

TOWN OF MILLSBORO, DELAWARE

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

TOWN OF MILLSBORO, DELAWARE

TABLE OF CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITORS' REPORT	1 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 - 11
BASIC FINANCIAL STATEMENTS	
Government-wide financial statements	
Statement of net position	12
Statement of activities	13
Fund Financial Statements	
Governmental fund	
Balance sheet	14
Reconciliation of the governmental fund balance sheet to the Government-wide statement of net position	15
Statement of revenues, expenditures, and change in fund balance	16
Reconciliation of the statement of revenues, expenditures, and change in fund balance of the governmental fund to the statement of activities	17
Proprietary fund	
Statement of net position	18
Statement of revenues, expenses, and change in net position	19
Statement of cash flows	20 – 21
Notes to basic financial statements	22 – 48
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of revenues, expenditures, changes in fund balance – budget and actual – general fund	49

TOWN OF MILLSBORO, DELAWARE

TABLE OF CONTENTS (Continued)

	<u>Page(s)</u>
REQUIRED SUPPLEMENTARY INFORMATION (Continued)	
Schedule of the Town's proportionate share of the net pension liability	50 – 51
Schedule of the Town's contributions	52 - 53
SUPPLEMENTARY INFORMATION	
Independent auditors' report on supplementary information	54
General fund	
Schedule of revenues and expenditures – budget and actual	55
Schedule of general fund revenues – budget and actual	56
Schedule of general fund expenditures – budget and actual	57 – 58
Sewer fund - Schedule of revenues and expenses	59
Water fund - Schedule of revenues and expenditures	60
<i>GOVERNMENT AUDITING STANDARDS REPORT</i>	
Independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	61 – 62
Schedule of findings and responses	63



INDEPENDENT AUDITORS' REPORT

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To the Mayor and Council
Town of Millsboro, Delaware

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Millsboro, Delaware, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Town of Millsboro, Delaware's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Millsboro, Delaware, as of June 30, 2022, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

The Town of Millsboro, Delaware's management is responsible for the preparation and fair presentation of the 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.

Responsibilities of Management for the Financial Statements (continued)

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 Town of Millsboro, Delaware's ability to continue as a going concern for twelve 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 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement 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 judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgement 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 Town of Millsboro, 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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Millsboro, 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 our audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information on pages 4 through 11 and pages 49 through 53 be presented to supplement the basic financial statements.

Required Supplementary Information (continued)

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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2022 on our consideration of the Town of Millsboro, Delaware's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 Town of Millsboro, Delaware's internal control over financial reporting and compliance.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
December 8, 2022

TOWN OF MILLSBORO, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2022

This section of the report gives an overview and analysis of the financial activity of the Town of Millsboro for the year ended June 30, 2022. Please read it in conjunction with the Town's financial statements which begin on page 12.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis introduces the Town's basic financial statements. Town of Millsboro's basic financial statements include (1) Government-wide Financial Statements, (2) Fund Financial Statements, and (3) Notes to the Financial Statements. Required supplementary information and an optional section that presents schedules of revenues and expenses, in addition to the basic financial statements, are also included.

FINANCIAL HIGHLIGHTS

Government-Wide Financial Statements

As of June 30, 2022, assets and deferred outflows exceeded liabilities and deferred inflows by \$81,626,584. Of this amount, the Town had unrestricted assets of \$599,140. The Town's total net position increased by \$10,361,569 during the year.

Fund Financial Statements

As of June 30, 2022, the Town's governmental funds reported an ending fund balance of \$16,105,843. This increased \$1,329,040 from the preceding a

As of June 30, 2022, the Town's enterprise funds reported an ending net position of \$52,271,747. This was an increase of \$7,143,746 over the prior year.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Government-wide Financial Statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private sector business. This Government-wide Financial Reporting includes two statements: Statement of Net Position and Statement of Activities.

The Statement of Net Position presents information on all of the Town's assets and liabilities, with the differences between the two reported as net position. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the Town of Millsboro is improving or deteriorating.

The Statement of Activities presents information showing how the Town's net position changed during the current fiscal year. Changes in net position are reported when the underlying event occurs, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will not impact cash flows until future fiscal periods.

Both the Statement of Net Position and Statement of Activities account separately for governmental activities and business-type activities.

TOWN OF MILLSBORO, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2022

GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)

Governmental activities include General Administration, Public Safety, Recreation and Streets. These activities are mostly supported by taxes, user fees and operating grants.

Business-type activities include water and sewer services, funded primarily by user fees, connection fees, and impact fees. The Government-wide Financial Statements in this report immediately follow this MD&A report.

FUND FINANCIAL STATEMENTS

The next group of financial statements is Fund Financial Statements. These statements provide additional information.

A fund is an accounting category used to maintain control over resources that have been segregated for specific activities or objectives. These help us comply with finance-related legal requirements. The Town's funds are divided into two categories: Governmental Funds and Proprietary Funds.

Governmental Funds

Governmental Funds account for essentially the same functions as Governmental Activities in the Government-wide Financial Statements. Governmental Fund Financial Statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a government's near-term financial requirements. Because of the focus of governmental funds is for the current period, it is useful to compare this information with similar information presented for governmental activities in the Government-wide Financial Statements. Readers may then better understand the long-term impact of the government's current financing decisions.

The Governmental Fund Balance Sheet and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance include reconciliations to the Government-wide Statements. Required supplementary information includes a budgetary comparison statement for the General Fund.

Proprietary Funds

The Town of Millsboro's Proprietary Funds are solely Enterprise Funds that operate in a manner similar to private business enterprises. The Town uses Enterprise Funds for the water and sewer systems, which separates operating revenues and expenses from non-operating items. The operating expenses include the cost of service, administrative expenses and depreciation on capital assets.

Major and Nonmajor Funds

The Town does not have any Nonmajor Funds. All activities are classified as Major Funds.

TOWN OF MILLSBORO, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022

NOTES TO BASIC FINANCIAL STATEMENTS

Notes to Basic Financial Statements provide additional information that is important for a better understanding of the data provided in the Financial Statements.

REQUIRED SUPPLEMENTARY INFORMATION

The required supplementary information contains a budgetary comparison for the general fund as well as information related to our participation in two defined benefit plans for our employees.

SUPPLEMENTARY INFORMATION

The supplementary information is optional detailed information regarding the actual revenues and expenditures/expenses compared to the budget and prior year for the General fund, Water fund, and Sewer fund.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

The Town's combined net position at June 30, 2022 was \$81,626,584. Of this total, \$59,504,797 is invested in capital assets and \$21,522,647 is restricted leaving an unrestricted net position of \$599,140.

Restricted net position includes assets restricted for construction and debt service of \$11,553,622, unused grant funds of \$94,046, and accumulated realty transfer taxes of \$9,874,979.

During the year, the Town received \$1,214,101 from the American Rescue Plan Act of 2021 (ARPA) Coronavirus State and Local Fiscal Recovery Funds in addition to \$1,223,642 received in the prior year. These funds which total \$2,437,743 must be obligated by December 31, 2024 and spent by December 31, 2026. As of June 30, 2022, the full amount is unspent and included in deferred inflows of resources.

TOWN OF MILLSBORO, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022

The table below compares key financial information in a condensed format for the current year and the prior year.

Table 1						
Town of Millsboro's Net Position						
	Governmental Activities		Business-type Activities		Total Government	
	2022	2021*	2022	2021*	2022	2021*
Assets						
Current and other assets	\$ 18,486,341	\$ 15,594,518	\$ 11,144,537	\$ 7,217,945	\$ 29,630,878	\$ 22,812,463
Capital assets, net	12,771,379	11,203,490	68,822,330	64,721,973	81,593,709	75,925,463
Total assets	<u>31,257,720</u>	<u>26,798,008</u>	<u>79,966,867</u>	<u>71,939,918</u>	<u>111,224,587</u>	<u>98,737,926</u>
Deferred outflows of resources	<u>454,946</u>	<u>487,567</u>	<u>80,025</u>	<u>90,166</u>	<u>534,971</u>	<u>577,733</u>
Liabilities						
Current and other liabilities	715,330	709,042	3,934,421	4,941,137	4,649,751	5,650,179
Long term liabilities	<u>21,047,547</u>	<u>22,019,607</u>	<u>21,047,547</u>	<u>21,817,115</u>	<u>21,047,547</u>	<u>22,019,607</u>
Total liabilities	<u>715,330</u>	<u>911,534</u>	<u>24,981,968</u>	<u>26,758,252</u>	<u>25,697,298</u>	<u>27,669,786</u>
Deferred inflows of resources	<u>1,642,499</u>	<u>237,027</u>	<u>2,793,177</u>	<u>143,831</u>	<u>4,435,676</u>	<u>380,858</u>
Net position						
Net investment in capital assets	12,759,169	11,172,673	46,745,628	40,070,843	59,504,797	51,243,516
Restricted	14,652,709	14,993,212	6,869,938	4,484,526	21,522,647	19,477,738
Unrestricted	1,942,959	(28,871)	(1,343,819)	572,632	599,140	543,761
Total net position	<u>\$ 29,354,837</u>	<u>\$ 26,137,014</u>	<u>\$ 52,271,747</u>	<u>\$ 45,128,001</u>	<u>\$ 81,626,584</u>	<u>\$ 71,265,015</u>

* The amounts reported for 2021 have been restated for GASB Statement No. 87, *Leases*.

The Town's net position increased \$10,361,569 from June 30, 2021 to June 30, 2022, an increase of 15%.

Total revenues were \$21,610,829 and included capital contributions of \$3,636,948 of streets and utility infrastructure contributed by private entities. Of the total revenues (excluding the capital contributions), property taxes and fees made up 38%, charges for services were 30%, and grants and contributions were 32%.

Total expenses were \$11,249,260, made up of 24% for general government, 53% for the water and sewer funds, 22% for public safety, and 1% for other departments.

TOWN OF MILLSBORO, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022

The following schedule reflects the breakdown of changes in net position for Governmental and Business-type Activities for fiscal years 2022 and 2021.

Table 2 Town of Millsboro's Change in Net Position						
	Governmental Activities		Business-type Activities		Total Government	
	2022	2021	2022	2021	2022	2021
Revenues						
Program revenues						
Charges for services	\$ 1,184,068	\$ 784,936	\$ 4,242,531	\$ 4,304,953	\$ 5,426,599	\$ 5,089,889
Operating grants and contributions	493,393	431,453		2,194,981	493,393	2,626,434
Capital grants and contributions	2,425,924	609,963	6,859,521	727,569	9,285,445	1,337,532
General revenues						
Property taxes	3,311,971	2,931,730			3,311,971	2,931,730
Building Fund Fee	250,542	149,189			250,542	149,189
Realty Transfer Tax	2,818,482	2,077,037			2,818,482	2,077,037
Investment and other income	24,397	26,484			24,397	26,484
Total revenues	10,508,777	7,010,792	11,102,052	7,227,503	21,610,829	14,238,295
Program Expenses						
General government	1,948,279	1,758,404			1,948,279	1,758,404
Public safety	2,879,241	2,989,631			2,879,241	2,989,631
Recreation	147,239	43,334			147,239	43,334
Streets	336,646	459,516			336,646	459,516
Sewer Facility			4,474,744	4,399,949	4,474,744	4,399,949
Water Facility			1,463,111	1,218,210	1,463,111	1,218,210
Total expenses	5,311,405	5,250,885	5,937,855	5,618,159	11,249,260	10,869,044
Increase in Net Position Before						
Transfers	5,197,372	1,759,907	5,164,197	1,609,344	10,361,569	3,369,251
Transfers	(1,979,549)	(2,706,019)	1,979,549	2,706,019		
Change in Net Position	3,217,823	(946,112)	7,143,746	4,315,363	10,361,569	3,369,251
Net Position - Beginning	26,137,014	27,083,126	45,128,001	40,812,638	71,265,015	67,895,764
Net Position - Beginning	\$ 29,354,837	\$ 26,137,014	\$ 52,271,747	\$ 45,128,001	\$ 81,626,584	\$ 71,265,015

The 2021 amounts have been restated to match the 2020 classifications for fire protection and ambulance service revenues and expenditures.

Governmental Activities

In the Governmental Activities, the net position increased by \$3,217,823, compared to a decrease in the prior year of \$946,118. The increase is due primarily from increases in property and transfer tax revenues and a decrease in transfers to the water and sewer funds. In addition, the current year increase includes capital contributed by private entities of \$1,253,974.

Business-type Activities

During the fiscal year, the net position for Business-Type Activities increased \$7,143,746 compared to an increase in the prior year of \$4,315,363. See the detailed discussion below regarding the water and sewer funds.

TOWN OF MILLSBORO, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

General fund

For the year ended June 30, 2022, the Town's general fund reported an increase of \$1,329,040 resulting in a fund balance at year-end of \$16,105,843. Of this amount, \$14,845,353 is non-spendable, restricted, or assigned leaving an unassigned balance of \$1,260,490. The unrestricted fund balances (assigned and unassigned) represents approximately 3.3 months of operating expenditures.

Total revenues for the year were \$9,233,861 which is an increase of \$2,173,617 or 31% over the prior year. Significant changes from the prior year include the following:

- Property taxes and transfer taxes increased by a total of \$1,107,848 due to additional new construction within the Town and a tax rate adjustment.
- Sussex County distributed \$471,749 of transfer taxes to the Town. These funds are designated to be used for capital expenditures in the police department.
- Ambulance and fire fees and building fund fees also increased.
- Permits and variances increased by \$238,799 due to new construction.

Total expenditures were \$5,934,967, an increase of \$296,242 or 5% over the prior year.

Sewer Fund

The sewer fund had an operating loss of \$1,406,664 compared to a loss in the prior year of \$1,164,416. Assessment, annexation and connection fees of \$3,063,614 were collected during the year. A \$100,000 grant was received from the Department of Natural Resources for preliminary engineering costs for the White Farm wastewater treatment plant. Contributed infrastructure assets were \$1,205,992. Transfers in from the general fund were \$1,798,997 (a significant increase over last year).

The sewer fund had a net position as of June 30, 2022 of \$34,553,556 consisting of a net investment in capital assets of \$30,085,815, restricted assets for construction and debt services of \$3,901,655, and an unrestricted net position of \$566,086.

Water Fund

The water fund had an operating income of \$247,039 for the year compared to income of \$536,867 in the prior year. Assessment, annexation, and connection fees of \$1,312,933 were collected during the year. Contributed infrastructure assets were \$1,176,982. Transfers in from the general fund were \$180,552 (down significantly from last year).

The water fund had a net position as of June 30, 2022 of \$17,718,191 consisting of a net investment in capital assets of \$16,659,813, restricted assets for construction and debt services of \$2,968,283, and an deficit in net position of \$1,909,905.

TOWN OF MILLSBORO, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2022

BUDGETARY HIGHLIGHTS – GENERAL FUND

General fund revenues were \$9,233,861, which exceeded the budgeted revenue by \$4,067,262 due to realty transfer taxes of \$3,290,231 which were not budgeted.

General fund expenditures of \$5,934,967 exceeded the budgeted expenditures by \$650,298. Significant variances were as follows:

- Capital outlay expenditures were over the amount budgeted by \$547,411. See the detailed discussion below regarding capital assets purchased in the general fund.
- Streets expenditures were less than the amount budgeted by \$472,194.

See the Budgetary Comparison Schedule – General Fund on page 49 for more detailed information.

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

Capital assets

At the end of the fiscal year, the Town had \$81,593,709 (net of depreciation) invested in a broad range of capital assets.

Major capital additions in the Governmental Activities included: Construction in progress for the police department and State Street project, vehicles for the police and public works department, and the parking lot at Town Hall.

Major capital additions in the Business-type Activities included: Construction in progress for the waste water treatment plant and the Rt. 113 sewer extension.

In addition, capital assets were contributed by private entities of \$1,253,974 in the Governmental Activities and \$2,382,974 in the Business-type Activities.

Long-term debt

At the end of the fiscal year, the Town had \$22,088,912 in long-term bonds and notes payable.

In November 2021, voters approved a referendum giving the Town authority to borrow up to \$38 million worth of additional funds for various capital projects.

During the year, the Town refinanced general obligation bonds of \$22,807,485 by issuing refunding bonds with a par value of \$19,955,000 and a premium of \$3,143,393. The long-term savings in cost is estimated at \$2 million.

TOWN OF MILLSBORO, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2022

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The Town has been awarded \$2,437,743 from the American Rescue Plan Act (ARPA). The first installment was received in June 2021 and the second installment in June 2022. The Town is tentatively planning on using most, if not all, of those monies to cover the cost of various water- and/or sewer-related improvements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Director, Town of Millsboro, Delaware, 322 Wilson Highway, Millsboro, DE 19966.

TOWN OF MILLSBORO, DELAWARE

STATEMENT OF NET POSITION

JUNE 30, 2022

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,816,216	\$	\$ 1,816,216
Receivables:			
Taxes	45,567		45,567
Service water and sewer		1,082,638	1,082,638
Miscellaneous	19,501		19,501
Grants	177,202	100,000	277,202
Operating leases, current portion	12,184	20,570	32,754
Inventory		252,036	252,036
Prepaid items	174,457	18,473	192,930
Restricted assets:			
Cash and cash equivalents	14,652,709	6,804,274	21,456,983
Receivables	50,642	139,653	190,295
Construction advance		955,046	955,046
Loan receivable		1,615,406	1,615,406
Operating leases, less current portion	9,234	55,134	64,368
Capital assets, net of accumulated depreciation	12,771,379	68,822,330	81,593,709
Net pension asset	1,528,629	101,307	1,629,936
Total assets	<u>31,257,720</u>	<u>79,966,867</u>	<u>111,224,587</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>454,946</u>	<u>80,025</u>	<u>534,971</u>
LIABILITIES			
Accounts payable and other accrued liabilities	453,617	2,717,758	3,171,375
Accrued wages	99,066	31,794	130,860
Due to developer	55,322	101,365	156,687
Compensated absences	95,115	54,349	149,464
Long-term liabilities			
Due within one year	12,210	1,029,155	1,041,365
Due in more than one year		21,047,547	21,047,547
Total liabilities	<u>715,330</u>	<u>24,981,968</u>	<u>25,697,298</u>
DEFERRED INFLOWS OF RESOURCES	<u>1,642,499</u>	<u>2,793,177</u>	<u>4,435,676</u>
NET POSITION			
Net investment in capital assets	12,759,169	46,745,628	59,504,797
Restricted for:			
Construction and debt service	4,683,684	6,869,938	11,553,622
Grant funds	94,046		94,046
Realty transfer tax	9,874,979		9,874,979
Unrestricted (deficit)	<u>1,942,959</u>	<u>(1,343,819)</u>	<u>599,140</u>
Total net position	<u>\$ 29,354,837</u>	<u>\$ 52,271,747</u>	<u>\$ 81,626,584</u>

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

TOWN OF MILLSBORO, DELAWARE

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2022

	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
FUNCTIONS/PROGRAMS						
GOVERNMENTAL ACTIVITIES						
General administration	\$ 1,948,279	\$ 852,985	\$ 393,463	\$ 1,171,950 *	\$ (1,095,294)	\$ (1,095,294)
Public safety	2,879,241	239,836			(1,073,992)	(1,073,992)
Recreation	147,239	6,200			(141,039)	(141,039)
Streets	336,646	85,047	99,930	1,253,974	1,102,305	1,102,305
Total governmental activities	5,311,405	1,184,068	493,393	2,425,924	(1,208,020)	(1,208,020)
BUSINESS-TYPE ACTIVITIES						
Sewer facility	4,474,744	2,582,858		4,369,606	2,477,720	2,477,720
Water facility	1,463,111	1,659,673		2,489,915	2,686,477	2,686,477
Total business-type activities	5,937,855	4,242,531		6,859,521	5,164,197	5,164,197
Total	\$ 11,249,260	\$ 5,426,599	\$ 493,393	\$ 9,285,445	(1,208,020)	3,956,177
GENERAL REVENUES						
Taxes and fees:						
					3,311,971	3,311,971
					2,818,482	2,818,482
					250,542	250,542
					9,695	9,695
					14,702	14,702
					(1,979,549)	1,979,549
					4,425,843	6,405,392
					3,217,823	10,361,569
NET POSITION, BEGINNING OF YEAR						
					26,137,014	71,265,015
NET POSITION, END OF YEAR						
					\$ 29,354,837	\$ 81,626,584
					\$ 52,271,747	\$ 81,626,584

* Includes fire protection and ambulance service fees which were reported as general revenues in prior years.

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

TOWN OF MILLSBORO, DELAWARE

**BALANCE SHEET
GOVERNMENTAL FUND**

JUNE 30, 2022

ASSETS

	General Fund
Cash and cash equivalents	\$ 1,816,216
Receivables:	
Taxes	45,567
Miscellaneous	19,501
Grants	177,202
Leases receivable	21,418
Prepaid items	174,457
Restricted assets:	
Cash and cash equivalents	14,652,709
Receivables	50,642
Total assets	<u>\$ 16,957,712</u>

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES,
AND FUND BALANCE**

LIABILITIES

Accounts payable and other accrued liabilities	\$ 453,618
Accrued wages	99,066
Escrow payable and other deposits	55,322
Total liabilities	<u>608,006</u>

DEFERRED INFLOWS OF RESOURCES

Unearned revenue:	
Annexation fees	50,642
Property taxes	36,631
Grants	119,727
Leases	17,361
Other	19,502
Total deferred inflows of resources	<u>243,863</u>

FUND BALANCE

Non-spendable: Prepaid items	174,457
Restricted	
Construction and debt service	4,683,684
Grant funds	94,046
Realty transfer tax	9,874,979
Assigned	18,187
Unassigned	1,260,490
Total fund balance	<u>16,105,843</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 16,957,712</u>

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

TOWN OF MILLSBORO, DELAWARE

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

JUNE 30, 2022

Total fund balance, governmental fund	\$	16,105,843
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Amounts reported for governmental activities in the Statement of Net Position are different because:

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.		12,771,379
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Certain revenues are not available to pay for current period expenditures and therefore are reported as deferred inflows of resources in the fund financial statements, but are reported as revenue in the governmental activities of the Statement of Net Position.

Unearned revenue		226,502
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Long-term liabilities are not due and payable in the current period, and accordingly are not reported in the governmental fund financial statements, but are reported in governmental activities of the Statement of Net Position.

Notes payable		(12,210)
Accrued compensated absences		(95,115)
Pension assets liabilities		1,528,629

Increases and decreases to the net pension (asset) liability that were not included in pension expense are classified as deferred outflows and deferred inflows of resources. These items are not reported in the governmental fund financial statements, but are reported in the governmental activities of the Statement of Net Position.		(1,170,191)
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Net position, governmental activities	\$	29,354,837
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The accompanying notes are an integral part of these financial statements.

TOWN OF MILLSBORO, DELAWARE

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUND**

YEAR ENDED JUNE 30, 2022

	<u>General Fund</u>
REVENUES	
Taxes and fees	\$ 7,154,496
Intergovernmental	908,387
Charges for services	905,415
Fines	78,210
Miscellaneous	187,353
Total revenues	<u>9,233,861</u>
EXPENDITURES	
Current	
General administration	1,793,086
Public safety	3,090,070
Recreation	112,136
Streets	119,707
Capital outlay	800,411
Debt service	19,557
Total expenditures	<u>5,934,967</u>
Excess of revenues over expenditures	<u>3,298,894</u>
OTHER FINANCING SOURCES (USES)	
Transfers out	(1,979,549)
Proceeds from sale of assets	9,695
Total other financing uses	<u>(1,969,854)</u>
Net change in fund balance	1,329,040
FUND BALANCE, BEGINNING OF YEAR	<u>14,776,803</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 16,105,843</u></u>

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

TOWN OF MILLSBORO, DELAWARE

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND
BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2022

Change in fund balance, governmental fund	\$ 1,329,040
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Amounts reported for Governmental Funds in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. However, in the Statement of Activities, the cost of these assets is allocated over their estimated lives and reported as depreciation expense and disposals of assets are recorded at their unamortized costs as an expense.

Capital outlay	800,411	
Depreciation expense	<u>(486,496)</u>	
		313,915

Capital assets acquired through contributions from private entities	1,253,974
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds. The difference is as follows:

Compensated absences	(1,687)	
Principal payments on debt	18,607	
Pension expenses	<u>292,726</u>	
		309,646

Revenues in the Statement of activities that do not provide current financial resources are not reported as revenues in the governmental fund, as follows:

Unearned revenue		<u>11,248</u>
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Change in net position, governmental activities	<u>\$ 3,217,823</u>
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The accompanying notes are an integral part of these financial statements.

TOWN OF MILLSBORO, DELAWARE

**STATEMENT OF NET POSITION
PROPRIETARY FUND**

JUNE 30, 2022

	Enterprise Funds		
	Sewer Fund	Water Fund	Total
ASSETS			
Current assets			
Receivables, net of allowance for doubtful accounts			
Service charges	\$ 623,741	\$ 458,897	\$ 1,082,638
Grants	100,000		100,000
Leases receivable, current portion	20,570		20,570
Inventory	252,036		252,036
Prepaid items	1,300	17,173	18,473
Total current assets	<u>997,647</u>	<u>476,070</u>	<u>1,473,717</u>
Noncurrent assets			
Restricted assets:			
Cash and cash equivalents	6,365,458	438,816	6,804,274
Receivables	111,773	27,880	139,653
Construction advance		955,046	955,046
Loan receivable		1,615,406	1,615,406
Leases receivable, less current portion	55,134		55,134
Capital assets, net of accumulated depreciation	50,382,621	18,439,709	68,822,330
Net pension asset	73,678	27,629	101,307
Total noncurrent assets	<u>56,988,664</u>	<u>21,504,486</u>	<u>78,493,150</u>
Total assets	<u>57,986,311</u>	<u>21,980,556</u>	<u>79,966,867</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>58,200</u>	<u>21,825</u>	<u>80,025</u>
LIABILITIES			
Current liabilities			
Accounts payable and other accrued liabilities	383,614	2,334,144	2,717,758
Accrued wages	21,912	9,882	31,794
Due to developer	32,500	68,865	101,365
Current portion of long-term liabilities	864,155	165,000	1,029,155
Total current liabilities	<u>1,302,181</u>	<u>2,577,891</u>	<u>3,880,072</u>
Long-term liabilities			
Compensated absences	39,523	14,826	54,349
Notes and capital leases payable, less current portion	19,432,651	1,614,896	21,047,547
Total long-term liabilities	<u>19,472,174</u>	<u>1,629,722</u>	<u>21,101,896</u>
Total liabilities	<u>20,774,355</u>	<u>4,207,613</u>	<u>24,981,968</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred grants	2,437,743		2,437,743
Deferred financing inflows retirement	204,204	76,577	280,781
Deferred lease revenue	74,653		74,653
	<u>2,716,600</u>	<u>76,577</u>	<u>2,793,177</u>
NET POSITION			
Net investment in capital assets	30,085,815	16,659,813	46,745,628
Restricted for construction and debt service	3,901,655	2,968,283	6,869,938
Unrestricted (deficit)	566,086	(1,909,905)	(1,343,819)
Total net position	<u>\$ 34,553,556</u>	<u>\$ 17,718,191</u>	<u>\$ 52,271,747</u>

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

TOWN OF MILLSBORO, DELAWARE

**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
PROPRIETARY FUND**

YEAR ENDED JUNE 30, 2022

	Enterprise Funds		
	Sewer Fund	Water Fund	Total
OPERATING REVENUES			
Charges for services	\$ 2,479,663	\$ 1,474,339	\$ 3,954,002
Other operating revenues	96,846	185,226	282,072
Total operating revenues	<u>2,576,509</u>	<u>1,659,565</u>	<u>4,236,074</u>
OPERATING EXPENSES			
Salaries	532,746	210,375	743,121
Employee benefits	122,702	47,377	170,079
Pension expense	114,763	43,282	158,045
Payroll taxes	40,498	13,821	54,319
Maintenance and repairs	662,828	136,663	799,491
Professional services	378,896	150,966	529,862
Supplies	314,512	209,555	524,067
Utilities	172,602	53,541	226,143
Insurance	85,794	30,122	115,916
Sludge landfill	64,071		64,071
Miscellaneous	60,832	71,396	132,228
Gasoline	18,501	7,830	26,331
Computer	9,656		9,656
Depreciation	1,404,772	437,598	1,842,370
Total operating expenses	<u>3,983,173</u>	<u>1,412,526</u>	<u>5,395,699</u>
Operating income (loss)	<u>(1,406,664)</u>	<u>247,039</u>	<u>(1,159,625)</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment earnings	6,349	108	6,457
Assessment, annexation and connection fees	3,063,614	1,312,933	4,376,547
Capital grants	100,000		100,000
Interest expense	(491,571)	(50,585)	(542,156)
Net non-operating revenues	<u>2,678,392</u>	<u>1,262,456</u>	<u>3,940,848</u>
Income before transfers and contributions	1,271,728	1,509,495	2,781,223
Contributed property	1,205,992	1,176,982	2,382,974
Transfers in	1,798,997	180,552	1,979,549
Change in net position	<u>4,276,717</u>	<u>2,867,029</u>	<u>7,143,746</u>
NET POSITION, BEGINNING OF YEAR	<u>30,276,839</u>	<u>14,851,162</u>	<u>45,128,001</u>
NET POSITION, END OF YEAR	<u>\$ 34,553,556</u>	<u>\$ 17,718,191</u>	<u>\$ 52,271,747</u>

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

TOWN OF MILLSBORO, DELAWARE

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND**

YEAR ENDED JUNE 30, 2022

	Enterprise Funds		
	Sewer Fund	Water Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 2,479,663	\$ 1,474,339	\$ 3,954,002
Other operating receipts	116,958	199,064	316,022
Payments to suppliers for goods and services	(2,233,006)	(725,800)	(2,958,806)
Payments to employees for services	(545,357)	(212,671)	(758,028)
Net cash provided (used) by operating activities	(181,742)	734,932	553,190
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital grants	1,214,101		1,214,101
Acquisition of capital assets and construction in progress	(1,850,656)	(1,243,254)	(3,093,910)
Assessment, annexation and connection fees	3,063,614	827,643	3,891,257
Principal payments on debt	(732,038)	(57,046)	(789,084)
Interest paid	(624,920)	(57,775)	(682,695)
Net cash provided (used) by capital and related financing activities	1,070,101	(530,432)	539,668
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfers from other funds	1,798,997	180,552	1,979,549
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	6,349	108	6,457
Net increase in cash and cash equivalents	2,693,705	385,160	3,078,865
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,671,753	53,656	3,725,409
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 6,365,458</u>	<u>\$ 438,816</u>	<u>\$ 6,804,274</u>

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

TOWN OF MILLSBORO, DELAWARE

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
(CONTINUED)**

YEAR ENDED JUNE 30, 2022

	Enterprise Funds		
	Sewer Fund	Water Fund	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (1,406,664)	247,039	(1,159,625)
Adjustments to reconcile operating income (loss) to net cash and cash equivalents provided (used) by operating activities			
Depreciation	1,404,773	437,598	1,842,371
Net changes in pension liabilities	85,215	31,719	116,934
(Increase) decrease in assets			
Receivables	20,112	84,608	104,720
Construction advance		(109,288)	(109,288)
Increase (decrease) in liabilities			
Accounts payable and other accrued liabilities	(346,435)	47,151	(299,284)
Deferred operating leases	74,653		74,653
Compensated absences	(13,396)	(3,895)	(17,291)
Net cash and cash equivalents provided (used) by operating activities	<u>\$ (181,742)</u>	<u>\$ 734,932</u>	<u>\$ 553,190</u>
NON-CASH CAPITAL AND OPERATING ACTIVITIES			
Capital assets acquired through contributions from private entities	<u>\$ 1,205,992</u>	<u>\$ 1,176,982</u>	<u>\$ 2,382,974</u>
Refinancing of long-term debt			
Proceeds from refinancing	\$ 18,280,000	\$ 1,675,000	\$ 19,955,000
Original issue premium	2,891,000	251,493	3,142,493
Repayment of debt	<u>(21,171,000)</u>	<u>(1,926,493)</u>	<u>(23,097,493)</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>

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

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Millsboro, Delaware (the Town) was reincorporated on May 11, 1976, under the provisions of the State of Delaware. The Town operates under a Mayor-Council form of government and provides the following services: police, streets, water and sewer services, recreation and general administrative services.

The Town's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Town are discussed below.

Reporting entity

The accompanying financial statements include public safety, streets, water and sewer services, recreation and general administration services that are legally controlled by or dependent on the Town Council (the primary government). The Town's financial reporting entity is required to consist of all organizations for which the Town is financially accountable or for which there is a significant relationship. The Town has no component units in its reporting entity.

Basic Financial Statements – Government-wide Statements

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The Town's governmental activities consist of general administration, public safety, recreation and streets. The Town's water and sewer services are classified as business-type activities.

In the government-wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis by column.

The government-wide Statement of Activities reports both the gross and net cost of each of the Town's functions and business-type activities. The functions are also supported by general government revenues (taxes and fees, unrestricted intergovernmental revenues, and investment earnings). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues and operating and capital grants and contributions.

Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. Direct expenses are those that are clearly identifiable with a specific function. The net costs (by function or business-type activity) are normally covered by general revenue (taxes, fees, and interest income, etc.).

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic Financial Statements – Government-wide Statements (Continued)

This government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net position resulting from the current year's activities.

Basic Financial Statements – Fund Financial Statements

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the Town:

Governmental Fund

The general fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position and cash flows. The accounting principles generally accepted in the United States of America are those similar to businesses in the private sector.

Enterprise funds are used to account for the provision of water and sewer services to customers in the Town's Water and Sewer Districts. Activities of the enterprise funds include administration, operations and maintenance of the water and sewer system and billing and collection activities.

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 ongoing operations. The principal operating revenues are charges to customers for providing services. Operating expenses include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting the above criteria are reported as non-operating revenues and expenses.

Major and Nonmajor Funds

The funds of the financial reporting entity are further classified as major or nonmajor. The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. The Town does not have any nonmajor funds.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting/Measurement Focus

Measurement focus refers to what is being measured. Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide and proprietary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting. All transactions and events that affect the total economic resources during the period are reported. Under the full accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time an obligation (liability) is incurred, regardless of the timing of related cash inflows and outflows. Revenues are recorded when earned. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized 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 are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are considered available if collected within sixty (60) days of year end.

Property taxes, charges for service, interest income and intergovernmental revenues are the primary revenue sources subject to accrual. Property taxes are reported as receivable when an enforceable lien on the property exists. The Town bills and collects its own property taxes.

Under modified accrual accounting, governmental fund liabilities and expenses should be accrued in the absence of applicable modification. Such modifications exist for long-term indebtedness, compensated absences, claims and judgments and special termination benefit liabilities. These liabilities are accrued in the governmental funds only to the extent they are due.

Since the governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliation is provided in the fund financial statements.

TOWN OF MILLSBORO, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The Town has defined cash and cash equivalents to include cash on hand, demand and other bank deposits, including restricted assets, and also all highly liquid investments with a maturity of three months or less when purchased. Restricted cash mainly consists of amounts held by the Town arising from grant programs, realty transfer taxes, impact/EDU funds and building fund/annexation funds.

Accounts Receivable

Accounts receivable are reported at their gross value. All service and property tax receivables are considered fully collectible.

Inventories

Inventories of supplies and replacement equipment are stated at cost at year-end as determined by the first-in, first-out method.

Capital Assets

Capital assets purchased or acquired with an original cost of \$2,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at acquisition value. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. The Town has elected to only report infrastructure (streets, sidewalks, storm drains) capital assets acquired after June 30, 2003 (for governmental activities). Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	5 – 100 years
Buildings and improvements	7 – 40 years
Machinery and equipment	3 – 10 years

A historical landmark was donated to the Town in 2012. The Town is preserving the historic site for public exhibition and education. The Town's intent for any future revenue generated from the landmark will be used to further preserve the site. There was no revenue generated from the landmark during fiscal year 2022. The site itself and any current period costs are not capitalized or depreciated as part of capital assets.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment

The Town is required to evaluate events or changes in circumstances affecting capital assets to determine whether an impairment of capital assets has occurred. If the Town determines that a capital asset is impaired, and that impairment is significant, then an impairment loss will be recorded in the Town's government-wide financial statements.

Deferred Inflows of Resources

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has the following items which arise under the accrual and modified accrual basis of accounting that qualify for reporting in this category: (a) deferred property taxes, annexation fees and other revenues which are not recognized until available (collected no later than 60 days after the end of the Town's fiscal year), (b) deferred grants which are not recognized until available and all eligibility requirements have been met, (c) deferred lease revenue which is recognized over the life of the lease, and (d) deferred financing inflows related to the retirement plan.

Deferred Outflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has one item that qualifies for reporting in this category: deferred financing outflows related to the retirement plan.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide and Proprietary Funds Net Position

Net position is classified and displayed in three components:

Net investment in capital assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted net position - Net position with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Restricted net position consists of the following:

- Transfer taxes restricted to specific uses by the State of Delaware,
- Building funds restricted by Town ordinance for the construction of structures for anticipated expansion of Town administration, police, and public works services, and
- Grant revenues that are restricted by the granting agency for specific uses.

Unrestricted net position - All remaining net position that do not meet the definition of “restricted” or “net investment in capital assets”.

Governmental Fund Balances

In the fund financial statements, governmental funds report amounts for five classifications of fund balances based on the constraints imposed on the use of these resources.

Non-spendable fund balance – Amounts that cannot be spent because they are either in non-spendable form or are legally or contractually required to be maintained intact. Non-spendable fund balances consist of prepaid items.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Fund Balances (continued)

Restricted fund balance – Amounts that can only be spent for specific purposes because of constraints imposed on resources either (1) externally by creditors, grantors, contributors or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.

Restricted funds consist of building funds restricted by Town ordinance for the construction of structures for anticipated expansion of Town administration, police, and public works services, and grant revenues that are restricted by the granting agency for specific uses.

Committed fund balance - Amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the Town Council, the government's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the Town Council removes the specified use by taking the same type of action imposing the commitment. The Town has no committed fund balance.

Assigned fund balance - Amounts constrained by the Town's "intent" to be used for specific purposes, but are neither restricted nor committed. The Town Council has the authority to assign amounts to be used for specific purposes.

Assigned fund balances include amounts held in the bicentennial certificate of deposit and savings account.

Unassigned fund balance - This fund balance is the residual classification for the general fund.

It is the Town's policy to maintain a diversified and stable revenue stream to protect it from problematic fluctuations in any single revenue source and provide stability to ongoing services. The Town's policy is to segregate restricted resources for both restricted and committed funds. The Town Council specifically authorizes expenditures from those restricted resources as approved on a transaction-by-transaction basis in accordance with the specified provisions imposed by those resources.

When an expenditure is incurred for purposes for which both non-segregated restricted and unrestricted amounts are available, it is the policy of the Town to consider non-segregated restricted amounts to have been reduced first. The Town's unassigned general fund balance is maintained to provide it with sufficient resources to meet the Town's daily operational needs.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Assessment

The Town's property tax year runs from July 1 to June 30. Property taxes are recorded and attached as an enforceable lien on property on July 1, the date levied. Taxes are payable under the following terms: July 1 through September 30, face amount; after September 30, a 1.5% penalty per month is charged on the unpaid balance due. Property taxes are recognized as revenue in the budget year for which they are levied.

Compensated Absences

Employees are granted vacation and sick leave in varying amounts. In the event of termination or retirement, an employee is reimbursed for accumulated vacation days. The Town's proprietary funds accrue accumulated unpaid vacation and sick leave when earned (or estimated to be earned) by the employee. Sick leave is only payable to an employee at retirement and is accrued once an employee attains ten years of Town service. Compensated absences for governmental funds represent a reconciling item between the fund and government-wide presentations.

Interfund Activity

Interfund activity is reported as either loans or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Interfund transactions that are treated as transfers are not required to be repaid by the funds. Transferred funds are available to be used for operational purposes by the recipient fund.

Budgets and Budgetary Data

The budget in these financial statements is presented on a basis consistent with generally accepted accounting principles. The Town Council follows these procedures in establishing the budgetary data reflected in these financial statements.

- a. Annually each year and not later than July 1, the Town Manager, Finance Director and the Council members prepare the Town's budget.
- b. The Town Council shall, so far as possible, adhere to the budget so adopted in the making of appropriations.
- c. Budget amendments can be made during the year, but must be approved by the Town Council.
- d. Appropriations from prior year fund balances are recorded as other financing sources for budgetary purposes.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Town to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

Interest Cost

Interest cost incurred before the end of a construction period is recognized as an expenditure/expense in the period in which the cost is incurred for both the fund financial statements and the government-wide financial statements. Interest cost totaling \$749 was incurred during the year for governmental activities. Interest expense incurred by the Town for the sewer and water activities was \$491,571 and \$50,585, respectively.

Pensions

For purposes of measuring the net pension a liability and deferred outflows/inflows of resources related to pensions and pension expenses, information about the fiduciary net position of the Delaware Public Employees' Retirement System (DPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net positions have been determined on the same basis as they are reported by DPERS, which is an accrual basis of accounting.

CASH AND EQUIVALENTS

Cash

The Town's cash and cash equivalents are time and demand deposits invested in various financial institutions and are carried at cost plus accrued interest. Transactions are made directly with the banks. Time deposits are readily available for use without penalty and are included in the Town's cash balance in the fund and government-wide financial statements. As of June 30, 2022, the carrying amount of the Town's cash balance was \$23,273,199 and the bank balance was \$23,687,760. The Town exceeded FDIC limits by 23,039,227, which was collateralized with securities held by the pledging financial institution's trust department but not in the Town's name.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town has not formally adopted a deposit or investment policy that addresses custodial or credit risk.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

LEASES RECEIVABLE

Effective July 1, 2021, the Town adopted the new lease accounting guidance in GASB Statement No. 87, *Leases*. The new guidance requires recognition of certain lease assets and liabilities that were previously classified as operating leases. As a result of the adoption of the new guidance, the Town recognized as of July 1, 2021 the following:

- Leases receivable of \$5,400 in the general fund and \$95,474 in the sewer fund which represent the present value of the remaining lease payments discounted using the Town's incremental borrowing rate,
- Deferred inflows of resources of \$100,874 which represents the original leases receivable of \$131,387 less accumulated amortization of \$30,513.

Leases receivable and deferred inflows of resources are recorded at the present value of the lease payments discounted using the Town's incremental borrowing rate of 3.75%.

General Fund

The Town has entered into a lease agreement expiring in November, 2024 for the Train Station. Monthly payments range from \$550 per month through \$600 per month over the lease term. Total lease payments billed for the year ended June 30, 2022 were \$4,400.

The Town leased a building to the Millsboro Art League under a one-year lease agreement expiring April, 2023. Monthly payments are \$600. Total lease payments for the year ended June 30, 2022 were \$1,200.

As of June 30, 2022, the balance of leases receivable is \$21,418.

Sewer Fund

The Town has a lease agreement for certain real estate expiring on December 31, 2025. Rent is payable in two equal installments on April 1 and December 1 of each year.

As of June 30, 2022, the balance of the lease receivable is \$75,704.

TOWN OF MILLSBORO, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

LEASES RECEIVABLE (Continued)

A maturity analysis of all future lease payments for the term of the leases is as follows:

		General Fund		Sewer Fund	
		Principal	Interest	Principal	Interest
Year ended June 30:					
2023	\$	12,184	\$ 616	\$ 20,570	\$ 2,824
2024		6,854	246	21,401	1,993
2025		2,380	20	22,265	1,129
2026				11,468	229
	\$	<u>21,418</u>	<u>\$ 882</u>	<u>\$ 75,704</u>	<u>\$ 6,175</u>

TOWN OF MILLSBORO, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2022, was as follows:

Governmental activities	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets, not being depreciated</i>				
Land and parks	\$ 1,635,437	\$	\$	\$ 1,635,437
Construction in progress	176,705	445,613		622,318
Total capital assets not being depreciated	1,812,142	445,614		2,257,755
<i>Capital assets, being depreciated</i>				
Building and improvements	11,062,339	1,465,817		12,528,156
Equipment	1,959,759	142,960	33,311	2,069,408
Total capital assets being depreciated	13,022,098	1,608,777	33,311	14,597,564
Less accumulated depreciation for:				
Building and improvements	2,143,475	313,947		2,457,422
Equipment	1,487,280	172,549	33,311	1,626,518
Total accumulated depreciation	3,630,755	486,496	33,311	4,083,940
Total capital assets being depreciated, net	9,391,343	1,122,281		10,513,624
Governmental activities Capital assets, net	\$ 11,203,485	\$ 1,567,895	\$	\$ 12,771,379

TOWN OF MILLSBORO, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

CAPITAL ASSETS (Continued)

Business-type activities:

Water fund:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets, not being depreciated</i>				
Land	\$ 98,079	\$	\$	\$ 98,079
Construction in progress	3,983,775	1,942,123	3,711,384	2,214,514
Total capital assets not being depreciated	4,081,854	1,942,123	3,711,384	2,312,593
<i>Capital assets, being depreciated</i>				
Infrastructure	14,737,170	4,879,219		19,616,389
Machinery and equipment	894,680	28,158		922,838
Total capital assets being depreciated	15,631,850	4,907,377		20,539,227
Less accumulated depreciation for:				
Infrastructure	3,459,571	394,159		3,853,730
Machinery and equipment	514,942	43,439		558,381
Total accumulated depreciation	3,974,513	437,598		4,412,111
Total capital assets being depreciated, net	11,657,337	4,469,779		16,127,116
Water, capital assets, net	\$ 15,739,191	\$ 6,411,902	\$ 3,711,384	\$ 18,439,709

In July 2020, the Town entered into a cost share agreement with a developer to construct a water facility treatment plant. The Town will pay 30.7% of the shared costs for the construction of the project. The agreement also stipulates that the Town advances 100% of the construction cost before reimbursements of 69.3% of the cost by the developer. As of June 30, 2022, the project cost is expected to be \$13,929,000. The project was not completed during the year. The Town's share of the 30.7% construction cost was \$2,055,315 at June 30, 2022.

TOWN OF MILLSBORO, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

CAPITAL ASSETS (Continued)

Business-type activities:

Sewer fund:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets, not being depreciated</i>				
Land	\$ 10,936,262	\$	\$	\$ 10,936,262
Construction in progress	1,089,969	1,674,150	1,179,528	1,584,591
Total capital assets not being depreciated	12,026,231	1,674,150	1,179,528	12,520,853
<i>Capital assets, being depreciated</i>				
Infrastructure	46,719,306	2,377,978		49,097,284
Machinery and equipment	2,071,361	184,048		2,255,409
Total capital assets being depreciated	48,790,667	2,562,026		51,352,693
Less accumulated depreciation for:				
Infrastructure	10,988,528	1,244,376		12,232,904
Machinery and equipment	1,097,624	160,397		1,258,021
Total accumulated depreciation	12,086,152	1,404,773		13,490,925
Total capital assets being depreciated, net	36,704,515	1,157,253		37,861,768
Sewer, capital assets, net	<u>\$ 48,730,746</u>	<u>\$ 2,831,403</u>	<u>\$ 1,179,528</u>	<u>\$ 50,382,621</u>
Business-type activities				
Capital assets, net	<u>\$ 64,469,937</u>	<u>\$ 9,243,305</u>	<u>\$ 4,890,912</u>	<u>\$ 68,822,330</u>

The Town entered into five-year capital leases for certain vehicles totaling \$20,989, \$178,097 and \$64,134 during the fiscal years ended June 30, 2020, 2018 and 2017, respectively. These vehicles have been capitalized and depreciated under equipment for governmental and business-type activities. The future minimum lease payments to Tax-Exempt Leasing Corporation for these capital leases are detailed in a under governmental and business-type activities.

TOWN OF MILLSBORO, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

CAPITAL ASSETS (Continued)

Depreciation expense of governmental activities was charged to function as follows:

General government	\$ 98,990
Public safety	135,462
Recreation	35,104
Streets	<u>216,940</u>
	<u>\$ 486,496</u>

PROPERTY TAXES

Taxes are levied on July 1 and are considered delinquent on October 1. The Town bills and collects its own property tax. The tax rate at July 1, 2021, was \$0.36 per \$100 of assessed valuation for all real property and improvements. The taxable assessed valuation for July 1, 2021, was \$881,579,300.

PENSION PLANS

Plan Description

The Town currently participates in two State of Delaware administered multi-employer county and municipal pension plans, which are cost-sharing plans: (1) the County & Municipal Other Employees' Pension Plan, (Other Employees' Plan) and (2) the County & Municipal Police and Firefighters' Pension Plan (Police's Plan). The State of Delaware General Assembly is responsible for setting benefits and contributions and amending plan provisions. The Board of Pension Trustees issues a publicly available report that includes financial statements and required supplementary information for the plans. That report can be accessed at <https://auditor.delaware.gov/reports.shtml>.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

PENSION PLANS (Continued)

Benefits Provided

All full-time employees under the Other Employees' Plan and the Police's Plan are eligible to participate in the defined benefit plans. Benefits vest after five years of service for both plans. Non-police employees may retire if they have five years of credited service and are sixty-two years old, or they have fifteen years of credited service and are sixty years old or they have thirty years of credited service under the Other Employees' Plan. Police employees under the Police's Plan may retire when they have five years of credited service and are sixty-two years old, or their age plus credited service (but not less than ten years) equals seventy-five or they have twenty years of credited service. Pension benefits are based on average compensation over the credited service period. The Other Employees' Plan is based on the highest five years of compensation and the Police's Plan is based on the highest three consecutive years of compensation.

Disability benefits and survivor benefits are included in both pension plans. The details of both benefits are described below:

<u>Disability Benefits</u>	<u>Other Employees' Plan</u>	<u>Police's Plan</u>
Duty - Total Disability	Not applicable	75% of final average compensation plus 10% for each dependent not to exceed 25% for all dependents.
Duty - Partial Disability	Not applicable	Same as Service Benefits calculation, subject to minimum 50% of final average compensation.
Non - Duty	Same as Service Benefits calculation. Must have 5 years of credited service.	Total disability is the same as Service Benefits calculation, subject to minimum 50% of final average monthly compensation plus 5% of each dependent not to exceed 20% for all dependents. Partial disability is a minimum of 30% of final average monthly compensation.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

PENSION PLANS (Continued)

Benefits Provided (Continued)

<u>Survivor Benefits</u>	<u>Other Employee's Plan</u>	<u>Police's Plan</u>
Employee receiving a pension	50% of the pension	50% of the pension
Employee is active	50% of the pension the employee would have received at age 62	75% of the pension the employee would have received at age 62
Employee becomes deceased in the line of duty	Not applicable	75% of the employee's compensation

Contributions

Non-police employees of the Town are required to contribute 3% of their gross earnings over \$6,000 to the pension plan. Police employees are required to contribute 7% of their base pay to the police pension plan. The Town makes monthly contributions as required by State statutes. During the year ended June 30, 2022, the Town was required to contribute 7.06% and 16.59% of its gross payroll to the Other Employees' Plan and Police's Plan, respectively. Those amounts contributed to the pension plan from the Town were \$8 for the Other Employees' Plan and \$18 for the Police's Plan for the year ended June 30, 2022.

The State periodically grants funds to municipalities to provide for police pensions. The Town uses these monies to fund the pension plan for police employees. Grants received during 2022 were \$103,253.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

PENSION PLANS (Continued)

Pension Liabilities

At June 30, 2022, the Town reported an asset of \$1,629,936 for its proportionate share of the net pension asset. The collective total pension asset/liability for the June 30, 2021, measurement date was determined by an actuarial valuation as of June 30, 2020, and update procedures were used to roll forward the total pension liability to June 30, 2021. The Town's proportion for both of the plans were based on an election made by the Plans' Board of Pension Trustees to allocate the employer's proportionate share of the collective pension amounts based on the percentage of actual employer contributions. At June 30, 2021, the Town's proportion was 2.51% and 1.05% for the Other Employees' Plan and the Police's Plan, respectively, which was an increase of 0.19% and a decrease of 0.23%, respectively, from its proportion valuation as of June 30, 2020.

Pension Expense

For the year ended June 30, 2022, the Town recognized pension expense of \$215,520.

Deferred Inflows/Outflows of Resources Related to Pensions

At June 30, 2022, the Town reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Net differences between expected and actual experience	\$ 166,242	\$ 93,436
Changes of assumption	74,277	121,163
Net difference between projected and actual earnings on investments		1,678,707
Changes in proportion and differences between Town contributions and proportionate share of contributions	25,319	12,613
Town contributions subsequent to the measurement date	<u>269,133</u>	<u> </u>
Deferred Outflows of Resources	<u>\$ 534,971</u>	<u>\$ 1,905,919</u>

The \$269,133 reported as deferred outflows of resources for both the Other Employees' Plan and the Police's Plan are related to pensions resulting from the Town's contributions subsequent to the measurement date. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2023.

TOWN OF MILLSBORO, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

PENSION PLANS (Continued)

Deferred Inflows/Outflows of Resources Related to Pensions (Continued)

The change in the employer proportionate share for both the deferred outflows of resources and deferred inflows of resources are the amounts of the difference between the employer proportionate share of net pension liability in the prior year compared to the current year. This change in proportion is amortized over the average of the expected remaining service life of active and inactive members, which are 8 years and 9 years for the Other Employees' Plan and the Police's Plan, respectively.

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) will be recognized in pension expense as follows:

<u>Years Ending June 30</u>	<u>Total</u>
2023	\$ (429,000)
2024	(395,661)
2025	(418,758)
2026	(394,226)
2027	9,920
Thereafter	(25,062)
	<u>\$ (1,652,787)</u>

Actuarial Assumptions

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

These actuarial valuations used the following actuarial assumptions below:

Actuarial assumptions:

Investment rate of return/discount rate	7.0%
Projected salary increases	2.5% + Merit
Inflation	2.5%

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

PENSION PLANS (Continued)

Actuarial Assumptions (Continued)

For both Plans, the total pension assets/liabilities are measured based on assumptions pertaining to the interest rates, inflation rates and employee demographic behavior in future years as a collective. It is likely that future experience 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 will be on the future financial statements.

Mortality assumptions for the June 30, 2021, reporting period are based on the RP-2014 tables with gender adjustments for healthy annuitants and disabled retirees and an adjusted version on MP-2015 mortality improvement scale on a fully generational basis.

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

Investments

The long-term expected rate of return on pension plan investments was determined using a 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 longer-term expected rate of return by weighing the expected future real rates of return by an asset allocation percentage, which is based on the nature and mix of current and expected plan investments and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the current and expected asset allocation are summarized in the following table for both Plans:

Asset Class	Long-Term Expected Real Rate of Return	Asset Allocations
Domestic equity	5.7%	32.3%
International equity	5.7%	18.1%
Fixed income	2.0%	20.6%
Alternative investments	7.8%	24.2%
Cash and equivalents		4.8%
		100%

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

PENSION PLANS (Continued)

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 for both Plans will be made at the current contribution rates and that contributions from employers will be made at rates actuarially determined by the Board of Pension Trustees. Based on those assumptions, both Plans' fiduciary net position were projected to be available to make all projected future benefit payments of the Plans' current members. Therefore, the long-term expected rate of return on pension investments for both Plans were applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the Town's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.0%, as well as what the Plans' net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
<hr/>	<hr/>	<hr/>
\$ (895,285)	\$ (1,629,936)	\$ (2,906,542)

Pension Plan Fiduciary Net Position

The detailed information about the Plan's fiduciary net position for both the Other Employees' Plan and the Police's Plan are available from the Board of Pension Trustees governed by the State of Delaware General Assembly.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

LONG-TERM LIABILITIES

Changes in long-term obligations for the year ended June 30, 2022 are as follows:

	<u>June 30, 2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2022</u>	<u>Due Within One Year</u>
Governmental Activities:					
Notes from direct borrowings	<u>\$ 30,817</u>	<u></u>	<u>\$ 18,607</u>	<u>\$ 12,210</u>	<u>\$ 12,210</u>
Business-type Activities:					
General obligation bonds from direct borrowings	\$ 22,954,264	\$ 19,955,000	\$ 23,849,264	\$ 19,060,000	\$ 1,010,000
Bond premiums		3,142,493	144,946	2,997,547	
Notes from direct borrowings	<u>56,470</u>	<u></u>	<u>37,315</u>	<u>19,155</u>	<u>19,155</u>
Total Business-type Activities	<u>\$ 23,010,734</u>	<u>\$ 23,097,493</u>	<u>\$ 24,031,525</u>	<u>\$ 22,076,702</u>	<u>\$ 1,029,155</u>

Changes in long-term debt

During 2022, the Town refunded \$22,807,485 in general obligation bonds by issuing refunding bonds with a total par value of \$19,955,000 at a \$3,142,393 premium. Proceeds from the refunding bonds were used to refund certain outstanding debt to realize debt service savings. The refunding decreased the aggregate debt service payments by \$2,003,012 with an economic or present value gain of \$570,974.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

LONG-TERM LIABILITIES (Continued)

At June 30, 2022, governmental activities direct borrowings are as follows:

2018 note from direct borrowings; owed to Tax-Exempt Leasing Corporation, secured by two public safety vehicles; interest payable at 3.19%, semi-annual payments of \$ 3,482 until November 2022.	\$ 6,843
2019 note from direct borrowing; owed to Tax-Exempt Leasing Corporation, secured by one public safety vehicle, interest payable at 4.89%, annual payments of \$ 5,629 until August 2022.	5,367
	<u>\$ 12,210</u>

At June 30, 2022, business-type activities general obligation bonds and direct borrowings are as follows:

2021 General obligation bond owed to the State of Delaware, interest at 4%, semi-annual payments due May 1 and November 1 until November 1, 2036.	\$ 19,060,000
Bond premium	2,997,547
2 note from direct borrowings; owed to Tax-Exempt Leasing Corporation; secured by a public works vehicle; interest payable at 3.19%; semi-annual payments of \$3,496 until November 2022.	6,872
2019 note from direct borrowings; owed to Tax-Exempt Leasing Corporation; secured by a public works freightliner truck; interest payable at 3.19%; semi-annual payments of \$6,173 until November 2022.	12,283
	<u>\$ 22,076,702</u>

TOWN OF MILLSBORO, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

LONG-TERM LIABILITIES (Continued)

The total debt service payments for the ensuing years are as follows for the business-type activities:

Years Ending June 30	Governmental Activities	
	Direct Borrowings	
	Principal	Interest
2023	\$ 12,210	\$ 383
Years Ending June 30	Business-type Activities -	
	General Obligation Bonds - Direct	
	Borrowings	
	Principal	Interest
2023	\$ 1,029,155	\$ 742,387
2024	1,085,000	700,300
2025	1,130,000	656,000
2026	1,175,000	609,900
2027	1,220,000	562,000
2028-2032	6,390,000	2,051,800
2033-2037	7,050,000	714,600
Total	\$ 19,079,155	\$ 6,036,987

As described in the Capital Asset Note, the Town's capital leases (owed to Tax-Exempt Leasing Corporation) are listed as outstanding notes from direct borrowings related to the governmental activities and the business-type activities totaling \$12,210 and \$19,155, respectively. These notes contain a provision that in an event of default, (1) outstanding amounts become immediately due if the Town is unable to make payment and/or (2) the Town will be required to return the leased assets at no cost for the lessor. These notes do not contain a subjective acceleration clause.

RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions for which the government carries commercial insurance. There have been no significant reductions in coverage from the prior year end. Settlements have not exceeded coverage in the last three years.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

SPECIAL OBLIGATION BONDS FOR DEVELOPMENT DISTRICT

On June 1, 2007, the Town issued Special Obligation 2007A bonds (\$17,849,000) related to the Plantation Lakes Development District (the District). The issuance of the bonds will provide funds for infrastructure improvements to the District made by the developer. The Town is responsible for billing and collecting “special taxes” to the District’s landowners and will be reimbursed any costs related to these duties. The first special tax billing was assessed July 1, 2008. In the Trust Indentures related to the bond issuance, the Plantation Lakes developer agreed that up to \$1.8 million of the bond proceeds could be requested by the Town for eligible Town improvements. That entire amount has been paid in full to the Town.

On November 28, 2018, the Town issued \$6,463,000, \$15,990,000 and \$17,232,000 bonds to be collectively referred to as the “Town of Millsboro, Delaware Special Obligation Bonds (Plantation Lakes Special Development District), Series 2018” (the “Series 2018 Bonds”), aggregating \$39,685,000 as the second installment related to the development of the Plantation Lakes Special Development District pursuant to the Trust Indenture dated as of June 1, 2007, as amended by a First Supplemental Trust Indenture dated as of November 1, 2018 (collectively, the “Indenture”). The proceeds from the Series 2018 Bonds were used to redeem all of the outstanding 2007A Bonds (\$17,849,000) and to finance or refinance certain infrastructure costs in progress in addition to future development costs remaining within the District. The proceeds were also used to pay for the cost of bond issuance related to the Series 2018 Bonds. As part of the Indenture, the District’s developer has agreed to allow the Town to request up to \$3.2 million from the “Town Facilities Fund” of the Series 2018 Bonds proceeds on eligible Town improvements.

During the year 2022, the Town has moved forward with various projects approved to be funded from the Facilities Fund. The costs for the New Water Tower Project and the Downtown Development Improvements project for Main Street Improvements have been submitted for reimbursement for costs incurred in the prior year and current year totaling \$845,758 and \$3,793,763, respectively.

In the opinion of bond counsel, the bonds are not subject to the debt limit imposed by the Delaware Code for the Town, but are payable solely from the special tax billing and proceeds of the bonds. The Town does not have the responsibility to pay the bonds other than from such sources; therefore, such amounts have not been included in the financial statements.

For the year ended June 30, 2022, the Town billed the “special tax” assessment of \$2,470,670 to the District’s landowners.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

LOAN PAYABLE/LOAN RECEIVABLE

In 2018, the Town received a capital contribution (water tower) from a developer for water infrastructure totaling \$1,525,000. Of that amount, \$1,226,285 was contributed by the developer and the remaining present value of the obligation totaling \$298,715 will be repaid solely from the developer's properties allocated future impact fees. At the end of fiscal year 2022, the Town owed the developer \$68,865 in additional future water impact fee offsets on this obligation. A 1.99% interest rate was imputed for this obligation. The same developer plans to construct and transfer to the Town a well and water treatment facility rated at 800 gallons per minute (GPM) in a future year. The obligation by the Town to the developer for this transfer will solely be the allocated offset of water impact fees owed as the property is developed. As of June 30, 2022, the total water impact fees that have been used to offset against this future obligation was \$1,615,406. The water impact fees assumed to offset the water obligation and add to the receivable is expected to total \$155,994 annually over the next 6 years.

CONTRACTS

The Town has a three-year police union agreement to provide certain rights and benefits to the Town's police officers that are recognized in the financial statements. After June 30, 2022, the agreement will continue from year to year unless written notice is provided to terminate the contract.

COMMITMENTS AND CONTINGENCIES

The United States Environmental Protection Agency (EPA) has claimed that the Town may have contributed to the spread of certain contaminants at the "Millsboro TCE Superfund Site" by pumping water from certain Town wells. The Town has not been designated a potential responsible party by the EPA as of June 30, 2022. The site is not owned by the Town and is believed to be contaminated by independent commercial enterprises. The Town believes that the validity of the EPA's claim is unsubstantiated and plans to vigorously contest any assessment. The amount of any liability related to the site is uncertain and cannot be estimated. There were no costs incurred during the year for the Town's wells that were affected by the contamination.

As of June 30, 2022, federal funds were received by the Town totaling \$2,447,284 from the American Rescue Plan Act of 2021 (ARPA) Coronavirus State and Local Fiscal Recovery Funds, which are planned to be used for the Town's infrastructure. The Town has not met eligibility requirements to expend these funds and therefore all funds received are deferred. Project guidelines are to be submitted by the Town for final approval of costs.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS (GASB)

GASB has issued the following statements, which may impact the Town's financial reporting requirements in the future.

- GASBS No. 93, *Replacement of Interbank Offered Rates*, effective for the fiscal year beginning July 1, 2022.
- GASBS No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, effective for the fiscal year beginning July 1, 2023.
- GASBS No. 96, *Subscription-Based Information Technology Arrangements*, effective for the fiscal year beginning July 1, 2023.
- GASBS No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans-an amendment of*
- *GASB Statements No. 14 and No. 84 and a supersession of GASB Statement No. 32*, effective for the fiscal year beginning July 1, 2022.

SUBSEQUENT EVENTS

The Town has been approved for grants and loans from the U.S. Department of Agriculture of \$29,795,000 for the White Farm Wastewater treatment plant.

In July 2022, the Town amended its Charter to establish a new transportation/stormwater impact fee. This fee is designed to create a fund for the construction, acquisition, and maintenance of transportation and stormwater facilities, improvements and systems in Town. The Charter was also amended to establish a new police protection impact fee to fund the construction, acquisition, and maintenance of facilities and capital assets for use by the Town's police department.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF MILLSBORO, DELAWARE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2022

	Budget		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Taxes and fees	\$ 3,802,830	\$ 3,802,830	\$ 7,154,496	\$ 3,351,666
Intergovernmental	493,439	493,439	908,387	414,948
Charges for services	452,000	616,150	905,415	289,265
Fines	96,000	96,000	78,210	(17,790)
Miscellaneous	158,080	158,080	187,353	29,273
Total revenues	<u>5,002,349</u>	<u>5,166,499</u>	<u>9,233,861</u>	<u>4,067,362</u>
EXPENDITURES				
Current				
General administration	1,729,231	1,724,231	1,793,086	(68,855)
Public safety	2,645,430	2,645,430	3,090,070	(444,640)
Recreation	50,550	50,550	112,136	(61,586)
Streets	591,901	591,901	119,707	472,194
Capital outlay	133,000	253,000	800,411	(547,411)
Debt service	19,557	19,557	19,557	
Total expenditures	<u>5,169,669</u>	<u>5,284,669</u>	<u>5,934,967</u>	<u>(650,298)</u>
Excess of revenues over (under) expenditures	<u>(167,320)</u>	<u>(118,170)</u>	<u>3,298,894</u>	<u>3,417,064</u>
OTHER FINANCING SOURCES (USES)				
Transfers out			(1,979,549)	(1,979,549)
Proceeds from sale of assets			9,695	9,695
Total other financing sources (uses)			<u>(1,969,854)</u>	<u>(1,969,854)</u>
Net change in fund balance	<u>\$ (167,320)</u>	<u>\$ (118,170)</u>	<u>\$ 1,329,040</u>	<u>\$ 1,447,210</u>

TOWN OF MILLSBORO, DELAWARE

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE TOWN'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
COUNTY AND MUNICIPAL OTHER EMPLOYEES' PENSION PLAN**

**DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(UNAUDITED)**

Fiscal Year/ Measurement Date as of June 30	Town's proportion of the net pension liability	Town's proportionate share of the net pension liability (asset)	Town's covered payroll	Town's proportionate share as a percentage of covered payroll	Plan fiduciary net position as a percentage of total pension liability
2022/2021	2.51%	\$ (184,195)	\$ 1,346,813	-13.68%	127.60%
2021/2020	2.33%	49,464	1,141,669	4.33%	96.95%
2020/2019	2.10%	96,128	932,113	10.31%	92.74%
2019/2018	2.28%	71,868	910,208	7.90%	94.41%
2018/2017	2.36%	153,185	869,550	17.62%	87.62%
2017/2016	2.44%	151,251	826,497	18.30%	86.38%
2016/2015	2.93%	1,250	868,199	0.14%	99.89%
2015/2014	3.28%	(12,089)	887,947	-1.36%	100.07%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information is available to present a ten-year trend.

TOWN OF MILLSBORO, DELAWARE

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE TOWN'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
COUNTY AND MUNICIPAL POLICE AND FIREFIGHTERS' PENSION PLAN**

**DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(UNAUDITED)**

Fiscal Year/ Measurement Date as of June 30	Town's proportion of the net pension liability	Town's proportionate share of the net pension liability (asset)	Town's covered payroll	Town's proportionate share as a percentage of covered payroll	Plan fiduciary net position as a percentage of total pension liability
2022/2021	1.05%	\$ (1,445,741)	\$ 1,018,867	-141.90%	128.20%
2021/2020	1.07%	165,089	979,466	16.86%	96.67%
2020/2019	0.95%	272,325	838,126	32.49%	93.25%
2019/2018	0.92%	211,535	762,797	27.73%	97.10%
2018/2017	0.89%	89,473	728,254	12.29%	97.00%
2017/2016	0.85%	134,606	616,928	21.82%	94.70%
2016/2015	0.88%	(46,639)	628,273	-7.42%	101.97%
2015/2014	0.99%	(107,301)	657,184	-16.33%	104.47%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information is available to present a ten-year trend.

TOWN OF MILLSBORO, DELAWARE

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE TOWN'S CONTRIBUTIONS
COUNTY AND MUNICIPAL OTHER EMPLOYEES' PENSION PLAN**

**DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(UNAUDITED)**

Fiscal Year	Contractually required contribution	Actual contribution	Contribution deficiency (excess)	Town's covered payroll	Actual contribution as a percentage of covered payroll
2022	\$ 82,773	\$ (82,773)	\$	\$ 1,172,422	7.06%
2021	95,085	(95,085)		1,346,809	7.06%
2020	83,114	(83,114)		1,141,669	7.28%
2019	67,951	(67,951)		932,113	7.29%
2018	64,534	(64,534)		910,208	7.09%
2017	56,781	(56,781)		869,550	6.53%
2016	51,344	(51,344)		826,497	6.21%
2015	56,276	(56,276)		868,199	6.48%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information is available to present a ten-year trend.

TOWN OF MILLSBORO, DELAWARE

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE TOWN'S CONTRIBUTIONS
COUNTY AND MUNICIPAL POLICE AND FIREFIGHTERS' PENSION PLAN**

**DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(UNAUDITED)**

Fiscal Year	Contractually required contribution	Actual contribution	Contribution deficiency (excess)	Town's covered payroll	Actual contribution as a percentage of covered payroll
2022	\$ 186,360	\$ (186,360)	\$	\$ 1,123,327	16.59%
2021	169,030	(169,030)		1,018,862	16.59%
2020	164,941	(164,941)		979,466	16.84%
2019	139,800	(139,800)		838,126	16.68%
2018	87,112	(87,112)		762,797	11.42%
2017	100,282	(100,282)		728,254	13.77%
2016	85,444	(85,444)		616,928	13.85%
2015	89,089	(89,089)		628,273	14.18%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information is available to present a ten-year trend.

SUPPLEMENTARY INFORMATION



INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

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ALLINIAL GLOBAL

To the Mayor and Council
Town of Millsboro, Delaware

Report on Supplementary Information

Our report on our audit of the financial statements that collectively comprise the Town of Millsboro, Delaware's basic financial statements appears on pages one through three. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Millsboro, Delaware's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary 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. Such information, except for the portion marked "unaudited", 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Matter

The prior year comparative information has been derived from the Town's 2021 financial statements which were audited by other auditors and, in their report dated December 2, 2021, they expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities and each major fund.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
December 8, 2022

TOWN OF MILLSBORO, DELAWARE

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND**

**YEAR ENDED JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR 2021)**

	<u>2022</u>		<u>2021</u>
	Final Budget (Unaudited)	Actual	Actual
REVENUES			
Taxes and fees	\$ 3,802,830	\$ 7,154,496	\$ 5,615,411
Intergovernmental	493,439	908,387	423,241
Charges for services	616,150	905,415	588,769
Fines	96,000	78,210	46,592
Miscellaneous	158,080	187,353	386,231
Total revenues	<u>5,166,499</u>	<u>9,233,861</u>	<u>7,060,244</u>
EXPENDITURES			
Current			
General administration	1,724,231	1,793,086	1,653,965
Public safety	2,645,430	3,090,070	2,549,877
Recreation	50,550	112,136	21,920
Streets	591,901	119,707	291,807
Capital outlay	253,000	800,411	1,101,599
Debt service	19,557	19,557	19,557
Total expenditures	<u>5,284,669</u>	<u>5,934,967</u>	<u>5,638,725</u>
Excess revenues over (under) expenditures	(118,170)	3,298,894	1,421,519
OTHER FINANCING SOURCES			
Proceeds from sale of assets		9,695	
Transfers out		(1,979,549)	(2,706,019)
Net change in fund balance	<u>\$ (118,170)</u>	<u>\$ 1,329,040</u>	<u>\$ (1,284,500)</u>

See independent auditors' report on supplementary information.

TOWN OF MILLSBORO, DELAWARE

SCHEDULE OF GENERAL FUND REVENUES—BUDGET AND ACTUAL

**YEAR ENDED JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR 2021)**

	<u>2022</u>		<u>2021</u>
	Final Budget (Unaudited)	Actual	Actual
REVENUES			
Taxes and fees			
Property tax	\$ 3,370,000	\$ 3,284,339	\$ 2,917,936
Realty transfer tax		2,818,482	2,077,037
Ambulance and fire fees	300,000	700,201	419,848
Annexation fees		84,282	25,321
Building fund fee	107,830	250,542	149,189
Penalties	25,000	16,650	26,080
Total taxes and fees	<u>3,802,830</u>	<u>7,154,496</u>	<u>5,615,411</u>
Intergovernmental			
Street grants	305,000	122,944	100,381
Police grants	103,439	210,441	234,944
Police pension	85,000	103,253	87,916
Sussex County - Share of transfer taxes		471,749	
Total intergovernmental	<u>493,439</u>	<u>908,387</u>	<u>423,241</u>
Charges for services			
Business and rental licenses	52,000	49,550	47,935
Permits and variances	400,000	632,751	393,952
School resource officers	74,000	150,721	44,190
URS Engineers	45,000	40,292	54,822
Other charges for services	45,150	32,101	47,870
Total charges for services	<u>616,150</u>	<u>905,415</u>	<u>588,769</u>
Fines	<u>96,000</u>	<u>78,210</u>	<u>46,592</u>
Miscellaneous			
Boat slips	7,680	6,000	7,680
Franchise fees	115,000	121,989	109,932
Interest revenue		14,820	26,484
Lease of properties	30,000	36,077	33,488
Miscellaneous	5,400	8,467	208,647
Total miscellaneous	<u>158,080</u>	<u>187,353</u>	<u>386,231</u>
Total revenues	<u>\$ 5,166,499</u>	<u>\$ 9,233,861</u>	<u>\$ 7,060,244</u>

See independent auditors' report on supplementary information.

TOWN OF MILLSBORO, DELAWARE

SCHEDULE OF GENERAL FUND EXPENDITURES—BUDGET AND ACTUAL

**YEAR ENDED JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR 2021)**

	<u>2022</u>		<u>2021</u>
	Final Budget (Unaudited)	Actual	Actual
EXPENDITURES			
General administration			
Professional services	\$ 464,595	\$ 644,398	\$ 600,153
Salaries	641,930	591,999	523,350
Employee benefits	93,373	99,079	98,909
Payroll taxes	45,704	53,546	47,984
Pension expense	38,148	41,662	46,235
Repairs and maintenances	121,295	104,584	82,041
Reassessment	42,000	61,372	56,491
Insurance	52,000	53,562	51,709
Dues and donations	51,750	50,718	45,473
Office	32,336	34,855	35,318
Utilities	19,000	18,267	19,704
Advertising	12,000	15,173	13,339
Civic Center	95,350	10,153	20,542
Postage	4,000	5,021	5,117
Telephone	7,700	4,398	4,464
Gasoline and oil	1,800	2,829	1,900
Fees and permits	1,250	1,470	1,236
Total general administration	<u>1,724,231</u>	<u>1,793,086</u>	<u>1,653,965</u>
Public safety			
Salaries	\$ 1,431,560	\$ 1,359,997	\$ 1,242,407
Employee benefits	338,232	329,167	296,462
Payroll taxes	114,335	111,074	101,177
Pension expense	212,883	186,360	169,030
Ambulance and fire fees	300,000	700,201	419,848
Insurance	120,000	132,686	119,035
Police uniforms	22,350	52,943	25,914
Grant expense		47,216	57,617
Repairs and maintenance	27,270	40,773	33,649
Gasoline and oil	20,500	40,015	23,684
Miscellaneous	30,850	35,590	33,945
Professional services		19,891	
Telephone	10,100	13,881	11,141
Supplies	9,450	11,223	7,352
Utilities	7,900	9,053	8,616
Total public safety	<u>2,645,430</u>	<u>3,090,070</u>	<u>2,549,877</u>

See independent auditors' report on supplementary information.

TOWN OF MILLSBORO, DELAWARE

**SCHEDULE OF GENERAL FUND EXPENDITURES—BUDGET AND ACTUAL
(CONTINUED)**

**YEAR ENDED JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR 2021)**

	<u>2022</u>		<u>2021</u>
	Final Budget (Unaudited)	Actual	Actual
Recreation			
Repairs and maintenance	48,050	110,239	19,671
Utilities	2,500	1,897	2,249
Total public works	<u>50,550</u>	<u>112,136</u>	<u>21,920</u>
Streets			
Utilities	66,200	73,410	69,425
Supplies	14,000	13,228	13,476
Insurance	13,000	12,769	12,459
Salaries	1,801	8,267	2,365
Repairs and maintenance	493,000	6,035	189,370
Gasoline and oil	1,700	3,510	2,135
Trash removal	2,200	2,488	2,577
Total streets	<u>591,901</u>	<u>119,707</u>	<u>291,807</u>
Capital outlay			
General administration	175,000	58,463	18,331
Public safety	48,000	359,989	217,808
Recreation		3,175	10,627
Streets	30,000	378,784	854,833
	<u>253,000</u>	<u>800,411</u>	<u>1,101,599</u>
Debt service	<u>19,557</u>	<u>19,557</u>	<u>19,557</u>
Total expenditures	<u>\$ 5,284,669</u>	<u>\$ 5,934,967</u>	<u>\$ 5,638,725</u>

See independent auditors' report on supplementary information.

TOWN OF MILLSBORO, DELAWARE
SCHEDULE OF REVENUES AND EXPENSES
SEWER FUND

YEAR ENDED JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR 2021)

	2022	2021
OPERATING REVENUES		
Charges for services	\$ 2,479,663	\$ 2,457,678
Other operating revenues	96,846	151,633
Total operating revenues	<u>2,576,509</u>	<u>2,609,311</u>
OPERATING EXPENSES		
Salaries	532,746	563,085
Employee benefits	122,702	128,664
Pension expense	114,763	28,201
Payroll taxes	40,498	42,992
Maintenance and repairs	662,828	731,597
Professional services	378,896	180,005
Supplies	314,512	299,222
Utilities	172,602	208,116
Insurance	85,794	76,555
Sludge landfill	64,071	58,659
Miscellaneous	60,832	63,220
Gasoline	18,501	13,266
Computer	9,656	21,441
Depreciation	1,404,772	1,358,704
Total operating expenses	<u>3,983,173</u>	<u>3,773,727</u>
Operating loss	<u>(1,406,664)</u>	<u>(1,164,416)</u>
NON-OPERATING REVENUES (EXPENSES)		
Investment earnings	6,349	2,757
Assessment, annexation and connection fees	3,063,614	1,744,748
Capital grants	100,000	
Loss on disposal of assets		(116,843)
Interest expense	(491,571)	(509,379)
Net non-operating revenues	<u>2,678,392</u>	<u>1,121,283</u>
Income (loss) before transfers and contributions	1,271,728	(43,133)
Contributed assets	1,205,992	
Transfers in	<u>1,798,997</u>	<u>999,562</u>
Change in net position	<u>\$ 4,276,717</u>	<u>\$ 956,429</u>

See independent auditors' report on supplementary information.

TOWN OF MILLSBORO, DELAWARE
SCHEDULE OF REVENUES AND EXPENSES
WATER FUND

YEAR ENDED JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR 2021)

	2022	2021
OPERATING REVENUES		
Charges for services	\$ 1,474,339	\$ 1,534,063
Other operating revenues	185,226	158,579
Total operating revenues	<u>1,659,565</u>	<u>1,692,642</u>
OPERATING EXPENSES		
Salaries	210,375	203,333
Employee benefits	47,377	49,425
Pension expense	43,282	10,508
Payroll taxes	13,821	13,667
Gasoline	7,830	5,074
Insurance	30,122	25,661
Maintenance and repairs	136,663	133,116
Miscellaneous	71,396	21,649
Professional services	150,966	173,206
Supplies	209,555	121,408
Utilities	53,541	53,626
Depreciation	437,598	345,102
Total operating expenses	<u>1,412,526</u>	<u>1,155,775</u>
Operating income	<u>247,039</u>	<u>536,867</u>
NON-OPERATING REVENUES (EXPENSES)		
Investment earnings	108	243
Assessment, annexation and connection fees	1,312,933	450,233
Interest expense	(50,585)	(62,435)
Net non-operating revenues	<u>1,262,456</u>	<u>388,041</u>
Income before transfers and contributions	1,509,495	924,908
Contributed assets	1,176,982	719,378
Transfers in	<u>180,552</u>	<u>1,706,457</u>
Change in net position	<u><u>\$ 2,867,029</u></u>	<u><u>\$ 3,350,743</u></u>

See independent auditors' report on supplementary information.

GOVERNMENT AUDITING STANDARDS REPORT

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MARYLAND ASSOCIATION OF
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DELAWARE SOCIETY OF
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ALLINIAL GLOBAL

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Mayor and Council
 Town of Millsboro, Delaware

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the Town of Millsboro, Delaware as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated December 8, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 by those charged with governance.

Internal Control over Financial Reporting (continued)

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 did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Responses as 2022-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of 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*.

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.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
December 8, 2022

TOWN OF MILLSBORO, DELAWARE
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2022

SIGNIFICANT DEFICIENCY

2022-001 Financial Reporting – Repeat finding

Criteria – Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements in accordance with generally accepted accounting principles.

Condition – The Town does not have an employee with the necessary technical accounting expertise to prepare the Town’s financial statements and notes in conformity with accounting principles generally accepted in the United States of America without a significant risk of potential misstatement. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Cause – The Town does not have the opportunity and the means to employ personnel who possess the knowledge and expertise who can properly prepare the financial statements and notes in accordance with specified standards.

Effect – There is a reasonable possibility that the Town would not be able to draft the financial statements and accompanying notes to the financial statements in accordance with generally accepted accounting principles without the assistance of the auditors.

Recommendation – While we recognize that this condition is not unusual for an organization with limited staffing, it is important that the Town is aware of this condition for financial reporting purposes. Management and the Council should continually be aware of the financial accounting and reporting of the Town and changes in the accounting and reporting requirements.

Views of responsible officials – Management continues to make efforts to ensure that the financial statements are not materially misstated. Internal statements are prepared monthly on the modified accrual basis, accounts are reconciled and analytics are applied to the statements to look for anomalies. Management has determined that it is in the best interest of the Town to outsource this task to its independent auditors.