

TOWN OF MILLSBORO
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

TOWN OF MILLSBORO
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Jefferson, Urian, Doane & Sterner, P.A.

A PROFESSIONAL CORPORATION • CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

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

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, 2007, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Millsboro's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and each major fund of the Town of Millsboro as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2007, on our consideration of 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Town of Millsboro's basic financial statements. The supplementary information on pages 30 through 32 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Town of Millsboro. The supplementary information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Georgetown, Delaware
November 5, 2007

THE TOWN OF MILLSBORO

MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)

FOR FISCAL YEAR ENDED JUNE 30, 2007

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, 2007.

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, 2007, assets exceeded liabilities by \$ 17,439,753. Of this amount, the Town had negative unrestricted assets of \$ 319,020. The Town's total net assets increased by \$ 1,749,832 during the year. The net increase was mainly generated from realty transfer taxes, annexation and building fund fees and impact fees.

FUND FINANCIAL STATEMENTS

As of June 30, 2007, Millsboro's governmental funds reported an ending fund balance of \$ 4,096,342. This increased \$ 1,605,585 from the preceding year, and increased the fund balance by 64%.

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 Assets and the Statement of Activities.

The Statement of Net Assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the current fiscal year. Changes in net assets 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 Assets 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 are 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. Millsboro'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 do 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 Government 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. Town of Millsboro adopts an annual appropriated budget for its General Fund.

PROPRIETARY FUNDS

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 NON-MAJOR FUNDS

Millsboro does not have non-major funds. All activities are classified as Major Funds.

NOTES TO THE FINANCIAL STATEMENTS

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

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 assets:

**TOWN OF MILLSBORO'S SCHEDULE OF NET ASSETS
As of June 30, 2007 and 2006**

	Governmental Activities		Business-type Activities		Total Government	
	2007	2006	2007	2006	2007	2006
Current and Other Assets	\$ 4,737,417	\$ 3,967,997	\$ 2,874,068	\$ 6,462,953	\$ 7,611,485	\$ 10,430,950
Capital Assets	1,451,475	1,467,120	12,171,474	5,374,060	13,622,949	6,841,180
Total Assets	<u>6,188,892</u>	<u>5,435,117</u>	<u>15,045,542</u>	<u>11,837,013</u>	<u>21,234,434</u>	<u>17,272,130</u>
Current and Other Liabilities	251,757	256,127	452,536	507,454	704,293	763,581
Long-term Liabilities Outstanding	23,220	47,173	3,067,168	771,455	3,090,388	818,628
Total Liabilities	<u>274,977</u>	<u>303,300</u>	<u>3,519,704</u>	<u>1,278,909</u>	<u>3,794,681</u>	<u>1,582,209</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	1,404,302	1,397,567	9,086,717	4,337,711	10,491,019	5,735,278
Restricted	4,926,860	5,431,956	2,340,894	5,766,950	7,267,754	11,198,906
Unrestricted	(417,247)	(1,697,706)	98,227	453,443	(319,020)	(1,244,263)
Total Net Assets	<u>\$ 5,913,915</u>	<u>\$ 5,131,817</u>	<u>\$ 11,525,838</u>	<u>\$ 10,558,104</u>	<u>\$ 17,439,753</u>	<u>\$ 15,689,921</u>

The governmental activities schedule of net assets is made up of cash, taxes receivable, restricted cash, annexation and assessments receivable, land improvements and other capital assets. Restricted net assets consist of cash and accounts receivable, which are restricted as to their use by outside agencies and the Town.

In the business type activities, 81% of the net assets are invested in the water and wastewater systems. Construction in progress of \$ 6,976,480 was incurred during the year and was funded by a combination of impact/annexation fees and State of Delaware bonds. Restricted net assets consist of cash and accounts receivable restricted by the Town for specific infrastructure outlays.

The following schedule reflects the breakdown of changes in net assets for Governmental and Business-type Activities for fiscal years 2007 and 2006.

TOWN OF MILLSBORO'S CHANGES IN NET ASSETS

For the Years Ended June 30, 2007 and 2006

	Governmental Activities		Business-type Activities		Total Government	
	2007	2006	2007	2006	2007	2006
Revenues						
Program Revenues:						
Charges for Services	\$ 427,833	\$ 356,442	\$ 1,374,349	\$ 1,197,351	\$ 1,802,182	\$ 1,553,793
Operating Grants and Contributions	198,335	159,837	990,902	1,472,658	1,189,237	1,632,495
Capital Grants and Contributions	83,694	99,400	-	-	83,694	99,400
General Revenues						
Property Taxes	854,744	668,062	-	-	854,744	668,062
Building Fund Fees	395,064	506,541	-	-	395,064	506,541
Ambulance and fire fees	94,841	50,476	-	-	94,841	50,476
Annexation Fees	27,607	312,006	44,729	504,749	72,336	816,755
Realty Transfer Taxes	910,074	589,829	-	-	910,074	589,829
Investment Income	122,323	78,507	-	-	122,323	78,507
Total Revenues	<u>3,114,515</u>	<u>2,821,100</u>	<u>2,409,980</u>	<u>3,174,758</u>	<u>5,524,495</u>	<u>5,995,858</u>
Program Expenses						
General Administration	800,370	592,234	-	-	800,370	592,234
Public Safety	1,258,064	1,116,284	-	-	1,258,064	1,116,284
Recreation	19,863	14,143	-	-	19,863	14,143
Streets	120,615	124,262	-	-	120,615	124,262
Sewer Facility	-	-	886,064	1,628,294	886,064	1,628,294
Water Facility	-	-	689,687	545,690	689,687	545,690
Total Expenses	<u>2,198,912</u>	<u>1,846,923</u>	<u>1,575,751</u>	<u>2,173,984</u>	<u>3,774,663</u>	<u>4,020,907</u>
Increase in Net Assets Before Transfers	915,603	974,177	834,229	1,000,774	1,749,832	1,974,951
Transfers	(133,505)	(878,196)	133,505	878,196	-	-
Increase (Decrease) in Net Assets	782,098	95,981	967,734	1,878,970	1,749,832	1,974,951
Net Assets - Beginning	5,131,817	5,035,836	10,558,104	8,679,134	15,689,921	13,714,970
Net Assets - Ending	<u>\$ 5,913,915</u>	<u>\$ 5,131,817</u>	<u>\$11,525,838</u>	<u>\$10,558,104</u>	<u>\$17,439,753</u>	<u>\$15,689,921</u>

In the Governmental Activities, the actual revenues were comparable to the budget except for realty transfer taxes, which generated \$ 585,074 over the budget, annexation fees, which generated \$ 865,047 over the budget, and building fund fees, which generated \$ 395,064 over budget. Other revenues did not have any areas with significant differences. The overall increase over budgeted revenues was \$ 2,355,750 on the fund financial statement.

Expenses consist of general administrative, public safety, recreation and streets and were comparable to or under budget except for public safety, which incurred larger expenses for insurance, salaries, debt service and capital outlay.

In the business type activities, the water service revenue and the sewer service revenue increased by 15% from the prior year. Annexation fees generated \$ 44,729 of revenues that are restricted for future infrastructure improvement during the current year. The expenses were comparable to prior years for the water and the sewer funds, except for additional engineering due to the third party water contamination incident.

OTHER FACTORS

The tax base increased approximately \$ 16,325,000 over the prior year due to annexations and new construction. The Town is finally realizing the impact of the new home construction on the assessment list.

The Town engineers presented their recommendations for impact fee and user fee rate increases; however, the Town did not have these recommendations in time for the fiscal year ending June 30, 2007. The Town will implement these increases in the next fiscal year and will use the incremental revenues to help cover the debt service that the Town is incurring for water and wastewater improvements.

Annexation fees collected increased by \$ 355,254 over the prior year due to the finalization of annexation applications and payments from Plantation Lakes. Plantation Lakes will be making its final payment in June 2008, and there is presently only one property of any significant size that the Town can anticipate billing annexation fees in fiscal year 2008.

Transfer tax revenue increased by approximately \$ 300,000 due to continued growth in the new housing developments. The Town currently utilizes a bank to collect the transfer tax funds and stamp the deeds before they are recorded, and the bank charges the Town a fee for this service. We are investigating the possibility of bringing this process in house and saving the related fees. The Town is also looking to invest the funds in an account that will offer greater interest earnings.

Interest revenues were up significantly due to the larger balances that we have been carrying on the restricted accounts.

We have seen Cupola Park continue with improvements and still more improvements are planned for next year. The funding for storm water improvements on Wilson Highway is also in place for next year.

The TCE clean up is still ongoing with the State of Delaware reimbursing the Town. Millsboro pays up front for the additional water testing, maintenance and changing of the filter system, then submits the statements to the state for reimbursement.

The Town has been fortunate to be able to say that it is in good financial shape and has been able to have a positive balance over the budgeted amount. The Town will be incurring substantial indebtedness over the next couple of years with the planned water and wastewater improvements and has hired financial consultants and bond counsel to review the financial picture and aid the Town while making these financial decisions. With their help, the Town should be ensured that they are making the best financial decisions possible and at the same time able to continue doing what is recommended as the best environmental solutions for water treatment and wastewater disposal.

BASIC FINANCIAL STATEMENTS

TOWN OF MILLSBORO
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 560,549	\$ -	\$ 560,549
Receivables:			
Taxes	33,351	-	33,351
Service water and sewer	-	341,152	341,152
Miscellaneous	47,513	181,295	228,808
Prepaid items	85,919	-	85,919
Bond issue costs, net of amortization	-	10,729	10,729
Restricted assets:			
Cash and cash equivalents	3,532,754	1,631,076	5,163,830
Annexation and assessment receivables	477,331	709,816	1,187,147
Capital assets:			
Land, improvements, and construction in progress	540,478	8,300,312	8,840,790
Other capital assets, net of depreciation	910,997	3,871,162	4,782,159
TOTAL ASSETS	6,188,892	15,045,542	21,234,434
LIABILITIES			
Accounts payable and other accrued liabilities	120,583	390,000	510,583
Accrued wages	31,136	-	31,136
Long-term liabilities:			
Due within one year	100,038	62,536	162,574
Due in more than one year	23,220	3,067,168	3,090,388
TOTAL LIABILITIES	274,977	3,519,704	3,794,681
NET ASSETS			
Invested in capital assets, net of related debt	1,404,302	9,086,717	10,491,019
Restricted for:			
Construction and debt service	3,597,980	2,340,894	5,938,874
Grant funds	174,058	-	174,058
Realty transfer tax	1,154,822	-	1,154,822
Unrestricted	(417,247)	98,227	(319,020)
TOTAL NET ASSETS	\$ 5,913,915	\$ 11,525,838	\$ 17,439,753

TOWN OF MILLSBORO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

Function/Programs	Program Revenues			Net Revenue (Expense) and Changes in Net Assets			
	Expenses	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	\$ 800,370	\$ 253,342	\$ 15,000	\$ -	\$ (532,028)	\$ -	\$ (532,028)
Public safety	1,258,064	118,547	117,573	25,000	(996,944)	-	(996,944)
Recreation	19,863	6,400	4,000	-	(9,463)	-	(9,463)
Streets	120,615	49,544	61,762	58,694	49,385	-	49,385
TOTAL GOVERNMENTAL ACTIVITIES	2,198,912	427,833	198,335	83,694	(1,489,050)	-	(1,489,050)
BUSINESS-TYPE ACTIVITIES							
Sewer facility	886,064	822,333	429,402	-	-	365,671	365,671
Water facility	689,687	552,016	561,500	-	-	423,829	423,829
TOTAL BUSINESS-TYPE ACTIVITIES	1,575,751	1,374,349	990,902	-	-	789,500	789,500
TOTAL PRIMARY GOVERNMENT	\$ 3,774,663	\$ 1,802,182	\$ 1,189,237	\$ 83,694	(1,489,050)	789,500	(699,550)
GENERAL REVENUES							
Taxes: Property and penalties					854,744		854,744
Realty transfer					910,074		910,074
Building fund					395,064		395,064
Ambulance and fire fees					94,841		94,841
Annexation fees					27,607	44,729	72,336
Unrestricted investment earnings					122,323	-	122,323
TRANSFERS					(133,505)	133,505	-
TOTAL GENERAL REVENUES AND TRANSFERS					2,271,148	178,234	2,449,382
CHANGE IN NET ASSETS					782,098	967,734	1,749,832
NET ASSETS - BEGINNING					5,131,817	10,558,104	15,689,921
NET ASSETS - ENDING					\$ 5,913,915	\$ 11,525,838	\$ 17,439,753

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

TOWN OF MILLSBORO
 BALANCE SHEET - GOVERNMENTAL FUND
 JUNE 30, 2007

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 560,549
Receivables:	
Taxes	33,351
Miscellaneous	47,511
Prepaid items	85,919
Restricted assets:	
Cash and cash equivalents	3,532,754
Receivables - Annexation	<u>477,331</u>
TOTAL ASSETS	<u>\$ 4,737,415</u>
LIABILITIES	
Accounts payable	\$ 118,623
Accrued wages	31,136
Accrued compensated absences	5,858
Deferred revenue	<u>485,457</u>
TOTAL LIABILITIES	<u>641,074</u>
FUND BALANCES	
Reserved for:	
Grant funds	128,313
Realty transfer tax	1,154,822
Building fund and annexation fees	3,192,110
Unreserved:	
Undesignated	<u>(378,903)</u>
TOTAL FUND BALANCES	4,096,342
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,451,475
Other assets are not available to pay for current period expenditures and therefore are deferred in the funds.	485,457
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(119,359)</u>
Net Assets of Governmental Activities	<u>\$ 5,913,915</u>

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

TOWN OF MILLSBORO
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 GOVERNMENTAL FUND
 FOR THE YEAR ENDED JUNE 30, 2007

	<u>General Fund</u>
REVENUES	
Taxes and fees	\$ 3,109,654
Intergovernmental	206,483
Charges for services	167,004
Fines	110,801
Miscellaneous	<u>344,808</u>
TOTAL REVENUES	<u>3,938,750</u>
EXPENDITURES	
Current:	
General Government:	
General administration	777,109
Public safety	1,303,711
Recreation	11,255
Streets	<u>107,585</u>
TOTAL EXPENDITURES	<u>2,199,660</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>1,739,090</u>
OTHER FINANCING SOURCES (USES)	
Transfers in	373,787
Transfers out	<u>(507,292)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(133,505)</u>
NET CHANGE IN FUND BALANCE	1,605,585
FUND BALANCE - BEGINNING	<u>2,490,757</u>
FUND BALANCE - ENDING	<u>\$ 4,096,342</u>

TOWN OF MILLSBORO
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
 BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2007

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND		\$ 1,605,585
<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 depreciation (\$ 132,654) exceeded capital outlays (\$ 117,009) and disposal of assets in the current period.</p>		
		(15,645)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. The net change is as follows:</p>		
Property taxes	\$ 10,118	
Annexation fees	(837,440)	
Miscellaneous revenue	(9,486)	
Grants	<u>12,577</u>	(824,231)
<p>Debt proceeds are recognized as financing sources in governmental funds, but are not revenue in the government-wide statement of activities, net of principal payments on debt and accrued interest.</p>		
		23,279
<p>Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		<u>(6,890)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$ 782,098</u>

TOWN OF MILLSBORO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET
AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts Original and Final	Actual	Variance with Budget - Positive (Negative)
REVENUES			
Taxes and fees	\$ 1,053,500	\$ 3,109,654	\$ 2,056,154
Intergovernmental	94,000	206,483	112,483
Charges for services	221,700	167,004	(54,696)
Fines	80,000	110,801	30,801
Miscellaneous	133,800	344,808	211,008
TOTAL REVENUES	<u>1,583,000</u>	<u>3,938,750</u>	<u>2,355,750</u>
EXPENDITURES			
Current:			
General Government:			
General administration	681,300	777,109	(95,809)
Public safety	1,122,000	1,303,711	(181,711)
Recreation	92,100	11,255	80,845
Streets	110,000	107,585	2,415
TOTAL EXPENDITURES	<u>2,005,400</u>	<u>2,199,660</u>	<u>(194,260)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(422,400)</u>	<u>1,739,090</u>	<u>2,161,490</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	373,787	373,787
Transfers out	(72,800)	(507,292)	(434,492)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(72,800)</u>	<u>(133,505)</u>	<u>(60,705)</u>
NET CHANGE IN FUND BALANCE	<u>(495,200)</u>	<u>1,605,585</u>	<u>2,100,785</u>
FUND BALANCE - BEGINNING	<u>2,490,757</u>	<u>2,490,757</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 1,995,557</u>	<u>\$ 4,096,342</u>	<u>\$ 2,100,785</u>

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

TOWN OF MILLSBORO
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2007

ASSETS	Business-type Activities - Enterprise Funds		
	Sewer Fund	Water Fund	Total
CURRENT ASSETS			
Receivables, net of allowance for doubtful accounts:			
Service charges	\$ 191,160	\$ 149,992	\$ 341,152
Miscellaneous	19,413	161,882	181,295
TOTAL CURRENT ASSETS	210,573	311,874	522,447
NONCURRENT ASSETS			
Bond issue cost, net of amortization	2,100	8,629	10,729
Restricted assets:			
Cash and cash equivalents	265,302	1,365,774	1,631,076
Receivables - annexation and assessments	567,212	142,604	709,816
Capital assets:			
Land, improvements, and construction in progress	8,179,573	120,739	8,300,312
Other capital assets, net of depreciation	2,596,790	1,274,372	3,871,162
TOTAL NONCURRENT ASSETS	11,610,977	2,912,118	14,523,095
TOTAL ASSETS	11,821,550	3,223,992	15,045,542
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and other accrued liabilities	328,047	61,953	390,000
Current portion of long-term liabilities	34,419	28,117	62,536
TOTAL CURRENT LIABILITIES	362,466	90,070	452,536
LONG-TERM LIABILITIES, LESS CURRENT PORTION	2,415,480	651,688	3,067,168
TOTAL LIABILITIES	2,777,946	741,758	3,519,704
NET ASSETS			
Invested in capital assets, net of related debt	8,358,882	727,835	9,086,717
Restricted for:			
Construction and debt service	832,516	1,508,378	2,340,894
Unrestricted	(147,794)	246,021	98,227
TOTAL NET ASSETS	\$ 9,043,604	\$ 2,482,234	\$ 11,525,838

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

TOWN OF MILLSBORO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

- 15 -

	Business-type Activities - Enterprise Funds		
	Sewer Fund	Water Fund	Total
OPERATING REVENUES			
Charges for services	\$ 743,476	\$ 448,863	\$ 1,192,339
Other operating revenue	60,644	92,538	153,182
TOTAL OPERATING REVENUES	804,120	541,401	1,345,521
OPERATING EXPENSES			
Amortization	975	-	975
Depreciation	131,804	89,697	221,501
Employee benefits	82,628	32,081	114,709
Equipment and tools	356	2,174	2,530
Gasoline	10,703	-	10,703
Insurance	43,278	18,675	61,953
Maintenance and repairs	19,325	69,447	88,772
Miscellaneous	939	3,754	4,693
Payroll taxes	20,974	8,407	29,381
Professional services	97,922	262,469	360,391
Salaries	244,855	97,892	342,747
Sludge landfill	38,165	-	38,165
Supplies	32,989	43,631	76,620
Utilities	138,347	42,222	180,569
TOTAL OPERATING EXPENSES	863,260	670,449	1,533,709
OPERATING INCOME (LOSS)	(59,140)	(129,048)	(188,188)
NON-OPERATING REVENUES (EXPENSES)			
Intergovernmental grant	-	333,882	333,882
Investment earnings	18,213	10,615	28,828
Loss on abandonment of project	(6,191)	-	(6,191)
Assessment and connection fees	429,402	227,618	657,020
Annexation	35,783	8,946	44,729
Interest expense	(16,613)	(19,238)	(35,851)
TOTAL NON-OPERATING REVENUES (EXPENSES)	460,594	561,823	1,022,417
INCOME BEFORE TRANSFERS	401,454	432,775	834,229
TRANSFERS IN	507,292	-	507,292
TRANSFERS OUT	-	(373,787)	(373,787)
CHANGE IN NET ASSETS	908,746	58,988	967,734
TOTAL NET ASSETS - BEGINNING	8,134,858	2,423,246	10,558,104
TOTAL NET ASSETS - ENDING	\$ 9,043,604	\$ 2,482,234	\$ 11,525,838

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, 2007

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	Business-type Activities - Enterprise Funds		
	Sewer Fund	Water Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 715,652	\$ 467,241	\$ 1,182,893
Payments to suppliers for goods and services	(409,674)	(440,101)	(849,775)
Payments to employees for services	(342,563)	(136,073)	(478,636)
Other operating receipts	55,773	77,667	133,440
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>19,188</u>	<u>(31,266)</u>	<u>(12,078)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from (to) other funds, net	507,292	(373,787)	133,505
Intergovernmental grants	-	524,618	524,618
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	<u>507,292</u>	<u>150,831</u>	<u>658,123</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(6,667,880)	(147,660)	(6,815,540)
Retirement of bonds and related costs	(250,000)	(15,162)	(265,162)
Proceeds from long-term debt	2,313,569	-	2,313,569
Assessment and connection fees	429,402	227,618	657,020
Interest paid	(16,613)	(18,935)	(35,548)
Annexation fees	1,080,990	270,247	1,351,237
Interfund loan	1,549,620	387,405	1,937,025
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,560,912)</u>	<u>703,513</u>	<u>(857,399)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	18,213	10,615	28,828
NET INCREASE (DECREASE) IN CASH	<u>(1,016,219)</u>	<u>833,693</u>	<u>(182,526)</u>
CASH AND CASH EQUIVALENTS - BEGINNING	<u>1,281,521</u>	<u>532,081</u>	<u>1,813,602</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 265,302</u>	<u>\$ 1,365,774</u>	<u>\$ 1,631,076</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (59,140)	\$ (129,048)	\$ (188,188)
Adjustments to reconcile operating income (loss) to net cash provided:			
Depreciation and amortization	132,779	89,697	222,476
Changes in assets and liabilities:			
Accounts receivable	(32,695)	3,507	(29,188)
Accounts payable	(21,756)	4,578	(17,178)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 19,188</u>	<u>\$ (31,266)</u>	<u>\$ (12,078)</u>

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

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 applicable to State and Local governments (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Town has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Town has chosen not to do so. The more significant accounting policies established in GAAP and used by the Town are discussed below.

1. Reporting Entity

The accompanying financial statements include police, streets, water and sewer service, recreation and general administrative services that are legally controlled by or dependent on the Town Council (the primary government). As defined by GASBS No. 14, 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 Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Town's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Town utilizes restricted resources to finance qualifying activities, to the extent permitted by laws, regulations, contracts and grants.

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, operating and capital grants.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basic Financial Statements - Government-wide Statements - Continued

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 assets resulting from the current year's activities.

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

The focus of the governmental fund's measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income. The following is a description of the governmental fund of the Town:

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 assets, financial position and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. Proprietary funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs. The following is a description of the proprietary funds of the Town:

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Basic Financial Statements - Fund Financial Statements - Continued

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 principal 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. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. 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.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

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. The Town considers property taxes as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, except for interest payable accrued at the debt issuance date for which cash is received with the debt proceeds, as well as expenditures related to compensated absences are recorded only when payment has matured and will be payable shortly after year-end. The revenues susceptible to accrual are property taxes, charges for service, interest income and intergovernmental revenues.

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 deposits and all highly liquid investments (including restricted assets) 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. Accounts Receivable

Accounts receivable are reported at their gross value. All 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:

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

8. Bond Issuance Costs

Bond issuance costs for proprietary funds are deferred and amortized over the repayment term of the bonds, using the straight-line method.

9. Deferred Revenue

Deferred revenue represents monies owed to the Town but not currently available for use and which will be recognized as revenue in future periods.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt - 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 assets - Consists of net assets with constraints placed on the 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 assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Reserved is further split between amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Proprietary fund equity is classified the same as in the government-wide statements.

Equity reservations and restrictions for grant funds and realty transfer tax are enforced by non-Millsboro enabling legislation. All other equity reservations and restrictions are enforced by the Town charter.

11. Revenues

Those revenues susceptible to accrual are property taxes, interest revenue and charges for services, intergovernmental, and miscellaneous. All other revenue items are considered to be measurable and available only when cash is received by the Town. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASBS No. 33. In applying GASBS No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

Program revenues include: charges to customers for goods, services or privileges provided, operating grants and contributions, and capital grants and contributions. General revenues include all taxes.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

12. Expenditures

Expenditures are recognized when the related fund liability is incurred.

13. 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.

14. Interfund Activity

Interfund activity is reported as transfers. Interfund transactions are treated as transfers and are not required to be repaid by the funds. Transfers between governmental (\$ 133,505) or water (\$ 373,787) and sewer (\$ 507,292) 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.

15. Budgets and Budgetary Accounting

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

- a. Annually each year and not later than July 1, the Town clerk 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.

16. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

17. Interest Capitalization

Interest costs incurred by a proprietary fund during the construction of capital assets are subject to capitalization. The amount of interest costs to be capitalized are based on the construction costs financed by a specific obligation. Interest of \$ 9,415 has been capitalized during the current year.

NOTE B - CASH AND CASH EQUIVALENTS

Investments are allowed in various financial institutions and are carried at cost plus accrued interest. Transactions are made directly with the banks. The Town daily invests excess monies into a bank sponsored money market fund that has a portfolio that includes federal obligations and that has a fixed value of \$ 1 per share. The balance in this fund was \$ 696,497 at June 30, 2007. This amount is included in the Town's cash balance in the fund and government-wide financial statements at June 30, 2007.

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 does not have a deposit policy for custodial credit risk. As of June 30, 2007, \$ 4,977,848 of the Town's bank balance of \$ 5,981,345 was exposed to custodial credit risk as assets that were uninsured and uncollateralized.

NOTE C - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance at June 30, 2006	Increases	Decreases	Balance at June 30, 2007
Governmental Activities:				
Capital assets, not being depreciated:				
Land and parks	\$ 540,478	\$ -	\$ -	\$ 540,478
Other capital assets:				
Buildings and improvements	1,349,368	-	-	1,349,368
Equipment	836,191	117,009	9,597	943,603
Total other capital assets	2,185,559	117,009	9,597	2,292,971
Less accumulated depreciation for:				
Buildings and improvements	727,657	25,238	-	752,895
Equipment	531,260	107,416	9,597	629,079
Total accumulated depreciation	1,258,917	132,654	9,597	1,381,974
Other capital assets, net	926,642	(15,645)	-	910,997
Governmental Activities Capital Assets, Net	\$ 1,467,120	\$ (15,645)	\$ -	\$ 1,451,475

NOTE C - CAPITAL ASSETS - CONTINUED

	Balance at June 30, 2006	Increases	Decreases	Balance at June 30, 2007
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 83,764	\$ 26,575	\$ -	\$ 110,339
Construction in progress	1,240,068	6,949,905	-	8,189,973
Total capital assets, not being depreciated	1,323,832	6,976,480	-	8,300,312
Other capital assets:				
Infrastructure	7,537,400	-	-	7,537,400
Machinery and equipment	524,284	42,435	-	566,719
Total other capital assets	8,061,684	42,435	-	8,104,119
Less accumulated depreciation for:				
Infrastructure	3,724,382	165,195	-	3,889,577
Machinery and equipment	287,074	56,306	-	343,380
Total accumulated depreciation	4,011,456	221,501	-	4,233,957
Other capital assets, net	4,050,228	(179,066)	-	3,871,162
Business-type Activities Capital Assets, Net	\$ 5,374,060	\$ 6,797,414	\$ -	\$ 12,171,474

Depreciation expense was charged to functions as follows:

Governmental activities:		
General government		\$ 35,821
Police services		69,595
Recreation		14,209
Streets		13,029
Total governmental activities depreciation expense		\$ 132,654
Business-type activities:		
Water		\$ 89,697
Sewer		131,804
Total business-type activities depreciation expense		\$ 221,501

NOTE D - PROPERTY TAXES

Taxes are levied on July 1st and are considered delinquent on October 1st. The Town bills and collects its own property taxes. The tax rate at July 1, 2006 was \$.51 per \$ 100 of assessed valuation for all real property and improvements. The assessed valuation for July 1, 2006 was \$ 156,982,232. The taxes billed also include capitation taxes of \$ 10 per person over the age of eighteen.

NOTE E - PENSION PLANS

Prior to 1999, the Town had established a defined contribution pension plan for its employees and a nonqualified deferred compensation plan for full-time police personnel. Both these plans were terminated during the 1999 year as the Town joined the State of Delaware network of pension plans on July 1, 1999. The Town purchased for its employees prior service cost which was partially funded by the above terminated plans.

The Town currently participates in two State of Delaware administered multi-employer county and municipal pension plans. All full-time employees are eligible to participate in the defined benefit plans. Benefits vest after 10 years of service. Police employees may retire when they have 10 years of credited service and are 62, or their age plus credited service equals 75, or they have 20 years of credited service. Non-police employees may retire if they have 5 years of credited service and are 62, or they have 15 years of credited service and are 60 or they have 30 years of credited service. 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 may be obtained by writing to the State of Delaware, State Board of Trustees, P.O. Box 1401, Dover, Delaware 19903 or by calling 1-800-722-7300.

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, 2007, the Town was required to contribute 5.09% and 13.97% of its gross payroll to the regular plan and police plan, respectively. Employee wages covered by the plans in 2007 totaled \$ 1,146,054 out of total wages paid of \$ 1,230,493. Total contributions by the Town and the employees made during the fiscal years 2007, 2006, and 2005 were \$ 161,500, \$ 126,090, and \$ 96,006, respectively, which was equal to the required contribution. There were 29 active participants at June 30, 2007 between the two plans.

The State periodically grants funds to municipalities to provide police pensions. The Town uses these monies to fund the pension plan for police employees.

NOTE F - GENERAL OBLIGATION BONDS AND NOTES PAYABLE

At June 30, 2007, business-type general obligation bonds are as follows:

	<u>Business-type</u>
1963 wastewater general obligation bonds, called bonds non-interest bearing, Redeemable from the bond sinking fund.	\$ 2,000
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.	667,277
2005 wastewater general obligation bond owed to the State of Delaware, interest only at 2.9% semi-annually until project completion; semi-annual payments thereafter or until June 2027. Total bonds authorized were \$ 4,200,000.	<u>2,415,480</u>
TOTAL GENERAL OBLIGATION BONDS	<u>\$ 3,084,757</u>

The total debt service payments are as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 17,589	\$ 88,557	\$ 106,146
2009	112,927	85,036	197,963
2010	116,207	84,142	200,349
2011	119,583	80,766	200,349
2012	123,057	77,292	200,349
2013 - 2017	671,037	330,708	1,001,745
2018 - 2022	774,348	227,397	1,001,745
2023 - 2027	893,567	108,178	1,001,745
2028 - 2032	143,491	26,994	170,485
2033 - 2037	112,951	6,390	119,341
TOTAL	<u>\$ 3,084,757</u>	<u>\$ 1,115,460</u>	<u>\$ 4,200,217</u>

NOTE F - GENERAL OBLIGATION BONDS AND NOTES PAYABLE - CONTINUED

At June 30, 2007, governmental type notes payable are as follows:

	<u>Governmental</u>
Note payable to Marlin Leasing Corp.; interest at 16.75% annually; interest and principal payments of \$ 229 due monthly; final payment due August 2008.	\$ 2,899
Note payable to Ford Motor Credit; interest at 5.9%; interest and principal payments of \$ 24,115 due annually; final payment due October 2008.	<u>44,274</u>
TOTAL NOTES PAYABLE	\$ <u>47,173</u>

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

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 23,953	\$ 2,915	\$ 26,868
2009	<u>23,220</u>	<u>1,353</u>	<u>24,573</u>
TOTAL	\$ <u>47,173</u>	\$ <u>4,268</u>	\$ <u>51,441</u>

Long-term Liability Activity

Long-term liability activity for the year ended June 30, 2007, was as follows:

	<u>June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2007</u>	<u>Due Within One Year</u>
Governmental Activities:					
Compensated absences	\$ 63,337	\$ 73,689	\$ 60,941	\$ 76,085	\$ 76,085
Notes payable	<u>69,553</u>	<u>-</u>	<u>22,380</u>	<u>47,173</u>	<u>23,953</u>
Total Governmental Activities	\$ 132,890	\$ 73,689	\$ 83,321	\$ 123,258	\$ 100,038

NOTE F - GENERAL OBLIGATION BONDS AND NOTES PAYABLE - CONTINUED

	<u>June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2007</u>	<u>Due Within One Year</u>
Business-type Activities:					
General obligation bonds	\$ 1,036,350	\$ 2,313,569	\$ 265,162	\$ 3,084,757	\$ 17,589
Compensated absences	<u>36,746</u>	<u>27,906</u>	<u>19,705</u>	<u>44,947</u>	<u>44,947</u>
Total Business-type Activities	<u>\$ 1,073,096</u>	<u>\$ 2,341,475</u>	<u>\$ 284,867</u>	<u>\$ 3,129,704</u>	<u>\$ 62,536</u>

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 Assets.

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.

NOTE H - WATER AND WASTEWATER PROJECTS

The Town of Millsboro is in the process of planning and upgrading the existing water and wastewater treatment plants. The water system expansion project is estimated to cost \$ 1.9 million. The wastewater system expansion is estimated to cost \$ 40.35 million, which includes the acquisition of 500 acres of land for a spray irrigation site. A contract was entered into August 2, 2007, for the purchase of the spray irrigation site. A \$ 25,000 deposit was made on the property, which is included in land under the sewer fund activities.

A referendum was passed by the Millsboro residents on August 25, 2007, which authorized the Town to borrow up to \$ 36 million to fund these projects. As of June 30, 2007, costs of \$ 8,189,973 have been capitalized related to these projects.

NOTE I - 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 will be 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. As of June 30, 2007, \$ 58,694 had been received by the Town from this Town Facilities Fund. If the funds are not utilized by the Town, the funds will either revert back to the developer for infrastructure costs or be utilized to redeem outstanding bonds. The developer is solely responsible for the construction of the District's infrastructure improvements, which when properly completed, will be assigned to the Town.

NOTE I - SPECIAL OBLIGATION BONDS FOR DEVELOPMENT DISTRICT - CONTINUED

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

SUPPLEMENTARY INFORMATION

TOWN OF MILLSBORO
 SCHEDULE OF GENERAL FUND REVENUES AND OTHER FINANCING SOURCES -
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2007

	Original and Final Budget	Actual	Variance with Budget Positive (Negative)
TAXES AND FEES			
Annexation fee	\$ -	\$ 865,047	\$ 865,047
Building fund fee	-	395,064	395,064
Ambulance and fire fees	-	94,842	94,842
Property and capitation taxes	725,000	837,554	112,554
Realty transfer tax	325,000	910,074	585,074
Penalties	3,500	7,073	3,573
TOTAL TAXES AND FEES	<u>1,053,500</u>	<u>3,109,654</u>	<u>2,056,154</u>
INTERGOVERNMENTAL REVENUES			
Municipal street aid	58,000	61,488	3,488
Police grants	-	78,569	78,569
General	-	5,000	5,000
Police pension	36,000	61,426	25,426
TOTAL INTERGOVERNMENTAL REVENUES	<u>94,000</u>	<u>206,483</u>	<u>112,483</u>
CHARGES FOR SERVICES			
Trash pickup	53,000	49,052	(3,948)
Business and rental licenses	18,700	20,990	2,290
Permits and variances	150,000	96,962	(53,038)
TOTAL CHARGES FOR SERVICES	<u>221,700</u>	<u>167,004</u>	<u>(54,696)</u>
FINES			
Court fines	80,000	110,801	30,801
MISCELLANEOUS			
Boat slips	6,400	6,400	-
Franchise fees	36,000	35,771	(229)
Interest revenue	5,800	122,324	116,524
Lease of properties	43,000	37,999	(5,001)
Miscellaneous	42,600	142,314	99,714
TOTAL MISCELLANEOUS	<u>133,800</u>	<u>344,808</u>	<u>211,008</u>
TOTAL REVENUES	<u>1,583,000</u>	<u>3,938,750</u>	<u>2,355,750</u>
OTHER FINANCING SOURCES			
Transfers in	-	373,787	373,787
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>\$ 1,583,000</u>	<u>\$ 4,312,537</u>	<u>\$ 2,729,537</u>

TOWN OF MILLSBORO
 SCHEDULE OF GENERAL FUND EXPENDITURES AND OTHER FINANCING USES -
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2007

	Original and Final Budget	Actual	Variance with Budget Positive (Negative)
GENERAL ADMINISTRATION			
Advertising	\$ 2,500	\$ 2,749	\$ (249)
Capital outlay	14,000	19,449	(5,449)
Civic Center	134,800	71,955	62,845
Dues and donations	20,000	20,424	(424)
Employee benefits	75,500	54,573	20,927
Fees and permits	100	1,883	(1,783)
Ambulance and fire fees	-	98,756	(98,756)
Insurance	50,000	11,787	38,213
Office	23,000	19,370	3,630
Payroll taxes	18,000	12,280	5,720
Pension expense	13,000	11,708	1,292
Postage	4,000	9,590	(5,590)
Professional services	57,500	123,631	(66,131)
Reassessment	20,000	34,259	(14,259)
Repairs and maintenance	18,200	37,617	(19,417)
Salaries	220,000	218,676	1,324
Telephone	3,200	3,308	(108)
Transfer tax expense	-	17,498	(17,498)
Utilities	7,500	7,596	(96)
TOTAL GENERAL ADMINISTRATION	681,300	777,109	(95,809)
PUBLIC SAFETY			
Capital outlay	20,000	91,960	(71,960)
Contingency	-	7,235	(7,235)
Debt service	-	26,911	(26,911)
Employee benefits	213,000	155,202	57,798
Gasoline and oil	28,000	28,497	(497)
Grant expense	-	15,300	(15,300)
Insurance	-	79,406	(79,406)
Miscellaneous	8,100	6,665	1,435
Payroll taxes	55,400	55,972	(572)
Pension expense	84,000	78,040	5,960
Police uniforms	9,500	9,564	(64)
Repairs and maintenance	15,500	32,747	(17,247)
Salaries	638,000	676,538	(38,538)
Supplies	20,000	16,424	3,576
Telephone	20,000	12,653	7,347
Utilities	10,500	10,597	(97)
TOTAL PUBLIC SAFETY	1,122,000	1,303,711	(181,711)
RECREATION			
Capital outlay	51,000	5,600	45,400
Insurance	-	974	(974)
Repairs and maintenance	40,700	4,171	36,529
Utilities	400	510	(110)
TOTAL RECREATION	92,100	11,255	80,845

TOWN OF MILLSBORO
 SCHEDULE OF GENERAL FUND EXPENDITURES AND OTHER FINANCING USES -
 BUDGET AND ACTUAL - CONTINUED
 FOR THE YEAR ENDED JUNE 30, 2007

	Original and Final Budget	Actual	Variance with Budget Positive (Negative)
STREETS			
Insurance	\$ -	\$ 3,837	\$ (3,837)
Miscellaneous	500	5,412	(4,912)
Repairs and maintenance	2,200	2,749	(549)
Supplies	5,000	5,996	(996)
Trash removal	43,000	41,921	1,079
Utilities	59,300	47,670	11,630
TOTAL STREETS	110,000	107,585	2,415
TOTAL EXPENDITURES	2,005,400	2,199,660	(194,260)
OTHER FINANCING USES			
Transfers out	72,800	507,292	(434,492)
TOTAL EXPENDITURES AND OTHER FINANCING USES	\$ 2,078,200	\$ 2,706,952	\$ (628,752)

SINGLE AUDIT SUPPLEMENT

TOWN OF MILLSBORO
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2007

<u>Federal Grantor/Pass through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Environmental Protection Agency Pass-through State - Delaware Department of Natural Resources and Environmental Control Capitalization Grants for Clean Water State Revolving Funds *	66.458	S - 2024	\$ 2,442,262
Department of Homeland Security Pass-through State - Delaware Emergency Management Agency State Domestic Preparedness Equipment Support Program	97.004	2004 - GE - T4 - 0021 FY 04 - 026	26,632
Pass-through State - Delaware Emergency Management Agency Homeland Security Grant Program	97.067	2005 - GE - T5 - 0011	<u>2,374</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,471,268</u>

* Denotes Major Program

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of Town of Millsboro (The Town). The Town's reporting entity is defined in Note A of the notes to basic financial statements.

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual and the modified accrual bases of accounting, which are described in Note A of the notes to basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - LOANS

The Town's federal expenditures for CFDA No. 66.458 were funded by loans passed through the Delaware Department of Resources and Environmental Control and combined with state loan funds (83.33% Federal, 16.67% Delaware). Total loan funds of \$ 2,313,569 were advanced during the year ended June 30, 2007.

A PROFESSIONAL CORPORATION • CERTIFIED PUBLIC ACCOUNTANTS

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ANITA Y. SMITH, MEd, DIRECTOR

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of Town of Millsboro with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Town of Millsboro's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Town of Millsboro's management. Our responsibility is to express an opinion on Town of Millsboro's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Town of Millsboro's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Town of Millsboro's compliance with those requirements.

In our opinion, Town of Millsboro complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Town of Millsboro is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Town of Millsboro's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Town of Millsboro's internal control over compliance.

Internal Control Over Compliance - Continued

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Council, and the federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

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

Georgetown, Delaware
November 5, 2007

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**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 the financial statements of the governmental activities, the business-type activities, and each major fund of Town of Millsboro as of and for the year ended June 30, 2007, which collectively comprise Town of Millsboro's basic financial statements and have issued our report thereon dated November 5, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Town of Millsboro's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Millsboro's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Town of Millsboro's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town of Millsboro's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town of Millsboro's financial statements that is more than inconsequential will not be prevented or detected by the Town of Millsboro's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting as detailed in Finding 2007-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town of Millsboro's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Millsboro's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain other matters that we reported to management of Town of Millsboro in a separate letter dated November 5, 2007.

Town of Millsboro's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Town of Millsboro's response and accordingly we express no opinion on it.

This report is intended solely for the information and use of management, the Council, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

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

Georgetown, Delaware
November 5, 2007

PART A. - SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the basic financial statements of Town of Millsboro.
2. A significant deficiency relating to the audit of the basic financial statements was reported in the 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*. The condition is not a material weakness.
3. No instances of noncompliance material to the financial statements of Town of Millsboro, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were disclosed in the Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Town of Millsboro expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs are:

<u>PROGRAM NAME</u>	<u>CFDA #</u>
Capitalization Grants for Clean Water State Revolving Funds	66.458

8. Type A programs are identified as all programs which total over \$ 300,000. All other programs are considered to be Type B programs.
9. Town of Millsboro did not qualify as a low-risk auditee.

PART B. - FINDINGS RELATED TO THE FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Significant Deficiency

2007-1 Financial Reporting

Finding: 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.

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 of Millsboro will consider alternatives and the related costs to improving its technical expertise over the Town's financial reporting.

**TOWN OF MILLSBORO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007**

PART C. - FINDINGS RELATED TO THE FEDERAL AWARDS

None - Current and Prior