



We'll get you there.

CPAs | CONSULTANTS | WEALTH ADVISORS

New Castle County, Delaware Year Ended June 30, 2022 Audit Results

May 1, 2023

Contents

We welcome the opportunity to meet with you to discuss the results of our audits of the financial statements of New Castle County, Delaware for the year ended June 30, 2022. We completed our audit and have issued our report dated March 27, 2023.

CLA exists to create opportunities for our clients, our people, and our communities. We achieve this goal by living the CLA Promise: to know you and help you. The contact at CLA in connection with this communication is listed below:



Remi Omisore, CPA, MBA, CISA, CIA
Remi.Omisore@CLACoconnect.com
(410)308-8157

<i>Content</i>	<i>Page</i>
Scope and Deliverables	
Scope and Deliverables	3
Required Communications	
Risk Assessment Summary	4
Industry and Firm Required Communications	5
Key Estimates and Assumptions	7
Industry Trends and Developments	
GASB Pronouncements	10
Other Developments	11
Financial Statement Summary	
Summary of Net Changes	15
Key Financial Statement Disclosures	16
Uniform Grant Audit Results	



Scope and Deliverables



Scope of the Engagement

Issue opinions on the County and Pension Program Financial Statements
Single Audit - Audit of the Schedule of Expenditures of Federal Awards
Agreed-upon Procedures Real Estate Assessment Center (REAC) Report Filing



Responsibilities

Management is responsible for the preparation and fair presentation of these financial statements. Auditors' responsibility is to express opinions on these financial statements based on an audit and to conduct the audit to obtain reasonable assurance that the financial statements are free from material misstatement.



Conclusion

Unmodified Opinion
Required communications - Communications to those charged with governance on key components
Report on internal control and compliance
Report on the Schedule of Expenditures of Federal Awards



Financial Reporting Risk Assessment Summary



**Management
Override of
Controls**



**Improper
Revenue
Recognition**



**Valuation of
Investments**



**Valuation of
Pension
Liability and
Related Amounts**



**New
Accounting
Pronouncements and
Financial Reporting**



Required Communications



Topic	Communication
Significant Accounting Policies	<ul style="list-style-type: none"> • Management is responsible for the accounting policies of the organization • Accounting policies are outlined in Note 1 to the financial statements • As described in Note 1(T) to the financial statements, the County implemented GASB Statement No. 87, Leases. • Accounting policies deemed appropriate • No unusual transactions occurred
Significant Accounting Estimates	<ul style="list-style-type: none"> • An area of focus under a risk-based audit approach • Significant estimates include: allowance for uncollectible receivables, depreciable lives of fixed assets, compensated absences, fair value of financial instruments, incurred but not reported claims, OPEB and net pension liability • Estimates determined by management based on their knowledge and experience • No management bias indicated • Estimates were deemed reasonable • Estimate uncertainty is disclosed in the financial statements
Management Representation Letter	<ul style="list-style-type: none"> • Management provided a signed representation letter prior to finalization of the audit report
Other	<ul style="list-style-type: none"> • The completion of our audit was delayed due to delays in receiving audit support and financial schedules. • No issues discussed prior to retention as independent auditors • No disagreements with management regarding accounting, reporting, or other matters • No consultations with other independent auditors • No other findings or issues were discussed with, or communicated to, management



Internal Control Matters



Topic	Communication
Purpose	<ul style="list-style-type: none"> Express an opinion on the financial statements, not on the effectiveness of internal controls. Our consideration of internal controls was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to fraud or error may occur and not be detected by such controls.
Material Weakness	<ul style="list-style-type: none"> Reasonable possibility that a material misstatement would not be prevented, or detected and corrected on a timely basis.
Significant Deficiencies	<ul style="list-style-type: none"> Less significant than a material weakness, yet important enough to merit the attention of governance.
Restricted Use	<ul style="list-style-type: none"> This communication is intended solely for the information and use of management, the audit committee, and others within the County, and is not intended to be, and should not be, used by anyone other than these specified parties.
Results	<ul style="list-style-type: none"> Significant deficiency reported for Hope Center Accounting Significant deficiency identified for SEFA Reporting
Current Year Changes	<ul style="list-style-type: none"> GASB 87 implementation Hope Center Reporting



Key Estimates



Accounting estimates are an integral part of financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

ESTIMATE	INPUT	CURRENT RATE	1% DECREASE	CURRENT	1% INCREASE
Pension Liability	Discount Rate	7.00%	\$303,515,241	\$225,849,744	\$147,720,538
OPEB Liability	Discount Rate	6.00%	\$89,495,096	\$72,612,714	\$58,652,845
OPEB Liability	Healthcare trend rate (reduced by .25%)	4.25%	\$53,752,179	\$72,612,714	95,753,860



Hope Center Reporting

During the fiscal year ended June 30, 2021, a checking account was established in the name of the County for the operation of the Hope Center. The balance in this account was not properly identified and reported in the financial statements for the year ended June 30, 2021. The balances excluded from the County's financial statements for the Hope Center for cash and accounts receivable were \$632,560 and \$119,700, respectively. Revenue excluded from the County's financial statements was \$1,090,633. Current year balances are below:

	General Fund					Total General Fund
	General	Jean W. Sinclair Trust	Strategic Economic Development	Reassessment Reserve	Hope Center	
ASSETS:						
Cash and cash equivalents	\$ 111,438,887	\$ 10,042	\$ 525,000	\$ 22,000,000	\$ 1,305,454	\$ 135,279,383
Investments	110,487,595	-	-	-	-	110,487,595
Receivables (net of allowances):						
Taxes, including interest and penalties	2,949,678	-	-	-	-	2,949,678
Accounts	4,281,098	-	-	-	371,925	4,653,023
Other	227,486	-	-	-	-	227,486
Cash - restricted	25,986,402	-	-	-	-	25,986,402
Capital assets held for resale	284,504	-	-	-	-	284,504
Prepaid costs	699,548	-	-	-	24,393	723,941
Total assets	\$ 256,355,198	\$ 10,042	\$ 525,000	\$ 22,000,000	\$ 1,701,772	\$ 280,592,012
LIABILITIES:						
Vouchers payable and accrued expenditures	\$ 30,392,961	\$ -	\$ -	\$ -	\$ 4,407	\$ 30,397,368
Due to other funds	40,662,004	-	-	-	-	40,662,004
Other liabilities	9,997,775	-	-	-	-	9,997,775
Escrowed amounts	11,625,931	-	-	-	-	11,625,931
Unearned revenues	284,504	-	-	-	-	284,504
Total liabilities	92,963,175	-	-	-	4,407	92,967,582
DEFERRED INFLOWS OF RESOURCES:						
Unavailable revenue-property taxes	2,753,125	-	-	-	-	2,753,125
FUND BALANCES:						
Total fund balances	160,638,898	10,042	525,000	22,000,000	1,687,365	184,871,305
Total liabilities, deferred inflows of resources, and fund balances	\$ 256,355,198	\$ 10,042	\$ 525,000	\$ 22,000,000	\$ 1,701,772	\$ 280,592,012





Industry Trends and Developments

©2023 CliftonLarsonAllen LLP. CLA (CliftonLarsonAllen LLP) is an independent network member of CLA Global. See [CLAglobal.com/disclaimer](https://www.claglobal.com/disclaimer). Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.

Governmental Accounting Standards Board Update

Effective Dates

- 2022
 - **Statement 87—Leases**
 - Statement 89—Accounting for Interest Cost Incurred before the End of a Construction Period
 - Statement 92—Omnibus 2020
 - Statement 93—Replacement of Interbank Offered Rates
 - Statement 98—the Annual Comprehensive Financial Report
- 2023
 - Statement 91—Conduit Debt Obligations
 - Statement 94—Public-Private and Public-Public Partnerships and Availability Payment Arrangements
 - **Statement 96—Subscription-Based Information Technology Arrangements**
- 2024
 - Statement 100—Accounting Changes and Error Corrections
- 2025
 - **Statement 101—Compensated Absences**



Statement on Auditing Standards



Statement on
Auditing Standards

May 2019
134

Issued by the Auditing Standards Board

Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements

(AICPA, Professional Standards, AU-C sec. 701)

Supersedes the following sections of *Statement on Auditing Standards (SAS) No. 122, Statements on Auditing Standards: Clarification and Recodification*, as amended:

- Section 700, Forming an Opinion and Reporting on Financial Statements [AICPA, Professional Standards, AU-C sec. 700]
- Section 705, Modifications to the Opinion in the Independent Auditor's Report [AICPA, Professional Standards, AU-C sec. 705]
- Section 706, Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report [AICPA, Professional Standards, AU-C sec. 706]

Amends the following sections of *SAS No. 122*, as amended:

- Section 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards [AICPA, Professional Standards, AU-C sec. 200]
- Section 210, Terms of Engagement [AICPA, Professional Standards, AU-C sec. 210]
- Section 220, Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards [AICPA, Professional Standards, AU-C sec. 220]
- Section 230, Audit Documentation [AICPA, Professional Standards, AU-C sec. 230]





The AICPA issued a new auditor reporting standard effective for audits of financial statements for periods ending on or after December 15, 2020. The standard was designed to enhance the relevance and transparency of the auditor's report. Here are the top five things you should know about the new auditor reporting standard:

- **Batting first, there's a specific order.** For the first time, Generally Accepted Auditing Standards (GAAS) requires the Opinion section to be placed first, followed by the Basis for Opinion.
- **The Basis for Opinion section is new.** This section provides financial statement users with heightened clarity of the auditor's obligations relating to independence and provides transparency that there are ethical requirements relating to the particular audit engagement.
- **Going concern is highlighted.** SAS No. 134 requires enhanced reporting on going concern. This includes information about management's responsibilities to evaluate whether conditions or events raise substantial doubt about an entity's ability to continue as a going concern (when required by the financial reporting framework). It also includes information about the auditor's responsibilities to conclude whether, in the auditor's judgment, there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time. This standard amends AU-C Section 570 to include a separate section in the auditor's report when substantial doubt exists.
- **The auditor's responsibilities section is revamped.** This revised section of the auditor's report explains what the auditor's responsibilities are for the audit, including the auditor's communications with those charged with governance.
- **There is a framework for determining, communicating and documenting key audit matters (KAM).** Section 701 of SAS No. 134 is new. The standard does not require auditors to communicate KAM, but should be followed when the auditor is engaged to communicate KAM in the auditor's report.



GASB 87 Implementation

- The Governmental Accounting Standards Board (GASB) has issued Statement No. 87, *Leases*, implementation of this statement required a lessee to recognize a lease liability and an intangible right-to-use lease asset or capital asset on its balance sheet and a lessor to recognize a lease receivable and a deferred inflow of resources on its balance sheet. The implementation of GASB 87 resulted in the County recording right to use assets and a lease liability of approximately \$318,000 as of June 30, 2022. We performed the following:

-  Procedures performed and documented to obtain a complete population of contracts that may be subject to GASB 87.
-  Procedures performed and documented by the County to review the agreements, assess the terms, evaluate applicability and scope.
-  Identification of service components, multiple underlying assets, discount rates.
-  Procedures in place to identify changes, modifications, amendments, new leases during the year and into the future.

Leases Payable:

In addition, the County has entered into lease agreements for buildings and copier equipment. Payments are due in monthly installments with interest rates varying from 1.63% to 1.87%.

The assets acquired through leases are as follows:

	Governmental Activities	Business-Type Activities
ROU Equipment	\$ 341,562	\$ 11,360
ROU Buildings	168,338	-
Less: accumulated amortization	<u>(209,206)</u>	<u>(5,844)</u>
	<u>\$ 300,694</u>	<u>\$ 5,516</u>

Total future minimum lease payments under lease agreements are as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2023	\$ 186,444	\$ 3,636	\$ 5,068	\$ 53	\$ 195,201
2024	57,126	1,568	363	6	\$ 59,063
2025	49,245	647	127	1	\$ 50,020
2026	<u>14,484</u>	<u>49</u>	<u>2</u>	<u>-</u>	<u>14,535</u>
	<u>\$ 307,299</u>	<u>\$ 5,900</u>	<u>\$ 5,560</u>	<u>\$ 60</u>	<u>\$ 318,819</u>





Key Financial Statement Elements

©2023 CliftonLarsonAllen LLP. CLA (CliftonLarsonAllen LLP) is an independent network member of CLA Global. See [CLAglobal.com/disclaimer](https://www.claglobal.com/disclaimer). Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.

Cash and Investment Balances

Financial Statement Component	2020	2021	2022
Cash Deposits	\$63,729,443	\$80,230,618	\$174,032,511
Cash Equivalents	338,150,401	65,830,436	110,784,354
Investments			
US Government Obligations	54,898,166	58,231,608	57,874,180
Corporate Obligations	49,701,062	49,794,884	48,426,923
Asset Backed Securities	35,247,460	28,333,981	24,243,410
Municipal Obligations	9,808,114	15,831,541	13,188,537
Mutual Funds	3,374,965	4,109,183	3,205,615
Total	\$554,909,611	\$302,362,251	\$431,755,530

- \$143 million of the County’s Investments are classified as Level 2 in the fair value hierarchy which are valued using a matrix pricing technique
- \$61 million are valued based on unadjusted quoted prices for identical assets in active markets(Level 1).
- The average maturity on debt securities was between 1-5 years.
- \$55 million of cash and investment balances was related to unearned grant funds(\$44 million related to ARPA proceeds).
- \$59 million of cash and investment balances was related to debt issuances.



Long Term Liabilities

Financial Statement Component	2022	2021	2020	22 vs 21 Change
Compensated Absences	\$ 34,566,309	\$ 33,609,046	\$ 30,263,352	\$957,263
Claims and Judgements	16,373,692	15,159,644	14,866,718	1,214,048
Lease Liability	9,851,634	10,802,173	13,274,778	(950,539)
Landfill Closure	812,000	484,000	693,000	328,000
Loans Payable	25,413,795	24,467,540	19,164,277	946,255
Bond Premiums	13,169,522	36,795,817	39,577,007	(23,626,295)
Bonds	558,875,000	468,655,000	492,560,000	90,220,000
OPEB Liability	72,612,714	57,407,082	81,725,591	15,205,632
Pension Liability	225,849,744	161,577,469	213,194,225	64,272,275
Total	\$957,524,410	\$808,957,771	\$905,318,948	\$148,566,639

- The County received \$2 million in proceeds from the State of Delaware for wastewater projects.
- The County issued 2021 A and B general obligations bonds for \$93 million and \$205 million, respectively. 2021B was utilized to refund various outstanding debt issuances.
- The net pension and OPEB liability increased by \$64 million and \$15 million, respectively. Primarily driven by market performance on investments.
- The County entered into additional leases/financed purchases for \$3.3 million.
- Scheduled debt service principal payments of \$25.7 million were made during the year. A refunding of \$183 million was also made.



Fund Balance (General Fund)

Financial Statement Component	2022	2021	2020
Non-spendable	\$ 723,941	\$ 563,579	\$ 15,758
Committed			
Budget Reserve	44,845,412	42,951,901	42,543,328
Tax Stabilization	74,275,370	70,619,431	76,372,447
Transfer Tax	35,800,269	7,662,425	3,850,284
Library	10,042	10,029	10,005
Strategic Economic Development	525,000	525,000	2,025,000
Reassessment Reserve	22,000,000	30,000,000	180,000
Assigned			
Departmental Purposes	3,287,181	976,698	3,065,791
Unassigned	3,404,090	3,653,565	5,578,728
Total	\$184,871,305	\$156,962,628	\$133,641,341

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 – the portion of the net position of a governmental fund that represents resources subject to externally enforceable constraints.

Committed – Amounts that can be used only for specific purposes determined by a formal action by County Council ordinance.

Assigned – Amounts that are constrained by the County’s intent to be used for a specific purpose and these decisions can be made by management.

Unassigned – All amounts not included in other spendable classifications. Any deficit fund balances within the other governmental fund types are reported as unassigned.





Uniform Grant Audit Results

©2023 CliftonLarsonAllen LLP. CLA (CliftonLarsonAllen LLP) is an independent network member of CLA Global. See [CLAglobal.com/disclaimer](https://www.claglobal.com/disclaimer). Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.

Uniform Grant Audit Status



Any entity receiving more than \$750,000 in federal grants or awards is generally required to receive a single audit, which encompasses an audit of the financial statements, as well as an audit of the Schedule of Expenditures of Federal Awards (SEFA). In auditing the SEFA, a few federal awards will be selected for testing. This testing is performed according to 2 CFR 200, and the Office of Management and Budget (OMB) Compliance Supplement for the year being audited. Key information about the SEFA and audit are below:

- Total Federal expenditures of \$73,871,423
- Total Federal expenditures of \$13,845,407 passed through to subrecipients
- Type A threshold of \$2,216,142
- Audit coverage of 27%

Programs Tested	Expenditures	Results
14.218 Community Development Block Grant	\$3,671,149	Material weaknesses or significant deficiencies identified. <ul style="list-style-type: none">• 2022-004-FFATA Reporting
21.027 Coronavirus State and Local Fiscal Recovery Funds (ARPA)	\$9,660,374	Material weaknesses or significant deficiencies identified. <ul style="list-style-type: none">• 2022-003-Project and Expenditure Reporting
97.036 Disaster Grants – Public Assistance	\$7,307,911	No material weaknesses or significant deficiencies identified.



Remi Omisore, CPA, MBA, CISA, CIA
Principal
Remi.Omisore@CLAConnect.com
(410)308-8157

Alex Walther, CPA
Director
Alexandra.Walther@CLAConnect.com
(410)308-8053



CLAconnect.com



CPAs | CONSULTANTS | WEALTH ADVISORS

©2023 CliftonLarsonAllen LLP. CLA (CliftonLarsonAllen LLP) is an independent network member of CLA Global. See [CLAglobal.com/disclaimer](https://www.claglobal.com/disclaimer).
Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.