, the City's proportion was 2.1417%, which was a decrease of 0.1824% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City recognized a net pension expense of \$42,690 for the governmental activities and a net pension expense of \$9,038 for its business-type activities. At June 30, 2019 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		\$ 12,181
Changes in proportions	\$ 25,576	39,143
Changes in assumptions	38,478	
Difference between actual and expected experience	32,420	38,676
Contributions subsequent to the measurement date	<u>61,705</u>	<u> </u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

\$ 158,179 \$ 90,000

An amount of \$52,327 for governmental activities and \$9,378 for business-type activities is reported as deferred outflows of resources resulting from the City's contribution subsequent to the measurement date (June 30, 2018) and will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

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,	
2020	\$ (9,077)
2021	(3,628)
2022	10,717
2023	2,956
2024	(5,785)
Thereafter	<u>(1,657)</u>
	<u>\$ (6,474)</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 10 years for the 2018 amounts.

The difference between the actual earnings on plan investments compared to the plan's expected rate of return of 7.0% 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 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%

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 was 7.0%. 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.

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

The following presents the collective net pension liability, calculated using the discount rate of 7.0%, 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

	1% Decrease 6.0%	Current Discount Rate 7.0%	1% Increase 8.0%
City's proportionate share of the net pension liability (asset)	\$254,712	\$67,399	\$ (83,890)

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 9 - 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.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Compensated absences are accounted for in the government-wide and proprietary fund financial statements when earned.

Note 10 - 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, 2018	\$1,479,125
<u>Add:</u> Grant proceeds received	1,785,176
<u>Less:</u> Depreciation on capital assets acquired with grant proceeds	<u>(298,151)</u>
<u>Contributed Capital</u> - June 30, 2019	<u>\$2,996,150</u>

Note 11 - 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 12 - 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

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 13 - 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, 2019 and for the year then ended is presented as follows:

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Operating revenues	\$1,517,344	\$530,308	\$2,047,652
Depreciation	523,654	92,480	616,134
Other operating expenses	653,572	161,743	815,315
Operating income	340,118	276,085	616,203
Non-operating revenues	45,086	35,331	80,417
Non-operating expenses	553,970	191,168	745,138
Income (loss) before Capital contributions	(168,766)	120,248	(48,518)

Note 14 - Pronouncements Issues, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2019 that have effective dates that may impact future financial presentations. Management has not currently determined what, if any impact the implementation may have on the financial statements of the City.

Note 15 - Excess of Expenditures over Appropriations

The general fund incurred expenditures in excess of appropriations in the amount of \$117,966 for the year ended June 30, 2019. The expenditures were funded through the use of operating reserves.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Note 16 - Subsequent Events

During the summer of 2018, the City commenced a construction project to expand its sewer capacity. The total value of the related contracts is approximately \$2.2 million. The project was completed in the summer of 2020. The City received funding from DNREC and the USDA in the form of loan principle forgiveness and a grant, respectively, to cover all of the project costs except for approximately \$776,000. The remaining balance is being financed by the USDA and is required to be repaid over a period of 40 years at a rate of 2%. The City started making semi-annual interest only payments in July 2019 and principle and interest payments are anticipated to begin in June 2021. Final payment is due July 2060. This loan is secured by a general obligation bond.

In September 2019, the City entered into a contract in the amount of \$214,000 to commence Phases I and II of its wastewater lagoons cleanout. This project was completed in September 2020 and the City received final DNREC approval in October 2020.

The worldwide spread of the COVID-19 virus has resulted in adverse economic effects for many businesses resulting from interruptions in the supply-chain, diminished ability for customers to buy and timely pay, business interruptions and potential effects on the labor force resulting from mandated quarantines, and government ordered shutdowns and stay at home orders. The broader and longer-term implications of the COVID-19 pandemic on the City's overall financial performance remain highly uncertain, and therefore the City cannot predict the full impact that the pandemic, or any resulting market disruption and volatility, will have on revenues, cash flows, liquidity, financial condition and results of operations at this time. The ultimate impact will depend on future developments, including, among others, the ongoing spread of COVID-19, the consequences of governmental and other measures designed to prevent the spread of the virus, the development of effective treatments, the duration and severity of the pandemic, action taken by customers, suppliers and other third parties, workforce availability, and the timing and extent to which normal economic and operating conditions resume and continue. Additionally, it is reasonably possible that the estimates made in the financial statements may be negatively impacted in the near term as a result of the present situation.

On March 11, 2021, the Federal government enacted the American Rescue Plan Act of 2021 (ARPA), which included the Local Fiscal Reserve Fund for local governments. The City's proportionate share from the ARPA, subject to certain use restrictions, is estimated to be approximately \$1.86 million, of which approximately \$928,000 is anticipated to be received in May 2021.

Management has evaluated all subsequent events through April 5, 2021, 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, 2019

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
<u>Revenues</u>				
<u>City</u>				
Property taxes	\$ 1,065,000	\$ 1,065,000	\$ 1,055,476	\$ (9,524)
Transfer tax			97,566	97,566
Rental income	59,000	59,000	69,603	10,603
Mobile home park license	33,000	33,000	18,290	(14,710)
Miscellaneous	36,150	36,150	52,803	16,653
Grants			175,224	175,224
Community impact fees			16,500	16,500
Interfund service fee	573,908	573,908	574,908	1,000
Interest	4,000	4,000	11,751	7,751
<u>Total City</u>	<u>1,771,058</u>	<u>1,771,058</u>	<u>2,072,121</u>	<u>301,063</u>
<u>Police</u>				
Fines	361,300	361,300	463,395	102,095
Other			30,479	30,479
Grants			88,343	88,343
<u>Total Police</u>	<u>361,300</u>	<u>361,300</u>	<u>582,217</u>	<u>220,917</u>
<u>Library</u>				
Grants	40,100	40,100	39,665	(435)
Reciprocal borrowing	32,000	32,000	26,720	(5,280)
Miscellaneous	5,200	5,200	5,781	581
<u>Total Library</u>	<u>77,300</u>	<u>77,300</u>	<u>72,166</u>	<u>(5,134)</u>
<u>Trash</u>				
Fees	241,956	241,956	242,342	386
Penalties and fines	4,000	4,000	1,382	(2,618)
<u>Total Trash</u>	<u>245,956</u>	<u>245,956</u>	<u>243,724</u>	<u>(2,232)</u>
<u>Sewer</u>				
Fees	1,569,078	1,569,078	1,508,844	(60,234)
Hook ups			8,500	8,500
Impact fees			29,845	29,845
Grants			1,785,176	1,785,176
Interest	19,566	19,566	15,241	(4,325)
<u>Total Sewer</u>	<u>1,588,644</u>	<u>1,588,644</u>	<u>3,347,606</u>	<u>1,758,962</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2019

	<u>Budget</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u> (Continued)				
<u>Water</u>				
Fees	\$ 490,000	\$ 490,000	\$ 476,456	\$ (13,544)
Hook ups	12,000	12,000	26,590	14,590
Impact fees			9,360	9,360
Other	18,388	18,388	27,262	8,874
Interest	8,100	8,100	25,971	17,871
<u>Total Water</u>	<u>528,488</u>	<u>528,488</u>	<u>565,639</u>	<u>37,151</u>
<u>Fire Company</u>				
Fire company personnel	74,000	74,000	76,029	2,029
<u>Total Fire Company</u>	<u>74,000</u>	<u>74,000</u>	<u>76,029</u>	<u>2,029</u>
<u>Public Works</u>				
Building permits	40,000	40,000	49,804	9,804
Planning and zoning fees	1,200	1,200	375	(825)
Contractors license fees	16,000	16,000	14,600	(1,400)
Vacant buildings	1,500	1,500	1,200	(300)
Fines and penalties	17,000	17,000	12,838	(4,162)
Business licenses	68,000	68,000	76,553	8,553
City clean up fees	25,000	25,000	45,539	20,539
Other	25,000	25,000	12,956	(12,044)
<u>Total Public Works</u>	<u>193,700</u>	<u>193,700</u>	<u>213,865</u>	<u>20,165</u>
<u>Parks and Recreation</u>				
Grant-in-aid	30,000	30,000	32,000	2,000
Program income	71,170	71,170	48,028	(23,142)
Miscellaneous	12,000	12,000	5,780	(6,220)
Fundraiser funds	24,000	24,000	27,225	3,225
<u>Total Parks and Recreation</u>	<u>137,170</u>	<u>137,170</u>	<u>113,033</u>	<u>(24,137)</u>
<u>Total Revenues</u>	<u>4,977,616</u>	<u>4,977,616</u>	<u>7,286,400</u>	<u>2,308,784</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2019

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<u>Expenditures</u>				
<u>General Government</u>				
<u>City</u>				
Salaries	\$ 368,443	\$ 368,443	\$ 312,585	\$ 55,858
Payroll taxes	35,944	35,944	31,911	4,033
Health insurance	73,539	73,539	54,740	18,799
Pension	26,477	26,477	24,725	1,752
Vehicle maintenance	1,000	1,000	734	266
Office supplies	5,550	5,550	4,652	898
Telephone	6,300	6,300	5,991	309
Postage	2,950	2,950	2,325	625
Heat and electric	8,950	8,950	6,969	1,981
Legal	34,000	34,000	27,954	6,046
Advertising	3,000	3,000	44	2,956
Accounting services	18,650	18,650	17,112	1,538
Travel and food	3,100	3,100	1,300	1,800
Engineering	1,600	1,600		1,600
Dues and meetings	7,600	7,600	6,741	859
Inspection fees	56,500	56,500	53,537	2,963
Building maintenance and repairs	9,125	9,125	6,309	2,816
Computer maintenance and repairs	56,600	56,600	55,084	1,516
Election expense	2,000	2,000	449	1,551
Miscellaneous	38,360	38,360	233,553	(195,193)
Clean up fees	4,000	4,000	2,380	1,620
Training	7,650	7,650	2,983	4,667
Lease equipment	7,400	7,400	6,936	464
Insurance	15,145	15,145	13,854	1,291
Accounting and auditing	68,500	68,500	85,780	(17,280)
<u>Total City</u>	<u>862,383</u>	<u>862,383</u>	<u>958,648</u>	<u>(96,265)</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2019

<u>Expenditures (Continued)</u>	<u>Budget</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Police</u>				
Salaries	\$ 654,902	\$ 654,902	\$ 740,165	\$ (85,263)
Overtime	104,500	104,500	156,614	(52,114)
Payroll taxes	115,844	115,844	113,002	2,842
Pension	35,644	35,644	43,795	(8,151)
Health insurance	200,875	200,875	186,404	14,471
Vehicle maintenance and repairs	42,000	42,000	51,073	(9,073)
Radar/special electronics	2,500	2,500	1,920	580
Training	10,000	10,000	9,856	144
Office supplies	3,300	3,300	3,332	(32)
Telephone	12,000	12,000	10,610	1,390
Postage	1,000	1,000	942	58
Heat and electric	12,600	12,600	9,217	3,383
Advertising	200	200	150	50
National nite out			3,874	(3,874)
Insurance	21,500	21,500	18,044	3,456
Dues and meetings	600	600	1,360	(760)
Travel and food	1,000	1,000	934	66
Computer maintenance and repairs	300	300	340	(40)
Building repairs and maintenance	1,517	1,517	3,472	(1,955)
Maintenance agreement	1,450	1,450	3,079	(1,629)
Miscellaneous	6,360	6,360	101,921	(95,561)
Uniforms	1,500	1,500	1,269	231
Ammo and targets	3,500	3,500	3,431	69
Clothing allowance	6,000	6,000	3,243	2,757
Lease equipment	1,552	1,552	1,207	345
Legal	5,000	5,000	1,699	3,301
<u>Total Police</u>	<u>1,245,644</u>	<u>1,245,644</u>	<u>1,470,953</u>	<u>(225,309)</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2019

	<u>Budget</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Expenditures (Continued)</u>				
<u>Public Works</u>				
Salaries	\$ 108,312	\$ 108,312	\$ 113,249	\$ (4,937)
Payroll taxes	16,520	16,520	15,190	1,330
Pension	7,823	7,823	7,983	(160)
Health insurance	28,398	28,398	28,757	(359)
Per diem	2,080	2,080	14,600	(12,520)
Vehicle maintenance and repairs	14,500	14,500	11,481	3,019
Equipment maintenance and repairs	11,700	11,700	12,053	(353)
Maintenance agreement	1,350	1,350	978	372
Office supplies	500	500	348	152
Telephone	4,000	4,000	4,646	(646)
Building maintenance	1,600	1,600	2,053	(453)
Heat and electric	6,000	6,000	4,942	1,058
Engineering	5,000	5,000	869	4,131
Insurance	4,300	4,300	3,640	660
Dues and meeting	250	250	106	144
Uniforms	5,600	5,600	6,374	(774)
Supplies	1,000	1,000	675	325
Street maintenance	25,000	25,000	20,770	4,230
Ditch cleaning	3,100	3,100	2,937	163
Street signs and markings	500	500	500	
Street lights	60,000	60,000	56,544	3,456
Training	100	100		100
Snow and ice removal	3,000	3,000	288	2,712
Safety	1,100	1,100	916	184
Wildlife control	500	500		500
	<u>312,233</u>	<u>312,233</u>	<u>309,899</u>	<u>2,334</u>
<u>Total Public Works</u>				
<u>Trash</u>				
Postage	600	600	885	(285)
Insurance	4,300	4,300	4,278	22
Contract services	<u>232,780</u>	<u>232,780</u>	<u>243,287</u>	<u>(10,507)</u>
	<u>237,680</u>	<u>237,680</u>	<u>248,450</u>	<u>(10,770)</u>
<u>Total Trash</u>				

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2019

<u>Expenditures (Continued)</u>	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
<u>Library</u>				
Salaries	\$ 105,651	\$ 105,651	\$ 105,532	\$ 119
Payroll taxes	10,131	10,131	9,308	823
Pension	7,702	7,702	7,592	110
Health insurance	24,301	24,301	23,194	1,107
Office supplies	1,900	1,900	964	936
Telephone	1,800	1,800	800	1,000
Postage	40	40	21	19
Heat and electric	9,600	9,600	8,688	912
Travel and food	150	150	81	69
Dues and meetings	320	320		320
Miscellaneous	100	100	23	77
Building repairs and maintenance	6,000	6,000	5,187	813
Books and subscriptions	22,000	22,000	13,097	8,903
Automation	7,000	7,000	3,367	3,633
Insurance	1,300	1,300	653	647
Lease equipment	1,416	1,416	1,077	339
<u>Total Library</u>	<u>199,411</u>	<u>199,411</u>	<u>179,584</u>	<u>19,827</u>
<u>Sewer</u>				
Salaries	58,600	58,600	63,419	(4,819)
Payroll taxes	8,978	8,978	7,903	1,075
Pension	4,252	4,252	4,332	(80)
Health insurance	15,434	15,434	13,237	2,197
Vehicle maintenance and repair	600	600		600
Office supplies	500	500	318	182
Telephone	1,400	1,400	332	1,068
Postage	2,000	2,000	1,572	428
Heat and electric	9,700	9,700	8,303	1,397
Dues and meeting	500	500		500
Safety	800	800	581	219
Maintenance agreement	400	400	404	(4)
Building repairs and maintenance	4,000	4,000	694	3,306
Sample testing	500	500		500
Pump station repairs	7,000	7,000	3,260	3,740
Chemicals	2,000	2,000	1,249	751
Flow meter operations	1,800	1,800	1,914	(114)
License and permits	125	125	626	(501)
Insurance	26,000	26,000	22,898	3,102
Engineering	10,000	10,000	97,303	(87,303)
Legal & admin	89,000	89,000		89,000
Interfund service fee	415,207	415,207	415,207	
County sewer fee	350,000	350,000	425,227	(75,227)
Interest	359,594	359,594	138,763	220,831
Depreciation			523,654	(523,654)
<u>Total Sewer</u>	<u>1,368,390</u>	<u>1,368,390</u>	<u>1,731,196</u>	<u>(362,806)</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2019

<u>Expenditures</u> (Continued)	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<u>Water</u>				
Salaries	66,926	66,926	60,743	6,183
Payroll taxes	10,415	10,415	8,490	1,925
Health insurance	17,903	17,903	15,298	2,605
Pension	4,932	4,932	4,706	226
Equipment repair	1,800	1,800	1,461	339
Office supplies	300	300	300	
Postage	2,000	2,000	1,781	219
Dues and meetings	1,000	1,000	861	139
Heat and electric	13,500	13,500	14,944	(1,444)
Maintenance agreement	400	400	15,821	(15,421)
Water meters	2,000	2,000	3,522	(1,522)
Sample testing	800	800	1,555	(755)
Water line repairs	9,500	9,500	3,135	6,365
Chemicals	16,000	16,000	16,710	(710)
Contingency	32,000	32,000		32,000
Insurance	10,500	10,500	7,234	3,266
Engineering	10,000	10,000	4,220	5,780
Interfund service fee	159,701	159,701	159,701	
Interest	60,428	60,428	31,467	28,961
License & permits	700	700	962	(262)
Depreciation			92,480	(92,480)
<u>Total Water</u>	<u>420,805</u>	<u>420,805</u>	<u>445,391</u>	<u>(24,586)</u>
<u>Fire Company</u>				
Salaries	90,607	90,607	102,074	(11,467)
Payroll taxes	13,829	13,829	12,625	1,204
Health insurance	32,401	32,401	30,630	1,771
Insurance	805	805	317	488
Pension	6,605	6,605	7,302	(697)
Fuel	3,000	3,000	1,500	1,500
<u>Total Fire Company</u>	<u>147,247</u>	<u>147,247</u>	<u>154,448</u>	<u>(7,201)</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2019

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable)</u>
<u>Expenditures</u> (Continued)				
<u>Parks and Recreation Department</u>				
Salaries	\$ 64,972	\$ 64,972	\$ 66,076	\$ (1,104)
Payroll taxes	10,066	10,066	8,902	1,164
Health insurance	12,393	12,393	14,953	(2,560)
Pension	4,736	4,736	4,725	11
Office supplies	600	600	511	89
Telephone	3,150	3,150	2,701	449
Heat and electric	17,700	17,700	10,854	6,846
Postage	230	230		230
Vehicle repairs and maintenance	550	550	340	210
Fundraisers	8,940	8,940	7,740	1,200
Building repairs and maintenance	2,500	2,500	2,081	419
Lease equipment	1,500	1,500	1,170	330
Maintenance agreement	900	900	1,360	(460)
Insurance	7,900	7,900	4,846	3,054
Programs	43,105	43,105	32,869	10,236
Advertising	200	200		200
	<u>179,442</u>	<u>179,442</u>	<u>159,128</u>	<u>20,314</u>
<u>Total Parks and Recreation Department</u>				
	<u>179,442</u>	<u>179,442</u>	<u>159,128</u>	<u>20,314</u>
<u>Total Expenditures</u>	<u>4,973,235</u>	<u>4,973,235</u>	<u>5,657,697</u>	<u>(684,462)</u>
	<u>\$ 4,381</u>	<u>\$ 4,381</u>	<u>\$ 1,628,703</u>	<u>\$ 1,624,322</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2019

	<u>Budget</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Police Pension Fund</u>				
Revenues			\$ 67,241	\$ 67,241
Expenditures			67,241	(67,241)
<u>Excess Revenues Over Expenditures</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
<u>Municipal Street Aid</u>				
Revenues			\$ 87,938	\$ 87,938
Expenditures				
<u>Excess Revenues Over Expenditures</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 87,938</u>	<u>\$ 87,938</u>
<u>Combat Violent Crime</u>				
Revenues			\$ 32,387	\$ 32,387
Expenditures			32,123	(32,123)
<u>Excess Revenues Over Expenditures</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 264</u>	<u>\$ 264</u>
<u>SLEAF</u>				
Revenues			\$ 5,724	\$ 5,724
Expenditures				
<u>Excess Revenues Over Expenditures</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 5,724</u>	<u>\$ 5,724</u>
<u>EIDE</u>				
Revenues			\$ 4,230	\$ 4,230
Expenditures			5,451	(5,451)
<u>Deficiency of Revenues Over Expenditures</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (1,221)</u>	<u>\$ (1,221)</u>
<u>SALLE</u>				
Revenues			\$ 5,346	\$ 5,346
Expenditures			10,269	(10,269)
<u>Deficiency of Revenues Over Expenditures</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (4,923)</u>	<u>\$ (4,923)</u>
<u>Library Building Fund</u>				
Revenues			\$ 4,036	\$ 4,036
Expenditures				
<u>Excess Revenues Over Expenditures</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 4,036</u>	<u>\$ 4,036</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2019

	<u>Measurement Date</u>				
	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
City's proportionate share of the net pension liability (asset)	0.7452%	0.7232%	0.7442%	0.6769%	0.6771%
City's proportionate share of the net pension liability (asset)	\$ 171,659	\$ 72,911	\$ 118,300	\$ (35,677)	\$ (73,248)
City's covered employee payroll	\$ 618,888	\$ 594,234	\$ 542,202	\$ 480,599	\$ 448,621
City's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	27.74%	12.27%	21.82%	-7.42%	-16.33%
Plan fiduciary net position as a percentage of the total pension liability	94.10%	97.00%	94.70%	101.97%	104.47%

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2019

	<u>Measurement Date</u>				
	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
City's proportionate share of the net pension liability (asset)	2.1417%	2.3241%	2.6157%	2.7587%	2.8375%
City's proportionate share of the net pension liability (asset)	\$ 67,399	\$ 150,583	\$ 162,062	\$ 1,177	\$ (10,446)
City's covered employee payroll	\$ 853,597	\$ 864,349	\$ 875,024	\$ 817,793	\$ 767,281
City's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	7.90%	17.42%	18.52%	0.14%	-1.36%
Plan fiduciary net position as a percentage of the total pension liability	94.41%	87.62%	86.38%	99.89%	101.07%

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 107,565	\$ 70,677	\$ 81,826	\$ 75,095	\$ 68,149
Contribution in relation to the contractually required contribution	<u>107,565</u>	<u>70,677</u>	<u>81,826</u>	<u>75,095</u>	<u>68,149</u>
Contribution deficiency/excess	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
City's covered employee payroll	\$ 644,874	\$ 618,888	\$ 594,234	\$ 542,202	\$ 480,599
Contributions as a percentage of covered employee payroll	16.68%	11.42%	13.77%	13.85%	14.18%

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 65,190	\$ 60,520	\$ 58,430	\$ 54,339	\$ 52,993
Contribution in relation to the contractually required contribution	<u>65,190</u>	<u>60,520</u>	<u>58,430</u>	<u>54,339</u>	<u>52,993</u>
Contribution deficiency/excess	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
City's covered employee payroll	\$ 894,239	\$ 853,597	\$ 864,349	\$ 875,024	\$ 817,793
Contributions as a percentage of covered employee payroll	7.29%	7.09%	6.76%	6.21%	6.48%

SUPPLEMENTARY INFORMATION

CITY OF HARRINGTON, DELAWARE

COMBINING BALANCE SHEET -
ALL SPECIAL REVENUE FUNDS

JUNE 30, 2019

	<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		\$ 382,487	\$ 17,063		\$ 7,335	\$ 8,090	\$ 208,636	\$ 623,611
Intragovernment receivable				\$ 77,894	1,768	1,860	50,872	132,394
<u>Total Assets</u>	<u>\$ -0-</u>	<u>\$ 382,487</u>	<u>\$ 17,063</u>	<u>\$ 77,894</u>	<u>\$ 9,103</u>	<u>\$ 9,950</u>	<u>\$ 259,508</u>	<u>\$ 756,005</u>
<u>LIABILITY</u>								
Intragovernment payable		\$ 67,652	\$ 16,799	\$ 71,671	\$ 6,160	\$ 11,214	\$ 108,756	\$ 282,252
<u>FUND EQUITY</u>								
<u>Fund Balance</u>								
Restricted		314,835	264	6,223	2,943	(1,264)		323,001
Committed							150,752	150,752
<u>Total Fund Equity</u>		<u>314,835</u>	<u>264</u>	<u>6,223</u>	<u>2,943</u>	<u>(1,264)</u>	<u>150,752</u>	<u>473,753</u>
<u>Total Liabilities and Fund Equity</u>	<u>\$ -0-</u>	<u>\$ 382,487</u>	<u>\$ 17,063</u>	<u>\$ 77,894</u>	<u>\$ 9,103</u>	<u>\$ 9,950</u>	<u>\$ 259,508</u>	<u>\$ 756,005</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2019

	<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	\$ 67,241	\$ 82,850	\$ 32,348	\$ 5,724	\$ 4,203	\$ 5,329	\$ 200	\$ 197,895
Interest		5,088	39		27	17	3,836	9,007
<u>Total Revenues</u>	67,241	87,938	32,387	5,724	4,230	5,346	4,036	206,902
<u>Expenditures</u>	67,241		32,123		5,451	10,269		115,084
<u>Excess (Deficiency) of Revenues Over Expenditures</u>		87,938	264	5,724	(1,221)	(4,923)	4,036	91,818
<u>Fund Balance - Beginning of year</u>		226,897		499	4,164	3,659	146,716	381,935
<u>Fund Balance - End of year</u>	\$ -0-	\$ 314,835	\$ 264	\$ 6,223	\$ 2,943	\$ (1,264)	\$ 150,752	\$ 473,753

SINGLE AUDIT SECTION

**Independent Auditor's 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**

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, 2019. 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 requirements referenced above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 types of 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, 2019.

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, 2019, and have issued our report thereon dated April 5, 2021, 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.

Dover, Delaware
April 5, 2021

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CITY OF HARRINGTON, DELAWARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2019

I. Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP - Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? ___ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ___ Yes X No
- Significant deficiency(ies) identified? ___ Yes X None Reported

Type of auditor's report issued on compliance for major federal programs - Unmodified

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

Identification of major programs:

<u>Program Name</u>	<u>CFDA</u>
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	
Dollar threshold used to distinguish between Type A and Type B Programs	<u>\$750,000</u>

Auditee qualified as low-risk auditee? ___ Yes X No

CITY OF HARRINGTON, DELAWARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019

II. Financial Statement Findings

No prior year and current year findings and recommendations reported.

III. Findings And Questioned Costs For Federal Awards

No prior year and current year findings and recommendations reported.

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2019

<u>Federal Grantor/Pass- Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<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	<u>\$1,618,888</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of the City of Harrington, Delaware under programs of the federal government for the year ended June 30, 2019. 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.