

TOWN OF MILLSBORO
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Town of Millsboro as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above 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 as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the Town's cost sharing defined benefit plans on pages 44 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Millsboro's basic financial statements. The accompanying supplementary information on pages 48 through 50 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 2, 2021, on our consideration of the Town of Millsboro'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Millsboro's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Millsboro's internal control over financial reporting and compliance.

Jefferson, Urian, Doane & Stemer, P.A.

Georgetown, Delaware
December 2, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE TOWN OF MILLSBORO
MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)
FOR FISCAL YEAR ENDED JUNE 30, 2021

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, 2021.

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. Supplementary information, in addition to the basic financial statements, is also included.

FINANCIAL HIGHLIGHTS

GOVERNMENT-WIDE STATEMENTS

As of June 30, 2021, assets exceeded liabilities by \$ 71,265,009. Of this amount, the Town had unrestricted assets of \$ 543,755. The Town's total net position increased by \$ 3,369,245 during the year. The net increase was mainly generated from capital contributions, realty transfer taxes, building fund fees, grants, and impact fees.

FUND FINANCIAL STATEMENTS

As of June 30, 2021, the Town's governmental funds reported an ending fund balance of \$ 14,776,803. This decreased \$ 1,284,500 from the preceding year due to increase in transfers of funds to sewer and water funds.

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: the Statement of Net Position and the 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.

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. The basic financial statements include a budgetary comparison statement for the General Fund. The Town of Millsboro adopts an annual appropriated budget for its 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 Nonmajor Funds. All activities are classified as Major Funds.

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 information related to our participation in two defined benefit plans for our employees.

SUPPLEMENTARY INFORMATION

The supplementary information contains detailed information regarding the General Fund budget verses actual revenues and expenditures.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following table is a summary of the Government-wide Statement of Net Position:

**TOWN OF MILLSBORO'S
CONDENSED STATEMENT OF NET POSITION
AS OF JUNE 30, 2021 AND 2020**

	Governmental Activities		Business-type Activities		Total Government	
	2021	2020	2021	2020	2021	2020
Current and Other Assets	\$ 15,589,112	\$ 16,643,853	\$ 7,122,471	\$ 4,717,538	\$ 22,711,583	\$ 21,361,391
Capital Assets	11,203,490	10,839,464	64,721,973	61,081,875	75,925,463	71,921,339
Total Assets	<u>26,792,602</u>	<u>27,483,317</u>	<u>71,844,444</u>	<u>65,799,413</u>	<u>98,637,046</u>	<u>93,282,730</u>
Deferred Outflows of Resources	487,567	471,349	90,166	85,761	577,733	557,110
Current and Other Liabilities	709,042	421,151	4,941,137	1,940,182	5,650,179	2,361,333
Long-term Liabilities	202,492	350,307	21,817,115	23,102,900	22,019,607	23,453,207
Total Liabilities	<u>911,534</u>	<u>771,458</u>	<u>26,758,252</u>	<u>25,043,082</u>	<u>27,669,786</u>	<u>25,814,540</u>
Deferred Inflows of Resources	231,627	100,082	48,357	29,454	279,984	129,536
Net Position:						
Net Investment in Capital						
Assets						
Restricted	11,172,673	10,790,753	40,070,843	36,843,090	51,243,516	47,633,843
Unrestricted	14,993,212	15,814,229	4,484,526	3,128,909	19,477,738	18,943,138
Total Net Position	<u>(28,877)</u>	<u>478,144</u>	<u>572,632</u>	<u>840,639</u>	<u>543,755</u>	<u>1,318,783</u>
Total Net Position	<u>\$26,137,008</u>	<u>\$27,083,126</u>	<u>\$45,128,001</u>	<u>\$40,812,638</u>	<u>\$71,265,009</u>	<u>\$67,895,764</u>

The Governmental Activities Statement of Net Position is made up of cash, taxes receivable, restricted annexation, grant and miscellaneous receivable, land improvements and other capital assets. Restricted net position consists of cash and accounts receivable, which are restricted as to their use by outside agencies and Town ordinances. The Town completed and placed in service its sidewalk replacement project during the year totaling \$ 819,363. The Town also realized a loss from abandoned projects related to the initial design studies conducted for the Town Hall and the public safety building costs totaling \$ 309,499.

In the Business-type Activities, 89% of the net position is invested in the water and wastewater systems. These systems expended \$ 5,671,654 of capital expenditures during the year that were funded by a combination of impact/annexation fees, general obligation bonds, intergovernmental grants, loan proceeds and developer contributions. Of that amount, the Town spent \$ 374,672 related to the water treatment facility project, which is the Town's 30.7% cost share. Restricted net position consists of cash and accounts receivable restricted by the Town for specific infrastructure outlays.

The following schedule reflects the breakdown of changes in net position for Governmental and Business-type Activities for fiscal years 2021 and 2020.

**TOWN OF MILLSBORO'S
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

	Governmental Activities		Business-type Activities		Total Government	
	2021	2020	2021	2020	2021	2020
Revenues						
Program Revenues:						
Charges for Services	\$ 784,936	\$ 607,756	\$ 4,304,953	\$ 3,915,739	\$ 5,089,889	\$ 4,523,495
Operating Grants and Contributions	431,453	390,676	2,194,981	1,635,855	2,626,434	2,026,531
Capital Grants and Contributions	190,115	2,887,984	727,569	6,631,683	917,684	9,519,667
General Revenues						
Property Tax	2,931,730	2,642,570	-	-	2,931,730	2,642,570
Building Fund Fee	149,189	116,792	-	-	149,189	116,792
Ambulance and Fire Fees	419,848	268,092	-	-	419,848	268,092
Annexation Fee	-	127,829	-	352,511	-	480,340
Realty Transfer Tax	2,077,037	1,318,803	-	-	2,077,037	1,318,803
Investment Income	26,484	151,961	-	-	26,484	151,961
Total Revenues	7,010,792	8,512,463	7,227,503	12,535,788	14,238,295	21,048,251
Program Expenses						
General Administration	2,178,258	2,026,979	-	-	2,178,258	2,026,979
Public Safety	2,569,783	2,165,663	-	-	2,569,783	2,165,663
Recreation	43,334	61,428	-	-	43,334	61,428
Streets	459,516	363,989	-	-	459,516	363,989
Sewer Facility	-	-	4,399,949	4,284,364	4,399,949	4,284,364
Water Facility	-	-	1,218,210	1,217,062	1,218,210	1,217,062
Total Expenses	5,250,891	4,618,059	5,618,159	5,501,426	10,869,050	10,119,485
Increase in Net Position Before Transfers	1,759,901	3,894,404	1,609,344	7,034,362	3,369,245	10,928,766
Transfers	(2,706,019)	(1,027,930)	2,706,019	1,027,930	-	-
Change in Net Position	(946,118)	2,866,474	4,315,363	8,062,292	3,369,245	10,928,766
Net Position - Beginning	27,083,126	24,216,652	40,812,638	32,750,346	67,895,764	56,966,998
Net Position - Ending	\$26,137,008	\$27,083,126	\$45,128,001	\$40,812,638	\$71,265,009	\$67,895,764

In the Governmental Activities, the net position decreased by \$ 946,118, which is primarily from transfers to the Business-type Activities for capital outlay during the year.

In the Business-type Activities, capital contributions comprised of third-party contributions for the Town's water infrastructure totaling \$ 135,000. The Town also received funding from the Town's \$ 3.2 million Special Development District Town Facilities Fund totaling \$ 628,349 for costs it incurred this year to construct the Town's new water tower project.

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

In the General Fund, on the fund basis, the actual revenues were comparable to the budgeted ones except for the transfer tax and building fund fee. Realty transfer tax and building fund fee, which were not budgeted, generated revenues totaling \$ 2,077,037 and \$ 149,189, respectively. General Administration capital outlay was \$ 3,741,669 under budget. The Town made a decision to not move forward with the Town Hall renovation project to accommodate a new public safety building. However, the Town was \$ 170,808 over budget for Public Safety capital outlay for its costs related to its new building design. Capital outlay for Streets for the Town's various sidewalk replacement projects was \$ 86,167 under budget. The Town's professional service fees were \$ 146,298 over budget due to services performed for building inspection fees during the year. Other than those items, expenses consist of General Administration, Public Safety, Recreation and Streets and were comparable to the Town budget.

The Town's Proprietary Funds provide the same type of information found in the Government-wide Financial Statements - but in more detail.

OTHER FACTORS

Revenue from water and sewer service charges once again increased. The \$ 512,958 increase was due, in part, to a water and sewer rate adjustment. The number of users continued to go up due to the ongoing rapid growth within the Town's limits. According to the *2021 Report on State Planning Issues*, over a 6-year period, Millsboro again issued more residential building permits than any of the other 43 municipalities in Sussex (the State's fastest-growing county) and Kent counties.

The operating expenses for the water and sewer systems decreased by 2% net of depreciation and the annual depreciation charges increased by \$ 112,485 - from \$ 1,591,321 to \$ 1,703,806 - resulting in an increase in total expense of 0.7%.

Additional new construction within the Town and a small tax rate adjustment resulted in an increase in property tax revenue of more than 10%. There were 270 building permits issued for new homes and 384 permits for renovations/commercial work - all of which contributed to the boost. Transfer tax revenue increased by \$ 758,234 from the previous fiscal year. This large increase comes in part from a one-time spike due to a large commercial sale, and the other part is from an overall increase in the number of real property sales from the previous fiscal year.

The trichloroethylene removal process was still underway, and Millsboro continued to have monthly conference calls with the party performing the cleanup. At the end of the fiscal year, it was still expected that the Town would not be responsible for any net costs associated with the cleanup work.

In July 2020, Millsboro entered into a cost-share agreement with a developer of the Plantation Lakes residential subdivision, related to the construction of a new water treatment plant. As a result of the agreement, the water treatment plant will be larger-capitalizing on an economy-of-scale opportunity and preventing the Town from having to build a second new water treatment plant elsewhere (at least in the near term). The estimated cost avoidance is about \$7 million.

The Main Street sidewalk and water main replacement project was substantially completed in June 2021. A new 1-million-gallon elevated storage tank was substantially completed in August 2021. In the fall of 2021, Millsboro refinanced much of its existing debt. During the process, the Town was awarded a "high quality" credit rating by Moody's. The long-term estimated cost avoidance to Millsboro related to the aforementioned refinancing totals roughly \$ 2 million.

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

The federal government has indicated that it will be making roughly \$ 2.4 million worth of *American Rescue Plan Act* funds available to Millsboro. 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 but is awaiting final guidance from the federal government and its legal counsel prior to proceeding.

BASIC FINANCIAL STATEMENTS

TOWN OF MILLSBORO
STATEMENT OF NET POSITION
JUNE 30, 2021

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	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 281,816	\$ -	\$ 281,816
Receivables:			
Taxes	27,933	-	27,933
Service water and sewer	-	1,078,954	1,078,954
Miscellaneous	38,980	44,454	83,434
Grants	91,088	-	91,088
Prepaid items	156,083	18,473	174,556
Restricted assets:			
Cash and cash equivalents	14,891,929	3,725,409	18,617,338
Receivables	101,283	279,307	380,590
Construction advance	-	845,758	845,758
Loan receivable	-	1,130,116	1,130,116
Capital assets:			
Land, improvements, and construction in progress	1,812,141	16,360,119	18,172,260
Other capital assets, net of depreciation	9,391,349	48,361,854	57,753,203
TOTAL ASSETS	<u>26,792,602</u>	<u>71,844,444</u>	<u>98,637,046</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>487,567</u>	<u>90,166</u>	<u>577,733</u>
LIABILITIES			
Accounts payable and other accrued liabilities	434,887	2,226,368	2,661,255
Accrued wages	87,608	29,410	117,018
Unearned revenue	-	1,223,642	1,223,642
Loan payable and other deposits	74,560	172,135	246,695
Long-term liabilities:			
Due within one year	111,987	1,289,582	1,401,569
Due in more than one year	202,492	21,817,115	22,019,607
TOTAL LIABILITIES	<u>911,534</u>	<u>26,758,252</u>	<u>27,669,786</u>
DEFERRED INFLOWS OF RESOURCES	<u>231,627</u>	<u>48,357</u>	<u>279,984</u>
NET POSITION			
Net investment in capital assets	11,172,673	40,070,843	51,243,516
Restricted for:			
Construction and debt service	4,664,619	4,484,526	9,149,145
Grant funds	114,926	-	114,926
Realty transfer tax	10,213,667	-	10,213,667
Unrestricted	(28,877)	572,632	543,755
TOTAL NET POSITION	<u>\$ 26,137,008</u>	<u>\$ 45,128,001</u>	<u>\$ 71,265,009</u>

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

TOWN OF MILLSBORO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

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Function/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT							
GOVERNMENTAL ACTIVITIES							
General administration	\$ 2,178,258	\$ 649,816	\$ -	\$ -	\$ (1,528,442)	\$ -	\$ (1,528,442)
Public safety	2,569,783	127,440	318,860	4,000	(2,119,483)	-	(2,119,483)
Recreation	43,334	7,680	-	-	(35,654)	-	(35,654)
Streets	459,516	-	112,593	186,115	(160,808)	-	(160,808)
TOTAL GOVERNMENTAL ACTIVITIES	5,250,891	784,936	431,453	190,115	(3,844,387)	-	(3,844,387)
BUSINESS-TYPE ACTIVITIES							
Sewer facility	4,399,949	2,612,068	1,744,748	8,191	-	(34,942)	(34,942)
Water facility	1,218,210	1,692,885	450,233	719,378	-	1,644,286	1,644,286
TOTAL BUSINESS-TYPE ACTIVITIES	5,618,159	4,304,953	2,194,981	727,569	-	1,609,344	1,609,344
TOTAL PRIMARY GOVERNMENT	\$ 10,869,050	\$ 5,089,889	\$ 2,626,434	\$ 917,684	(3,844,387)	1,609,344	(2,235,043)
GENERAL REVENUES							
Taxes: Property and penalties					2,931,730	-	2,931,730
Realty transfer					2,077,037	-	2,077,037
Building fund					149,189	-	149,189
Ambulance and fire fees					419,848	-	419,848
Unrestricted investment earnings					26,484	-	26,484
TRANSFERS					(2,706,019)	2,706,019	-
TOTAL GENERAL REVENUES AND TRANSFERS					2,898,269	2,706,019	5,604,288
CHANGE IN NET POSITION					(946,118)	4,315,363	3,369,245
NET POSITION - BEGINNING					27,083,126	40,812,638	67,895,764
NET POSITION - ENDING					\$ 26,137,008	\$ 45,128,001	\$ 71,265,009

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

TOWN OF MILLSBORO
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2021

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	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 281,816
Receivables:	
Tax	27,933
Miscellaneous	38,980
Grants	91,088
Prepaid items	156,083
Restricted assets:	
Cash and cash equivalents	14,891,929
Receivables	101,283
	<u>15,589,112</u>
TOTAL ASSETS	<u>\$ 15,589,112</u>
LIABILITIES	
Accounts payable and other accrued liabilities	\$ 434,887
Accrued wages	87,608
Escrow payable and other deposits	74,560
	<u>597,055</u>
TOTAL LIABILITIES	<u>597,055</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue:	
Annexation fee	101,283
Property tax	27,933
Grants	63,089
Other	22,949
	<u>215,254</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>215,254</u>
FUND BALANCES	
Nonspendable:	
Prepaid items	156,083
Restricted for:	
Construction and debt service	4,563,336
Grant funds	114,926
Realty transfer tax	10,213,667
Assigned	18,175
Unassigned	(289,384)
	<u>14,776,803</u>
TOTAL FUND BALANCES	<u>14,776,803</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 15,589,112</u>

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

TOWN OF MILLSBORO
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2021

- 11 -

FUND BALANCES OF GOVERNMENTAL FUNDS	\$ 14,776,803
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 therefore are not reported in the governmental fund financial statements.	11,203,490
Certain revenues are not available to pay for current period expenditures and therefore are reported as unavailable in the governmental funds.	215,254
Long-term liabilities for notes payable (\$ 30,817), accrued compensated absences (\$ 93,433), and pension liabilities (\$ 190,229) are not due and payable in the current period, and accordingly, are not reported in the governmental fund financial statements.	(314,479)
Increases and decreases to the net pension liability that were not included in pension expense are classified as deferred outflows and deferred inflows of resources. Those items are not reported in the governmental fund financial statements.	<u>255,940</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 26,137,008</u></u>

TOWN OF MILLSBORO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2021

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	<u>General Fund</u>
REVENUES	
Taxes and fees	\$ 5,615,411
Intergovernmental	423,241
Charges for services	441,887
Fines	46,592
Miscellaneous	533,113
	<hr/>
TOTAL REVENUES	7,060,244
	<hr/>
EXPENDITURES	
Current:	
General administration	2,073,813
Public safety	2,130,029
Recreation	21,920
Streets	291,807
Capital outlay	1,101,599
Debt service	19,557
	<hr/>
TOTAL EXPENDITURES	5,638,725
	<hr/>
EXCESS OF REVENUES OVER EXPENDITURES	1,421,519
	<hr/>
OTHER FINANCING USES	
Transfers out, net	(2,706,019)
	<hr/>
NET CHANGE IN FUND BALANCE	(1,284,500)
	<hr/>
FUND BALANCE - BEGINNING	16,061,303
	<hr/>
FUND BALANCE - ENDING	\$ 14,776,803
	<hr/> <hr/>

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

TOWN OF MILLSBORO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

- 13 -

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND		\$ (1,284,500)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense and disposals of assets are recorded at their unamortized costs as an expense. This is the amount by which capital outlay (\$ 1,101,599) exceeded loss on disposal of assets (\$ 308,499) and depreciation (\$ 429,074) in the current period.</p>		
		364,026
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds, as follows:</p>		
Annexation fee	\$ (25,321)	
Charges for services	(10,098)	
Capital contributions	(13,959)	
Grants	12,212	
Property tax	<u>(12,286)</u>	(49,452)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. The difference is as follows:</p>		
Compensated absences	(8,020)	
Debt service	17,894	
Pension expenses	<u>13,934</u>	<u>23,808</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u><u>\$ (946,118)</u></u>

TOWN OF MILLSBORO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2021

- 14 -

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes and fees	\$ 3,308,500	\$ 3,308,500	\$ 5,615,411	\$ 2,306,911
Intergovernmental	420,179	420,179	423,241	3,062
Charges for services	383,500	383,500	441,887	58,387
Fines	95,000	95,000	46,592	(48,408)
Miscellaneous	544,070	544,070	533,113	(10,957)
TOTAL REVENUES	4,751,249	4,751,249	7,060,244	2,308,995
EXPENDITURES				
Current:				
General administration	1,757,246	1,757,246	2,073,813	(316,567)
Public safety	2,077,468	2,077,468	2,130,029	(52,561)
Recreation	50,100	50,100	21,920	28,180
Streets	278,438	278,438	291,807	(13,369)
Capital outlay	4,772,000	4,772,000	1,101,599	3,670,401
Debt service	19,557	19,557	19,557	-
TOTAL EXPENDITURES	8,954,809	8,954,809	5,638,725	3,316,084
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(4,203,560)	(4,203,560)	1,421,519	5,625,079
OTHER FINANCING USES				
Transfers out, net	-	-	(2,706,019)	(2,706,019)
NET CHANGE IN FUND BALANCE	(4,203,560)	(4,203,560)	(1,284,500)	2,919,060
FUND BALANCE - BEGINNING	16,061,303	16,061,303	16,061,303	-
FUND BALANCE - ENDING	\$ 11,857,743	\$ 11,857,743	\$ 14,776,803	\$ 2,919,060

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

TOWN OF MILLSBORO
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2021

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ASSETS	Business-type Activities - Enterprise Funds		
	Sewer Fund	Water Fund	Total
CURRENT ASSETS			
Receivables, net of allowance for doubtful accounts:			
Service charges	\$ 585,557	\$ 493,397	\$ 1,078,954
Miscellaneous	22,227	22,227	44,454
Prepaid items	1,300	17,173	18,473
TOTAL CURRENT ASSETS	609,084	532,797	1,141,881
NONCURRENT ASSETS			
Restricted assets:			
Cash and cash equivalents	3,671,753	53,656	3,725,409
Receivables	223,546	55,761	279,307
Construction advance	-	845,758	845,758
Loan receivable	-	1,130,116	1,130,116
Capital assets:			
Land, improvements, and construction in progress	12,278,265	4,081,854	16,360,119
Other capital assets, net of depreciation	36,704,517	11,657,337	48,361,854
TOTAL NONCURRENT ASSETS	52,878,081	17,824,482	70,702,563
TOTAL ASSETS	53,487,165	18,357,279	71,844,444
DEFERRED OUTFLOWS OF RESOURCES	66,684	23,482	90,166
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and other accrued liabilities	730,832	1,495,536	2,226,368
Accrued wages	21,127	8,283	29,410
Unearned revenue	1,223,642	-	1,223,642
Loan payable and other deposits	32,500	139,635	172,135
Current portion of long-term liabilities	1,138,407	151,175	1,289,582
TOTAL CURRENT LIABILITIES	3,146,508	1,794,629	4,941,137
LONG-TERM LIABILITIES, LESS CURRENT PORTION	20,095,632	1,721,483	21,817,115
TOTAL LIABILITIES	23,242,140	3,516,112	26,758,252
DEFERRED INFLOWS OF RESOURCES	34,870	13,487	48,357
NET POSITION			
Net investment in capital assets	27,677,333	12,393,510	40,070,843
Restricted for:			
Construction and debt service	2,538,870	1,945,656	4,484,526
Unrestricted	60,636	511,996	572,632
TOTAL NET POSITION	\$ 30,276,839	\$ 14,851,162	\$ 45,128,001

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

TOWN OF MILLSBORO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

- 16 -

	Business-type Activities - Enterprise Funds		
	Sewer Fund	Water Fund	Total
OPERATING REVENUES			
Charges for services	\$ 2,457,678	\$ 1,534,063	\$ 3,991,741
Other operating revenue	151,633	158,579	310,212
TOTAL OPERATING REVENUES	2,609,311	1,692,642	4,301,953
OPERATING EXPENSES			
Computer	21,441	-	21,441
Depreciation	1,358,704	345,102	1,703,806
Employee benefits	128,664	49,425	178,089
Gasoline	13,266	5,074	18,340
Insurance	76,555	25,661	102,216
Maintenance and repairs	731,597	133,116	864,713
Miscellaneous	63,220	21,649	84,869
Payroll taxes	42,992	13,667	56,659
Pension expense	28,201	10,508	38,709
Professional services	180,005	173,206	353,211
Salaries	563,085	203,333	766,418
Sludge landfill	58,659	-	58,659
Supplies	299,222	121,408	420,630
Utilities	208,116	53,626	261,742
TOTAL OPERATING EXPENSES	3,773,727	1,155,775	4,929,502
OPERATING INCOME (LOSS)	(1,164,416)	536,867	(627,549)
NON-OPERATING REVENUES (EXPENSES)			
Investment earnings	2,757	243	3,000
Assessment, annexation and connection fees	1,744,748	450,233	2,194,981
Loss on disposal of assets	(116,843)	-	(116,843)
Interest expense	(509,379)	(62,435)	(571,814)
TOTAL NON-OPERATING REVENUES (EXPENSES)	1,121,283	388,041	1,509,324
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	(43,133)	924,908	881,775
TRANSFERS IN	999,562	1,706,457	2,706,019
CAPITAL CONTRIBUTIONS	8,191	719,378	727,569
CHANGE IN NET POSITION	964,620	3,350,743	4,315,363
NET POSITION - BEGINNING	29,312,219	11,500,419	40,812,638
NET POSITION - ENDING	\$ 30,276,839	\$ 14,851,162	\$ 45,128,001

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

TOWN OF MILLSBORO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

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	Business-type Activities - Enterprise Funds		
	Sewer Fund	Water Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 2,361,052	\$ 1,480,366	\$ 3,841,418
Payments to suppliers for goods and services	(1,346,308)	(622,706)	(1,969,014)
Payments to employees for services	(766,346)	(302,921)	(1,069,267)
Other operating receipts	200,907	207,853	408,760
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>449,305</u>	<u>762,592</u>	<u>1,211,897</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds, net	<u>999,562</u>	<u>1,706,457</u>	<u>2,706,019</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Intergovernmental and other capital grants	1,255,358	762,213	2,017,571
Acquisition of capital assets	(1,212,142)	(3,366,262)	(4,578,404)
Retirement of bonds and related costs	(1,052,538)	(175,513)	(1,228,051)
Assessment, annexation and connection fees	1,782,700	237,751	2,020,451
Interest paid	(513,820)	(57,424)	(571,244)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>259,558</u>	<u>(2,599,235)</u>	<u>(2,339,677)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	<u>2,757</u>	<u>243</u>	<u>3,000</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,711,182	(129,943)	1,581,239
CASH AND CASH EQUIVALENTS - BEGINNING	<u>1,960,571</u>	<u>183,599</u>	<u>2,144,170</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 3,671,753</u>	<u>\$ 53,656</u>	<u>\$ 3,725,409</u>

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

TOWN OF MILLSBORO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2021

	Business-type Activities - Enterprise Funds		
	Sewer Fund	Water Fund	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (1,164,416)	\$ 536,867	\$ (627,549)
Adjustments to reconcile operating income (loss) to net cash and cash equivalents provided by operating activities:			
Depreciation	1,358,704	345,102	1,703,806
Changes in assets and liabilities:			
Receivables, net	(47,352)	(4,423)	(51,775)
Net change in pension liabilities	(7,388)	(2,753)	(10,141)
Accounts payable and other accrued liabilities	309,757	(112,201)	197,556
NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES	\$ 449,305	\$ 762,592	\$ 1,211,897
NONCASH CAPITAL AND OPERATING ACTIVITIES			
Capital assets acquired through contributions from private entities	\$ 17,934	\$ 135,000	\$ 152,934

NOTE A - 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 service, 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.

1. Reporting Entity

The accompanying financial statements include public safety, streets, water and sewer service, 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.

2. 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 (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues and operating and capital grants.

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 (property taxes, interest income, etc.).

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. 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, liabilities, reserves, 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

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 a nonmajor fund.

4. 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Accounting/Measurement Focus - Continued

The government-wide 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, including unbilled water and sewer services, which are accrued. 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. The Town reports deferred inflows when the potential revenue does not meet both the measurable and available criteria for recognition in the current period.

Property taxes, charges for service, interest income and intergovernmental revenues are the primary revenue sources subject to accrual. Property taxes are reported as receivable and a deferred inflow of resources 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.

The proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. **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 tax, impact/EDU funds and building fund/annexation funds.

6. **Receivables**

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

7. **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 fair market value as of the date received. 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:

Assets	Years
Infrastructure	5 - 100 years
Buildings and improvements	7 - 40 years
Machinery and equipment	3 - 10 years

Beginning July 1, 2010, assets such as computer software and easements are required to be reported as capital assets under GASBS No. 51, *Accounting and Financial Reporting for Intangible Assets*. All permanent easements have historically been capitalized and are considered to have indefinite useful lives by the Town, therefore no amortization is to be recognized by these assets.

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 2021. The site itself and any current period costs are not capitalized or depreciated as part of capital assets.

8. **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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Deferred Outflows/Inflows 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 government-wide statements for governmental activities saw an increase in its net pension liability that was not included in its pension expense as deferred outflows of resources. The government-wide statements of the business-type activities, on the other hand, saw a decrease in its net pension liability. Also, the Town's pension contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows 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. The government-wide statements for governmental activities and business-type activities reported decreases in its net pension liability that were not included in its pension expense as deferred inflows of resources. In addition, unavailable revenue is reported in the governmental funds balance sheet. The governmental funds report unavailable revenues from annexation fee, property tax, grants and other sources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

10. Equity Classifications

Government-wide and Proprietary Funds Net Position

Net position is classified and displayed in three components:

- a. 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.
- b. 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.
- c. Unrestricted net position - All remaining net position that do not meet the definition of "restricted" or "net investment in capital assets".

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Equity Classifications - Continued

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. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (1) not in spendable form such as prepaid items or inventories; or (2) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications:

- a. Restricted fund balance - This classification reflects the 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.
- b. Committed fund balance - These 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. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. Currently, the Town does not have any funds that meet this classification.
- c. Assigned fund balance - This classification reflects the 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.
- d. Unassigned fund balance - This fund balance is the residual classification for the general fund.

Use of Restricted Resources

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. 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.

12. Compensated Absences

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

13. 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. Transfers between governmental (\$ 2,706,019) and water (\$ 1,706,457) and sewer (\$ 999,562) funds are netted as part of the reconciliation to the government-wide financial statements. Transferred funds are available to be used for operational purposes by the recipient fund.

14. Budgets and Budgetary Accounting

The budget in these financial statements is presented on a basis consistent with accounting principles generally accepted in the United States of America. 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.

15. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from these estimates.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

16. 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 \$ 1,663 was expensed during the year for governmental activities. Interest expense incurred by the Town for the sewer and water activities was \$ 509,379 and \$ 62,435, respectively.

17. Pensions

For purposes of measuring the net pension 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. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms within the government-wide statements. Investments are reported at fair value. Under the modified accrual basis of accounting, the Town's proportionate share of the collective net pension liability (asset) is recognized to the extent the liability (asset) is normally expected to be liquidated with expendable available financial resources. As a result, net pension liability (asset), deferred outflows/inflows of resources and pension expense for government-wide balances represent a reconciling item between the fund and government-wide presentations. Town employees who are non-police officers participate in DPERS' County & Municipal Other Employees' Pension Plan. Town employees who are police officers participate in the DPERS' County & Municipal Police and Firefighters' Pension Plan. Both Plans are described in Note E.

NOTE B - CASH AND CASH EQUIVALENTS

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. At June 30, 2021, the amount of the Town's cash balance was \$ 18,899,154 and the bank balance was \$ 19,213,564. Of the bank balance, \$ 642,963 was insured by federal depository insurance, \$ 18,570,326 was insured by pledged collateral and \$ 275 was uninsured and uncollateralized at year end.

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.

NOTE C - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2021, was as follows:

	Balance at June 30, 2020	Increases	Decreases	Balance at June 30, 2021
Governmental Activities:				
Capital assets, not being depreciated:				
Land and parks	\$ 1,568,648	\$ -	\$ -	\$ 1,568,648
Construction in progress	438,854	932,500	1,127,861	243,493
Total capital assets, not being depreciated	<u>2,007,502</u>	<u>932,500</u>	<u>1,127,861</u>	<u>1,812,141</u>
Other capital assets:				
Buildings and improvements	10,227,353	834,987	-	11,062,340
Equipment	1,830,905	153,474	24,617	1,959,762
Total other capital assets	<u>12,058,258</u>	<u>988,461</u>	<u>24,617</u>	<u>13,022,102</u>
Less accumulated depreciation for:				
Buildings and improvements	1,876,753	266,719	24,617	2,118,855
Equipment	1,349,543	162,355	-	1,511,898
Total accumulated depreciation	<u>3,226,296</u>	<u>429,074</u>	<u>24,617</u>	<u>3,630,753</u>
Other capital assets, net	<u>8,831,962</u>	<u>559,387</u>	<u>-</u>	<u>9,391,349</u>
Governmental Activities Capital Assets, Net	<u>\$ 10,839,464</u>	<u>\$ 1,491,887</u>	<u>\$ 1,127,861</u>	<u>\$ 11,203,490</u>

NOTE C - CAPITAL ASSETS - CONTINUED

	Balance at June 30, 2020	Increases	Decreases	Balance at June 30, 2021
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 10,955,308	\$ 79,031	\$ -	\$ 11,034,339
Construction in progress	877,910	4,363,138	289,940	4,951,108
Infrastructure cost share	-	374,672	-	374,672
Total capital assets, not being depreciated	<u>11,833,218</u>	<u>4,816,841</u>	<u>289,940</u>	<u>16,360,119</u>
Other capital assets:				
Infrastructure	61,952,361	372,733	180,900	62,144,194
Machinery and equipment	1,717,212	561,113	-	2,278,325
Total other capital assets	<u>63,669,573</u>	<u>933,846</u>	<u>180,900</u>	<u>64,422,519</u>
Less accumulated depreciation for:				
Infrastructure	13,521,987	1,539,443	64,057	14,997,373
Machinery and equipment	898,929	164,363	-	1,063,292
Total accumulated depreciation	<u>14,420,916</u>	<u>1,703,806</u>	<u>64,057</u>	<u>16,060,665</u>
Other capital assets, net	<u>49,248,657</u>	<u>(769,960)</u>	<u>116,843</u>	<u>48,361,854</u>
Business-type Activities Capital Assets, Net	<u>\$ 61,081,875</u>	<u>\$ 4,046,881</u>	<u>\$ 406,783</u>	<u>\$ 64,721,973</u>

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

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, 2021, the project cost is expected to be \$ 13,929,000. The project was not completed during the year. The Town's share of the 30.7% construction cost was \$ 374,672 at June 30, 2021.

NOTE C - CAPITAL ASSETS - CONTINUED

Depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 117,269
Public safety	122,682
Recreation	21,414
Streets	<u>167,709</u>
Total Governmental Activities Depreciation Expense	<u><u>\$ 429,074</u></u>
Business-type Activities:	
Sewer	\$ 1,358,704
Water	<u>345,102</u>
Total Business-type Activities Depreciation Expense	<u><u>\$ 1,703,806</u></u>

NOTE D - 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, 2020, was \$ 0.34 per \$ 100 of assessed valuation for all real property and improvements. The taxable assessed valuation for July 1, 2020, was \$ 829,336,200.

NOTE E - 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>.

NOTE E - PENSION PLANS - CONTINUED

Benefits Provided

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

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

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

NOTE E - PENSION PLANS - CONTINUED

Benefits Provided - Continued

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

Contributions

Non-police employees of the Town are required to contribute 3% of their gross earnings over \$ 6,000 to the pension plan. Police employees are required to contribute 7% of their base pay to the police pension plan. The Town makes monthly contributions as required by State statutes. During the year ended June 30, 2021, the Town was required to contribute 7.06% and 16.59% of its gross payroll to the Other Employees' Plan and Police's Plan, respectively. Those amounts contributed to the pension plan from the Town were \$ 95,085 for the Other Employees' Plan and \$ 169,030 for the Police's Plan for the year ended June 30, 2021.

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.

Pension Liabilities

For the Other Employees' Plan at June 30, 2021, the Town reported a liability of \$ 49,464 for its proportionate share of the net pension liability. For the Police's Plan, the Town reported a liability of \$ 165,089 for its proportionate share of the net pension liability. The net pension liability for both of these plans were measured as of June 30, 2020. The collective total pension liability for the June 30, 2020, measurement date was determined by an actuarial valuation as of June 30, 2019, and update procedures were used to roll forward the total pension liability to June 30, 2020. 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, 2020, the Town's proportion was 2.33% and 1.07% for the Other Employees' Plan and the Police's Plan, respectively, which was a decrease of 0.23% and an increase of 0.13%, respectively, from its proportion valuation as of June 30, 2019.

Pension Expense

For the year ended June 30, 2021, the Town recognized pension expense of \$ 75,346 and \$ 164,693 for the Other Employees' Plan and the Police's Plan, respectively.

NOTE E - PENSION PLANS - CONTINUED

Deferred Inflows/Outflows of Resources Related to Pensions

At June 30, 2021, the Town reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>		
	<u>Other Employees' Plan</u>	<u>Police's Plan</u>	<u>Total</u>
Governmental Activities			
Net differences between expected and actual experience	\$ 13,907	\$ 164,255	\$ 178,162
Changes of assumption	11,728	60,952	72,680
Changes in proportion and differences between Town contributions and proportionate share of contributions	2,194	19,266	21,460
Town contributions subsequent to the measurement date	<u>46,235</u>	<u>169,030</u>	<u>215,265</u>
Total Governmental Activities Deferred Outflows of Resources	<u>\$ 74,064</u>	<u>\$ 413,503</u>	<u>\$ 487,567</u>
Business-type Activities			
Net differences between expected and actual experience	\$ 20,645	\$ -	\$ 20,645
Changes of assumption	17,413	-	17,413
Changes in proportion and differences between Town contributions and proportionate share of contributions	3,258	-	3,258
Town contributions subsequent to the measurement date	<u>48,850</u>	<u>-</u>	<u>48,850</u>
Total Business-type Activities Deferred Outflows of Resources	<u>\$ 90,166</u>	<u>\$ -</u>	<u>\$ 90,166</u>

The \$ 95,085 (\$ 46,235 for governmental activities and \$ 48,850 for business-type activities) and the \$ 169,030 total reported as deferred outflows of resources for both the Other Employees' Plan and the Police's Plan, respectively, 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, 2022.

NOTE E - PENSION PLANS - CONTINUED

Deferred Inflows/Outflows of Resources Related to Pensions - Continued

At June 30, 2021, the Town reported deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Inflows of Resources</u>		
	<u>Other Employees' Plan</u>	<u>Police's Plan</u>	<u>Total</u>
Governmental Activities			
Net differences between expected and actual experience	\$ 14,464	\$ 52,018	\$ 66,482
Changes of assumptions	-	24,940	24,940
Net difference between projected and actual investment earnings on pension plan investments	15,332	117,045	132,377
Changes in proportion and differences between Town contributions and proportionate share of contributions	4,430	3,398	7,828
	<u>4,430</u>	<u>3,398</u>	<u>7,828</u>
Total Governmental Activities Deferred Inflows of Resources	<u>\$ 34,226</u>	<u>\$ 197,401</u>	<u>\$ 231,627</u>
Business-type Activities			
Net differences between expected and actual experience	\$ 20,435	\$ -	\$ 20,435
Net difference between projected and actual investment earnings on pension plan investments	21,663	-	21,663
Changes in proportion and differences between Town contributions and proportionate share of contributions	6,259	-	6,259
	<u>6,259</u>	<u>-</u>	<u>6,259</u>
Total Business-type Activities Deferred Inflows of Resources	<u>\$ 48,357</u>	<u>\$ -</u>	<u>\$ 48,357</u>

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.

NOTE E - PENSION PLANS - CONTINUED

Deferred Inflows/Outflows of Resources Related to Pensions - Continued

Other 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>Other Employee's Plan</u>	<u>Police's Plan</u>	<u>Total</u>
2022	\$ (18,057)	\$ (51,010)	\$ (69,067)
2023	(6,414)	(15,296)	(21,710)
2024	8,819	20,627	29,446
2025	(267)	(5,785)	(6,052)
2026	496	31,273	31,769
Thereafter	1,985	67,263	69,248

Actuarial Assumptions

The actuarial assumptions for the June 30, 2020, measurement date that is being applied to the June 30, 2021, period for both Plans were determined by an actuarial valuation as of June 30, 2019, and as mentioned, update procedures were used to roll forward the total pension liability to June 30, 2020.

These actuarial valuations used the following actuarial assumptions for both plans as detailed below:

	<u>Other Employee's Plan</u>	<u>Police's Plan</u>
Actuarial assumptions:		
Investment rate of return/Discount rate*	7.0%	7.0%
Projected salary increases*	2.5% + Merit	2.5% + Merit
Cost-of-living adjustments (COLAs)	0.0%	0.0%

**Inflation is included at 2.5% for both Plans.*

NOTE E - PENSION PLANS - CONTINUED

Actuarial Assumptions - Continued

For both Plans, the total pension 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, 2020, reporting period are based on the RP-2014 tables with gender adjustments for healthy annuitants and disabled retirees and an adjusted version on MP-2015 mortality improvement scale on a fully generational basis.

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

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 Allocation
Domestic equity	5.7%	28.5%
International equity	5.7	15.2
Fixed income	2.0	28.8
Alternative investments	7.8	23.0
Cash and cash equivalents	-	4.5

NOTE E - PENSION PLANS - CONTINUED

Discount Rate

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

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

The following presents the Town's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.0% for both Plans, 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:

	<u>1% Decrease (6.0%)</u>	<u>Current Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
Other Employees' Plan	\$ 155,096	\$ 49,464	\$ (37,284)
Police's Plan	542,298	165,089	(142,602)

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 as mentioned under the Plan Description of this Note from the Board of Pension Trustees governed by the State of Delaware General Assembly.

NOTE F - GENERAL OBLIGATION BONDS AND LONG-TERM LIABILITIES

At June 30, 2021, governmental activities direct borrowings are as follows:

	<u>Governmental</u>
2018 notes from direct borrowings; owed to Tax-Exempt Leasing Corporation, secured by two public safety vehicles; interest payable at 3.19%, semi-annual payments of \$ 3,482 until November 2022.	\$ 20,334
2019 note from direct borrowing; owed to Tax-Exempt Leasing Corporation, secured by one public safety vehicle, interest payable at 4.89%, annual payments of \$ 5,629 until August 2022.	10,483
TOTAL	<u>\$ 30,817</u>

NOTE F - GENERAL OBLIGATION BONDS AND LONG-TERM LIABILITIES - CONTINUED

The total debt service payments for the ensuing years are as follows for the governmental activities:

Years Ending June 30	Governmental Activities - Direct Borrowings		
	Principal	Interest	Total
2022	\$ 18,554	\$ 1,003	\$ 19,557
2023	12,263	329	12,592
TOTAL	\$ 30,817	\$ 1,332	\$ 32,149

At June 30, 2021, business-type general obligation bonds and notes are direct borrowings and are as follows:

	Business-type
2005 water general obligation bond owed to the State of Delaware, interest at 2.79%; semi-annual payments of \$ 17,049 until November 2035. Total bonds authorized were \$ 893,200.	\$ 404,345
2005 wastewater general obligation bond owed to the State of Delaware, interest at 2.9%; semi-annual payments of \$ 141,756 until June 2027. Total bonds authorized were \$ 4,200,000.	1,551,027
2007 water general obligation bond owed to the State of Delaware, interest at 2.63%; semi-annual payments of \$ 57,086 until July 2028. Total bonds authorized were \$ 1,644,000.	724,773
2008 wastewater general obligation bond owed to the State of Delaware, interest at 3.77%; semi-annual payments of \$ 135,051 until May 2029. Total bonds authorized were \$ 3,770,000.	1,850,495
2009 water general obligation bond owed to the State of Delaware, interest at 3.24%; semi-annual payments of \$ 42,401 until May 2031. Total bonds authorized were \$ 2,602,500, of which \$ 1,361,404 of the bond was forgiven.	719,421
2012 wastewater general obligation bond owed to the State of Delaware, interest at 3.00%; semi-annual payments of \$ 159,198 until August 2033. Total bonds authorized were \$ 6,336,800, of which \$ 676,750 of the bond was forgiven.	3,298,512
2013 wastewater general obligation bond owed to the United States Department of Agriculture (USDA), interest at 1.875%; quarterly payments of \$ 26,950 until March 2053. Total bonds authorized were \$ 3,028,000.	2,574,274

NOTE F - GENERAL OBLIGATION BONDS AND LONG-TERM LIABILITIES - CONTINUED

	<u>Business-type</u>
2013 wastewater general obligation bond owed to the United States Department of Agriculture (USDA), interest at 1.875%; quarterly payments of \$ 50,517 until March 2053. Total bonds authorized were \$ 5,676,000.	\$ 4,825,517
2014 wastewater general obligation bond owed to the United States Department of Agriculture (USDA), interest at 1.875%; quarterly payments of \$ 13,724 until April 2054. Total bonds authorized were \$ 1,542,000.	1,348,289
2017 wastewater general obligation bond owed to the State of Delaware, interest at 2.00%; semi-annual payments of \$ 122,171 until April 2047. Total bonds authorized were \$ 5,425,956. This bond refinanced the Town's 2011 wastewater general obligation bond owed to the United States Department of Agriculture (USDA) during the year ended June 30, 2017.	4,935,911
2019 wastewater general obligation bond owed to the State of Delaware, interest at 2.00%; semi-annual payments of \$ 5,322 until April 2038. Total bonds authorized were \$ 157,000.	152,763
2019 wastewater general obligation bond owed to the State of Delaware, interest at 2.00%; interest-only loan during construction; semi-annual payments of \$ 19,821 until April 2038. Total bonds authorized were \$ 610,500.	568,937
2019 note from direct borrowings; owed to Tax-Exempt Leasing Corporation; secured by a public works vehicle; interest payable at 3.19%; semi-annual payments of \$ 3,496 until November 2022.	20,416
2019 note from direct borrowings; owed to Tax-Exempt Leasing Corporation; secured by a public works freightliner truck; interest payable at 3.19%; semi-annual payments of \$ 6,173 until November 2022.	<u>36,054</u>
TOTAL GENERAL OBLIGATION BONDS AND NOTES FROM DIRECT BORROWINGS	<u><u>\$ 23,010,734</u></u>

NOTE F - GENERAL OBLIGATION BONDS AND LONG-TERM LIABILITIES - CONTINUED

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

Years Ending June 30	Business-type Activities - General Obligation Bonds - Direct Borrowings		
	Principal	Interest	Total
2022	\$ 1,180,628	\$ 526,737	\$ 1,707,365
2023	1,261,549	502,836	1,764,385
2024	1,296,170	468,216	1,764,386
2025	1,332,656	431,728	1,764,384
2026	1,369,787	394,596	1,764,383
2027 - 2031	5,403,160	1,459,414	6,862,574
2032 - 2036	3,328,265	918,418	4,246,683
2037 - 2041	2,514,586	631,743	3,146,329
2042 - 2046	2,660,211	385,544	3,045,755
2043 - 2051	1,916,103	151,959	2,068,062
2052 - 2054	691,149	14,900	706,049
TOTAL	\$ 22,954,264	\$ 5,886,091	\$ 28,840,355

Years Ending June 30	Business-type Activities - Notes - Direct Borrowings		
	Principal	Interest	Total
2022	\$ 37,315	\$ 1,362	\$ 38,677
2023	19,155	230	19,385
TOTAL	\$ 56,470	\$ 1,592	\$ 58,062

Long-term liability activity for governmental activities for the year ended June 30, 2021, was as follows:

	June 30, 2020	Increases	Decreases	June 30, 2021	Due Within One Year
Governmental Activities:					
Compensated absences	\$ 85,413	\$ 203,488	\$ 195,468	\$ 93,433	\$ 93,433
Notes from direct borrowings	48,711	-	17,894	30,817	18,554
Net pension liability	319,490	-	129,261	190,229	-
Total Governmental Activities	\$ 453,614	\$ 203,488	\$ 342,623	\$ 314,479	\$ 111,987

NOTE F - GENERAL OBLIGATION BONDS AND LONG-TERM LIABILITIES - CONTINUED

Long-term liability activity for business-type activities for the year ended June 30, 2021, was as follows:

	<u>June 30, 2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2021</u>	<u>Due Within One Year</u>
Business-type Activities:					
General obligation bonds from direct borrowings	\$ 24,146,171	\$ -	\$ 1,191,907	\$ 22,954,264	\$ 1,180,628
Notes from direct borrowings	92,614	-	36,144	56,470	37,315
Compensated absences	69,085	73,733	71,179	71,639	71,639
Net pension liability	48,963	-	24,639	24,324	-
Total Business-type Activities	<u>\$ 24,356,833</u>	<u>\$ 73,733</u>	<u>\$ 1,323,869</u>	<u>\$ 23,106,697</u>	<u>\$ 1,289,582</u>

As described in Note C, the Town's capital leases (owed to Tax-Exempt Leasing Corporation) are listed as outstanding notes from direct borrowings related to the governmental activities and the business-type activities totaling \$ 30,817 and \$ 56,470, respectively. These notes contain a provision that in an event of default, (1) outstanding amounts become immediately due if the Town is unable to make payment and/or (2) the Town will be required to return the leased assets at no cost for the lessor. These notes do not contain a subjective acceleration clause.

Compensated absences do not have a fixed repayment date, but are due to employees if they terminate employment and are reflected as a currently due liability on the Statement of Net Position.

NOTE G - 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.

NOTE H - SPECIAL OBLIGATION BONDS FOR DEVELOPMENT DISTRICT

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

On November 28, 2018, the Town issued \$ 6,463,000, \$ 15,990,000 and \$ 17,232,000 bonds to be collectively referred to as the “Town of Millsboro, Delaware Special Obligation Bonds (Plantation Lakes Special Development District), Series 2018” (the “Series 2018 Bonds”), aggregating \$ 39,685,000 as the second installment related to the development of the Plantation Lakes Special Development District pursuant to the Trust Indenture dated as of June 1, 2007, as amended by a First Supplemental Trust Indenture dated as of November 1, 2018 (collectively, the “Indenture”). The proceeds from the Series 2018 Bonds were used to redeem all of the outstanding 2007A Bonds (\$ 17,849,000) and to finance or refinance certain infrastructure costs in progress in addition to future development costs remaining within the District. The proceeds were also used to pay for the cost of bond issuance related to the Series 2018 Bonds. As part of the Indenture, the District’s developer has agreed to allow the Town to request up to \$ 3.2 million from the “Town Facilities Fund” of the Series 2018 Bonds proceeds on eligible Town improvements. During the year 2021, the Town has moved forward with various projects approved to be funded from the Facilities Fund. The costs for the New Water Tower Project and the Downtown Development Improvements project for Main Street Improvements have been submitted for reimbursement for costs incurred in the prior year and current year totaling \$ 651,000 and \$ 200,074, respectively.

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

For the year ended June 30, 2021, the Town billed the “special tax” assessment of \$ 1,704,999 to the District’s landowners.

NOTE I - 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 2021, the Town owed the developer \$ 139,635 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, 2021, the total water impact fees that have been used to offset against this future obligation was \$ 1,130,116. The water impact fees assumed to offset the water obligation and add to the receivable is expected to total \$ 167,207 annually over the next 7 years.

As of June 30, 2021, the Town owed \$ 32,500 to a developer who agreed that the liability would be satisfied by offsetting future shared construction costs relating to the installation of infrastructure to the developer's real estate. There have been no related costs incurred by the developer or the Town during the year ended June 30, 2021.

NOTE J - 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.

NOTE K - 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, 2021. 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, 2021, federal funds were committed to the Town totaling \$ 2,447,284 from the American Rescue Plan Act of 2021 (ARPA) Coronavirus State and Local Fiscal Recovery Funds. The Town was initially advanced \$ 1,223,642, which are planned to be used for the Town's infrastructure. The Town has not met eligibility requirements to expend these funds and therefore all funds received are deferred. Project guidelines are to be submitted by the Town for final approval of costs.

NOTE L - GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS (GASB)

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

- GASBS No. 87, *Leases*, effective for the fiscal year beginning July 1, 2021.
- GASBS No. 91, *Conduit Debt Obligations*, effective for the fiscal year beginning July 1, 2021.
- GASBS No. 92, *Omnibus 2020*, effective for the fiscal year beginning July 1, 2021 (for topics related to Leases); effective for the fiscal year beginning July 1, 2021 (for other topics discussed within this statement).
- GASBS No. 93, *Replacement of Interbank Offered Rates*, effective for the fiscal year beginning July 1, 2022.
- GASBS No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, effective for the fiscal year beginning July 1, 2023.
- GASBS No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, effective immediately.
- GASBS No. 96, *Subscription-Based Information Technology Arrangements*, effective for the fiscal year beginning July 1, 2023.
- GASBS No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans-an amendment of GASB Statements No. 14 and No. 84 and a supersession of GASB Statement No. 32*, effective for the fiscal year beginning July 1, 2022.

NOTE M - SUBSEQUENT EVENT

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the COVID-19 outbreak) and the risks to the international community as the virus spread globally. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The Town is closely monitoring its operations, liquidity and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the Town's financial position is not known and the financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Town issued new bonds and refinanced part of its existing general obligation bonds on October 21, 2021, totaling \$ 19,955,000 for both the sewer and water funds.

In November 2021, a referendum was passed that authorized the Town to borrow up to \$ 38 million in general obligation bonds for future capital projects.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF MILLSBORO

**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - COUNTY & MUNICIPAL
OTHER EMPLOYEES' PENSION PLAN - A COST SHARING DEFINED BENEFIT PENSION PLAN (LAST 10 YEARS*)
FOR THE YEAR ENDED JUNE 30, 2021**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's proportion of the net pension liability (asset)	2.33%	2.10%	2.28%	2.36%	2.44%	2.93%	3.28%
Town's proportionate share of the net pension liability (asset)	\$ 49,464	\$ 96,128	\$ 71,868	\$ 153,185	\$ 151,251	\$ 1,250	\$ (12,089)
Town's covered payroll	\$ 1,141,669	\$ 932,113	\$ 910,208	\$ 869,550	\$ 826,497	\$ 868,199	\$ 887,947
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	4.33%	10.31%	7.90%	17.62%	18.30%	0.14%	1.36%
Plan fiduciary net position as a percentage of the total pension liability (asset)	96.95%	92.74%	94.41%	87.62%	86.38%	99.89%	101.07%

Notes to Schedule:

1. Measurement date: The amounts presented are as of and for the prior pension plan year ended June 30.

*Fiscal year June 30, 2015, was the first year of implementation, therefore only seven years are shown.

TOWN OF MILLSBORO

**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - COUNTY & MUNICIPAL
POLICE AND FIREFIGHTERS' PENSION PLAN - A COST SHARING DEFINED BENEFIT PENSION PLAN (LAST 10 YEARS*)
FOR THE YEAR ENDED JUNE 30, 2021**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's proportion of the net pension liability (asset)	1.07%	0.95%	0.92%	0.89%	0.85%	0.88%	0.99%
Town's proportionate share of the net pension liability (asset)	\$ 165,089	\$ 272,325	\$ 211,535	\$ 89,473	\$ 134,606	\$ (46,639)	\$ (107,301)
Town's covered payroll	\$ 979,466	\$ 838,126	\$ 762,797	\$ 728,254	\$ 616,928	\$ 628,273	\$ 657,184
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	16.86%	32.49%	27.73%	12.29%	21.82%	7.42%	16.33%
Plan fiduciary net position as a percentage of the total pension liability (asset)	96.67%	93.25%	94.10%	97.00%	94.70%	101.97%	104.47%

Notes to Schedule:

1. Measurement date: The amounts presented are as of and for the prior pension plan year ended June 30.

*Fiscal year June 30, 2015, was the first year of implementation, therefore only seven years are shown.

TOWN OF MILLSBORO
SCHEDULE OF CONTRIBUTIONS - COUNTY & MUNICIPAL OTHER EMPLOYEES'
PENSION PLAN - A COST SHARING DEFINED BENEFIT PENSION PLAN (LAST 10 YEARS*)
FOR THE YEAR ENDED JUNE 30, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions (actuarially determined)	\$ 95,085	\$ 83,114	\$ 67,951	\$ 64,534	\$ 58,781	\$ 51,344	\$ 56,276
Contributions in relations to the actuarially required contributions	<u>(95,085)</u>	<u>(83,114)</u>	<u>(67,951)</u>	<u>(64,534)</u>	<u>(58,781)</u>	<u>(51,344)</u>	<u>(56,276)</u>
Contributions deficiency (excess)	<u>\$ -</u>						
Town's covered payroll	\$ 1,346,809	\$ 1,141,669	\$ 932,113	\$ 910,208	\$ 869,550	\$ 826,497	\$ 868,199
Contributions as a percentage of covered payroll	7.06%	7.28%	7.29%	7.09%	6.76%	6.21%	6.48%

Notes to Schedule:

1. Methods and assumptions used to determine contribution rates are detailed in Note E.

*Fiscal year June 30, 2015, was the first year of implementation, therefore only seven years are shown.

TOWN OF MILLSBORO
SCHEDULE OF CONTRIBUTIONS - COUNTY & MUNICIPAL POLICE AND FIREFIGHTERS'
PENSION PLAN - A COST SHARING DEFINED BENEFIT PENSION PLAN (LAST 10 YEARS*)
FOR THE YEAR ENDED JUNE 30, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions (actuarially determined)	\$ 169,030	\$ 164,941	\$ 139,800	\$ 87,112	\$ 100,282	\$ 85,444	\$ 89,089
Contributions in relations to the actuarially required contributions	<u>(169,030)</u>	<u>(164,941)</u>	<u>(139,800)</u>	<u>(87,112)</u>	<u>(100,282)</u>	<u>(85,444)</u>	<u>(89,089)</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered payroll	\$ 1,018,862	\$ 979,466	\$ 838,126	\$ 762,797	\$ 728,254	\$ 616,928	\$ 628,273
Contributions as a percentage of covered payroll	16.59%	16.84%	16.68%	11.42%	13.77%	13.85%	14.18%

Notes to Schedule:

1. Methods and assumptions used to determine contribution rates are detailed in Note E.

*Fiscal year June 30, 2015, was the first year of implementation, therefore only seven years are shown.

SUPPLEMENTARY INFORMATION

TOWN OF MILLSBORO
SCHEDULE OF GENERAL FUND REVENUES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2021

- 48 -

	Final Budgeted Amounts	Actual	Variance with Budget Positive (Negative)
TAXES AND FEES			
Ambulance and fire fees	\$ 290,000	\$ 419,848	\$ 129,848
Annexation fee	-	25,321	25,321
Building fund fee	-	149,189	149,189
Penalties	28,500	26,080	(2,420)
Property tax	2,990,000	2,917,936	(72,064)
Realty transfer tax	-	2,077,037	2,077,037
TOTAL TAXES AND FEES	3,308,500	5,615,411	2,306,911
INTERGOVERNMENTAL			
Street grants	196,000	100,381	(95,619)
Police grants	139,750	234,944	95,194
Police pension	84,429	87,916	3,487
TOTAL INTERGOVERNMENTAL	420,179	423,241	3,062
CHARGES FOR SERVICES			
Business and rental licenses	50,000	47,935	(2,065)
Permits and variances	333,500	393,952	60,452
TOTAL CHARGES FOR SERVICES	383,500	441,887	58,387
FINES			
Court fines	95,000	46,592	(48,408)
MISCELLANEOUS			
Boat slips	7,680	7,680	-
Franchise fees	116,000	109,932	(6,068)
Interest revenue	-	26,484	26,484
Lease of properties	31,800	33,488	1,688
Miscellaneous	388,590	355,529	(33,061)
TOTAL MISCELLANEOUS	544,070	533,113	(10,957)
TOTAL REVENUE	\$ 4,751,249	\$ 7,060,244	\$ 2,308,995

TOWN OF MILLSBORO
SCHEDULE OF GENERAL FUND EXPENDITURES AND OTHER FINANCING USES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2021

- 49 -

	Final Budgeted Amounts	Actual	Variance with Budget Positive (Negative)
GENERAL ADMINISTRATION			
Advertising	\$ 13,000	\$ 13,339	\$ (339)
Ambulance and fire fees	290,000	419,848	(129,848)
Civic Center	13,200	20,542	(7,342)
Dues and donations	49,000	45,473	3,527
Employee benefits	98,991	98,909	82
Fees and permits	1,500	1,236	264
Gasoline and oil	2,100	1,900	200
Insurance	55,000	51,709	3,291
Museum	100	-	100
Office	30,593	35,318	(4,725)
Payroll taxes	40,867	47,984	(7,117)
Pension expense	32,925	46,235	(13,310)
Postage	3,500	5,117	(1,617)
Professional services	453,855	600,153	(146,298)
Reassessment	40,000	56,491	(16,491)
Repairs and maintenance	102,115	82,041	20,074
Salaries	508,000	523,350	(15,350)
Telephone	4,500	4,464	36
Utilities	18,000	19,704	(1,704)
TOTAL GENERAL ADMINISTRATION	1,757,246	2,073,813	(316,567)
PUBLIC SAFETY			
Employee benefits	300,212	296,462	3,750
Gasoline and oil	25,000	23,684	1,316
Grant expense	-	57,617	(57,617)
Insurance	115,000	119,035	(4,035)
Miscellaneous	20,900	33,945	(13,045)
Payroll taxes	99,264	101,177	(1,913)
Pension expense	190,747	169,030	21,717
Police uniforms	16,200	25,914	(9,714)
Professional services	500	-	500
Repairs and maintenance	21,870	33,649	(11,779)
Salaries	1,259,725	1,242,407	17,318
Supplies	8,250	7,352	898
Telephone	11,300	11,141	159
Utilities	8,500	8,616	(116)
TOTAL PUBLIC SAFETY	2,077,468	2,130,029	(52,561)
RECREATION			
Repairs and maintenance	47,100	19,671	27,429
Utilities	3,000	2,249	751
TOTAL RECREATION	50,100	21,920	28,180

TOWN OF MILLSBORO
SCHEDULE OF GENERAL FUND EXPENDITURES AND OTHER FINANCING USES -
BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2021

- 50 -

	Final Budgeted Amounts	Actual	Variance with Budget Positive (Negative)
STREETS			
Gasoline and oil	\$ 1,600	\$ 2,135	\$ (535)
Insurance	12,000	12,459	(459)
Repairs and maintenance	169,200	189,370	(20,170)
Salaries	4,338	2,365	1,973
Supplies	22,500	13,476	9,024
Trash removal	2,200	2,577	(377)
Utilities	66,600	69,425	(2,825)
TOTAL STREETS	<u>278,438</u>	<u>291,807</u>	<u>(13,369)</u>
CAPITAL OUTLAY			
General administration	3,760,000	18,331	3,741,669
Public safety	47,000	217,808	(170,808)
Recreation	24,000	10,627	13,373
Streets	941,000	854,833	86,167
TOTAL CAPITAL OUTLAY	<u>4,772,000</u>	<u>1,101,599</u>	<u>3,670,401</u>
DEBT SERVICE	<u>19,557</u>	<u>19,557</u>	<u>-</u>
OTHER FINANCING USES			
Transfers out, net	<u>-</u>	<u>2,706,019</u>	<u>(2,706,019)</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 8,954,809</u>	<u>\$ 8,344,744</u>	<u>\$ 610,065</u>

A PROFESSIONAL CORPORATION • CERTIFIED PUBLIC ACCOUNTANTS

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(1937 - 2016)

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DIRECTOR

**INDEPENDENT AUDITOR'S 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 Honorable Mayor and Council
Town of Millsboro
Millsboro, Delaware

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the Town of Millsboro, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town of Millsboro's basic financial statements and have issued our report thereon dated December 2, 2021.

Internal Control over Financial Reporting

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

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

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. 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 certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as Finding 2021-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Millsboro's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as Finding 2021-001.

The Town of Millsboro's Response to Findings

The Town of Millsboro's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The Town of Millsboro's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jefferson, Urian, Doane & Sterner, P.A.

Georgetown, Delaware
December 2, 2021

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Current Year

Significant Deficiencies

Finding 2021-001 Financial Reporting

Condition: The Town of Millsboro 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 a potential misstatement.

Criteria: The Town of Millsboro's financial statements and notes are required to be prepared in accordance with accounting principles generally accepted in the United States of America by personnel who possess sufficient knowledge and expertise.

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: The Town's financial reports could have a significant risk of being potentially misstated.

Recommendation: The Town of Millsboro may wish to consider alternatives to improve control and expertise over the financial reporting process in the future.

Auditee Response: *"The Town 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."*