

CITY OF HARRINGTON, DELAWARE

FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2022

CITY OF HARRINGTON, DELAWARE

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CITY OF HARRINGTON, DELAWARE

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the 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, 2022, 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.

In our opinion, the accompanying 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, 2022, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Harrington, Delaware and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Harrington, Delaware's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City of Harrington, Delaware's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Harrington, Delaware's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 7 through 16 and 52, respectively, proportionate share of the net pension liability (asset) - Delaware Municipal Police/Firefighter and Delaware County and Municipal Other Employees' Pension Plans on pages 53 and 54 and schedules of City contributions for the Delaware Municipal Police/Firefighter and Delaware County and Municipal Other Employees' Pension Plan on pages 55 and 56 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary 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 nonmajor 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. 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor 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 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 October 16, 2023 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

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

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
October 16, 2023

Horty & Horty, P.A.

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, business - type activities, each major fund, and the aggregate remaining fund information of the City of Harrington, Delaware, as of and for the year ended June 30, 2022, 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 October 16, 2023.

Report on 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.

Report on Compliance and Other Matters

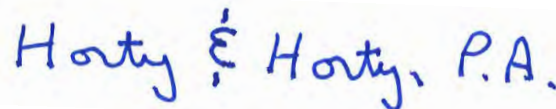
As part of obtaining reasonable assurance about whether the City of Harrington, Delaware’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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 October 16, 2023.

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
October 16, 2023



CITY OF HARRINGTON, DELAWARE

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2022

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, 2022. We encourage users to read it in conjunction with the City's financial statements, which follow this section.

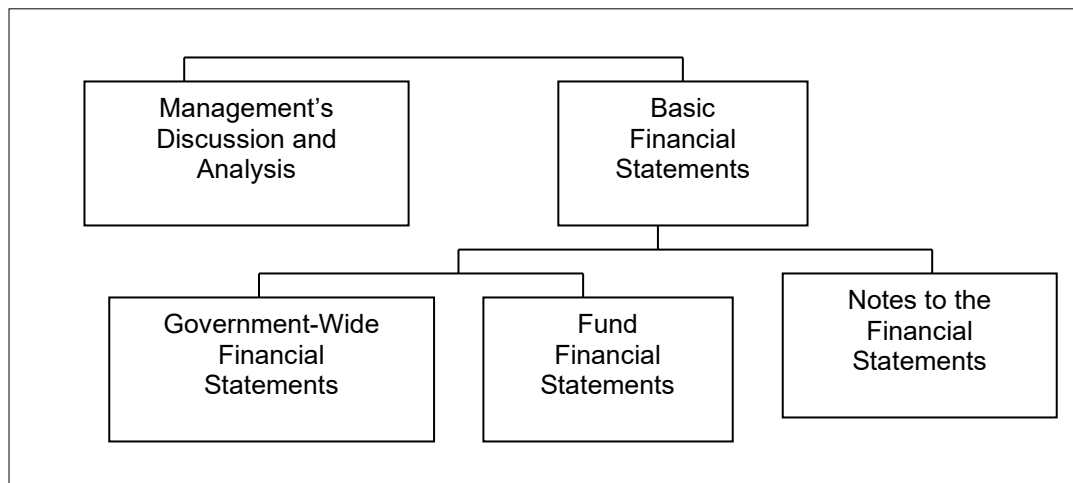
Financial Highlights For Fiscal Year 2022

- The assets of the City exceeded its liabilities at the close of the 2022 fiscal year resulting in a net position of \$15,851,826. Of this amount, \$2,466,945 is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors, and \$8,862,425 is invested in capital assets, net of related debt.
- As of June 30, 2022, the City's governmental funds reported combined ending fund balances of \$3,267,823.

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, **Supplementary Information** is provided to show details about the City's nonmajor 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 ten 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 nonmajor governmental funds comprise the other six 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 51 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 57 and 58 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, 2022.

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 \$15,851,826 at the close of the fiscal year, June 30, 2022.

By far the largest portion of the City's net position (82 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>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Current and other assets	\$6,605,004	\$3,230,859	\$ 3,720,229	\$ 5,765,042	\$10,325,233	\$ 8,995,901
Land held for sale	1,197,663	1,196,771			1,197,663	1,196,771
Capital assets	4,127,356	3,963,206	15,505,374	11,840,120	19,632,730	15,803,326
Other noncurrent asset	1,270,750		30,354		1,301,104	
Deferred outflows of resources	<u>314,856</u>	<u>361,045</u>	<u>17,556</u>	<u>19,377</u>	<u>332,412</u>	<u>380,422</u>
<u>Total Assets and Deferred</u>						
<u>Outflows of Resources</u>	<u>\$13,515,629</u>	<u>\$8,751,881</u>	<u>\$19,273,513</u>	<u>\$17,624,539</u>	<u>\$32,789,142</u>	<u>\$26,376,420</u>

City of Harrington, Delaware
Management's Discussion and Analysis

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>June 30,</u>		<u>June 30,</u>		<u>June 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Current liabilities	\$2,731,239	\$1,531,977	\$ 4,562,171	\$1,332,393	\$ 7,293,410	\$ 2,864,370
Noncurrent liabilities	2,007,025	131,156	6,367,325	7,668,531	8,374,350	7,799,687
Deferred inflows of resources	<u>1,222,777</u>	<u>194,803</u>	<u>46,779</u>	<u>10,413</u>	<u>1,269,556</u>	<u>205,216</u>
<u>Total Liabilities and Deferred Inflows of Resources</u>	<u>5,961,041</u>	<u>1,857,936</u>	<u>10,976,275</u>	<u>9,011,337</u>	<u>16,937,316</u>	<u>10,869,273</u>
Contributed capital			4,104,630	2,379,777	4,104,630	2,379,777
Restricted	417,826	381,415			417,826	381,415
Invested in capital assets	4,127,356	3,963,206	4,735,069	1,583,441	8,862,425	5,546,647
Unrestricted	<u>3,009,406</u>	<u>2,549,324</u>	<u>(542,461)</u>	<u>4,649,984</u>	<u>2,466,945</u>	<u>7,199,308</u>
<u>Total Net Position</u>	<u>\$7,554,588</u>	<u>\$6,893,945</u>	<u>\$ 8,297,238</u>	<u>\$8,613,202</u>	<u>\$15,851,826</u>	<u>\$15,507,147</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>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
REVENUES						
<u>Program Revenues</u>						
Charges for services	\$1,756,703	\$1,526,143	\$2,150,453	\$2,199,560	\$3,907,156	\$3,725,703
Operating grants and contributions	750,978	415,656			750,978	415,656
Capital grants and contributions	378,678	82,601	43,227		421,905	82,601
<u>General Revenues</u>						
Property taxes	1,174,936	1,141,326			1,174,936	1,141,326
Transfer tax	472,911	261,518			472,911	261,518
Community impact fees	20,300	21,700			20,300	21,700
Other revenue	<u>34,661</u>	<u>38,419</u>	<u>42,885</u>	<u>8,280</u>	<u>77,546</u>	<u>46,699</u>
<u>Total Revenues</u>	<u>4,589,167</u>	<u>3,487,363</u>	<u>2,236,565</u>	<u>2,207,840</u>	<u>6,825,732</u>	<u>5,695,203</u>
EXPENSES						
General government	935,294	1,156,600			935,294	1,156,600
Police	1,384,022	1,598,155			1,384,022	1,598,155
Public works	529,608	327,954			529,608	327,954
Trash	264,683	254,060			264,683	254,060
Library	224,129	182,715			224,129	182,715
Fire company	406,690	168,368			406,690	168,368
Parks and recreation	184,098	150,244			184,098	150,244
Sewer			2,106,137	1,723,771	2,106,137	1,723,771
Water			<u>446,392</u>	<u>399,115</u>	<u>446,392</u>	<u>399,115</u>
<u>Total Expenses</u>	<u>3,928,524</u>	<u>3,838,096</u>	<u>2,552,529</u>	<u>2,122,886</u>	<u>6,481,053</u>	<u>5,960,982</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>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
<u>Change in Net Position</u>	660,643	(350,733)	(315,964)	84,954	344,679	(265,779)
<u>Net Position - Beginning of year</u>	<u>6,893,945</u>	<u>7,244,678</u>	<u>8,613,202</u>	<u>8,528,248</u>	<u>15,507,147</u>	<u>15,772,926</u>
<u>Net Position - End of year</u>	<u>\$7,554,588</u>	<u>\$6,893,945</u>	<u>\$8,297,238</u>	<u>\$8,613,202</u>	<u>\$15,851,826</u>	<u>\$15,507,147</u>

For the year ended June 30, 2022, 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, 2022, the City's governmental funds reported a combined ending fund balance of \$3,267,823.

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, 2022, the general fund balance is \$1,832,076.

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 of \$558,696. Income of \$161,220 was reported in the water fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City adopted the fiscal year 2022 budget on June 21, 2021. The City's practice is to get approval from the Council if the budget is amended. During 2022, there were no significant 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, 2022, was \$19,632,730 (net of accumulated depreciation). Capital assets include construction in progress, land, building and improvements, furniture and fixtures, equipment and streets. Capital asset additions of \$4,845,259 exceed depreciation by \$3,829,404.

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 \$6,665,675 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 October 2016, the City passed a referendum to obtain a new loan package from the DWSRF (DNREC) and USDA for needed water projects. The 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 overall financing package includes funding

for these projects totaling \$9.916 million, in which DNREC will forgive \$7.600 million of principle and the USDA will grant the City \$201 thousand, resulting in a final loan with the USDA in the amount of \$2.115 million. The loan will be repaid over a period of 40 years at 2.250%. Payments will be \$20,093 quarterly or \$80,372 annually.

Proposals for the water main transmission system project, the above ground water storage tank, and well house project were received in January 2022. Joao & Bradley was awarded the bid for the construction of the water main transmission system project in the amount of approximately \$3.7 million and Johnston Construction was awarded the bid for the construction of the water storage tank and well project in the amount of approximately \$5.9 million. The City is allocating \$709 thousand of their ARPA funds towards these projects. The water main transmission system project was completed in June 2023 and the water tank storage project was completed in October 2023.

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

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.

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. The City was awarded approximately \$14.1 million of State Bond Bill and ARPA funds from the State of Delaware in February 2022 for the construction of a 15,000 sqft new library. The City hired a construction manager in October 2022. Construction of the new library began in September 2023.

Industrial Park

The City owns 38.32 acres of industrial park on U.S #13. The City has been working with other landowners to develop a master plan for the combined areas. In August 2021 the Dover/Kent County Metropolitan Planning Organization assisted the City to create a master plan for three parcels, which resulted in The Harrington Multimodal Freight Terminal Feasibility Study prepared by Whitman, Requardt & Associates, LLP. The City hired an engineer in 2022 to complete a sub-division plan and cost analysis for infrastructure for the City's parcel as well as the two adjoining parcels. The total is estimated at \$5.2 million. The City was awarded \$1,000,000 dollars from the Delaware Site Readiness grant through the Delaware Economic Development Authority in September 2022. The City has applied for additional funding.

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, 2022

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 4,018,491	\$ 2,735,506	\$ 6,753,997
Taxes receivable (net of allowances)	29,811		29,811
Accounts receivable	211,089	10,185	221,274
Intragovernment receivable	2,290,464	278,116	2,568,580
Government receivable		192,780	192,780
Service charges receivable		496,071	496,071
Prepaid expenses	<u>55,149</u>	<u>7,571</u>	<u>62,720</u>
<u>Total Current Assets</u>	<u>6,605,004</u>	<u>3,720,229</u>	<u>10,325,233</u>
<u>Noncurrent Assets</u>			
Land held for sale	<u>1,197,663</u>		<u>1,197,663</u>
<u>Capital Assets</u>			
Water and sewer systems		22,050,266	22,050,266
Construction in progress	385,402	4,766,393	5,151,795
Land and buildings	5,287,678		5,287,678
Furniture, fixtures and equipment	2,625,919		2,625,919
<u>Less: Accumulated depreciation</u>	<u>(4,171,643)</u>	<u>(11,311,285)</u>	<u>(15,482,928)</u>
<u>Total Noncurrent Assets, Net of Accumulated Depreciation</u>	<u>4,127,356</u>	<u>15,505,374</u>	<u>19,632,730</u>
<u>Other Noncurrent Asset</u>			
Net pension asset	<u>1,270,750</u>	<u>30,354</u>	<u>1,301,104</u>
<u>Total Assets</u>	<u>13,200,773</u>	<u>19,255,957</u>	<u>32,456,730</u>
<u>Deferred Outflows of Resources</u>			
Deferred outflows of resources - Delaware Public Employees Retirement System	<u>314,856</u>	<u>17,556</u>	<u>332,412</u>
<u>Total Assets and Deferred Outflows of Resources</u>	<u>\$ 13,515,629</u>	<u>\$ 19,273,513</u>	<u>\$ 32,789,142</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	\$ 130,639	\$ 4,239,508	\$ 4,370,147
Intragovernment payable	2,568,580		2,568,580
Bonds and notes payable		318,802	318,802
Accrued compensated absences	<u>32,020</u>	<u>3,861</u>	<u>35,881</u>
<u>Total Current Liabilities</u>	2,731,239	4,562,171	7,293,410
<u>Noncurrent Liabilities</u>			
Bonds and note payable		6,346,873	6,346,873
Accrued compensated absences	171,400	20,452	191,852
Unearned revenue	<u>1,835,625</u>		<u>1,835,625</u>
<u>Total Liabilities</u>	<u>4,738,264</u>	<u>10,929,496</u>	<u>15,667,760</u>
<u>Deferred Inflows of Resources</u>			
Deferred inflows of resources - Delaware Public Employees Retirement System	<u>1,222,777</u>	<u>46,779</u>	<u>1,269,556</u>
<u>Total Liabilities and Deferred Inflows of Resources</u>	<u>5,961,041</u>	<u>10,976,275</u>	<u>16,937,316</u>
<u>Net Position</u>			
Contributed capital		4,104,630	4,104,630
Restricted for:			
Library expenditures	155,799		155,799
Police expenditures	1,086		1,086
Street rehabilitation expenditures	260,941		260,941
Invested in capital assets, net of related debt	4,127,356	4,735,069	8,862,425
Unrestricted	<u>3,009,406</u>	<u>(542,461)</u>	<u>2,466,945</u>
<u>Total Net Position</u>	<u>\$ 7,554,588</u>	<u>\$ 8,297,238</u>	<u>\$ 15,851,826</u>

CITY OF HARRINGTON, DELAWARE

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2022

	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>FUNCTIONS/PROGRAMS</u>							
<u>Governmental Activities:</u>							
General government	\$ 935,294	\$ 297,838	\$ 347,138	\$ 82,121	\$ (208,197)		\$ (208,197)
Police	1,384,022	412,687	288,052	20,000	(663,283)		(663,283)
Public works	529,608	4,739			(524,869)		(524,869)
Trash	264,683	258,543			(6,140)		(6,140)
Library	224,129	2,429	82,828	6,812	(132,060)		(132,060)
Fire company	406,690	250,890			(155,800)		(155,800)
Parks and recreation	184,098	69,946	32,960	269,745	188,553		188,553
Interfund service fee		459,631			459,631		459,631
	<u>3,928,524</u>	<u>1,756,703</u>	<u>750,978</u>	<u>378,678</u>	<u>(1,042,165)</u>		<u>(1,042,165)</u>
<u>Total Governmental Activities</u>							
<u>Business-Type Activities:</u>							
Sewer	2,106,137	1,546,706		43,227		\$ (516,204)	(516,204)
Water	446,392	603,747				157,355	157,355
	<u>2,552,529</u>	<u>2,150,453</u>		<u>43,227</u>		<u>(358,849)</u>	<u>(358,849)</u>
<u>Total Business-Type Activities</u>							
<u>Total</u>	<u>\$ 6,481,053</u>	<u>\$ 3,907,156</u>	<u>\$ 750,978</u>	<u>\$ 421,905</u>	<u>(1,042,165)</u>	<u>(358,849)</u>	<u>(1,401,014)</u>
<u>General Revenues and Transfers:</u>							
<u>Taxes:</u>							
Property taxes					1,174,936		1,174,936
Transfer tax					472,911		472,911
Gain on disposal of assets					16,120		16,120
Interest					5,240	4,600	9,840
Community impact fees					20,300		20,300
Miscellaneous					51,586		51,586
Transfers in (out)					(38,285)	38,285	
					<u>1,702,808</u>	<u>42,885</u>	<u>1,745,693</u>
<u>Total General Revenues</u>							
<u>Change in Net Position</u>							
					<u>660,643</u>	<u>(315,964)</u>	<u>344,679</u>
<u>Net Position - Beginning of year</u>							
					<u>6,893,945</u>	<u>8,613,202</u>	<u>15,507,147</u>
<u>Net Position - End of year</u>							
					<u>\$ 7,554,588</u>	<u>\$ 8,297,238</u>	<u>\$ 15,851,826</u>

CITY OF HARRINGTON, DELAWARE

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2022

<u>ASSETS</u>	<u>General Fund</u>	<u>Municipal Street Aid Fund</u>	<u>Real Estate Transfer Tax Fund</u>	<u>American Rescue Plan Act Fund</u>	<u>Other Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 1,427,961	\$ 1,302,979	\$ 1,056,246		\$ 231,305	\$ 4,018,491
Taxes receivable (net of allowances)	29,811					29,811
Accounts receivable	211,089					211,089
Intragovernment receivable	350,395			\$ 1,748,045	192,024	2,290,464
Land held for sale	1,197,663					1,197,663
Prepaid expenses	<u>55,149</u>					<u>55,149</u>
<u>Total Assets</u>	<u>\$ 3,272,068</u>	<u>\$ 1,302,979</u>	<u>\$ 1,056,246</u>	<u>\$ 1,748,045</u>	<u>\$ 423,329</u>	<u>\$ 7,802,667</u>
 <u>LIABILITIES</u>						
Accounts payable and other	\$ 109,825		\$ 3,703		\$ 17,111	\$ 130,639
Intragovernment payable	1,242,587	\$ 1,042,038	34,622		249,333	2,568,580
Unearned revenue	<u>87,580</u>			<u>\$ 1,748,045</u>		<u>1,835,625</u>
<u>Total Liabilities</u>	<u>1,439,992</u>	<u>1,042,038</u>	<u>38,325</u>	<u>1,748,045</u>	<u>266,444</u>	<u>4,534,844</u>
 <u>FUND BALANCE</u>						
Nonspendable:						
Nonspendable:						
Land held for sale	1,197,663					1,197,663
Prepaid expenses	55,149					55,149
Restricted for:						
Police					1,086	1,086
Street rehabilitation		260,941				260,941
Committed for:						
City capital improvements			1,017,921			1,017,921
Library building					155,799	155,799
Assigned:						
Contingency	308,061					308,061
Unassigned	<u>271,203</u>					<u>271,203</u>
<u>Total Fund Balance</u>	<u>1,832,076</u>	<u>260,941</u>	<u>1,017,921</u>		<u>156,885</u>	<u>3,267,823</u>
<u>Total Liabilities, Deferred Inflows of Resources and Fund Balance</u>	<u>\$ 3,272,068</u>	<u>\$ 1,302,979</u>	<u>\$ 1,056,246</u>	<u>\$ 1,748,045</u>	<u>\$ 423,329</u>	<u>\$ 7,802,667</u>

CITY OF HARRINGTON, DELAWARE

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

JUNE 30, 2022

<u>Total Fund Balances, Governmental Funds (Page 19)</u>	\$ 3,267,823
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.	4,127,356
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	(203,420)
Net pension asset	<u>1,270,750</u>
	1,067,330
Deferred charges - Delaware Public Employees Retirement System	<u>(907,921)</u>
<u>Net Position of Governmental Activities in the Statement of Net Position (Page 17)</u>	<u>\$ 7,554,588</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2022

	<u>General Fund</u>	<u>Municipal Street Aid Fund</u>	<u>Real Estate Transfer Tax Fund</u>	<u>American Rescue Plan Act Fund</u>	<u>Other Nonmajor Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>						
Taxes and assessments	\$ 1,174,936		\$ 472,911			\$ 1,647,847
Licenses and permits	277,193					277,193
Fines, forfeits and costs	20,645					20,645
Intergovernmental revenues		\$ 82,121		\$ 216,045	\$ 169,285	467,451
Charges for services	258,543					258,543
Grants	131,093					131,093
Fire company	250,890					250,890
Police revenue	567,166					567,166
Library revenue	91,857					91,857
Parks and recreation revenue	372,651					372,651
Miscellaneous	56,945					56,945
Interest income	3,981	293	619		347	5,240
Community impact fees	20,300					20,300
Interfund service fee	459,631					459,631
	<u>3,685,831</u>	<u>82,414</u>	<u>473,530</u>	<u>216,045</u>	<u>169,632</u>	<u>4,627,452</u>
<u>Total Revenues</u>						
<u>Expenditures</u>						
General government	906,350	24,636		16,717		947,703
Police	1,300,845			99,570	190,999	1,591,414
Public works	350,561		139,579	11,477		501,617
Trash	264,683					264,683
Library	207,983		2,400	15,908		226,291
Fire company	381,920			36,578		418,498
Parks and recreation	423,833		15,200	11,509		450,542
	<u>3,836,175</u>	<u>24,636</u>	<u>157,179</u>	<u>191,759</u>	<u>190,999</u>	<u>4,400,748</u>
<u>Total Expenditures</u>						
<u>Excess (Deficiency) of Revenues Over Expenditures</u>	(150,344)	57,778	316,351	24,286	(21,367)	226,704
<u>Other Financing Sources</u>						
Transfers out			(13,999)	(24,286)		(38,285)
<u>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures</u>	(150,344)	57,778	302,352		(21,367)	188,419
<u>Fund Balances - Beginning of year</u>	<u>1,982,420</u>	<u>203,163</u>	<u>715,569</u>		<u>178,252</u>	<u>3,079,404</u>
<u>Fund Balances - End of Year</u>	<u>\$ 1,832,076</u>	<u>\$ 260,941</u>	<u>\$ 1,017,921</u>	<u>\$ -0-</u>	<u>\$ 156,885</u>	<u>\$ 3,267,823</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2022

<u>Net Change in Fund Balances, Governmental Funds (Page 21)</u>	\$ 188,419
<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 and contributions (\$526,006) is more than depreciation (\$361,856), in the current period	164,150
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>308,074</u>
<u>Change in Net Position of Governmental Activities (Page 18)</u>	<u>\$ 660,643</u>

CITY OF HARRINGTON, DELAWARE

STATEMENT OF NET POSITION
PROPRIETARY FUND - WATER AND SEWER FUND

JUNE 30, 2022

Assets

Current Assets

Cash and cash equivalents	\$ 2,735,506
Accounts receivable	10,185
Intragovernment receivable	278,116
Government receivable	192,780
Service charges receivable	496,071
Prepaid expenses	<u>7,571</u>

Total Current Assets 3,720,229

Noncurrent Assets

Capital Assets

Water and sewer systems	22,050,266
Construction in progress	4,766,393
<u>Less: Accumulated depreciation</u>	<u>(11,311,285)</u>

Total Capital Assets, Net of Accumulated
Depreciation 15,505,374

Net Pension Asset 30,354

Total Assets 19,255,957

Deferred Outflow of Resources

Deferred outflows of resources - Delaware Public Employees Retirement System	<u>17,556</u>
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Total Assets and Deferred Outflows of Resources \$ 19,273,513

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

Liabilities

Current Liabilities

Accounts payable and other	\$ 4,239,508
Bonds and notes payable	318,802
Accrued compensated absences	<u>3,861</u>

Total Current Liabilities 4,562,171

Noncurrent Liabilities

Bonds and notes payable	6,346,873
Accrued compensated absences	<u>20,452</u>

Total Liabilities 10,929,496

Deferred Inflows of Resources

Deferred inflows of resources - Delaware Public Employees Retirement System	<u>46,779</u>
--	---------------

Total Liabilities and Deferred Inflows of Resources 10,976,275

Net Position

Contributed capital	4,104,630
Invested in capital assets, net of related debt	4,735,069
Unrestricted deficit	<u>(542,461)</u>

Total Net Position \$ 8,297,238

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2022

	Sewer	Water	Total
<u>Operating Revenues</u>			
Sewer fees	\$ 1,418,563		\$ 1,418,563
Water fees		\$ 497,364	497,364
Hook ups	25,500	47,336	72,836
Miscellaneous	11,637	21,607	33,244
<u>Total Operating Revenues</u>	1,455,700	566,307	2,022,007
<u>Operating Expenses</u>	1,653,676	306,022	1,959,698
<u>Operating Income (Loss)</u>	(197,976)	260,285	62,309
<u>Non-Operating Revenues (Expenses)</u>			
Interest expense	(107,738)	(25,462)	(133,200)
Interfund service fee	(344,723)	(114,908)	(459,631)
Impact fees	91,006	37,440	128,446
Interest income	735	3,865	4,600
<u>Total Non-Operating Expenses, Net</u>	(360,720)	(99,065)	(459,785)
<u>Income (Loss) Before Capital Contributions and Transfers</u>	\$ (558,696)	\$ 161,220	(397,476)
<u>Capital Contributions</u>			43,227
<u>Transfer In</u>			38,285
<u>Net Loss</u>			(315,964)
<u>Net Position - Beginning of year</u>			8,613,202
<u>Net Position - End of year</u>			\$ 8,297,238

CITY OF HARRINGTON, DELAWARE
STATEMENT OF OPERATING EXPENSES
PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2022

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Salaries	\$ 70,617	\$ 73,059	\$ 143,676
Payroll taxes	7,158	8,070	15,228
Pension	(1,887)	(2,224)	(4,111)
Health insurance	16,292	23,290	39,582
Office supplies	564	564	1,128
Telephone	240	240	480
Postage	2,421	2,421	4,842
Heat and electric	6,150	12,065	18,215
Safety	1,242		1,242
Maintenance agreement	690	1,736	2,426
Travel, training, and meals	500	450	950
Dues and meetings		600	600
Equipment repair	6,862	11,056	17,918
Pump station repairs	51,148		51,148
Engineering	19,739	13,766	33,505
Chemicals	3,464	7,695	11,159
Water meters		19,949	19,949
Sample testing		1,924	1,924
Water line repairs		25,356	25,356
Flow meter operations	16,282		16,282
License and permits		200	200
Insurance	34,285	13,714	47,999
County sewer fee	332,360		332,360
Public private partnership - Developer	523,641		523,641
Depreciation	561,908	92,091	653,999
	<u>561,908</u>	<u>92,091</u>	<u>653,999</u>
<u>Total Operating Expenses</u>	<u>\$ 1,653,676</u>	<u>\$ 306,022</u>	<u>\$ 1,959,698</u>

CITY OF HARRINGTON, DELAWARE

STATEMENT OF CASH FLOWS
(ALL PROPRIETARY FUNDS)

YEAR ENDED JUNE 30, 2022

<u>Cash Flows From Operating Activities</u>	
Cash received from customers and other government	\$ 2,578,992
Cash paid to suppliers	(2,141,762)
Cash paid to employees	<u>(113,951)</u>
<u>Net Cash Provided By Operating</u>	
<u>Activities</u>	<u>323,279</u>
<u>Cash Flows From Non-Capital Financing Activities</u>	
Operating transfers from other funds	38,285
Operating transfers to other funds	<u>(459,631)</u>
<u>Net Cash Used for Non-Capital and</u>	
<u>Financing Activities</u>	<u>(421,346)</u>
<u>Cash Flows From Capital and Related</u>	
<u>Financing Activities</u>	
Purchase of property and equipment	(224,068)
Principal paid on general obligation debt	(1,211,227)
Interest paid	(133,200)
Capital contribution received	<u>460,922</u>
<u>Net Cash Used for Capital and</u>	
<u>Related Financing Activities</u>	<u>(1,107,573)</u>
<u>Cash Flows From Investing Activities</u>	
Interest income	<u>4,600</u>
<u>Net Decrease In Cash and Cash Equivalents</u>	(1,201,040)
<u>Cash and Cash Equivalents</u>	
Beginning of year	<u>3,936,546</u>
End of year	<u>\$ 2,735,506</u>

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

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

<u>Operating Income</u>	\$ 62,309
<u>Adjustments To Reconcile Operating Income To Net</u>	
<u>Cash Provided By Operating Activities</u>	
Depreciation	653,999
Non-operating revenues	128,446
(Increase) decrease in:	
Accounts receivable	(3,850)
Service charges receivable	53,141
Intragovernment receivable	379,248
Deferred outflows of resources	1,821
Prepaid expenses	(2,461)
Net pension asset	(51,366)
Increase (decrease) in:	
Accounts payable and other	43,278
Compensated absences	4,392
Unearned revenue	(982,044)
Deferred inflows of resources	<u>36,366</u>
<u>Net Cash Provided By Operating Activities</u>	<u>\$ 323,279</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

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, 2022

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, 2022

Municipal Street Aid Fund - This fund is a grant that is derived from a portion of the State of Delaware's motor fuel tax. All revenue received must be expended on street maintenance and repairs.

Real Estate Transfer Tax Fund - This fund is a source of income derived from the State of Delaware, by which each town will receive 1-1/2 percent of real estate transfer taxes. This revenue may be used for public safety, economic development programs, capital and City capital projects and debt reduction.

The American Rescue Plan Act Fund - This fund is used to account for the funds allocated to the City through the American Rescue Plan Act by the U.S. Department of Treasury.

The City reports six special revenue funds as nonmajor funds. These special revenue funds account for proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

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, 2022

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, 2022

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, construction in progress, 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, 2022

Major outlays for capital assets and improvements are capitalized as projects are 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.

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) changes in employer proportionate share of the net pension liabilities that are being amortized over future periods, (2) differences between actual and expected experience, (3) changes in pension plan assumptions and (4) differences between projected and actual investment earnings 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.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

Fund Balance

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

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

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

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

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

Unassigned - All amounts not included in other spendable classifications.

Net 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

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Budgetary Data

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

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

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

Transfers of appropriations between functions require approval of the Council.

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

Budgeted amounts were originally adopted by the Council on June 21, 2021. There were no significant changes to the fiscal 2022 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:

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

- July 1 Levy date.
- July - October 31 Face payment period.
- November 1 2% penalty for each subsequent month not paid.

Note 3 - Cash and Cash Equivalents

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

Category 1 - Insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 - Uncollateralized.

Carrying amounts differ from bank balances as a result of normal reconciling items. A summary of these deposits at June 30, 2022 is shown below:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
<u>Cash and Cash Equivalents</u>		
Category 1	\$ 250,000	\$ 250,000
Category 2	6,503,997	6,576,123
Category 3	<u> </u>	<u> </u>
<u>Total Cash and Cash Equivalents</u>	<u>\$6,753,997</u>	<u>\$6,826,123</u>

At June 30, 2022, the City's cash and cash equivalents are comprised of the following:

Carrying value of unrestricted cash and cash equivalents	\$3,226,487
Restricted cash and cash equivalents	<u>3,527,510</u>
<u>Total</u>	<u>\$6,753,997</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

Note 4 - Property and Equipment

The following is a summary of changes in capital assets for the year ended June 30, 2022:

	<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	\$ 385,402			\$ 385,402
Capital assets, being depreciated:				
Furniture, fixtures and equipment	2,750,608	\$ 224,091	\$ 348,780	2,625,919
Land and buildings	4,985,763	301,915	_____	5,287,678
Total capital assets being depreciated	<u>7,736,371</u>	<u>526,006</u>	<u>348,780</u>	<u>7,913,597</u>
Less accumulated depreciation for:				
Furniture, fixtures and equipment	2,019,982	145,252	348,780	1,816,454
Land and buildings	2,138,585	216,604	_____	2,355,189
Total accumulated depreciation	<u>4,158,567</u>	<u>361,856</u>	<u>348,780</u>	<u>4,171,643</u>
Total capital assets being depreciated, net	<u>3,577,804</u>	<u>164,150</u>	<u>-0-</u>	<u>3,741,954</u>
Governmental activities capital assets, net	<u>\$ 3,963,206</u>	<u>\$ 164,150</u>	<u>\$ -0-</u>	<u>\$ 4,127,356</u>
<u>Business - Type Activities</u>				
Capital assets, not being depreciated:				
Construction in progress	\$ 461,139	\$ 4,305,254		\$ 4,766,393
Capital assets, being depreciated:				
Water and sewer systems	22,036,267	13,999		22,050,266
Less accumulated depreciation for:				
Water and sewer systems	<u>10,657,286</u>	<u>653,999</u>		<u>11,311,285</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

Total capital assets being depreciated, net	<u>11,378,981</u>	<u>(640,000)</u>	<u>10,738,981</u>
Business-type activities capital assets, net	<u>\$11,840,120</u>	<u>\$ 3,665,254</u>	<u>\$15,505,374</u>

Included in governmental activities land and buildings is a donated building from the Delaware National Guard to the parks and recreation department, valued at \$250,000.

Depreciation expense for the year ended June 30, 2022 was charged to the functions of the primary government as follows:

Governmental Activities

General government	\$230,626
Police	75,853
Public works	38,216
Parks and recreation	7,520
Library	<u>9,641</u>

Total Depreciation Expense - Governmental
Activities

\$361,856

Note 5 - Accounts Payable and Other

Accounts payable and other at June 30, 2022 consists of the following:

	<u>Governmental Funds</u>	<u>Enterprise Funds</u>	<u>Total</u>
Accounts payable	\$ 81,258	\$4,207,462	\$4,288,720
Accrued expenses	<u>49,381</u>	<u>32,046</u>	<u>81,427</u>
<u>Total</u>	<u>\$130,639</u>	<u>\$4,239,508</u>	<u>\$4,370,147</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.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

The loan balance is \$678,861 at June 30, 2022 and is payable in quarterly payments of principal and interest at 2.375%. Final payment is due October 2049.

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 \$1,376,579 at June 30, 2022 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, 2022 is \$1,037,852. 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, 2022 is \$321,350. 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 \$436,560 at June 30, 2022 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 \$1,129,552 at June 30, 2022 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 \$489,846 at June 30, 2022 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.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

In February 2016, the City entered into a Clean Water State Revolving Fund loan with the State of Delaware Department of Natural Resources (DNREC). Proceeds of the loan paid off loans from the Farmers Home Administration, which were used for the emergency water main project. The loan balance is \$303,799 at June 30, 2022 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 \$129,948 at June 30, 2022 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.

In June 2018, the City entered into an interim financing loan agreement with the State of Delaware Department of Natural Resources (DNREC). Proceeds of the loan were used to complete the City's sewer capacity expansion project. The loan balance is \$898,807 at June 30, 2021 and currently requires semi-annual payments of interest at 2%. The City started making semi-annual interest only payments in July 2019 and the outstanding principal balance was fully repaid in June 2022.

In May 2021, the City entered into a loan with the United States Department of Agriculture. Proceeds were used to repay the interim financing loan agreement with the State of Delaware Department of Natural Resources (DNREC). The loan balance is \$761,328 at June 30, 2022 and is payable in quarterly payments of principal and interest at 1.375%, beginning in August 2021. Final payment is due May 2061. The loan is secured by a general obligation bond.

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Decreases</u>	<u>Balance June 30, 2022</u>
USDA 2009 Loan	\$ 696,031		\$ 17,170	\$ 678,861
USDA 2013 Loan	1,409,412		32,833	1,376,579
DNREC 2010 Loan	1,142,109		104,257	1,037,852
DNREC 2014 Loan	351,776		30,426	321,350
USDA 2016 Loan	451,080		14,520	436,560
DNREC 2016 Loan	1,191,157		61,605	1,129,552
DNREC 2016 Loan	509,008		19,162	489,846
DNREC 2016 Loan	317,041		13,242	303,799
DNREC 2016 Loan	134,481		4,533	129,948
DNREC 2020 Loan	898,807		898,807	

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

USDA 2021 Loan	<u>776,000</u>	<u>14,672</u>	<u>761,328</u>
<u>Total</u>	<u>\$7,876,902</u>	<u>\$1,211,227</u>	<u>\$6,665,675</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>
2023	\$ 318,802	\$ 126,484	\$ 445,286
2024	325,065	120,221	445,286
2025	331,539	113,747	445,286
2026	338,099	107,187	445,286
2027	344,789	100,497	445,286
2028-2032	1,683,117	398,078	2,081,195
2033-2037	1,144,647	262,350	1,406,997
2038-2042	832,021	161,326	993,347
2043-2047	612,354	91,290	703,644
2048-2052	467,198	35,197	502,395
2053-2057	158,288	10,940	169,228
2058-2061	<u>109,756</u>	<u>2,874</u>	<u>112,630</u>
<u>Total</u>	<u>\$6,665,675</u>	<u>\$1,530,191</u>	<u>\$8,195,866</u>

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 16.03% of covered payroll for the year ended June 30, 2022. The total amount contributed by the City for the year ended June 30, 2022 is \$104,823 of which \$79,725 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 in excess of twenty years. Vesting occurs after five 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.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

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, 2021 measurement date was determined by an actuarial valuation as of June 30, 2020, and update procedures were used to roll forward the total pension liability to June 30, 2021. 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%

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 based 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.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

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

At June 30, 2022, the City reported a pension asset of \$961,911 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2021, and the total pension liability (asset) used to calculate the net pension liability (asset) was determined by rolling forward the plan's total pension liability (asset) as of June 30, 2020 to June 30, 2021. The City's proportion of the net pension liability (asset) was calculated utilizing the employer's one-year actual reported contributions. At June 30, 2021, the City's proportion was 0.699%, which was a decrease of 0.0339% from its proportion measured as of June 30, 2020.

For the year ended June 30, 2022, the City recognized a net negative pension expense of \$240,887. At June 30, 2022 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		\$ 817,347
Changes in proportions	\$ 1,783	5,055
Difference between actual and expected experience	91,016	37,476
Changes in assumptions	33,054	70,053
Contributions subsequent to the measurement date	<u>104,823</u>	<u> </u>
	<u>\$ 230,676</u>	<u>\$ 929,931</u>

An amount of \$104,823 is reported as deferred outflows of resources resulting from the City's contribution subsequent to the measurement date (June 30, 2021) and will be recognized as a reduction of the net pension liability (asset) in the year ended June 30, 2023.

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,	
2023	\$ (208,598)
2024	(192,949)
2025	(204,350)
2026	(188,411)
2027	9,000
Thereafter	<u>(18,770)</u>
	<u>\$ (804,078)</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

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 2021 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>	<u>Asset Allocation</u>
Domestic equity	5.7%	32.3%
International equity	5.7%	18.1%
Fixed income	2.0%	20.6%
Alternative investments	7.8%	24.2%
Cash and cash equivalents	0.0%	4.8%

Discount Rate

The discount rate used to measure the total pension liability (asset) 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 (asset).

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

The following presents the collective net pension liability (asset), calculated using the

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

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:

	<u>1% Decrease 6.0%</u>	<u>Current Discount Rate 7.0%</u>	<u>1% Increase 8.0%</u>
City's proportionate share of the net pension liability (asset)	\$ (444,054)	\$ (961,911)	\$(1,384,356)

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' Pension Plan. This is a "multiple-employer, cost-sharing" contributory pension plan, with the employee contributing 3% of gross salary. The City's employer contributions are based upon actuarial valuations which was 6.78% of covered payroll for the year ended June 30, 2022. The total amount contributed by the City for the year ended June 30, 2022 is \$66,896.

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 50% of the pension. If an employee who has years of service dies, the eligible survivor receives 50% of the pension that the employee would have received at age sixty-two.

CITY OF HARRINGTON, DELAWARE

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The total pension liability for the June 30, 2021 measurement date was determined by an actuarial valuation as of June 30, 2020, and update procedures were used to roll forward the total pension liability to June 30, 2021. 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 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 based 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 (Asset) and Expense, and Deferred Outflows and Inflows of Resources

At June 30, 2022, the City reported a pension asset of \$308,839 for the governmental activities and a pension asset of \$30,354 for the business-type activities for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2020, and the total pension liability (asset) used to calculate the net pension liability (asset) was determined by rolling forward the plan's total pension liability (asset) as of June 30,

CITY OF HARRINGTON, DELAWARE

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2020 to June 30, 2021. The City's proportion of the net pension liability (asset) was calculated utilizing the employer's one-year actual reported contributions. At June 30, 2021, the City's proportion was 1.6194%, which was a decrease of 0.2406% from its proportion measured as of June 30, 2020.

For the year ended June 30, 2022, the City recognized a net negative pension expense of \$86,856 for the governmental activities and a net negative pension expense of \$13,179 for its business-type activities. At June 30, 2022 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		\$ 289,953
Changes in proportions	\$ 38	15,552
Changes in assumptions	15,840	10,222
Difference between actual and expected experience	18,962	23,898
Contributions subsequent to the measurement date	<u>66,896</u>	<u> </u>
	<u>\$ 101,736</u>	<u>\$ 339,625</u>

An amount of \$57,828 for governmental activities and \$9,068 for business-type activities is reported as deferred outflows of resources resulting from the City's contribution subsequent to the measurement date (June 30, 2021) and will be recognized as a reduction of the net pension liability (asset) in the year ended June 30, 2023.

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,	
2023	\$ (76,419)
2024	(69,757)
2025	(73,610)
2026	(73,291)
2027	(3,919)
Thereafter	<u>(7,789)</u>
	<u>\$ (304,785)</u>

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

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

inactive members which is 8 years for the 2021 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>	<u>Asset Allocation</u>
Domestic equity	5.7%	32.3%
International equity	5.7%	18.1%
Fixed income	2.0%	20.6%
Alternative investments	7.8%	24.2%
Cash and cash equivalents	0.0%	4.8%

Discount Rate

The discount rate used to measure the total pension liability (asset) 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 (asset).

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

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

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

	<u>1% Decrease 6.0%</u>	<u>Current Discount Rate 7.0%</u>	<u>1% Increase 8.0%</u>
City's proportionate share of the net pension liability (asset)	\$ (146,701)	\$ (339,193)	\$ (531,698)

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. 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.

CITY OF HARRINGTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

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, 2021	\$4,252,314
<u>Add:</u> Grant proceeds received	43,227
<u>Less:</u> Depreciation on capital assets acquired with grant proceeds	<u>(190,911)</u>
<u>Contributed Capital</u> - June 30, 2022	<u>\$4,104,630</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

In February 2022, the City commenced construction of their water main transmission and water storage tank and well projects. The City entered into an agreement with certain contractors for the construction of the water main transmission. The City has a commitment for the construction phase totaling \$3,855,657, of which \$2,552,567 was spent during the year ended June 30, 2022. The project was completed in May 2023. The City entered into an agreement with certain contractors for the construction of the water storage tank and well projects. The City has a commitment for the construction phase totaling \$5,442,470, of which \$1,525,080 was spent during the year ended June 30, 2022. The project was completed in August 2023.

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

In the normal course of operations, the City receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

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, 2022 and for the year then ended is presented as follows:

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Operating revenues	\$1,455,700	\$566,307	\$2,022,007
Depreciation	561,908	92,091	653,999
Other operating expenses	1,091,768	213,931	1,305,699
Operating income (loss)	(197,976)	260,285	62,309
Non-operating revenues	91,741	41,305	133,046
Non-operating expenses	452,461	140,370	592,831
Income (Loss) before capital contributions and transfers	(558,696)	161,220	(397,476)

Note 14 - Pronouncements Issues, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2022 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 - Unearned Revenue

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 has received their proportionate share from the ARPA funding in the amount of \$1,964,090. These federal funds are earned when spent on qualifying expenditures. During fiscal year 2022 the City recognized revenue of \$216,045. The remaining unspent funds of \$1,748,045 is recorded as unearned revenue as of June 30, 2022. These federal funds are to be obligated by the City by December 31, 2024 and expended by December 31, 2026. Included in unearned revenue is an additional \$87,580 of various grants that will be earned when spent on qualified expenditures.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

Note 16 - Public Private Partnership

The City entered into a Public Private Partnership agreement with a developer in October 2021, whereby the City would pay the developer an amount not to exceed \$584 thousand to offset its construction costs. The City also waived water and sewer impact and other various fees totaling approximately \$41 thousand. The City paid the developer \$523,641 for the year ended June 30, 2022. The project has been completed and the City will not receive future benefits from this partnership.

Note 17 - Reclassification

Certain amounts from the 2021 financial statements have been reclassified to agree with the 2022 presentation.

Note 18 - Subsequent Events

The City was awarded approximately \$14.1 million of State Bond Bill and ARPA funds from the State of Delaware in February 2022 for the construction of a new library. In October 2022, the City hired a construction manager and construction began in September 2023. The City has received approximately \$1.1 million of its awarded funds to date.

In September 2022, the City was awarded a \$1 million grant from the Delaware Site Readiness Fund Program through The Delaware Economic Development Authority for future development of its industrial park. The cost to develop the industrial park is estimated to be approximately \$5.2 million, of which to date the City has committed to spend \$234 thousand for engineering costs. The City is in the process of applying for additional funding.

Management has evaluated all subsequent events through October 16, 2023, 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 -
GENERAL FUND

YEAR ENDED JUNE 30, 2022

	<u>Original and Final Budget</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
<u>Revenues</u>			
Taxes and assessments	\$ 1,123,826	\$ 1,174,936	\$ 51,110
Licenses and permits	255,899	277,193	21,294
Fines, forfeits and costs	41,514	20,645	(20,869)
Charges for services	257,500	258,543	1,043
Grants		131,093	131,093
Fire company	179,733	250,890	71,157
Police revenue	603,023	567,166	(35,857)
Library revenue	60,108	91,857	31,749
Parks and recreation revenue	105,150	372,651	267,501
Miscellaneous	37,824	56,945	19,121
Interest income	6,764	3,981	(2,783)
Community impact fees		20,300	20,300
Interfund service fee	<u>459,631</u>	<u>459,631</u>	
<u>Total Revenues</u>	<u>3,130,972</u>	<u>3,685,831</u>	<u>554,859</u>
<u>Expenditures</u>			
General government	865,743	906,350	(40,607)
Police	1,428,357	1,300,845	127,512
Public works	312,289	350,561	(38,272)
Trash	258,648	264,683	(6,035)
Library	180,270	207,983	(27,713)
Fire company	297,797	381,920	(84,123)
Parks and recreation	<u>148,969</u>	<u>423,833</u>	<u>(274,864)</u>
<u>Total Expenditures</u>	<u>3,492,073</u>	<u>3,836,175</u>	<u>(344,102)</u>
<u>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures</u>			
	<u>\$ (361,101)</u>	<u>(150,344)</u>	<u>\$ 210,757</u>
<u>Fund Balances - Beginning of year</u>		<u>1,982,420</u>	
<u>Fund Balances - End of Year</u>		<u>\$ 1,832,076</u>	

Note 1 - Excess of Expenditures over Appropriations

The general fund incurred expenditures in excess of appropriations in the amount of \$471,614 for the year ended June 30, 2022. Of this amount, \$338,065 was funded through the use of intergovernmental grants, the remaining was funded through the use of fund balance.

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

YEAR ENDED JUNE 30, 2022

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>Measurement Date</u> <u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
City's proportionate share of the net pension liability (asset)	0.6990%	0.7329%	0.7295%	0.7452%	0.7232%	0.7442%	0.6769%
City's proportionate share of the net pension liability (asset)	\$ (961,911)	\$ 112,463	\$ 209,532	\$ 171,659	\$ 72,911	\$ 118,300	\$ (35,677)
City's covered employee payroll	\$ 677,896	\$ 668,278	\$ 644,874	\$ 618,888	\$ 594,234	\$ 542,202	\$ 480,599
City's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	-141.90%	16.83%	32.49%	27.74%	12.27%	21.82%	-7.42%
Plan fiduciary net position as a percentage of the total pension liability (asset)	-128.19%	96.67%	93.25%	94.10%	97.00%	94.70%	101.97%

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2022

	<u>Measurement Date</u>						
	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
City's proportionate share of the net pension liability (asset)	1.6194%	1.8600%	2.0132%	2.1417%	2.3241%	2.6157%	2.7587%
City's proportionate share of the net pension liability (asset)	\$ (339,193)	\$ 39,529	\$ 92,257	\$ 67,399	\$ 150,583	\$ 162,062	\$ 1,177
City's covered employee payroll	\$ 867,337	\$ 911,580	\$ 894,239	\$ 853,597	\$ 864,349	\$ 875,024	\$ 817,793
City's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	-39.11%	4.34%	10.32%	7.90%	17.42%	18.52%	0.14%
Plan fiduciary net position as a percentage of the total pension liability (asset)	-127.56%	96.95%	92.74%	94.41%	87.62%	86.38%	99.89%

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

YEAR ENDED JUNE 30, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 104,823	\$ 112,463	\$ 112,538	\$ 107,565	\$ 70,677	\$ 81,826	\$ 75,095
Contribution in relation to the contractually required contribution	<u>104,823</u>	<u>112,463</u>	<u>112,538</u>	<u>107,565</u>	<u>70,677</u>	<u>81,826</u>	<u>75,095</u>
Contribution deficiency/excess	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
City's covered employee payroll	\$ 653,918	\$ 677,896	\$ 668,278	\$ 644,874	\$ 618,888	\$ 594,234	\$ 542,202
Contributions as a percentage of covered employee payroll	16.03%	16.59%	16.84%	16.68%	11.42%	13.77%	13.85%

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 66,896	\$ 61,234	\$ 66,363	\$ 65,190	\$ 60,520	\$ 58,430	\$ 54,339
Contribution in relation to the contractually required contribution	<u>66,896</u>	<u>61,234</u>	<u>66,363</u>	<u>65,190</u>	<u>60,520</u>	<u>58,430</u>	<u>54,339</u>
Contribution deficiency/excess	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
City's covered employee payroll	\$ 986,667	\$ 867,337	\$ 911,580	\$ 894,239	\$ 853,597	\$ 864,349	\$ 875,024
Contributions as a percentage of covered employee payroll	6.78%	7.06%	7.28%	7.29%	7.09%	6.76%	6.21%

SUPPLEMENTARY INFORMATION

CITY OF HARRINGTON, DELAWARE
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUND TYPES

JUNE 30, 2022

	<u>Police Pension Fund</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		\$ 5,806		\$ 4,705	\$ 7,109	\$ 213,685	\$ 231,305
Intragovernment receivable		<u> </u>	<u>\$ 137,524</u>	<u>1,768</u>	<u>1,860</u>	<u>50,872</u>	<u>192,024</u>
<u>Total Assets</u>	<u>\$ -0-</u>	<u>\$ 5,806</u>	<u>\$ 137,524</u>	<u>\$ 6,473</u>	<u>\$ 8,969</u>	<u>\$ 264,557</u>	<u>\$ 423,329</u>
<u>LIABILITIES</u>							
Accounts payable and other Intragovernment payable			\$ 15,955		\$ 1,156		\$ 17,111
		<u>\$ 12,270</u>	<u>118,472</u>	<u>\$ 4,776</u>	<u>5,057</u>	<u>\$ 108,758</u>	<u>249,333</u>
<u>Total Liabilities</u>		<u>12,270</u>	<u>134,427</u>	<u>4,776</u>	<u>6,213</u>	<u>108,758</u>	<u>266,444</u>
<u>FUND EQUITY (DEFICIT)</u>							
<u>Fund Balance</u>							
Restricted		(6,464)	3,097	1,697	2,756		1,086
Committed		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>155,799</u>	<u>155,799</u>
<u>Total Fund Equity (Deficit)</u>		<u>(6,464)</u>	<u>3,097</u>	<u>1,697</u>	<u>2,756</u>	<u>155,799</u>	<u>156,885</u>
<u>Total Liabilities and Fund Equity</u>	<u>\$ -0-</u>	<u>\$ 5,806</u>	<u>\$ 137,524</u>	<u>\$ 6,473</u>	<u>\$ 8,969</u>	<u>\$ 264,557</u>	<u>\$ 423,329</u>

CITY OF HARRINGTON, DELAWARE

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUND TYPES

YEAR ENDED JUNE 30, 2022

	<u>Police Pension Fund</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	\$ 79,725	\$ 29,674	\$ 44,454	\$ 6,574	\$ 8,646	\$ 212	\$ 169,285
Interest						347	347
<u>Total Revenues</u>	<u>79,725</u>	<u>29,674</u>	<u>44,454</u>	<u>6,574</u>	<u>8,646</u>	<u>559</u>	<u>169,632</u>
<u>Expenditures</u>	<u>79,725</u>	<u>41,333</u>	<u>57,031</u>	<u>5,276</u>	<u>7,634</u>		<u>190,999</u>
<u>Excess (Deficiency) of Revenues Over Expenditures</u>		(11,659)	(12,577)	1,298	1,012	559	(21,367)
<u>Fund Balance - Beginning of year</u>		<u>5,195</u>	<u>15,674</u>	<u>399</u>	<u>1,744</u>	<u>155,240</u>	<u>178,252</u>
<u>Fund Balance - End of year</u>	<u>\$ -0-</u>	<u>\$ (6,464)</u>	<u>\$ 3,097</u>	<u>\$ 1,697</u>	<u>\$ 2,756</u>	<u>\$ 155,799</u>	<u>\$ 156,885</u>

SINGLE AUDIT SECTION

**Report on Compliance For Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on Schedule of
Expenditures of Federal Awards Required By the Uniform Guidance**

Independent Auditor's Report

To the Mayor and Council
City of Harrington, Delaware

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Harrington, Delaware's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Harrington, Delaware's major federal programs for the year ended June 30, 2022. 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.

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, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of the Compliance section of our report.

We are required to be independent of the City of Harrington, Delaware's and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City of Harrington, Delaware's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City of Harrington, Delaware's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Harrington, Delaware's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City of Harrington, Delaware's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City of Harrington, Delaware's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City of Harrington, Delaware's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City of Harrington, Delaware's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance 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, 2022, and have issued our report thereon dated October 16, 2023, which contained an unmodified opinion on those financial statements. Our audit was performed 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

To the Mayor and Council
City of Harrington, Delaware

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
October 16, 2023

Horty & Horty, P.A.

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2022

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>
Coronavirus State and Local Fiscal Recovery Funds	21.027
Clean Water State Revolving Fund	66.458
Dollar threshold used to distinguish between Type A and Type B Programs	<u>\$750,000</u>
Auditee qualified as low-risk auditee?	<u> X </u> Yes ___ No

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2022

II. Financial Statement Findings

Our audit did not disclose any matters required to be reported in accordance with Government Auditing Standards.

III. Findings And Questioned Costs For Federal Awards

Our audit did not disclose any matters required to be reported in accordance with Government Auditing Standards.

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2022

<u>Federal Grantor/Pass- Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture:</u> Rural Business Development Grant	10.351	\$ <u>17,885</u>
<u>U.S. Department of Transportation:</u> Passed through Delaware Office of Highway Safety (OHS)		
State and Community Highway Safety	20.600	12,804
Alcohol Open Container Requirements	20.607	<u>6,630</u>
		<u>19,434</u>
<u>U.S. Department of Treasury:</u> Coronavirus State and Local Fiscal Recovery Funds	21.027	<u>216,045</u>
<u>National Endowment for the Humanities:</u> Passed through Delaware Division of Libraries		
Grants to States	45.310	<u>32,975</u>
<u>U.S. Environmental Protection Agency:</u> Clean Water State Revolving Fund	66.458	<u>4,421,954</u>
<u>Total Expenditures of Federal Awards</u>		<u>\$4,708,293</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, 2022. 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.

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2022

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. The City of Harrington, Delaware has elected to not use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.