

CITY OF HARRINGTON, DELAWARE

FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2023

CITY OF HARRINGTON, DELAWARE

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JUNE 30, 2023

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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, 2023, 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, business-type activities each major fund, and the aggregate remaining fund information of the City of Harrington, Delaware, as of June 30, 2023, 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 15 and 51, respectively, proportionate share of the net pension liability (asset) - Delaware Municipal Police/Firefighter and Delaware County and Municipal Other Employees' Pension Plans on pages 52 and 53 and schedules of City Contributions for the Delaware Municipal Police/Firefighter and Delaware County and Municipal Other Employees' Pension Plan on pages 54 and 55 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 August 27, 2024 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
August 27, 2024

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), 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, 2023, 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 August 27, 2024.

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. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as finding 2023-001 that we consider to be a significant deficiency.

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 August 27, 2024.

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
August 27, 2024

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CITY OF HARRINGTON, DELAWARE

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2023

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, 2023. We encourage users to read it in conjunction with the City's financial statements, which follow this section.

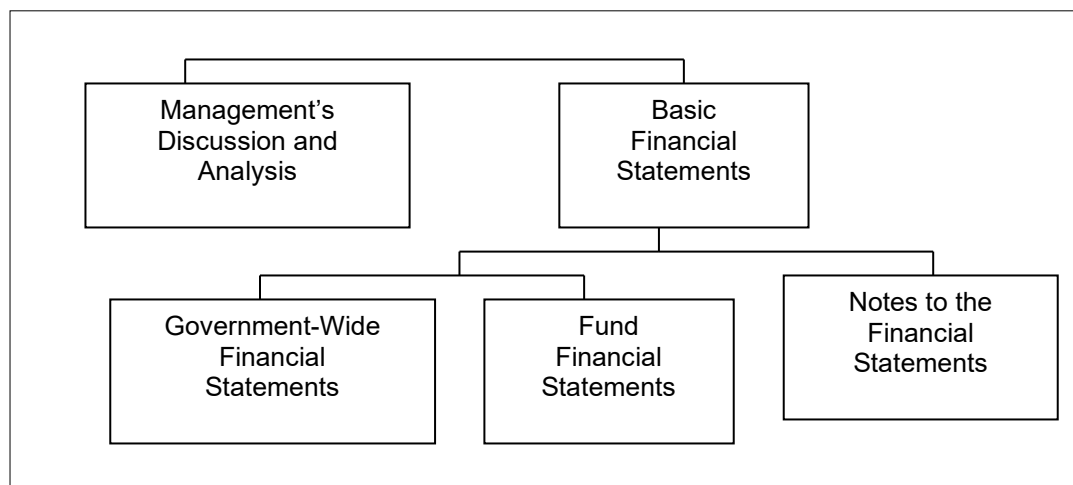
Financial Highlights For Fiscal Year 2023

- The assets of the City exceeded its liabilities at the close of the 2023 fiscal year resulting in a net position of \$21,128,950. Of this amount, \$5,716,292 is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors, and \$6,625,821 is invested in capital assets, net of related debt.
- As of June 30, 2023, the City's governmental funds reported combined ending fund balances of \$3,462,987.

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 16 and 17 of this report.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories; governmental funds and proprietary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City has ten governmental funds. Information is presented separately in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, real estate transfer tax fund, American Rescue Plan Act fund and library building fund which are considered to be major funds. 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 18 through 21 of this report.

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

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

The basic proprietary fund financial statements can be found on pages 22 through 25 of this report.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26 through 50 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 56 and 57 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, 2023.

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 \$21,128,950 at the close of the fiscal year, June 30, 2023.

By far the largest portion of the City's net position (69 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>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Current assets	\$6,606,678	\$6,605,004	\$ 3,877,055	\$ 3,720,229	\$10,483,733	\$10,325,233
Land held for sale	1,259,467	1,197,663			1,259,467	1,197,663
Capital assets	4,666,165	4,127,356	19,806,528	15,505,374	24,472,693	19,632,730
Other noncurrent asset	87,062	1,270,750		30,354	87,062	1,301,104
Deferred outflows of resources	<u>478,743</u>	<u>314,856</u>	<u>26,240</u>	<u>17,556</u>	<u>504,983</u>	<u>332,412</u>
Total Assets and Deferred Outflows of Resources	<u>\$13,098,115</u>	<u>\$13,515,629</u>	<u>\$23,709,823</u>	<u>\$19,273,513</u>	<u>\$36,807,938</u>	<u>\$32,789,142</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>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Current liabilities	\$1,907,199	\$2,731,239	\$ 1,343,336	\$4,562,171	\$ 3,250,535	\$ 7,293,410
Noncurrent liabilities	2,733,296	2,007,025	9,562,610	6,367,325	12,295,906	8,374,350
Deferred inflows of resources	<u>121,384</u>	<u>1,222,777</u>	<u>11,163</u>	<u>46,779</u>	<u>132,547</u>	<u>1,269,556</u>
<u>Total Liabilities and Deferred Inflows of Resources</u>	<u>4,761,879</u>	<u>5,961,041</u>	<u>10,917,109</u>	<u>10,976,275</u>	<u>15,678,988</u>	<u>16,937,316</u>
Contributed capital			8,000,052	4,104,630	8,000,052	4,104,630
Restricted	786,785	417,826			786,785	417,826
Invested in capital assets	4,666,165	4,127,356	1,959,656	4,735,069	6,625,821	8,862,425
Unrestricted	<u>2,883,286</u>	<u>3,009,406</u>	<u>2,833,006</u>	<u>(542,461)</u>	<u>5,716,292</u>	<u>2,466,945</u>
<u>Total Net Position</u>	<u>\$8,336,236</u>	<u>\$7,554,588</u>	<u>\$12,792,714</u>	<u>\$8,297,238</u>	<u>\$21,128,950</u>	<u>\$15,851,826</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>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
REVENUES						
<u>Program Revenues</u>						
Charges for services	\$1,775,288	\$1,756,703	\$2,236,799	\$2,150,453	\$4,012,087	\$3,907,156
Operating grants and contributions	597,733	750,978			597,733	750,978
Capital grants and contributions	1,153,747	378,678	3,985,537	43,227	5,139,284	421,905
<u>General Revenues</u>						
Property taxes	1,255,953	1,174,936			1,255,953	1,174,936
Transfer tax	384,620	472,911			384,620	472,911
Community impact fees	21,700	20,300			21,700	20,300
Other revenue	<u>(203,186)</u>	<u>34,661</u>	<u>396,177</u>	<u>42,885</u>	<u>192,991</u>	<u>77,546</u>
<u>Total Revenues</u>	<u>4,985,855</u>	<u>4,589,167</u>	<u>6,618,513</u>	<u>2,236,565</u>	<u>11,604,368</u>	<u>6,825,732</u>
EXPENSES						
General government	1,083,249	935,294			1,083,249	935,294
Police	1,334,141	1,384,022			1,334,141	1,384,022
Public works	582,412	529,608			582,412	529,608
Trash	265,415	264,683			265,415	264,683
Library	216,232	224,129			216,232	224,129
Fire company	529,852	406,690			529,852	406,690
Parks and recreation	192,906	184,098			192,906	184,098
Sewer			1,604,059	2,106,137	1,604,059	2,106,137
Water			<u>518,978</u>	<u>446,392</u>	<u>518,978</u>	<u>446,392</u>
<u>Total Expenses</u>	<u>4,204,207</u>	<u>3,928,524</u>	<u>2,123,037</u>	<u>2,552,529</u>	<u>6,327,244</u>	<u>6,481,053</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>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
<u>Change in Net Position</u>	781,648	660,643	4,495,476	(315,964)	5,277,124	344,679
<u>Net Position</u> - Beginning of year	<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>
<u>Net Position</u> - End of year	<u>\$8,336,236</u>	<u>\$7,554,588</u>	<u>\$12,792,714</u>	<u>\$8,297,238</u>	<u>\$21,128,950</u>	<u>\$15,851,826</u>

For the year ended June 30, 2023, 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. Unassigned 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, 2023, the City's governmental funds reported a combined ending fund balance of \$3,462,987.

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 unassigned fund balance and total fund balance to general fund expenditures. At June 30, 2023, the general fund balance is \$1,665,833.

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 and water fund reported income before capital contributions and transfers of \$55,118 and \$126,839, respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City adopted the fiscal year 2023 budget on June 6, 2022. The City's practice is to get approval from the Council if the budget is amended. During 2023, 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, 2023, was \$24,472,693 (net of accumulated depreciation). Capital assets include land, building and improvements, furniture and fixtures, equipment and streets. Additions of \$5,033,903 exceeded depreciation by \$3,974,868.

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 \$9,846,821 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.

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 was completed in May 2023 and the water tank storage project is estimated to be completed in September 2024.

Wastewater Improvements

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

The project resulted in the construction of a force main that connects the City's sanitary sewer collection and conveyance system to the County collection and conveyance system, and the construction of a pump station on the grounds of the existing City wastewater treatment plant. The force main is approximately 10.5 miles in length and is located within the right-of-way of State highways. This project was completed in January 2013 and as such the City contracts its wastewater treatment with the County.

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

In 2016, the City obtained a new loan package from the CWSRF (DNREC) and USDA for needed wastewater projects. The sewer capacity expansion project upgraded 1,600 LF of aging and undersized pipes to 10", 1,250 LF to 12", 500 LF to 15". Construction of the sewer capacity expansion project commenced in the summer of 2018 and was completed in the spring of 2021 for a total cost of approximately \$2.4 million.

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 \$11.7 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. The project went out for bid in July 2023 and the total project cost is approximately \$14,000,000. The City applied for an additional \$850,000 of State Bond Bill funds in October 2023. The City has allocated \$573,000 from the library construction fund and \$466,666 from community reinvestment funds. Construction of the new library began in September 2023 and is anticipated to be completed in October 2024.

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 received \$1,000,000 dollars from the Delaware Site Readiness grant through the Delaware Economic Development Authority in September 2022. In March 2024, the City was awarded a \$3.345 million dollar Congressionally Directed Spending grant through Senator Coons, Senator Carper, and Representative Lisa Blunt Rochester for the construction roadway access, water, sewer, storm water and electric.

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, 2023

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 4,185,343	\$ 3,314,806	\$ 7,500,149
Taxes receivable (net of allowances)	52,470		52,470
Accounts receivable	125,162	6,920	132,082
Intragovernment receivable	2,059,087	4,014,171	6,073,258
Government receivable	134,312		134,312
Service charges receivable		547,411	547,411
Prepaid expenses	<u>50,304</u>	<u>7,918</u>	<u>58,222</u>
<u>Total Current Assets</u>	<u>6,606,678</u>	<u>7,891,226</u>	<u>14,497,904</u>
<u>Noncurrent Assets</u>			
Land held for sale	<u>1,259,467</u>		<u>1,259,467</u>
<u>Capital Assets</u>			
Water and sewer systems		26,536,522	26,536,522
Construction in progress	759,731	5,257,159	6,016,890
Land and buildings	5,572,968		5,572,968
Furniture, fixtures and equipment	2,870,513		2,870,513
Less: Accumulated depreciation	<u>(4,537,047)</u>	<u>(11,987,153)</u>	<u>(16,524,200)</u>
<u>Total Capital Assets, Net of Accumulated Depreciation</u>	<u>4,666,165</u>	<u>19,806,528</u>	<u>24,472,693</u>
Net pension asset	<u>87,062</u>		<u>87,062</u>
<u>Total Assets</u>	<u>12,619,372</u>	<u>27,697,754</u>	<u>40,317,126</u>
<u>Deferred Outflows of Resources</u>			
Deferred outflows of resources - Delaware Public Employees Retirement System	<u>478,743</u>	<u>26,240</u>	<u>504,983</u>
<u>Total Assets and Deferred Outflows of Resources</u>	<u>\$ 13,098,115</u>	<u>\$ 27,723,994</u>	<u>\$ 40,822,109</u>

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

	Governmental Activities	Business-Type Activities	Total
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Accounts payable and other	\$ 421,088	\$ 409,250	\$ 830,338
Intragovernment payable	1,454,830	4,618,428	6,073,258
Bonds and notes payable		325,066	325,066
Accrued compensated absences	31,281	4,763	36,044
<u>Total Current Liabilities</u>	1,907,199	5,357,507	7,264,706
<u>Noncurrent Liabilities</u>			
Bonds and note payable		9,521,755	9,521,755
Accrued compensated absences	206,056	31,310	237,366
Unearned revenue	2,527,240		2,527,240
Net pension liability		9,545	9,545
<u>Total Liabilities</u>	4,640,495	14,920,117	19,560,612
<u>Deferred Inflows of Resources</u>			
Deferred inflows of resources - Delaware Public Employees Retirement System	121,384	11,163	132,547
<u>Total Liabilities and Deferred Inflows of Resources</u>	4,761,879	14,931,280	19,693,159
<u>Net Position</u>			
Contributed capital		8,000,052	8,000,052
Restricted for:			
Library expenditures	441,188		441,188
Police expenditures	(4,163)		(4,163)
Street rehabilitation expenditures	349,760		349,760
Invested in capital assets, net of related debt	4,666,165	1,959,656	6,625,821
Unrestricted	2,883,286	2,833,006	5,716,292
<u>Total Net Position</u>	\$ 8,336,236	\$ 12,792,714	\$ 21,128,950

CITY OF HARRINGTON, DELAWARE

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2023

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<u>Governmental Activities:</u>							
General government	\$ 1,083,249	\$ 321,217	\$ 272,654	\$ 280,917	\$ (208,461)		\$ (208,461)
Police	1,334,141	224,101	229,388	25,000	(855,652)		(855,652)
Public works	582,412	11,931			(570,481)		(570,481)
Trash	265,415	265,237			(178)		(178)
Library	216,232	3,120	62,731	650,247	499,866		499,866
Fire company	529,852	407,904			(121,948)		(121,948)
Parks and recreation	192,906	69,961	32,960	197,583	107,598		107,598
Interfund service fee		471,817			471,817		471,817
<u>Total Governmental Activities</u>	<u>4,204,207</u>	<u>1,775,288</u>	<u>597,733</u>	<u>1,153,747</u>	<u>(677,439)</u>		<u>(677,439)</u>
<u>Business-Type Activities:</u>							
Sewer	1,604,059	1,647,975				\$ 43,916	43,916
Water	518,978	588,824		3,985,537		4,055,383	4,055,383
<u>Total Business-Type Activities</u>	<u>2,123,037</u>	<u>2,236,799</u>		<u>3,985,537</u>		<u>4,099,299</u>	<u>4,099,299</u>
<u>Total</u>	<u>\$ 6,327,244</u>	<u>\$ 4,012,087</u>	<u>\$ 597,733</u>	<u>\$ 5,139,284</u>	<u>(677,439)</u>	<u>4,099,299</u>	<u>3,421,860</u>
<u>General Revenues and Transfers:</u>							
Taxes:							
Property taxes					1,255,953		1,255,953
Transfer tax					384,620		384,620
Gain on disposal of assets					14,500		14,500
Interest					60,881	68,195	129,076
Community impact fees					21,700		21,700
Miscellaneous					49,415		49,415
Transfers in (out)					(327,982)	327,982	
<u>Total General Revenues</u>					<u>1,459,087</u>	<u>396,177</u>	<u>1,855,264</u>
<u>Change in Net Position</u>					<u>781,648</u>	<u>4,495,476</u>	<u>5,277,124</u>
<u>Net Position - Beginning of year</u>					<u>7,554,588</u>	<u>8,297,238</u>	<u>15,851,826</u>
<u>Net Position - End of year</u>					<u>\$ 8,336,236</u>	<u>\$ 12,792,714</u>	<u>\$ 21,128,950</u>

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

CITY OF HARRINGTON, DELAWARE

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2023

<u>ASSETS</u>	<u>General Fund</u>	<u>Real Estate Transfer Tax Fund</u>	<u>American Rescue Plan Fund</u>	<u>Library Building Fund</u>	<u>Other Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 1,153,135	\$ 1,170,826		\$ 1,423,271	\$ 438,111	\$ 4,185,343
Taxes receivable (net of allowances)	52,470					52,470
Accounts receivable	125,162					125,162
Intragovernment receivable	391,673		\$ 1,475,390	50,872	141,152	2,059,087
Government receivable	37,973			96,339		134,312
Land held for sale	1,259,467					1,259,467
Prepaid expenses	50,304					50,304
<u>Total Assets</u>	<u>\$ 3,070,184</u>	<u>\$ 1,170,826</u>	<u>\$ 1,475,390</u>	<u>\$ 1,570,482</u>	<u>\$ 579,263</u>	<u>\$ 7,866,145</u>
<u>LIABILITIES</u>						
Accounts payable and other	\$ 189,962	\$ 103,476		\$ 126,879	\$ 771	\$ 421,088
Intragovernment payable	1,040,772	56,981		124,182	232,895	1,454,830
Unearned revenue	173,617		\$ 1,475,390	878,233		2,527,240
<u>Total Liabilities</u>	<u>1,404,351</u>	<u>160,457</u>	<u>1,475,390</u>	<u>1,129,294</u>	<u>233,666</u>	<u>4,403,158</u>
<u>FUND BALANCE</u>						
Nonspendable:						
Nonspendable:						
Land held for sale	1,259,467					1,259,467
Prepaid expenses	50,304					50,304
Restricted for:						
Police					(4,163)	(4,163)
Street rehabilitation					349,760	349,760
Committed for:						
City capital improvements		1,010,369				1,010,369
Library building				441,188		441,188
Assigned:						
Contingency	334,159					334,159
Unassigned	21,903					21,903
<u>Total Fund Balance</u>	<u>1,665,833</u>	<u>1,010,369</u>		<u>441,188</u>	<u>345,597</u>	<u>3,462,987</u>
<u>Total Liabilities, Deferred Inflows of Resources and Fund Balance</u>	<u>\$ 3,070,184</u>	<u>\$ 1,170,826</u>	<u>\$ 1,475,390</u>	<u>\$ 1,570,482</u>	<u>\$ 579,263</u>	<u>\$ 7,866,145</u>

CITY OF HARRINGTON, DELAWARE

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

JUNE 30, 2023

<u>Total Fund Balances, Governmental Funds (Page 18)</u>			\$ 3,462,987
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.			4,666,165
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	(237,337)		
Net pension asset	<u>87,062</u>	(150,275)	
Deferred charges - Delaware Public Employees Retirement System		<u>357,359</u>	
<u>Net Position of Governmental Activities in the Statement of Net Position (Page 16)</u>			<u>\$ 8,336,236</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2023

	<u>General Fund</u>	<u>Real Estate Transfer Tax Fund</u>	<u>American Rescue Plan Fund</u>	<u>Library Building Fund</u>	<u>Other Nonmajor Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>						
Taxes and assessments	\$ 1,255,953	\$ 384,620				\$ 1,640,573
Licenses and permits	312,483					312,483
Fines, forfeits and costs	6,384					6,384
Intergovernmental revenues			\$ 272,654	\$ 650,247	\$ 168,785	1,091,686
Charges for services	267,587					267,587
Grants	199,740					199,740
Fire company	407,904					407,904
Police revenue	390,882					390,882
Library revenue	65,851					65,851
Parks and recreation revenue	300,504					300,504
Miscellaneous	75,845					75,845
Interest income	22,590	20,898		9,751	7,642	60,881
Community impact fees	21,700					21,700
Interfund service fee	471,817					471,817
<u>Total Revenues</u>	<u>3,799,240</u>	<u>405,518</u>	<u>272,654</u>	<u>659,998</u>	<u>176,427</u>	<u>5,313,837</u>
<u>Expenditures</u>						
General government	926,728	39,068				965,796
Police	1,202,736	146,788			92,857	1,442,381
Public works	464,561	166,486				631,047
Trash	265,415					265,415
Library	205,060			374,609		579,669
Fire company	532,748					532,748
Parks and recreation	368,235	5,400				373,635
<u>Total Expenditures</u>	<u>3,965,483</u>	<u>357,742</u>		<u>374,609</u>	<u>92,857</u>	<u>4,790,691</u>
<u>Excess (Deficiency) of Revenues Over Expenditures</u>	<u>(166,243)</u>	<u>47,776</u>	<u>272,654</u>	<u>285,389</u>	<u>83,570</u>	<u>523,146</u>
<u>Other Financing Sources</u>						
Transfers out		(55,328)	(272,654)			(327,982)
<u>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures</u>	<u>(166,243)</u>	<u>(7,552)</u>		<u>285,389</u>	<u>83,570</u>	<u>195,164</u>
<u>Fund Balances - Beginning of year</u>	<u>1,832,076</u>	<u>1,017,921</u>		<u>155,799</u>	<u>262,027</u>	<u>3,267,823</u>
<u>Fund Balances - End of Year</u>	<u>\$ 1,665,833</u>	<u>\$ 1,010,369</u>	<u>\$ -0-</u>	<u>\$ 441,188</u>	<u>\$ 345,597</u>	<u>\$ 3,462,987</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, 2023

Net Change in Fund Balances, Governmental Funds (Page 20) \$ 195,164

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays and contributions (\$921,976) is more than depreciation (\$383,167), in the current period

538,809

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

47,675

Change in Net Position of Governmental Activities (Page 17)

\$ 781,648

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

JUNE 30, 2023

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
<u>Assets</u>			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 1,821,117	\$ 1,493,689	\$ 3,314,806
Accounts receivable	470	6,450	6,920
Intragovernment receivable		4,014,171	4,014,171
Service charges receivable	423,340	124,071	547,411
Prepaid expenses	<u>5,543</u>	<u>2,375</u>	<u>7,918</u>
<u>Total Current Assets</u>	<u>2,250,470</u>	<u>5,640,756</u>	<u>7,891,226</u>
<u>Noncurrent Assets</u>			
<u>Capital Assets</u>			
Water and sewer systems	19,328,573	7,207,949	26,536,522
Construction in progress	83,105	5,174,054	5,257,159
<u>Less: Accumulated depreciation</u>	<u>(10,148,409)</u>	<u>(1,838,744)</u>	<u>(11,987,153)</u>
<u>Total Capital Assets, Net of Accumulated Depreciation</u>	<u>9,263,269</u>	<u>10,543,259</u>	<u>19,806,528</u>
<u>Total Assets</u>	<u>11,513,739</u>	<u>16,184,015</u>	<u>27,697,754</u>
<u>Deferred Outflow of Resources</u>			
Deferred outflows of resources - Delaware Public Employees Retirement System	<u>12,149</u>	<u>14,091</u>	<u>26,240</u>
<u>Total Assets and Deferred Outflows of Resources</u>	<u>\$ 11,525,888</u>	<u>\$ 16,198,106</u>	<u>\$ 27,723,994</u>

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

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Accounts payable and other	\$ 76,002	\$ 333,248	\$ 409,250
Intragovernment payable	4,618,428		4,618,428
Bonds and notes payable	288,358	36,708	325,066
Accrued compensated absences	<u>2,205</u>	<u>2,558</u>	<u>4,763</u>
<u>Total Current Liabilities</u>	4,984,993	372,514	5,357,507
<u>Noncurrent Liabilities</u>			
Bonds and notes payable	4,981,972	4,539,783	9,521,755
Accrued compensated absences	14,497	16,813	31,310
Net pension liability	<u>4,419</u>	<u>5,126</u>	<u>9,545</u>
<u>Total Liabilities</u>	<u>9,985,881</u>	<u>4,934,236</u>	<u>14,920,117</u>
<u>Deferred Inflows of Resources</u>			
Deferred Inflows of resources - Delaware Public Employees Retirement System	<u>5,168</u>	<u>5,995</u>	<u>11,163</u>
<u>Total Liabilities and Deferred Inflows of Resources</u>	<u>9,991,049</u>	<u>4,940,231</u>	<u>14,931,280</u>
<u>Net Position</u>			
Contributed capital	3,520,721	4,479,331	8,000,052
Invested in capital assets, net of related debt	472,219	1,487,437	1,959,656
Unrestricted retained earnings	<u>(2,458,101)</u>	<u>5,291,107</u>	<u>2,833,006</u>
<u>Total Net Position</u>	<u>\$ 1,534,839</u>	<u>\$ 11,257,875</u>	<u>\$ 12,792,714</u>

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2023

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
<u>Operating Revenues</u>			
Sewer fees	\$ 1,539,278		\$ 1,539,278
Water fees		\$ 497,240	497,240
Hook ups	13,700	41,480	55,180
Miscellaneous	<u>11,934</u>	<u>15,238</u>	<u>27,172</u>
 <u>Total Operating Revenues</u>	 1,564,912	 553,958	 2,118,870
 <u>Operating Expenses</u>	 <u>1,148,056</u>	 <u>308,613</u>	 <u>1,456,669</u>
 <u>Operating Income</u>	 <u>416,856</u>	 <u>245,345</u>	 <u>662,201</u>
 <u>Non-Operating Revenues (Expenses)</u>			
Interest expense	(102,141)	(92,410)	(194,551)
Interfund service fee	(353,862)	(117,955)	(471,817)
Impact fees	83,063	34,866	117,929
Interest income	<u>11,202</u>	<u>56,993</u>	<u>68,195</u>
 <u>Total Non-Operating Expenses</u>	 <u>(361,738)</u>	 <u>(118,506)</u>	 <u>(480,244)</u>
 <u>Income Before Capital Contributions and Transfers</u>	 55,118	 126,839	 181,957
 <u>Capital Contributions</u>		3,985,537	3,985,537
 <u>Transfer in</u>	 <u>227,709</u>	 <u>100,273</u>	 <u>327,982</u>
 <u>Net Income</u>	 282,827	 4,212,649	 4,495,476
 <u>Net Position - Beginning of year</u>	 <u>1,252,012</u>	 <u>7,045,226</u>	 <u>8,297,238</u>
 <u>Net Position - End of year</u>	 <u>\$ 1,534,839</u>	 <u>\$ 11,257,875</u>	 <u>\$ 12,792,714</u>

CITY OF HARRINGTON, DELAWARE
STATEMENT OF OPERATING EXPENSES
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2023

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Salaries	\$ 73,943	\$ 79,383	\$ 153,326
Payroll taxes	7,997	8,379	16,376
Pension	1,788	2,075	3,863
Employee benefits	25,003	28,063	53,066
Office supplies	968	1,010	1,978
Telephone	240	240	480
Postage	1,787	1,815	3,602
Heat and electric	7,683	23,933	31,616
Safety	583		583
Maintenance agreement	1,378	1,378	2,756
Travel, training, and meals		600	600
Equipment repair	11,974	3,702	15,676
Pump station repairs	20,405		20,405
Engineering	5,734	7,834	13,568
Chemicals		8,840	8,840
Water meters		10,611	10,611
Sample testing		3,758	3,758
Water line repairs		3,111	3,111
Flow meter operations	6,182		6,182
License and permits		400	400
Insurance	38,961	16,330	55,291
County sewer fee	339,623		339,623
Miscellaneous	35,090		35,090
Depreciation	<u>568,717</u>	<u>107,151</u>	<u>675,868</u>
<u>Total Operating Expenses</u>	<u>\$ 1,148,056</u>	<u>\$ 308,613</u>	<u>\$ 1,456,669</u>

CITY OF HARRINGTON, DELAWARE

STATEMENT OF CASH FLOWS
(ALL PROPRIETARY FUNDS)

YEAR ENDED JUNE 30, 2023

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
<u>Cash Flows From Operating Activities</u>			
Cash received from customers and other government	\$ 1,588,103	\$ 1,513,176	\$ 3,101,279
Cash paid to suppliers	(520,894)	(118,489)	(639,383)
Cash paid to employees	(68,346)	(72,969)	(141,315)
 <u>Net Cash Provided By Operating Activities</u>	 <u>998,863</u>	 <u>1,321,718</u>	 <u>2,320,581</u>
<u>Cash Flows From Non-Capital Financing Activities</u>			
Operating transfers from other funds	227,709	100,273	327,982
Operating transfers to other funds	(353,862)	(117,955)	(471,817)
 <u>Net Cash Used in Non-Capital and Financing Activities</u>	 <u>(126,153)</u>	 <u>(17,682)</u>	 <u>(143,835)</u>
<u>Cash Flows From Capital and Related Financing Activities</u>			
Purchase of property and equipment	(227,709)	(8,600,851)	(8,828,560)
Proceeds from financing with federal agency		3,500,000	3,500,000
Principal paid on general obligation debt	(282,738)	(36,116)	(318,854)
Interest paid	(102,359)	(94,185)	(196,544)
Capital contribution received	36,195	4,142,122	4,178,317
 <u>Net Cash Used in Capital and Related Financing Activities</u>	 <u>(576,611)</u>	 <u>(1,089,030)</u>	 <u>(1,665,641)</u>
<u>Cash Flows From Investing Activities</u>			
Interest income	11,202	56,993	68,195
 <u>Net Increase In Cash and Cash Equivalents</u>	 <u>307,301</u>	 <u>271,999</u>	 <u>579,300</u>
<u>Cash and Cash Equivalents</u>			
Beginning of year	1,513,816	1,221,690	2,735,506
 End of year	 <u>\$ 1,821,117</u>	 <u>\$ 1,493,689</u>	 <u>\$ 3,314,806</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>Sewer</u>	<u>Water</u>	<u>Total</u>
<u>Operating Income</u>	\$ 416,856	\$ 245,345	\$ 662,201
<u>Adjustments To Reconcile Operating Income To Net</u>			
<u>Cash Provided By Operating Activities</u>			
Depreciation	568,717	107,151	675,868
Non-operating revenues	83,063	34,866	117,929
(Increase) decrease in:			
Accounts receivable	1,268	1,996	3,264
Service charges receivable	(61,140)	9,800	(51,340)
Intragovernment receivable		912,556	912,556
Deferred outflows of resources	(4,021)	(4,663)	(8,684)
Prepaid expenses	(243)	(104)	(347)
Increase (decrease) in:			
Accounts payable and other	17,119	6,154	23,273
Intragovernment payable	(30,183)		(30,183)
Compensated absences	5,445	6,316	11,761
Net pension liability	18,473	21,426	39,899
Deferred inflows of resources	(16,491)	(19,125)	(35,616)
<u>Net Cash Provided By Operating Activities</u>	<u>\$ 998,863</u>	<u>\$ 1,321,718</u>	<u>\$ 2,320,581</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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, 2023

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, 2023

Library Building Fund - This fund accounts for and reports resources that are committed to be used for the construction of the Harrington Public Library.

Real Estate Transfer Tax Fund - This fund is a source of income derived from the State of Delaware, by which each City 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 - The fund is used to account for the funds allocated to the City of Harrington 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.

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.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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, 2023

Property taxes are recognized as a receivable at the time an enforceable legal claim is established. This is determined to occur when the taxes are levied. Property taxes have been determined to be fully collectible and therefore an allowance for doubtful accounts is not considered necessary.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

Except where otherwise required, the City maintains all deposits in bank accounts in the name of the City. These deposits are invested on a short term basis with interest income being recorded in the general fund, except for interest income allocated to enterprise funds and where specifically required by law to be recorded in other funds. The balance reported in each fund represents an equity interest in the commingled pool of cash, which is under the management of the City. For purposes of the statement of cash flows, the City considers all highly liquid debt instruments (including restricted cash) with an original maturity of three months or less to be cash equivalents.

Fixed Assets and Depreciation

Capital assets, including land, building, improvements, and equipment assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$2,500 and an initial useful life of one year or greater. Such assets are recorded at historical cost if purchased or constructed. Donated fixed assets are valued at their estimated fair value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Under GASB Statement No. 34, the City is not required and therefore has elected not to reconstruct public domain or infrastructure assets added in years' prior to its implementation such as roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, that are immovable and of value only to the City government.

CITY OF HARRINGTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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 three 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 and (3) changes in pension plan assumptions which are all reported in the statement of net position which reported deferred inflows of resources - Delaware Public Employees Retirement System.

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditure) until the future period. The City has five 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, (4) changes in employer proportionate share of the net pension liabilities and (5) differences between projected and actual investment earnings. 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, 2023

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, 2023

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 6, 2022. There were no significant changes to the fiscal 2023 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.

Recent Accounting Pronouncements

In May 2020, the Governmental Accounting Standards Board (GASB) issued Statement No. 96, Subscription-Based Information Technology Arrangements, requiring recognition of certain subscription-based information technology arrangements (SBITA) as subscription assets and liabilities for SBITA contracts and licensing arrangements that previously were classified as expenses and recognize amortization of the subscription asset as an outflow of resources over the subscription term. The adoption of the GASB statement did not have a material effect on the financial statements.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

Note 2 - Property Taxes

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

- | | |
|---------------------|--|
| • July 1 | Levy date. |
| • July - October 31 | Face payment period. |
| • 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, 2023 is shown below:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
<u>Cash and Cash Equivalents</u>		
Category 1	\$ 500,000	\$ 500,000
Category 2	7,000,149	7,169,489
Category 3	<hr/>	<hr/>
<u>Total Cash and Cash Equivalents</u>	<u>\$7,500,149</u>	<u>\$7,669,489</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

At June 30, 2023, the City's cash and cash equivalents are comprised of the following:

Carrying value of unrestricted cash and cash equivalents	\$3,402,744
Restricted cash and cash equivalents	<u>4,097,405</u>
<u>Total</u>	<u>\$7,500,149</u>

Note 4 - Property and Equipment

The following is a summary of changes in capital assets for the year ended June 30, 2023:

	<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	\$ 374,329		\$ 759,731
Capital assets, being depreciated:				
Furniture, fixtures and equipment	2,625,919	262,357	\$ 17,763	2,870,513
Land and buildings	<u>5,287,678</u>	<u>285,290</u>	<u> </u>	<u>5,572,968</u>
Total capital assets being depreciated	<u>7,913,597</u>	<u>547,647</u>	<u>17,763</u>	<u>8,443,481</u>
Less accumulated depreciation for:				
Furniture, fixtures and equipment	1,816,454	161,077	17,763	1,959,768
Land and buildings	<u>2,355,189</u>	<u>222,090</u>	<u> </u>	<u>2,577,279</u>
Total accumulated depreciation	<u>4,171,643</u>	<u>383,167</u>	<u>17,763</u>	<u>4,537,047</u>
Total capital assets being depreciated, net	<u>3,741,954</u>	<u>164,480</u>	<u>-0-</u>	<u>3,906,434</u>
Governmental activities capital assets, net	<u>\$ 4,127,356</u>	<u>\$ 538,809</u>	<u>\$ -0-</u>	<u>\$ 4,666,165</u>

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

Business - Type

Activities

Capital assets, not
being depreciated:

Construction in
progress

\$ 4,766,393	\$ 4,700,644	\$ 4,209,878	\$ 5,257,159
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Capital assets, being
depreciated:

Water and sewer
systems

22,050,266	4,486,256		26,536,522
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Less accumulated
depreciation for:

Water and sewer
systems

11,311,285	675,868		11,987,153
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Total capital assets
being depreciated,
net

10,738,981	3,810,388		14,549,369
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Business-type
activities capital
assets, net

\$15,505,374	\$ 8,511,032	\$ 4,209,878	\$19,806,528
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Depreciation expense for the year ended June 30, 2023 was charged to the functions of the primary government as follows:

Governmental Activities

General government

\$ 245,372

Police

69,860

Public works

49,764

Parks and recreation

7,981

Library

10,190

Total Depreciation Expense - Governmental
Activities

\$ 383,167

CITY OF HARRINGTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

Note 5 - Accounts Payable and Other

Accounts payable and other at June 30, 2023 consists of the following:

	<u>Governmental Funds</u>	<u>Enterprise Funds</u>	<u>Total</u>
Accounts payable	\$ 323,973	\$ 368,258	\$ 692,231
Accrued expenses	<u>97,115</u>	<u>40,992</u>	<u>138,107</u>
<u>Total</u>	<u>\$ 421,088</u>	<u>\$ 409,250</u>	<u>\$ 830,338</u>

Note 6 - Long-Term Debt

Enterprise Funds Debt

In November 2009, the City entered into a loan agreement with the United States Department of Agriculture (USDA). Proceeds from the loan paid off loans from the Farmers Home Administration (FHA), which were used to fund a water improvement project. The loan balance is \$661,279 at June 30, 2023 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 United States Department of Agriculture (USDA). Proceeds from the loan paid off loans from the Farmers Home Administration (FHA), which were used for the Water Main Improvement Project. The loan balance is \$1,343,048 at June 30, 2023 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, 2023 is \$931,498. 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, 2023 is \$290,313. Final payment is due in August of 2031. The loan is secured by a general obligation bond.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

In June 2016, the City entered into a loan with the United States Department of Agriculture (USDA). Proceeds were used to remediate the City's wastewater transmission system. The loan balance is \$421,807 at June 30, 2023 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 \$1,066,852 at June 30, 2023 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 \$470,357 at June 30, 2023 and is payable in semi-annual payments of principal and interest at 2%, beginning in March 2017. Final payment is due September 2042. The loan is secured by a general obligation bond.

In February 2016, the City entered into a Clean Water State Revolving Fund loan with the State of Delaware Department of Natural Resources (DNREC). Proceeds of the loan paid off loans from the Farmers Home Administration, which were used for the emergency water main project. The loan balance is \$289,890 at June 30, 2023 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 \$125,324 at June 30, 2023 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 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), which was used for wastewater improvements. The loan balance is \$746,453 at June 30, 2023 and is payable in quarterly payments of principal and interest at 1.375%, beginning in August

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

2021. Final payment is due May 2061. The loan is secured by a general obligation bond.

In January 2022, 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 were used for the water tank and well project. The loan balance is \$3,500,000 at June 30, 2023 and is payable in semi-annual payments of interest only at 2%, beginning October 2022. Upon completion of the projects, the loan shall be granted principal forgiveness of \$3,500,000.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Decreases</u>	<u>Balance June 30, 2023</u>
<u>Business-Type Activities</u>				
USDA 2009 Loan	\$ 678,861		\$ 17,582	\$ 661,279
USDA 2013 Loan	1,376,579		33,531	1,343,048
DNREC 2010 Loan	1,037,852		106,354	931,498
DNREC 2014 Loan	321,350		31,037	290,313
USDA 2016 Loan	436,560		14,753	421,807
DNREC 2016 Loan	1,129,552		62,700	1,066,852
DNREC 2016 Loan	489,846		19,489	470,357
DNREC 2016 Loan	303,799		13,909	289,890
DNREC 2016 Loan	129,948		4,624	125,324
USDA 2021 Loan	761,328		14,875	746,453
DNREC 2023 Loan		<u>\$3,500,000</u>		<u>3,500,000</u>
<u>Total</u>	<u>\$6,665,675</u>	<u>\$3,500,000</u>	<u>\$ 318,854</u>	<u>\$9,846,821</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>
2024	\$ 325,066	\$ 120,220	\$ 445,286
2025	331,539	113,747	445,286
2026	338,099	107,187	445,286
2027	344,789	100,497	445,286
2028	351,571	93,715	445,286
2029-2033	1,551,566	365,738	1,917,304
2034-2038	1,124,689	239,746	1,364,435
2039-2043	767,278	145,568	912,846

CITY OF HARRINGTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

2044-2048	583,205	79,896	663,101
2049-2053	426,368	26,394	452,762
2054-2058	116,995	9,345	126,340
2059-2061	<u>3,585,656</u>	<u>1,653</u>	<u>3,587,309</u>
<u>Total</u>	<u>\$9,846,821</u>	<u>\$1,403,706</u>	<u>\$11,250,527</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 11.34% of covered payroll for the year ended June 30, 2023. The total amount contributed by the City for the year ended June 30, 2023 is \$62,870 of which \$43,164 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; and, retirement is at age sixty-two with five years of service, age plus credited service (but not less than ten years) equals seventy-five, or twenty years of service at any age.

Disability benefits paid to a participant who is totally disabled in the performance of duty are 75% of final average compensation plus 10% for each dependent not to exceed 25% for all dependents. Partial disability benefits for duty-related or ordinary disability are calculated the same as a service benefits (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 member also receives a \$7,000 burial benefit.

The total pension liability for the June 30, 2022 measurement date was determined by an actuarial valuation as of June 30, 2021, and update procedures were used to roll forward the total pension liability to June 30, 2022. These actuarial valuations used the following actuarial assumptions, applied to all periods:

Significant actuarial assumptions are as follows:

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

Actuarial Cost Method - Entry Age Normal
Amortization Method - Level Percent Open
Remaining Amortization Period - 9 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 Pub - 2010 tables with gender adjustments for employees, healthy annuitants and disabled retirees and an adjusted version based on MP - 2020 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, 2023, the City reported a pension asset of \$66,053 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability (asset) was determined by rolling forward the plan's total pension liability as of June 30, 2021 to June 30, 2022. The City's proportion of the net pension liability (asset) was calculated utilizing the employer's one-year actual reported contributions. At June 30, 2022, the City's proportion was 0.6282%, which was a decrease of 0.0708% from its proportion measured as of June 30, 2021.

For the year ended June 30, 2023, the City recognized a net negative pension expense of \$42,258. At June 30, 2023 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between projected and actual investment earnings	\$ 109,441	
Changes in proportions	15,908	\$ 4,377
Difference between actual and expected experience	112,346	27,463
Changes in assumptions	23,765	53,629
Contributions subsequent to the measurement date	<u>62,870</u>	
	<u>\$ 324,330</u>	<u>\$ 85,469</u>

An amount of \$62,870 is reported as deferred outflows of resources resulting from the City's contribution subsequent to the measurement date (June 30, 2022) and will be recognized as a reduction of the net pension liability (asset) in the year ended June 30, 2024.

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,	
2024	\$ (3,076)
2025	(13,322)
2026	1,002
2027	178,408
2028	12,052
Thereafter	<u>927</u>
	<u>\$ 175,991</u>

The difference between expected and actual experience 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 9 years for the 2022 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

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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%	31.8%
International equity	5.7%	15.0%
Fixed income	2.0%	23.6%
Alternative investments	7.8%	21.5%
Cash and cash equivalents	0.0%	8.1%

Discount Rate

The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at rates determined by the Board of Pension Trustees, actuarially determined. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability (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)	\$439,457	(\$66,053)	(\$477,935)

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.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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 5.55% of covered payroll for the year ended June 30, 2023. The total amount contributed by the City for the year ended June 30, 2022 is \$67,878.

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 after thirty years of service.

Disability benefits paid to a participant are the same as service benefits, with five years of credited service.

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.

The total pension liability for the June 30, 2022 measurement date was determined by an actuarial valuation as of June 30, 2021, and update procedures were used to roll forward the total pension liability to June 30, 2022. 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%.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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 Pub - 2010 tables with gender adjustments for employee, healthy annuitants and disabled retirees and an adjusted version based on MP-2020 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, 2023, the City reported a pension asset of \$21,009 for the governmental activities and a pension liability of \$9,545 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, 2021, and the total pension liability used to calculate the net pension liability (asset) was determined by rolling forward the plan's total pension liability as of June 30, 2021 to June 30, 2022. The City's proportion of the net pension liability (asset) was calculated utilizing the employer's one-year actual reported contributions. At June 30, 2022, the City's proportion was 1.6893%, which was an increase of 0.0699% from its proportion measured as of June 30, 2021.

For the year ended June 30, 2023, the City recognized a net negative pension expense of \$39,334 for the governmental activities and a net negative pension expense of \$4,401 for its business-type activities. At June 30, 2023 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CITY OF HARRINGTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between projected and actual investment earnings	\$ 51,587	
Changes in proportions	5,137	\$ 19,439
Changes in assumptions	11,915	9,140
Difference between actual and expected experience	44,136	18,499
Contributions subsequent to the measurement date	<u>67,878</u>	
	<u>\$ 180,653</u>	<u>\$ 47,078</u>

An amount of \$59,614 for governmental activities and \$8,264 for business-type activities is reported as deferred outflows of resources resulting from the City's contribution subsequent to the measurement date (June 30, 2022) and will be recognized as a reduction of the net pension liability (asset) in the year ended June 30, 2024.

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,	
2024	\$ 141
2025	(3,879)
2026	(3,546)
2027	68,808
2028	51
Thereafter	<u>4,122</u>
	<u>\$ 65,697</u>

The difference between expected and actual experience 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 8 years for the 2022 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

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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%	31.8%
International equity	5.7%	15.0%
Fixed income	2.0%	23.6%
Alternative investments	7.8%	21.5%
Cash and cash equivalents	0.0%	8.1%

Discount Rate

The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at rates determined by the Board of Pension Trustees, actuarially determined. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability (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)	\$ 216,602	\$ (11,464)	\$ (197,834)

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

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

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.

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, 2022	\$4,104,630
<u>Add:</u> Grant proceeds received	4,100,000
<u>Less:</u> Depreciation on capital assets acquired with grant proceeds	<u>(204,578)</u>
<u>Contributed Capital</u> - June 30, 2023	<u>\$8,000,052</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.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

Note 12 - Commitment and Contingencies

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

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

Note 14 - Pronouncements Issues, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2023 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's 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 2023 the City recognized revenue of \$272,654. The remaining unspent funds of \$1,475,390 is recorded as unearned revenue as of June 30, 2023. 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 \$1,051,850 of various grants that will be earned when spent on qualified expenditures.

CITY OF HARRINGTON, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

Note 18 - Subsequent Events

In February 2022, the City commenced construction of their water main transmission and water storage tank and well projects. 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. The City has also allocated \$709 thousand of their ARPA funds towards these projects. The water main transmission system project was completed in May 2023 for a total cost of approximately \$4.2 million. The City has incurred approximately \$5.1 million of construction costs to date for the water tank storage project, which is anticipated to be completed in September 2024.

The City was awarded approximately \$11.5 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 and is anticipated to be completed in October 2024. 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 the City has committed to spend \$234 thousand for engineering costs. In March 2024, the City was awarded a \$3.345 million dollar Congressionally Directed Spending grant for the construction of roadway access, water, sewer, storm water and electric.

Management has evaluated all subsequent events through August 27, 2024, 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, 2023

	Original and Final Budget	Actual Amounts (Budgetary Basis)	Variance Favorable (Unfavorable)
<u>Revenues</u>			
Taxes and assessments	\$ 1,252,115	\$ 1,255,953	\$ 3,838
Licenses and permits	262,563	312,483	49,920
Fines, forfeits and costs	24,000	6,384	(17,616)
Charges for services	267,858	267,587	(271)
Grants		199,740	199,740
Fire company	358,102	407,904	49,802
Police revenue	604,636	390,882	(213,754)
Library revenue	60,301	65,851	5,550
Parks and recreation revenue	103,560	300,504	196,944
Miscellaneous	53,704	75,845	22,141
Interest income	4,000	22,590	18,590
Community impact fees		21,700	21,700
Interfund service fee	471,817	471,817	
<u>Total Revenues</u>	<u>3,462,656</u>	<u>3,799,240</u>	<u>336,584</u>
<u>Expenditures</u>			
General government	856,821	926,728	(69,907)
Police	1,414,179	1,202,736	211,443
Public works	354,090	464,561	(110,471)
Trash	263,101	265,415	(2,314)
Library	193,626	205,060	(11,434)
Fire company	496,009	532,748	(36,739)
Parks and recreation	176,369	368,235	(191,866)
<u>Total Expenditures</u>	<u>3,754,195</u>	<u>3,965,483</u>	<u>(211,288)</u>
<u>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures</u>	<u>\$ (291,539)</u>	<u>(166,243)</u>	<u>\$ 125,296</u>
<u>Fund Balances - Beginning of year</u>		<u>1,832,076</u>	
<u>Fund Balances - End of Year</u>		<u>\$ 1,665,833</u>	

Note 1 - Excess of Expenditures over Appropriations

The general fund incurred expenditures in excess of appropriations in the amount of \$422,731 for the year ended June 30, 2023. Of this amount, \$357,250 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, 2023

	Measurement Date								
	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	
City's proportionate share of the net pension liability (asset)	0.6282%	0.6990%	0.7329%	0.7295%	0.7452%	0.7232%	0.7442%	0.6769%	
City's proportionate share of the net pension liability (asset)	\$ (66,053)	\$ (961,911)	\$ 112,463	\$ 209,532	\$ 171,659	\$ 72,911	\$ 118,300	\$ (35,677)	
City's covered employee payroll	\$ 653,918	\$ 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	-10.10%	-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)	-101.95%	-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, 2023

	<u>Measurement Date</u>							
	<u>June 30, 2022</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)	1.6893%	1.6194%	1.8600%	2.0132%	2.1417%	2.3241%	2.6157%	2.7587%
City's proportionate share of the net pension liability (asset)	\$ (11,464)	\$ (339,193)	\$ 39,529	\$ 92,257	\$ 67,399	\$ 150,583	\$ 162,062	\$ 1,177
City's covered employee payroll	\$ 986,667	\$ 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	-1.16%	-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)	-100.79%	-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, 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 62,870	\$ 104,823	\$ 112,463	\$ 112,538	\$ 107,565	\$ 70,677	\$ 81,826	\$ 75,095
Contribution in relation to the contractually required contribution	<u>62,870</u>	<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>	<u>\$ -0-</u>
City's covered employee payroll	\$ 554,410	\$ 653,918	\$ 677,896	\$ 668,278	\$ 644,874	\$ 618,888	\$ 594,234	\$ 542,202
Contributions as a percentage of covered employee payroll	11.34%	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, 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 67,878	\$ 66,896	\$ 61,234	\$ 66,363	\$ 65,190	\$ 60,520	\$ 58,430	\$ 54,339
Contribution in relation to the contractually required contribution	<u>67,878</u>	<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>	<u>\$ -0-</u>
City's covered employee payroll	\$ 1,223,028	\$ 986,667	\$ 867,337	\$ 911,580	\$ 894,239	\$ 853,597	\$ 864,349	\$ 875,024
Contributions as a percentage of covered employee payroll	5.55%	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, 2023

	<u>Police Pension Fund</u>	<u>Municipal Street Aid</u>	<u>Combat Violent Crime</u>	<u>SLEAF</u>	<u>EIDE</u>	<u>SALLE</u>	<u>Total</u>
<u>ASSETS</u>							
<u>Current Assets</u>							
Cash and cash equivalents		\$ 417,412	\$ 12,764		\$ 3,883	\$ 4,052	\$ 438,111
Intragovernment receivable				\$ 137,524	1,768	1,860	141,152
<u>Total Assets</u>	\$ -0-	\$ 417,412	\$ 12,764	\$ 137,524	\$ 5,651	\$ 5,912	\$ 579,263
<u>LIABILITIES</u>							
Accounts payable and other			\$ 771				\$ 771
Intragovernment payable		\$ 67,652	17,671	\$ 137,025	\$ 5,818	\$ 4,729	232,895
<u>Total Liabilities</u>	\$ -0-	67,652	18,442	137,025	5,818	4,729	233,666
<u>FUND EQUITY (DEFICIT)</u>							
<u>Fund Balance</u>							
Restricted		349,760	(5,678)	499	(167)	1,183	345,597
<u>Total Fund Equity (Deficit)</u>		349,760	(5,678)	499	(167)	1,183	345,597
<u>Total Liabilities and Fund Equity</u>	\$ -0-	\$ 417,412	\$ 12,764	\$ 137,524	\$ 5,651	\$ 5,912	\$ 579,263

CITY OF HARRINGTON, DELAWARE

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

YEAR ENDED JUNE 30, 2023

	Police Pension Fund	Municipal Street Aid	Combat Violent Crime	SLEAF	EIDE	SALLE	Total
<u>Revenues</u>							
Intergovernmental revenues	\$ 43,164	\$ 81,177	\$ 31,258		\$ 4,011	\$ 9,175	\$ 168,785
Interest income		7,642					7,642
<u>Total Revenues</u>	43,164	88,819	31,258		4,011	9,175	176,427
<u>Expenditures</u>	43,164		30,472	\$ 2,598	5,875	10,748	92,857
<u>Excess (Deficiency) of Revenues Over Expenditures</u>		88,819	786	(2,598)	(1,864)	(1,573)	83,570
<u>Fund Balance</u> - Beginning of year		260,941	(6,464)	3,097	1,697	2,756	262,027
<u>Fund Balance</u> - End of year	\$ -0-	\$ 349,760	\$ (5,678)	\$ 499	\$ (167)	\$ 1,183	\$ 345,597

SINGLE AUDIT SECTION

503 Carr Road, Suite 120
Wilmington, DE 19809
Phone: 302.652.4194
Fax: 302.656.9846

3702 North DuPont Highway
Dover, DE 19901
Phone: 302.730.4560
Fax: 302.730.4562

Toll Free: 888.968.7168
Website: www.horty.com

**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, 2023. 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, 2023.

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.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questions as item 2023-002, 2023-003 and 2023-004. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the City of Harrington, Delaware's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The City of Harrington, Delaware's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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 a 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-002, 2023-003 and 2023-004, to be significant deficiencies.

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.

Government Auditing Standards requires the auditor to perform limited procedures on the City of Harrington, Delaware's response to the internal control over compliance findings

identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The City of Harrington, Delaware's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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, 2023, and have issued our report thereon dated August 27, 2024, 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 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
August 27, 2024

Horty: Horty AA

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2023

<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>		
Water and Waste Disposal Systems for Rural Communities	10.760	<u>\$1,408,948</u>
<u>U.S. Department of Transportation:</u>		
Highway Safety Cluster Passed through Delaware Office of Highway Safety (OHS):		
State and Community Highway Safety	20.600	3,701
Alcohol Open Container Requirements	20.607	<u>11,172</u>
Total Highway Safety Cluster		<u>14,873</u>
<u>U.S. Department of Treasury:</u>		
COVID - 19 Coronavirus State and Local Fiscal Recovery Funds	21.027	272,654
COVID - 19 Coronavirus Capital Projects Fund	21.029	<u>223,632</u>
		<u>496,286</u>
<u>U.S. Environmental Protection Agency:</u>		
Clean Water State Revolving Fund	66.458	<u>3,178,046</u>
<u>Total Expenditures of Federal Awards</u>		<u>\$5,098,153</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, 2023. 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, 2023

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.

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2023

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

Noncompliance material to financial statements noted?

☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☒ Yes ☐ 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 ☐ No

Identification of major programs:

<u>Program Name</u>	<u>CFDA</u>
COVID - 19 Coronavirus State and Local Fiscal Recovery Funds	21.027
COVID - 19 Coronavirus Capital Projects Fund	21.029
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? ☐ Yes ☒ No

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2023

II. Financial Statement Finding

Significant Deficiency

Finding 2023-001 - Purchases and Disbursements

Criteria

Management is responsible for establishing and maintaining effective internal controls over financial reporting. The purchases and disbursements policy states that "Invoices are stamped with the department, budget line, description of the purchase, date and initials. Department supervisors are responsible for reviewing invoices and verifying the items ordered as well as filling out the stamped information for approval. These returned approved invoices are forwarded to the City Clerk for payment processing.

Condition

The City of Harrington, Delaware did not follow the purchases and disbursement policies as it relates to approving invoices for payment.

Context

During our testing of internal controls, we noted several invoices that were paid to vendors that had did not have initials by the approving supervisor.

Cause

The City of Harrington, Delaware's review process did not detect the invoices missing appropriate approval for payment.

Effect

Not approving invoices for payment could result in inappropriate payments to vendors for goods or services not provided or obtained.

Recommendation

We recommend that the City of Harrington, Delaware review their purchasing and disbursement policies to ensure they are maintaining effective internal controls.

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2023

III. Findings And Questioned Costs For Federal Awards

Reference Number:	2023-002
Prior Year Finding:	No
Federal Agency:	U.S. Department of the Treasury
Federal Program:	COVID -19 - Coronavirus State and Local Fiscal Recovery Funds
Assistance Listing Number:	21.027
Compliance Requirement:	Procurement, Suspension and Debarment
Type of Finding:	Significant Deficiency in Internal control, Noncompliance

Criteria

Compliance - Per 2 CFR section 200.318, when procuring property, the non-Federal entity must have and use documented procurement procedures, consistent with States, for the acquisition of property or services required under a Federal award or subaward.

Compliance - Per 2 CFR 200.214, restricts awards, subawards and contracts with certain parties that are debarred, suspended or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.

2 CFR 180.300 states that an entity may determine suspension and debarment status by:

- (a) Checking SAM (System for Award Management) Exclusions; or
- (b) Collecting a certification from that person
- (c) Adding a clause or condition to the covered transaction with that person.

Control - Per 2 CFR 200.303(a), a non-Federal entity must: Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations and the terms and conditions of the Federal award. These internal controls should comply with guidance in "Standards for Internal Control in the Federal Government" issued

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2023

by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition

The City was unable to provide documentation to support compliance with the required State procurement processes for acquiring property or services. In addition, the City did not provide support that the suspension and debarment status of the vendor was checked before the contract was awarded.

Context

For all contracts selected for testing, no support was provided for how the contract was procured. Further, the suspension and debarment status of the vendor was not documented for that contract.

Questioned Costs

Undetermined.

Cause

The City’s internal controls were not sufficient to ensure that applicable procurement policies and Federal suspension and debarment regulations were followed for purchased made for the program.

Effect

The City is not compliant with federal and state procurement and suspension and debarment requirements. Failure to adhere to procurement and suspension and debarment policies and procedures may result in obtaining goods and services under terms that are not in the best interest of the Federal program.

Recommendation

The City should review and enhance controls and procedures to ensure that it follows the applicable procurement policy and Federal suspension and debarment regulations for all goods and services charged to the program.

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2023

Views of responsible officials

We agree with the auditor's recommendation. The City of Harrington, Delaware will review the State's procurement process to satisfy the compliance requirements for the program. The City of Harrington, Delaware will also put procedures in place to check and review each bidder as part of the Federal suspension and debarment policies.

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2023

Reference Number:	2023-003
Prior Year Finding:	No
Federal Agency:	U.S. Department of the Treasury
Federal Program:	COVID - 19 Coronavirus Capital Projects Fund
Assistance Listing Number:	21.029
Compliance Requirement:	Procurement, Suspension and Debarment
Type of Finding:	Significant Deficiency in Internal control, Noncompliance

Criteria

Compliance - Per 2 CFR section 200.318, when procuring property, the non-Federal entity must have and use documented procurement procedures, consistent with States, for the acquisition of property or services required under a Federal award or subaward.

Compliance - Per 2 CFR 200.214, restricts awards, subawards and contracts with certain parties that are debarred, suspended or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.

2 CFR 180.300 states that an entity may determine suspension and debarment status by:

- (a) Checking SAM (System for Award Management) Exclusions; or
- (b) Collecting a certification from that person
- (c) Adding a clause or condition to the covered transaction with that person.

Control - Per 2 CFR 200.303(a), a non-Federal entity must: Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations and the terms and conditions of the Federal award. These internal controls should comply with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2023

Condition

The City was unable to provide documentation to support compliance with the required State procurement processes for acquiring property or services. In addition, the City did not provide support that the suspension and debarment status of the vendor was checked before the contract was awarded.

Context

For all contracts selected for testing, no support was provided for how the contract was procured. Further, the suspension and debarment status of the vendor was not documented for that contract.

Questioned Costs

Undetermined.

Cause

The City's internal controls were not sufficient to ensure that applicable procurement policies and Federal suspension and debarment regulations were followed for purchased made for the program.

Effect

The City is not compliant with federal and state procurement and suspension and debarment requirements. Failure to adhere to procurement and suspension and debarment policies and procedures may result in obtaining goods and services under terms that are not in the best interest of the Federal program.

Recommendation

The City should review and enhance controls and procedures to ensure that it follows the applicable procurement policy and Federal suspension and debarment regulations for all goods and services charged to the program.

Views of responsible officials

We agree with the auditor's recommendation. The City of Harrington, Delaware will review the State's procurement process to satisfy the compliance requirements for the program. The City of Harrington, Delaware will also put procedures in place to check and review each bidder as part of the Federal suspension and debarment policies.

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2023

Reference Number:	2023-004
Prior Year Finding:	No
Federal Agency:	Environmental Protection Agency
Federal Program:	Capitalization Grants for Clean Water State Revolving Funds
Assistance Listing Number:	66.458
Compliance Requirement:	Procurement, Suspension and Debarment
Type of Finding:	Significant Deficiency in Internal control, Noncompliance

Criteria

Compliance - Per 2 CFR section 200.318, when procuring property, the non-Federal entity must have and use documented procurement procedures, consistent with States, for the acquisition of property or services required under a Federal award or subaward.

Compliance - Per 2 CFR 200.214, restricts awards, subawards and contracts with certain parties that are debarred, suspended or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.

2 CFR 180.300 states that an entity may determine suspension and debarment status by:

- (a) Checking SAM (System for Award Management) Exclusions; or
- (b) Collecting a certification from that person
- (c) Adding a clause or condition to the covered transaction with that person.

Control - Per 2 CFR 200.303(a), a non-Federal entity must: Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations and the terms and conditions of the Federal award. These internal controls should comply with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition

The City was unable to provide documentation to support compliance with the required State procurement processes for acquiring property or services. In addition, the City did not provide support that the suspension and debarment status of the vendor was checked before the contract was awarded.

CITY OF HARRINGTON, DELAWARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2023

Context

For all contracts selected for testing, no support was provided for how the contract was procured. Further, the suspension and debarment status of the vendor was not documented for that contract.

Questioned Costs

Undetermined.

Cause

The City's internal controls were not sufficient to ensure that applicable procurement policies and Federal suspension and debarment regulations were followed for purchased made for the program.

Effect

The City is not compliant with federal and state procurement and suspension and debarment requirements. Failure to adhere to procurement and suspension and debarment policies and procedures may result in obtaining goods and services under terms that are not in the best interest of the Federal program.

Recommendation

The City should review and enhance controls and procedures to ensure that it follows the applicable procurement policy and Federal suspension and debarment regulations for all goods and services charged to the program.

Views of responsible officials

We agree with the auditor's recommendation. The City of Harrington, Delaware will review the State's procurement process to satisfy the compliance requirements for the program. The City of Harrington, Delaware will also put procedures in place to check and review each bidder as part of the Federal suspension and debarment policies.

CITY HALL
106 DORMAN STREET
HARRINGTON, DE 19952



302-398-3530 PHONE
302-398-4477 FAX
HARRINGTON.DELAWARE.GOV

Where Delaware Comes Together

Reference Number:

2023-001

Prior year Finding:

Purchases and Disbursements

Type of Finding:

No

Significant Deficiency in Internal
control, Financial Statement finding

Recommendation:

We recommend that the City of Harrington, Delaware review their purchasing and disbursement policies to ensure that they are maintaining effective internal controls.

Management Response:

Management agrees with the finding. The City Manager discussed with each department supervisor and discussed the disbursement policies. City Clerk, Kristen Figgs, will verify each invoice has been approved by the department supervisor prior to payment.

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CITY HALL
106 DORMAN STREET
HARRINGTON, DE 19952



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302-398-4477 FAX
HARRINGTON.DELAWARE.GOV

Where Delaware Comes Together

Reference Number:	2023-002
Prior year Finding:	No
Federal Agency:	U.S. Department of the Treasury
Federal Program:	COVID -19 - Coronavirus State and Local Fiscal Recovery Funds
Assistance Listing Number:	21.027
Compliance Requirement:	Procurement, Suspension and Debarment
Type of Finding:	Significant Deficiency in Internal control, Noncompliance

Recommendation:

The City should review and enhance controls and procedures to ensure that it follows the applicable procurement policy and Federal suspension and debarment regulations for all goods and services charged to the program.

Explanation:

There is no disagreement with the audit finding.

Action taken in response to finding:

The City of Harrington, Delaware will review the State's procurement process to satisfy the compliance requirements for the program. The City of Harrington, Delaware will also put procedures in place to check and review each bidder as part of the Federal suspension and debarment policies.

Name(s) of the contact person(s) responsible for corrective action:

Norman Barlow, City Manager
Amanda Marlow, Assistant City Manager

Planned completion date for corrective action plan:

Procurement training and monitoring, ongoing
Suspension and debarment training and monitoring, ongoing

CITY HALL
106 DORMAN STREET
HARRINGTON, DE 19952



302-398-3530 PHONE
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Where Delaware Comes Together

Reference Number:

2023-003

Prior year Finding:

No

Federal Agency:

U.S. Department of the Treasury

Federal Program:

COVID -19 - Coronavirus Capital
Projects Fund

Assistance Listing Number:

21.029

Compliance Requirement:

Procurement, Suspension and
Debarment

Type of Finding:

Significant Deficiency in Internal
control, Noncompliance

Recommendation:

The City should review and enhance controls and procedures to ensure that it follows the applicable procurement policy and Federal suspension and debarment regulations for all goods and services charged to the program.

Explanation:

There is no disagreement with the audit finding.

Action taken in response to finding:

The City of Harrington, Delaware will review the State's procurement process to satisfy the compliance requirements for the program. The City of Harrington, Delaware will also put procedures in place to check and review each bidder as part of the Federal suspension and debarment policies.

Name(s) of the contact person(s) responsible for corrective action:

Norman Barlow, City Manager

Amanda Marlow, Assistant City Manager

Planned completion date for corrective action plan:

Procurement training and monitoring, ongoing

Suspension and debarment training and monitoring, ongoing

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Where Delaware Comes Together

Reference Number:

2023-004

Prior year Finding:

No

Federal Agency:

Environmental Protection Agency

Federal Program:

Capitalization Grants for Clean Water
State Revolving Funds

Assistance Listing Number:

66.458

Compliance Requirement:

Procurement, Suspension and
Debarment

Type of Finding:

Significant Deficiency in Internal
control, Noncompliance

Recommendation:

The City should review and enhance controls and procedures to ensure that it follows the applicable procurement policy and Federal suspension and debarment regulations for all goods and services charged to the program.

Explanation:

There is no disagreement with the audit finding.

Action taken in response to finding:

The City of Harrington, Delaware will review the State's procurement process to satisfy the compliance requirements for the program. The City of Harrington, Delaware will also put procedures in place to check and review each bidder as part of the Federal suspension and debarment policies.

Name(s) of the contact person(s) responsible for corrective action:

Norman Barlow, City Manager

Amanda Marlow, Assistant City Manager

Planned completion date for corrective action plan:

Procurement training and monitoring, ongoing

Suspension and debarment training and monitoring, ongoing