

TOWN OF MILLSBORO, DELAWARE

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

TOWN OF MILLSBORO, DELAWARE

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INDEPENDENT AUDITORS' REPORT

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ALLINIAL GLOBAL

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, 2023, 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, 2023, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' 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.

Auditors' 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 auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS 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 and GAS, 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 46 through 50 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Town of Millsboro, Delaware's basic financial statements. The supplementary information on pages 52 through 57 are presented for purposes of additional analysis and are 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2023 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 20, 2023

TOWN OF MILLSBORO, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023

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, 2023. 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, 2023, assets and deferred outflows exceeded liabilities and deferred inflows by \$96,527,415. Of this amount, the Town had unrestricted assets of \$1,184,844. The Town's total net position increased by \$14,900,831 during the year.

Fund Financial Statements

As of June 30, 2023, the Town's governmental funds reported an ending fund balance of \$12,311,243. This decreased \$3,794,601 from the preceding year.

As of June 30, 2023, the Town's enterprise funds reported an ending net position of \$60,244,745. This was an increase of \$7,972,998 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, 2023

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, 2023

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 as of June 30, 2023 was \$96,527,415. Of this total, \$70,661,829 is invested in capital assets and \$18,680,742 is restricted leaving an unrestricted net position of \$1,184,844.

Restricted net position includes assets restricted for construction and debt service of \$9,081,028, unused grant funds of \$66,990, and accumulated realty transfer taxes of \$9,532,724.

During previous years, the Town received funds from the American Rescue Plan Act of 2021 (ARPA) Coronavirus State and Local Fiscal Recovery Funds. These funds which total \$2,437,743 must be obligated by December 31, 2024, and spent by December 31, 2026. As of June 30, 2023, the full amount is unspent and included in deferred inflows of resources.

TOWN OF MILLSBORO, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023

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	
	2023	2022	2023	2022	2023	2022
Assets						
Current and other assets	\$ 15,100,946	\$ 18,486,341	\$ 10,890,857	\$ 11,144,537	\$ 25,991,803	\$ 29,630,878
Capital assets, net	23,045,316	12,771,379	75,642,241	68,822,330	98,687,557	81,593,709
Total assets	38,146,262	31,257,720	86,533,098	79,966,867	124,679,360	111,224,587
Deferred outflows of resources	688,653	454,946	145,482	80,025	834,135	534,971
Liabilities						
Current and other liabilities	2,340,492	715,330	3,615,210	3,934,421	5,955,702	4,649,751
Long term liabilities	38,690		19,753,048	21,047,547	19,791,738	21,047,547
Total liabilities	2,379,182	715,330	23,368,258	24,981,968	25,747,440	25,697,298
Deferred inflows of resources	173,063	1,642,499	3,065,577	2,793,177	3,238,640	4,435,676
Net position						
Net investment in capital assets	22,967,883	12,759,169	53,693,946	46,745,628	76,661,829	59,504,797
Restricted	12,060,217	14,652,709	6,620,525	6,869,938	18,680,742	21,522,647
Unrestricted	1,254,570	1,942,959	(69,726)	(1,343,819)	1,184,844	599,140
Total net position	<u>\$ 36,282,670</u>	<u>\$ 29,354,837</u>	<u>\$ 60,244,745</u>	<u>\$ 52,271,747</u>	<u>\$ 96,527,415</u>	<u>\$ 81,626,584</u>

The Town's net position increased \$14,900,831 from June 30, 2022 to June 30, 2023, an increase of 18%.

Total revenues were \$27,429,892 and included capital contributions of \$9,963,000 of streets and utility infrastructure contributed by private entities. Of the total revenues (excluding the capital contributions), property taxes and fees made up 41%, charges for services were 34%, and grants and contributions were 81%.

Total expenses were \$12,529,061, made up of 18% for general government, 56% for the water and sewer funds, 21% for public safety, and 5% for other departments.

TOWN OF MILLSBORO, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023

The following schedule reflects the breakdown of changes in net position for Governmental and Business-type Activities for fiscal years 2023 and 2022.

Table 2
Town of Millsboro's Change in Net Position

	Governmental Activities		Business-type Activities		Total Government	
	2023	2022	2023	2022	2023	2022
Revenues						
Program revenues						
Charges for services	\$ 984,068	\$ 1,184,068	\$ 4,952,467	\$ 4,242,531	\$ 5,936,535	\$ 5,426,599
Operating grants and contributions	1,099,114	493,393			1,099,114	493,393
Capital grants and contributions	6,018,302	2,425,924	6,955,004	6,859,521	12,973,306	9,285,445
General revenues						
Property taxes	3,764,116	3,311,971			3,764,116	3,311,971
Building Fund Fee	236,692	250,542			236,692	250,542
Realty Transfer Tax	3,105,724	2,818,482			3,105,724	2,818,482
Investment and other income	314,405	24,397			314,405	24,397
Total revenues	15,522,421	10,508,777	11,907,471	11,102,052	27,429,892	21,610,829
Program Expenses						
General government	2,202,048	1,948,279			2,202,048	1,948,279
Public safety	2,631,215	2,879,241			2,631,215	2,879,241
Recreation	50,708	147,239			50,708	147,239
Streets	597,504	336,646			597,504	336,646
Sewer Facility			5,258,744	4,474,744	5,258,744	4,474,744
Water Facility			1,788,842	1,463,111	1,788,842	1,463,111
Total expenses	5,481,475	5,311,405	7,047,586	5,937,855	12,529,061	11,249,260
Increase in Net Position Before						
Transfers	10,040,946	5,197,372	4,859,885	5,164,197	14,900,831	10,361,569
Transfers	(3,113,113)	(1,979,549)	3,113,113	1,979,549		
Change in Net Position	6,927,833	3,217,823	7,972,998	7,143,746	14,900,831	10,361,569
Net Position - Beginning	29,354,837	26,137,014	52,271,747	45,128,001	81,626,584	71,265,015
Net Position - Ending	\$ 36,282,670	\$ 29,354,837	\$ 60,244,745	\$ 52,271,747	\$ 96,527,415	\$ 81,626,584

Governmental Activities

In the Governmental Activities, the net position increased by \$6,927,833, compared to an increase in the prior year of \$3,217,823. The increase is due primarily from increases in property and transfer tax revenues, and an increase in investment income. In addition, the current year increase includes capital contributed by private entities of \$5,349,000 compared to \$1,273,974 contributed in the prior year.

Business-type Activities

During the fiscal year, the net position for Business-Type Activities increased \$7,972,998 compared to an increase in the prior year of \$7,143,746. See the detailed discussion below regarding the water and sewer funds.

TOWN OF MILLSBORO, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

General fund

For the year ended June 30, 2023, the Town's general fund reported a decrease of \$3,794,601 resulting in a fund balance at year-end of \$12,311,243. Of this amount, \$12,373,769 is non-spendable, restricted, or assigned leaving an unassigned deficit of \$62,526.

Total revenues for the year were \$9,911,303 which is an increase of \$677,442 or 7% over the prior year. Significant changes from the prior year include the following:

- Property taxes and transfer taxes increased by a total of \$668,451 due to an increase in the tax rate and assessable base.
- New Police and Transportation/stormwater impact fees totaling \$292,310.

Total expenditures were \$10,627,809, an increase of \$4,692,840 or 79% over the prior year due to an increase in capital outlay related to construction of the new Police Department building.

Sewer Fund

The sewer fund had an operating loss of \$1,864,706 compared to a loss in the prior year of \$1,406,664. Assessment, annexation, and connection fees of \$1,606,063 were collected during the year. Contributed infrastructure assets were \$3,023,000. Transfers in from the general fund were \$501,664 (a significant decrease over last year).

The sewer fund had a net position as of June 30, 2023 of \$37,492,226 consisting of a net investment in capital assets of \$33,466,380, restricted assets for construction and debt services of \$3,903,175, and an unrestricted net position of \$122,671.

Water Fund

The water fund had an operating income of \$178,186 for the year compared to income of \$247,039 in the prior year. Assessment, annexation, and connection fees of \$687,691 were collected during the year. Contributed infrastructure assets were \$1,591,000. Transfers in from the general fund were \$2,611,449 (a significant increase from last year).

The water fund had a net position as of June 30, 2023 of \$22,752,519 consisting of a net investment in capital assets of \$20,227,566, restricted assets for construction and debt services of \$2,717,350, and a deficit in net position of \$192,397.

TOWN OF MILLSBORO, DELAWARE
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2023

BUDGETARY HIGHLIGHTS – GENERAL FUND

General fund revenues were \$9,911,303, which exceeded the budgeted revenue by \$4,439,863 due to realty transfer taxes of \$3,105,724, which were \$3,031,724 over the budgeted amount.

General fund expenditures of \$10,627,808 exceeded the budgeted expenditures by \$5,156,369. Significant variances were as follows:

- Capital outlay expenditures were over the amount budgeted by \$5,069,800. See the detailed discussion below regarding capital assets purchased in the general fund.
- General administration was over budget by \$86,064.

See the Budgetary Comparison Schedule – General Fund on page 46 for more detailed information.

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

Capital assets

At the end of the fiscal year, the Town had \$98,687,557 (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 security system, State Street project, and vehicles and equipment for the police.

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

In addition, capital assets of \$5,349,000 were contributed by private entities in the Governmental Activities and \$4,614,000 in the Business-type Activities.

Long-term debt

At the end of the fiscal year, the Town had \$20,915,481 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.

TOWN OF MILLSBORO, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023

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.

The Town has been awarded grants and loans for the US Department of Agriculture for the White Farm wastewater treatment plant which is in the planning stage as of June 30, 2023.

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, 2023

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,272,079	\$	\$ 2,272,079
Receivables:			
Taxes	50,648		50,648
Service water and sewer		1,188,879	1,188,879
Miscellaneous	33,076		33,076
Grants	261,007	47,250	308,257
Leases, current portion	6,854	21,401	28,255
Inventory		297,846	297,846
Prepaid items	295,157	18,733	313,890
Restricted assets:			
Cash and cash equivalents	12,060,217	7,036,390	19,096,607
Construction advance		369,404	369,404
Loan receivable		1,868,473	1,868,473
Leases receivable, less current portion	2,381	33,733	36,114
Capital assets, net of accumulated depreciation	23,045,316	75,642,241	98,687,557
Net pension asset	119,527	8,748	128,275
Total assets	<u>38,146,262</u>	<u>86,533,098</u>	<u>124,679,360</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>688,653</u>	<u>145,482</u>	<u>834,135</u>
LIABILITIES			
Accounts payable and other accrued liabilities	2,018,643	2,381,510	4,400,153
Accrued wages	66,426	23,619	90,045
Due to developer	89,573	64,274	153,847
Compensated absences	127,107	60,807	187,914
Long-term liabilities			
Due within one year	38,743	1,085,000	1,123,743
Due in more than one year	38,690	19,753,048	19,791,738
Total liabilities	<u>2,379,182</u>	<u>23,368,258</u>	<u>25,747,440</u>
DEFERRED INFLOWS OF RESOURCES	<u>173,063</u>	<u>3,065,577</u>	<u>3,238,640</u>
NET POSITION			
Net investment in capital assets	22,967,883	53,693,946	76,661,829
Restricted for:			
Construction and debt service	2,460,503	6,620,525	9,081,028
Grant funds	66,990		66,990
Realty transfer tax	9,532,724		9,532,724
Unrestricted (deficit)	1,254,570	(69,726)	1,184,844
Total net position	<u>\$ 36,282,670</u>	<u>\$ 60,244,745</u>	<u>\$ 96,527,415</u>

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

TOWN OF MILLSBORO, DELAWARE

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2023

FUNCTIONS/PROGRAMS GOVERNMENTAL ACTIVITIES	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
General administration	\$ 2,202,048	\$ 615,951	\$ 18,826	\$ 857,694	\$ (1,567,271)	\$	\$ (1,567,271)
Public safety	2,631,215	257,451	677,959		(838,111)		(838,111)
Recreation	50,708	6,300			(44,408)		(44,408)
Streets	597,504	104,366	99,829	5,463,108	5,069,799		5,069,799
Total governmental activities	5,481,475	984,068	796,614	6,320,802	2,620,009		2,620,009
BUSINESS-TYPE ACTIVITIES							
Sewer facility	5,258,744	3,019,437		4,676,313		2,437,006	2,437,006
Water facility	1,788,842	1,933,030		2,278,691		2,422,879	2,422,879
Total business-type activities	7,047,586	4,952,467		6,955,004		4,859,885	4,859,885
Total	\$ 12,529,061	\$ 5,936,535	\$ 796,614	\$ 13,275,806	2,620,009	4,859,885	7,479,894
GENERAL REVENUES							
Taxes and fees:							
					3,764,116		3,764,116
					3,105,724		3,105,724
					236,692		236,692
					314,405		314,405
					(3,113,113)	3,113,113	
					4,307,824	3,113,113	7,420,937
					6,927,833	7,972,998	14,900,831
NET POSITION, BEGINNING OF YEAR							
					29,354,837	52,271,747	81,626,584
NET POSITION, END OF YEAR							
					\$ 36,282,670	\$ 60,244,745	\$ 96,527,415

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

TOWN OF MILLSBORO, DELAWARE

**BALANCE SHEET
GOVERNMENTAL FUND**

JUNE 30, 2023

ASSETS

	General Fund
Cash and cash equivalents	\$ 2,272,079
Receivables:	
Taxes	50,648
Miscellaneous	33,076
Grants	261,007
Leases receivable	9,234
Prepaid items	295,157
Restricted assets:	
Cash and cash equivalents	12,060,205
Total assets	<u>\$ 14,981,406</u>

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

LIABILITIES

Accounts payable and other accrued liabilities	\$ 2,018,643
Accrued wages	66,426
Escrow payable and other deposits	89,573
Total liabilities	<u>2,174,642</u>

DEFERRED INFLOWS OF RESOURCES

Unearned revenue:	
Property taxes	43,305
Grants	416,227
Leases	6,901
Other	29,088
Total deferred inflows of resources	<u>495,521</u>

FUND BALANCE

Non-spendable: Prepaid items	295,157
Restricted	
Construction and debt service	2,460,503
Grant funds	66,990
Realty transfer tax	9,532,724
Assigned	18,395
Unassigned (deficit)	(62,526)
Total fund balance	<u>12,311,243</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 14,981,406</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, 2023

Total fund balance, governmental fund	\$	12,311,243
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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.		23,045,316
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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		488,633
------------------	--	---------

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.

Accrued compensated absences		(127,107)
Subscriptions payable		(77,433)
Pension assets (liabilities)		119,527

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.

522,491

Net position, governmental activities	\$	36,282,670
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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, 2023

	<u>General Fund</u>
REVENUES	
Taxes and fees	\$ 7,822,947
Intergovernmental	780,202
Charges for services	724,229
Fines	83,648
Miscellaneous	500,277
Total revenues	<u>9,911,303</u>
EXPENDITURES	
Current	
General administration	1,837,887
Public safety	2,974,278
Recreation	14,321
Streets	198,642
Capital outlay	5,541,194
Debt service	61,487
Total expenditures	<u>10,627,809</u>
Excess of expenditures over revenues	<u>(716,506)</u>
OTHER FINANCING SOURCES (USES)	
Transfers out	(3,113,113)
Proceeds from long term debt	35,018
Net other financing uses	<u>(3,078,095)</u>
Net change in fund balance	(3,794,601)
FUND BALANCE, BEGINNING OF YEAR	<u>16,105,844</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 12,311,243</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, 2023

Change in fund balance, governmental fund	\$ (3,794,601)
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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	5,541,194	
Depreciation expense	<u>(703,318)</u>	
		4,837,876

Capital assets acquired through contributions from private entities.	5,349,000
--	-----------

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	(31,984)	
Principal payments on debt	56,857	
Pension expenses	<u>283,584</u>	
		308,457

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	262,119
------------------	---------

Governmental funds report loan proceeds as a revenue. In contrast, the Statement of Activities treats such proceeds as an increase in long-term liabilities.

	<u>(35,018)</u>
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Change in net position, governmental activities	<u><u>\$ 6,927,833</u></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, 2023

	Enterprise Funds		
	Sewer Fund	Water Fund	Total
ASSETS			
Current assets			
Receivables, net of allowance for doubtful accounts			
Service charges	\$ 680,914	\$ 507,965	\$ 1,188,879
Grants	47,250		47,250
Leases receivable, current portion	21,401		21,401
Inventory	297,846		297,846
Prepaid items	1,430	17,303	18,733
Total current assets	<u>1,048,841</u>	<u>525,268</u>	<u>1,574,109</u>
Noncurrent assets			
Restricted assets:			
Cash and cash equivalents	6,525,143	511,247	7,036,390
Construction advance		369,404	369,404
Loan receivable		1,868,473	1,868,473
Leases receivable, less current portion	33,733		33,733
Capital assets, net of accumulated depreciation	53,816,545	21,825,696	75,642,241
Net pension asset	6,241	2,507	8,748
Total noncurrent assets	<u>60,381,662</u>	<u>24,577,327</u>	<u>84,958,989</u>
Total assets	<u>61,430,503</u>	<u>25,102,595</u>	<u>86,533,098</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>103,788</u>	<u>41,694</u>	<u>145,482</u>
LIABILITIES			
Current liabilities			
Accounts payable and other accrued liabilities	1,650,386	731,124	2,381,510
Accrued wages	16,379	7,240	23,619
Due to developer	32,500	31,774	64,274
Current portion of long-term liabilities	915,000	170,000	1,085,000
Total current liabilities	<u>2,614,265</u>	<u>940,138</u>	<u>3,554,403</u>
Long-term liabilities			
Compensated absences	44,184	16,623	60,807
Notes and leases payable, less current portion	18,324,918	1,428,130	19,753,048
Total long-term liabilities	<u>18,369,102</u>	<u>1,444,753</u>	<u>19,813,855</u>
Total liabilities	<u>20,983,367</u>	<u>2,384,891</u>	<u>23,368,258</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - grants	2,987,743		2,987,743
Deferred inflows - retirement	17,124	6,879	24,003
Deferred inflows - leases	53,831		53,831
	<u>3,058,698</u>	<u>6,879</u>	<u>3,065,577</u>
NET POSITION			
Net investment in capital assets	33,466,380	20,227,566	53,693,946
Restricted for construction and debt service	3,903,175	2,717,350	6,620,525
Unrestricted (deficit)	122,671	(192,397)	(69,726)
Total net position	<u>\$ 37,492,226</u>	<u>\$ 22,752,519</u>	<u>\$ 60,244,745</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, 2023

	Enterprise Funds		
	Sewer Fund	Water Fund	Total
OPERATING REVENUES			
Charges for services	\$ 2,750,767	\$ 1,625,502	\$ 4,376,269
Other operating revenues	157,220	299,649	456,869
Total operating revenues	<u>2,907,987</u>	<u>1,925,151</u>	<u>4,833,138</u>
OPERATING EXPENSES			
Salaries	704,489	291,711	996,200
Employee benefits	154,827	59,929	214,756
Pension expense	(129,911)	(50,633)	(180,544)
Payroll taxes	53,825	20,098	73,923
Maintenance and repairs	1,343,169	289,532	1,632,701
Professional services	189,773	160,491	350,264
Supplies	434,863	332,387	767,250
Utilities	224,674	55,887	280,561
Insurance	88,301	31,141	119,442
Sludge landfill	79,204		79,204
Miscellaneous	85,841	35,340	121,181
Gasoline	19,854	7,753	27,607
Computer	10,006		10,006
Depreciation	1,513,778	513,329	2,027,107
Total operating expenses	<u>4,772,693</u>	<u>1,746,965</u>	<u>6,519,658</u>
Operating income (loss)	<u>(1,864,706)</u>	<u>178,186</u>	<u>(1,686,520)</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment earnings	111,450	7,879	119,329
Assessment, annexation and connection fees	1,606,063	687,691	2,293,754
Capital grants	47,250		47,250
Interest expense	(486,051)	(41,877)	(527,928)
Net non-operating revenues	<u>1,278,712</u>	<u>653,693</u>	<u>1,932,405</u>
Income (loss) before transfers and contributions	<u>(585,994)</u>	<u>831,879</u>	<u>245,885</u>
Contributed property	3,023,000	1,591,000	4,614,000
Transfers in	501,664	2,611,449	3,113,113
Change in net position	2,938,670	5,034,328	7,972,998
NET POSITION, BEGINNING OF YEAR	<u>34,553,556</u>	<u>17,718,191</u>	<u>52,271,747</u>
NET POSITION, END OF YEAR	<u>\$ 37,492,226</u>	<u>\$ 22,752,519</u>	<u>\$ 60,244,745</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, 2023

		Enterprise Funds	
	Sewer Fund	Water Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 2,750,767	\$ 1,625,502	\$ 4,376,269
Other operating receipts	186,450	241,240	427,690
Payments to suppliers for goods and services	(1,473,706)	(1,310,274)	(2,783,980)
Payments to employees for services	(705,361)	(292,556)	(997,917)
Net cash provided by operating activities	<u>758,150</u>	<u>263,912</u>	<u>1,022,062</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital grants	550,000		550,000
Acquisition of capital assets and construction in progress	(1,924,704)	(3,026,196)	(4,950,900)
Assessment, annexation and connection fees	1,706,063	434,624	2,140,687
Principal payments on debt	(864,154)	(165,000)	(1,029,154)
Interest paid	(678,784)	(54,237)	(733,021)
Net cash used by capital and related financing activities	<u>(1,211,579)</u>	<u>(2,810,809)</u>	<u>(4,022,388)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfers from other funds	<u>501,664</u>	<u>2,611,449</u>	<u>3,113,113</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	<u>111,450</u>	<u>7,879</u>	<u>119,329</u>
Net increase in cash and cash equivalents	159,685	72,431	232,116
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>6,365,458</u>	<u>438,816</u>	<u>6,804,274</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 6,525,143</u></u>	<u><u>\$ 511,247</u></u>	<u><u>\$ 7,036,390</u></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, 2023

	Enterprise Funds		
	Sewer Fund	Water Fund	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (1,864,706)	178,186	(1,686,520)
Adjustments to reconcile operating income (loss) to net cash and cash equivalents provided by operating activities			
Depreciation	1,513,778	513,329	2,027,107
Net changes in pension liabilities	(165,231)	(64,445)	(229,676)
(Increase) decrease in assets			
Receivables	75,170	(21,188)	53,982
Inventory	(45,810)		(45,810)
Prepaid expenses	(130)	(130)	(260)
Construction advance		585,642	585,642
Increase (decrease) in liabilities			
Accounts payable and other accrued liabilities	1,261,240	(929,279)	331,961
Deferred leases	(20,822)		(20,822)
Compensated absences	4,661	1,797	6,458
Net cash and cash equivalents provided by operating activities	<u>\$ 758,150</u>	<u>\$ 263,912</u>	<u>\$ 1,022,062</u>
NON-CASH CAPITAL AND OPERATING ACTIVITIES			
Capital assets acquired through contributions from private entities	<u>\$ 3,023,000</u>	<u>\$ 1,591,000</u>	<u>\$ 4,614,000</u>

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

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

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, 2023

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, 2023

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, 2023

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>Estimated Useful Lives</u>
Infrastructure	5 – 100 years
Buildings and improvements	7 – 40 years
Machinery and equipment	3 – 10 years
Subscription assets	Life of agreement

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 2023. 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, 2023

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.

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.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide and Proprietary Funds Net Position

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.

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.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Fund Balances (continued)

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.

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. Police officers may also accrue holiday and comp time. 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.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 \$383 was incurred during the year for governmental activities. Interest expense incurred by the Town for the sewer and water activities was \$486,051 and \$41,877, respectively.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions

For purposes of measuring the net pension asset (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.

Adoption of GASB Statement No. 96, *Subscription Based Information Technology Arrangements*

Effective July 1, 2022, the Town adopted the new lease accounting guidance in GASB Statement No. 96, *Subscription Based Information Technology Arrangements*. The new guidance requires recognition of a subscription asset and corresponding liability to be recognized for any subscription-based information technology arrangements with software vendors with a term longer than 12 months.

As a result of the adoption of the guidance, the Town recognized as of July 1, 2022 (a) subscription liabilities of \$87,062 which represents the present value of the remaining subscription payments, and (b) subscription assets of \$122,210 less accumulated amortization of \$35,148.

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, 2023, the carrying amount of the Town's cash balance was \$21,368,686 and the bank balance was \$21,620,039. The Town exceeded FDIC limits by \$20,960,092, which was collateralized with securities held by the pledging financial institution's trust department but not in the Town's name, and \$501 was uninsured and uncollateralized.

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, 2023

LEASES RECEIVABLE

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%. The deferred inflows are being amortized over the life of the lease. Amortization is included in lease income in the general fund and other operating revenues in the sewer fund.

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, 2023 were \$6,800.

The Town leased a building to the Millsboro Art League under a one-year lease agreement that expired in April 2023. Monthly payments are \$600. Total lease payments for the year ended June 30, 2023 were \$600. The lease was renewed with a new lessee for the year ended June 30, 2024.

As of June 30, 2023, the balance of leases receivable is \$9,235.

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, 2023, the balance of the lease receivable is \$55,134.

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:				
2024	\$ 6,854	\$ 246	\$ 21,401	\$ 1,993
2025	2,381	20	22,265	1,129
2026			11,468	229
	<u>\$ 9,235</u>	<u>\$ 266</u>	<u>\$ 55,134</u>	<u>\$ 3,351</u>

TOWN OF MILLSBORO, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2023, was as follows:

<u>Governmental activities:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i>Capital assets, not being depreciated</i>				
Land and parks	\$ 1,635,437	\$	\$	\$ 1,635,437
Construction in progress	622,318	5,272,452	582,768	5,312,002
Total capital assets not being depreciated	<u>2,257,755</u>	<u>5,272,452</u>		<u>6,947,439</u>
<i>Capital assets, being depreciated</i>				
Building and improvements	12,528,156	6,007,432		18,535,588
Equipment	2,069,408	158,059		2,227,467
Subscription assets	122,210	35,018		157,228
Total capital assets being depreciated	<u>14,719,774</u>	<u>6,200,509</u>		<u>20,920,283</u>
Less accumulated depreciation for:				
Building and improvements	2,457,422	497,265		2,954,687
Equipment	1,626,518	164,586		1,791,104
Subscription assets	35,148	41,467		76,615
Total accumulated depreciation	<u>4,119,088</u>	<u>703,318</u>		<u>4,822,406</u>
Total capital assets being depreciated, net	<u>10,600,686</u>	<u>5,497,191</u>		<u>16,097,877</u>
Governmental activities Capital assets, net	<u>\$ 12,858,441</u>	<u>\$ 10,769,643</u>	<u>\$</u>	<u>\$ 23,045,316</u>

*The beginning balances are restated for implementation of GASB Statement No. 96, *Subscription Based Information Technology Arrangements*.

TOWN OF MILLSBORO, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

CAPITAL ASSETS (Continued)

The Town is building a new Police Department Building. The total estimated cost is \$8,660,000. A contract was awarded to Delmarva Veteran Builders for \$7,171,000. As of June 30, 2023, the construction is about 60% complete. The project is being funded by a USDA loan for \$7,660,000 with other funding of \$1,000,000. Interim financing has been obtained with WSFS bank and the first draw was made in October 2023.

Business-type activities:

Water fund:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets, not being depreciated</i>				
Land	\$ 98,079	\$ 11,250	\$	\$ 109,329
Construction in progress	2,214,514	2,168,888	139,467	4,243,935
Total capital assets not being depreciated	2,312,593	2,180,138	139,467	4,353,264
<i>Capital assets, being depreciated</i>				
Infrastructure	19,616,389	1,591,000		21,207,389
Machinery and equipment	922,838	267,645		1,190,483
Total capital assets being depreciated	20,539,227	1,858,645		22,397,872
Less accumulated depreciation for:				
Infrastructure	3,853,730	448,505		4,302,235
Machinery and equipment	558,381	64,824		623,205
Total accumulated depreciation	4,412,111	513,329		4,925,440
Total capital assets being depreciated, net	16,127,116	1,345,316		17,472,432
Water, capital assets, net	\$ 18,439,709	\$ 3,525,454	\$ 139,467	\$ 21,825,696

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, 2023, 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 as of June 30, 2023, was \$3,779,975.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

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	\$ 11,250	\$	\$ 10,947,512
Construction in progress	1,584,591	1,855,779	175,083	3,265,287
Total capital assets not being depreciated	12,520,853	1,867,029	175,083	14,212,799
<i>Capital assets, being depreciated</i>				
Infrastructure	49,097,284	3,090,492		52,187,776
Machinery and equipment	2,255,409	165,264		2,420,673
Total capital assets being depreciated	51,352,693	3,255,756		54,608,449
Less accumulated depreciation for:				
Infrastructure	12,232,904	1,321,481		13,554,385
Machinery and equipment	1,258,021	192,297		1,450,318
Total accumulated depreciation	13,490,925	1,513,778		15,004,703
Total capital assets being depreciated, net	37,861,768	1,741,978		39,603,746
Sewer, capital assets, net	<u>\$ 50,382,621</u>	<u>\$ 3,609,007</u>	<u>\$ 175,083</u>	<u>\$ 53,816,545</u>
Business-type activities				
Capital assets, net	<u>\$ 68,822,330</u>	<u>\$ 7,134,461</u>	<u>\$ 314,550</u>	<u>\$ 75,642,241</u>

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. Interim financing has been obtained for \$15,000,000 with WSFS bank.

Included in construction in progress in the sewer fund are costs incurred for the rapid infusion basin project, wastewater treatment plant enhancements, and planning costs for the White Farm wastewater treatment plant.

TOWN OF MILLSBORO, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

CAPITAL ASSETS (Continued)

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

General government	\$ 147,037
Public safety	121,030
Recreation	36,387
Streets	<u>398,864</u>
	<u>\$ 703,318</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, 2022, was \$0.38 per \$100 of assessed valuation for all real property and improvements. The taxable assessed valuation for July 1, 2022, was \$948,090,100.

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>.

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.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

PENSION PLANS (Continued)

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.
<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

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

PENSION PLANS (Continued)

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, 2023, the Town was required to contribute 5.6% and 10.7% 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 \$89,311 for the Other Employees' Plan and \$153,918 for the Police's Plan for the year ended June 30, 2023.

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 2023 were \$125,903.

Pension Asset (Liabilities)

At June 30, 2023, the Town reported an asset of \$128,275 for its proportionate share of the net pension asset. The collective total pension asset/liability for the June 30, 2022, measurement date was determined by an actuarial valuation as of June 30, 2021, and update procedures were used to roll forward the total pension liability to June 30, 2022. 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, 2022, the Town's proportion was 2.16% and 1.08% for the Other Employees' Plan and the Police's Plan, respectively, which was a decrease of 0.35% and an increase of 0.03%, respectively, from its proportion valuation as of June 30, 2021.

Pension Expense

For the year ended June 30, 2023, the Town recognized pension expense of \$72,483.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

PENSION PLANS (Continued)

Deferred Inflows/Outflows of Resources Related to Pensions

At June 30, 2023, 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	\$ 249,685	\$ 70,897
Changes of assumption	56,115	103,932
Net difference between projected and actual earnings on investments	254,219	
Changes in proportion and differences between Town contributions and proportionate share of contributions	30,887	15,336
Town contributions subsequent to the measurement date	<u>243,229</u>	
Totals	<u><u>\$ 834,135</u></u>	<u><u>\$ 190,165</u></u>

The \$243,229 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, 2024.

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>
2024	\$ (6,052)
2025	(28,808)
2026	(3,695)
2027	393,793
2028	19,980
Thereafter	<u>9,972</u>
	<u><u>\$ 385,190</u></u>

TOWN OF MILLSBORO, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

PENSION PLANS (Continued)

The above amounts do not include deferred outflow and inflows of resources related to changes in proportion. 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.

Actuarial Assumptions

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

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%

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, 2022, 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.

Actuarial Assumptions (Continued)

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.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

PENSION PLANS (Continued)

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%	31.8%
International equity	5.7%	15.0%
Fixed income	2.0%	23.6%
Alternative investments	7.8%	21.5%
Cash and equivalents		8.1%
		100%

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.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

PENSION PLANS (Continued)

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%)
<u> </u>	<u> </u>	<u> </u>
\$ 1,032,979	\$ (128,275)	\$ (1,075,160)

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.

LONG-TERM LIABILITIES

Changes in long-term obligations for the year ended June 30, 2023 are as follows:

	<u>June 30, 2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2023</u>
Governmental Activities:				
Notes from direct borrowings	\$ 12,210	\$	\$ 12,210	\$
Subscription leases	87,062	35,018	44,647	77,433
Total Governmental Activities	<u>\$ 99,272</u>	<u>\$ 35,018</u>	<u>\$ 56,857</u>	<u>\$ 77,433</u>
Business-type Activities:				
General obligation				
bonds from direct				
borrowings	\$ 19,060,000	\$	\$ 1,010,000	\$ 18,050,000
Bond premiums	2,997,547		209,499	2,788,048
Notes from direct				
borrowings	19,155		19,155	
Total Business-type Activities	<u>\$ 22,076,702</u>	<u>\$</u>	<u>\$ 1,238,654</u>	<u>\$ 20,838,048</u>

*The June 30, 2022 balances are restated for implementation of GASB Statement No. 96, *Subscription Based Information-Technology Arrangements*.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

LONG-TERM LIABILITIES (Continued)

Business-type Activities

As of June 30, 2023, 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.	\$ 18,050,000
Bond premium	2,788,048
	<u>\$ 20,838,048</u>

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

<u>Years Ending June 30</u>	<u>Business-type Activities -</u>	
	<u>General Obligation Bonds - Direct</u>	
	<u>Borrowings</u>	
	<u>Principal</u>	<u>Interest</u>
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	1,270,000	512,200
2029-2033	6,450,000	1,795,000
2034-2037	<u>5,720,000</u>	<u>459,200</u>
Total	<u>\$ 18,050,000</u>	<u>\$ 5,294,600</u>

Governmental Activities

The Town is leasing multiple software under a non-cancellable operating lease agreement expiring in 2027. The subscription asset and liability were originally recorded at the present value of the future lease payments of \$122,210. The assets are amortized over the life of the lease using the straight-line method. Amortization of the assets under subscription leases is included in depreciation expense.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

LONG-TERM LIABILITIES (Continued)

Total debt service payments for ensuing years are as follows for governmental activities:

Year Ending June 30,	Principal	Interest
2024	\$ 38,743	\$ 3,564
2025	23,798	1,842
2026	14,892	709
2027	191	191
	\$ 77,433	\$ 6,306

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.

Beginning in 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 to date of \$8,532,647.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

SPECIAL OBLIGATION BONDS FOR DEVELOPMENT DISTRICT (Continued)

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, 2023, the Town billed the “special tax” assessment of \$2,636,161 to the District’s landowners.

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 2023, the Town owed the developer \$31,774 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, 2023, the total water impact fees that have been used to offset against this future obligation was \$1,868,473. 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 5 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.

TOWN OF MILLSBORO, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

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, 2023. 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, 2023, federal funds were received by the Town totaling \$2,437,743 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 sewer infrastructure. The Town has not expended these funds and therefore all funds received are reported as deferred inflows of resources. Project guidelines are to be submitted by the Town for final approval of costs.

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.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS (GASB)

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

- GASB No. 101, *Compensated Absences*, effective beginning with the year ending June 30, 2025. This statement updates the recognition and measurement guidance for compensated absences.

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, 2023

	Budget		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Taxes and fees	\$ 4,279,000	\$ 4,279,000	\$ 7,822,947	\$ 3,543,947
Intergovernmental	304,910	304,910	780,202	475,292
Charges for services	654,050	654,050	724,229	70,179
Fines	61,000	61,000	83,648	22,648
Miscellaneous	172,480	172,480	500,277	327,797
Total revenues	<u>5,471,440</u>	<u>5,471,440</u>	<u>9,911,303</u>	<u>4,439,863</u>
EXPENDITURES				
Current				
General administration	1,751,824	1,751,823	1,837,887	(86,064)
Public safety	2,959,312	2,959,313	2,974,278	(14,965)
Recreation	42,550	42,550	14,321	28,229
Streets	226,412	226,412	198,642	27,770
Capital outlay	471,394	471,394	5,541,194	(5,069,800)
Debt service	19,948	19,948	61,487	(41,539)
Total expenditures	<u>5,471,440</u>	<u>5,471,440</u>	<u>10,627,809</u>	<u>(5,156,369)</u>
Excess of revenues under expenditures			<u>(716,506)</u>	<u>(716,506)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out			(3,113,113)	(3,113,113)
Proceeds from long-term debt			35,018	35,018
Total other financing uses			<u>(3,078,095)</u>	<u>(3,078,095)</u>
Net change in fund balance	<u>\$</u>	<u>\$</u>	<u>\$ (3,794,601)</u>	<u>\$ (3,794,601)</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
2023/2022	2.16%	\$ (14,663)	\$ 1,317,271	-1.11%	100.79%
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
2023/2022	1.08%	\$ (113,612)	\$ 960,187	-11.83%	101.95%
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
2023	\$ 89,311	\$ (89,311)	\$	\$ 1,317,271	6.78%
2022	82,773	(82,773)		1,172,422	7.06%
2021	95,085	(95,085)		1,346,813	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
2023	\$ 153,918	\$ (153,918)	\$	\$ 960,187	16.03%
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

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Mayor and Council
 Town of Millsboro, Delaware

Report on Supplementary Information

PKSca.com

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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.

MEMBERS OF:

AMERICAN INSTITUTE OF
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 CERTIFIED PUBLIC ACCOUNTANTS

ALLINIAL GLOBAL

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
 December 20, 2023

TOWN OF MILLSBORO, DELAWARE
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR 2022)

	2023		2022
	Final Budget (Unaudited)	Actual	Actual
REVENUES			
Taxes and fees	\$ 4,279,000	\$ 7,822,947	\$ 7,154,496
Intergovernmental	304,910	780,202	908,387
Charges for services	654,050	724,229	905,415
Fines	61,000	83,648	78,210
Miscellaneous	172,480	500,277	187,353
Total revenues	<u>5,471,440</u>	<u>9,911,303</u>	<u>9,233,861</u>
EXPENDITURES			
Current			
General administration	1,751,823	1,837,887	1,793,086
Public safety	2,959,313	2,974,278	3,090,070
Recreation	42,550	14,321	112,136
Streets	226,412	198,642	119,707
Capital outlay	471,394	5,541,194	800,411
Debt service	19,948	61,487	19,557
Total expenditures	<u>5,471,440</u>	<u>10,627,809</u>	<u>5,934,967</u>
Excess revenues over (under) expenditures		<u>(716,506)</u>	<u>3,298,894</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of assets			9,695
Proceeds from long term debt		35,018	
Transfers out		(3,113,113)	(1,979,549)
Total other financing uses	<u>-</u>	<u>(3,078,095)</u>	<u>(1,969,854)</u>
Net change in fund balance	<u>\$</u>	<u>\$ (3,794,601)</u>	<u>\$ 1,329,040</u>

See independent auditors' report on supplementary information.

TOWN OF MILLSBORO, DELAWARE

SCHEDULE OF GENERAL FUND REVENUES—BUDGET AND ACTUAL

**YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR 2022)**

	<u>2023</u>		<u>2022</u>
	Final Budget (Unaudited)	Actual	Actual
REVENUES			
Taxes and fees			
Property tax	\$ 3,780,000	\$ 3,715,440	\$ 3,284,339
Realty transfer tax	74,000	3,105,724	2,818,482
Ambulance and fire fees	400,000	379,388	700,201
Police protection fees		178,202	
Transportation/stormwater fees		114,108	
Annexation fees		54,907	84,282
Building fund fee		236,692	250,542
Penalties	25,000	38,486	16,650
Total taxes and fees	<u>4,279,000</u>	<u>7,822,947</u>	<u>7,154,496</u>
Intergovernmental			
Street grants	105,000	98,639	122,944
Police grants	108,508	535,660	210,441
State grants		20,000	
Police pension	91,402	125,903	103,253
Sussex County - Share of transfer taxes			471,749
Total intergovernmental	<u>304,910</u>	<u>780,202</u>	<u>908,387</u>
Charges for services			
Business and rental licenses	66,000	64,485	49,550
Permits and variances	430,000	415,714	632,751
School resource officers	74,000	81,153	150,721
URS Engineers	45,000	58,406	40,292
Other charges for services	39,050	104,471	32,101
Total charges for services	<u>654,050</u>	<u>724,229</u>	<u>905,415</u>
Fines	<u>61,000</u>	<u>83,648</u>	<u>78,210</u>
Miscellaneous			
Boat slips	7,680	6,300	6,000
Franchise fees	125,000	110,152	121,989
Interest revenue		315,594	14,820
Lease of properties	34,800	28,857	36,077
Miscellaneous	5,000	39,374	8,467
Total miscellaneous	<u>172,480</u>	<u>500,277</u>	<u>187,353</u>
Total revenues	<u>\$ 5,471,440</u>	<u>\$ 9,911,303</u>	<u>\$ 9,233,861</u>

See independent auditors' report on supplementary information.

TOWN OF MILLSBORO, DELAWARE

SCHEDULE OF GENERAL FUND EXPENDITURES—BUDGET AND ACTUAL

**YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR 2022)**

	2023		2022
	Final Budget (Unaudited)	Actual	Actual
EXPENDITURES			
General administration			
Professional services	\$ 537,595	\$ 585,315	\$ 644,398
Salaries	631,740	638,152	591,999
Employee benefits	101,895	131,342	99,079
Payroll taxes	50,814	55,742	53,546
Pension expense	34,668	40,179	41,662
Repairs and maintenances	139,215	94,923	104,584
Reassessment	45,000	57,467	61,372
Insurance	53,040	68,982	53,562
Dues and donations	64,000	65,245	50,718
Office	29,275	35,861	34,855
Utilities	19,380	22,403	18,267
Advertising	15,000	12,270	15,173
Civic Center	15,390	13,372	10,153
Postage	7,500	4,496	5,021
Telephone	4,200	6,701	4,398
Gasoline and oil	1,836	3,344	2,829
Fees and permits	1,275	2,093	1,470
Total general administration	<u>1,751,823</u>	<u>1,837,887</u>	<u>1,793,086</u>
Public safety			
Salaries	\$ 1,602,043	\$ 1,542,713	\$ 1,359,997
Employee benefits	394,500	395,922	329,167
Payroll taxes	128,056	124,383	111,074
Pension expense	169,666	153,918	186,360
Ambulance and fire fees	400,000	379,388	700,201
Insurance	122,400	127,023	132,686
Police uniforms	25,264	18,699	52,943
Grant expense		71,918	47,216
Repairs and maintenance	27,675	31,367	40,773
Gasoline and oil	30,000	45,548	40,015
Miscellaneous	33,917	47,648	35,590
Professional services		3,400	19,891
Telephone	10,302	13,256	13,881
Supplies	7,350	7,852	11,223
Utilities	8,140	11,243	9,053
Total public safety	<u>2,959,313</u>	<u>2,974,278</u>	<u>3,090,070</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, 2023
(WITH COMPARATIVE TOTALS FOR 2022)**

	<u>2023</u>		<u>2022</u>
	Final Budget (Unaudited)	Actual	Actual
Recreation			
Repairs and maintenance	40,550	12,433	110,239
Utilities	2,000	1,888	1,897
Total public works	<u>42,550</u>	<u>14,321</u>	<u>112,136</u>
Streets			
Utilities	68,726	78,064	73,410
Supplies	15,000	8,475	13,228
Insurance	13,260	13,212	12,769
Salaries	3,797	804	8,267
Repairs and maintenance	121,600	89,397	6,035
Gasoline and oil	1,785	4,669	3,510
Trash removal	2,244	4,021	2,488
Total streets	<u>226,412</u>	<u>198,642</u>	<u>119,707</u>
Capital outlay			
General administration	50,000	154,798	58,463
Public safety	49,000	4,801,709	359,989
Recreation	192,394	253,696	3,175
Streets	180,000	330,991	378,784
	<u>471,394</u>	<u>5,541,194</u>	<u>800,411</u>
Debt service	<u>19,948</u>	<u>61,487</u>	<u>19,557</u>
Total expenditures	<u>\$ 5,471,440</u>	<u>\$ 10,627,809</u>	<u>\$ 5,934,967</u>

See independent auditors' report on supplementary information.

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

YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR 2022)

	2023	2022
OPERATING REVENUES		
Charges for services	\$ 2,750,767	\$ 2,479,663
Other operating revenues	157,220	96,846
Total operating revenues	<u>2,907,987</u>	<u>2,576,509</u>
OPERATING EXPENSES		
Salaries	704,489	532,746
Employee benefits	154,827	122,702
Pension expense	(129,911)	114,763
Payroll taxes	53,825	40,498
Maintenance and repairs	1,343,169	662,828
Professional services	189,773	378,896
Supplies	434,863	314,512
Utilities	224,674	172,602
Insurance	88,301	85,794
Sludge landfill	79,204	64,071
Miscellaneous	85,841	60,832
Gasoline	19,854	18,501
Computer	10,006	9,656
Depreciation	1,513,778	1,404,772
Total operating expenses	<u>4,772,693</u>	<u>3,983,173</u>
Operating loss	<u>(1,864,706)</u>	<u>(1,406,664)</u>
NON-OPERATING REVENUES (EXPENSES)		
Investment earnings	111,450	6,349
Assessment, annexation and connection fees	1,606,063	3,063,614
Capital grants	47,250	100,000
Interest expense	(486,051)	(491,571)
Net non-operating revenues	<u>1,278,712</u>	<u>2,678,392</u>
Income (loss) before transfers and contributions	<u>(585,994)</u>	<u>1,271,728</u>
Contributed assets	3,023,000	1,205,992
Transfers in	<u>501,664</u>	<u>1,798,997</u>
Change in net position	<u><u>\$ 2,938,670</u></u>	<u><u>\$ 4,276,717</u></u>

See independent auditors' report on supplementary information.

TOWN OF MILLSBORO, DELAWARE
SCHEDULE OF REVENUES AND EXPENSES
WATER FUND
YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR 2022)

	2023	2022
OPERATING REVENUES		
Charges for services	\$ 1,625,502	\$ 1,474,339
Other operating revenues	299,649	185,226
Total operating revenues	<u>1,925,151</u>	<u>1,659,565</u>
OPERATING EXPENSES		
Salaries	291,711	210,375
Employee benefits	59,929	47,377
Pension expense	(50,633)	43,282
Payroll taxes	20,098	13,821
Gasoline	7,753	7,830
Insurance	31,141	30,122
Maintenance and repairs	289,532	136,663
Miscellaneous	35,340	71,396
Professional services	160,491	150,966
Supplies	332,387	209,555
Utilities	55,887	53,541
Depreciation	513,329	437,598
Total operating expenses	<u>1,746,965</u>	<u>1,412,526</u>
Operating income	<u>178,186</u>	<u>247,039</u>
NON-OPERATING REVENUES (EXPENSES)		
Investment earnings	7,879	108
Assessment, annexation and connection fees	687,691	1,312,933
Interest expense	(41,877)	(50,585)
Net non-operating revenues	<u>653,693</u>	<u>1,262,456</u>
Income before transfers and contributions	<u>831,879</u>	<u>1,509,495</u>
Contributed assets	1,591,000	1,176,982
Transfers in	<u>2,611,449</u>	<u>180,552</u>
Change in net position	<u><u>\$ 5,034,328</u></u>	<u><u>\$ 2,867,029</u></u>

See independent auditors' report on supplementary information.

***GOVERNMENT AUDITING STANDARDS* REPORT**

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 SUSAN P. KEEN, CPA
 MICHAEL C. KLEGER, CPA
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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, 2023, 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 20, 2023.

Report on 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 Town'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.

Report on 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 Questioned Costs as 2023-001, that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Town's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Town's response to the findings identified in our audit and described in the schedule of findings and questioned costs. Town's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Town'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 Town'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 20, 2023

UNIFORM GUIDANCE REPORTS



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INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Mayor and Council and Town Manager
Town of Millsboro, Delaware

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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, 2023, and the related notes to the financial statements that collectively comprise the Town of Millsboro, Delaware's basic financial statements. We have issued our report thereon dated December 20, 2023 which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
December 20, 2023

TOWN OF MILLSBORO, DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2023

Federal Grantor/Pass-through Grantor/ Program Title	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Total Award	Federal Expenditures
U.S. Department of Agriculture				
Rural Development Community Facilities Direct Loan and Grant Program (Community Facilities Loans and Grants Cluster)				
Police building loan	10.766	Direct	\$ 7,660,000	\$ 4,412,905
Wastewater treatment plant loan	10.766	Direct	15,000,000	258,500
Total U.S. Department of Agriculture			<u>22,660,000</u>	<u>4,671,405</u>
U.S. Department of Justice				
Pass through Delaware Criminal Justice Council				
Crime Victim Assistance	16.575	Various	111,941	50,929
Violence Against Women Formula Grants	16.588	Various	100,000	50,234
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program				
Total U.S. Department of Justice	16.738	Various	<u>37,446</u>	<u>25,241</u>
			<u>249,387</u>	<u>126,404</u>
Total expenditures of federal awards			<u>\$ 22,909,387</u>	<u>\$ 4,797,809</u>

See accompanying notes to schedule of expenditures of federal awards.

TOWN OF MILLSBORO, DELAWARE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2023

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Town of Millsboro, Delaware under programs of the federal government for the year ended June 30, 2023. The information presented in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Town, it is not intended to and does not present the financial position, changes in assets, or cash flows of the Town.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

The Town did not have any subrecipients.

The Town has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

LOANS

For purposes of the schedule of expenditures of Federal awards, the value of Federal expenditures in the form of loans is calculated as the sum of the balance of loans from previous years for which the Federal Government imposes continuing compliance requirements plus the value of new loans received during the fiscal year.

The Town has been awarded loans of \$7,660,000 and \$15,000,000 from the U.S. Department of Agriculture (USDA) for construction of a police department building and a wastewater treatment plant, respectively. Interim financing has been provided by Wilmington Savings Fund Society, FSB (WSFS) for the construction periods, as required by USDA. As of June 30, 2023, there were no outstanding Federal loans with continuing compliance requirements. However, draws on the interim financing were made subsequent to year-end for expenditures of \$4,671,405 incurred prior to June 30, 2023 on these projects.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

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To the Mayor and Council and Town Manager
Town of Millsboro, Delaware

Report on Compliance for Each Major Federal Program

Opinion on Each Major Program

We have audited the Town of Millsboro, Delaware's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Town of Millsboro, Delaware's major federal programs for the year ended June 30, 2023. The Town of Millsboro, Delaware's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Town of Millsboro, Delaware complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance 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 relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Town of Millsboro, Delaware's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

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

Auditors' Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
December 20, 2023

TOWN OF MILLSBORO, DELAWARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2023

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes x No
- Significant deficiency(ies) identified? x Yes None reported

Noncompliance material to the financial statements noted?

 Yes x No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes x No
- Significant deficiency(ies) identified? Yes x None reported

Type of auditors' reported issued on compliance for major federal programs

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 Yes x No

Identification of major federal programs:

CFDA Number(s)
10.766

Name of Federal Program or Cluster
Community Facilities Loans and Grants

Dollar threshold used to distinguish between type A and type B Programs

\$750,000

Auditee qualified as a low-risk auditee?

 Yes x No

TOWN OF MILLSBORO, DELAWARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2023

B. FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCY

2023-001 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.

C. FINDINGS AND QUESTIONED COSTS – MAJOR AWARD PROGRAMS AUDIT

None

TOWN OF MILLSBORO, DELAWARE
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2023

FINDINGS – FINANCIAL STATEMENTS AUDIT

Audit finding reference: 2022-001, Financial Reporting

Status of prior finding: No change from prior year. Management has evaluated the cost vs. benefit of establishing internal controls over financial reporting and has determined it is in the best interest of the Town to continue to outsource this task to the independent auditors.

FINDINGS AND QUESTIONED COSTS – MAJOR AWARDS PROGRAMS AUDIT

An audit in accordance with Uniform Guidance was not required for the year ended June 30, 2022. Therefore, there are no prior year findings to report.