

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
FINANCIAL STATEMENTS
MARCH 31, 2026 AND 2025**

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE**

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INDEPENDENT AUDITOR'S REPORT

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The Board of Public Works
of the City of Lewes, Delaware
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Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities of the Board of Public Works of the City of Lewes, Delaware ("the Board"), as of and for the years ended March 31, 2026 and 2025, and the aggregate remaining fund information as of and for the years ended November 30, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities of the Board of Public Works of the City of Lewes, Delaware, as of March 31, 2026 and 2025, and the aggregate remaining fund information as of November 30, 2025 and 2024, and the respective changes in its financial position and where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Board and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Board's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions.



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Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Board's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Adoption of Governmental Accounting Standards Board (GASB) Pronouncements

As discussed in Note 2 to the financial statements, in 2026 the Board adopted the provisions of GASB Statement No. 102, "*Certain Risk Disclosures*". Our opinions are not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the net pension asset and related ratios, schedule of pension contributions, and schedule of pension investment returns on pages 4-9 and 34-36 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.



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We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The schedules of revenues, expenses, and changes in net position by department and the schedules of capital assets by department are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of revenues, expenses, and changes in net position by department and the schedules of capital assets by department are the responsibility of management and were 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 schedules of revenues, expenses, and changes in net position by department and the schedules of capital assets by department 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 September 24, 2026, on our consideration of the Board'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 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 Board's internal control over financial reporting and compliance.

Zelenkofske Axelrod LLC

ZELENKOFSCHE AXELROD LLC

Harrisburg, Pennsylvania
September 24, 2026

THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
Management's Discussion and Analysis (MD&A)
March 31, 2026

As management of the Board of Public Works of the City of Lewes, Delaware (BPW), we offer readers of Lewes BPW's financial statements this narrative overview and analysis of the financial activities for the year ended March 31, 2026. The intent of the Management's Discussion and Analysis (MD&A) is to summarize BPW's financial performance as a whole, in part, using comparative information from the current year analyzed against prior years. It is recommended that this is read in conjunction with the accompanying basic financial statements and notes to the financial statements in order to obtain a thorough understanding of the BPW's financial condition as of March 31, 2026.

Financial Highlights

The following items detail the Board of Public Works' financial highlights for the fiscal year ended March 31, 2026:

- The assets of the BPW exceeded our liabilities at the close of the year by \$80,054,827 (net position). Of this amount, \$15,091,750 are unrestricted.
- BPW's total net position increased by \$13,941,076.
- As of the close of the current year, BPW reported combined ending cash balances totaling \$11,176,030, an increase of \$7,707,968 in comparison with the prior year due to a reallocation of a money market account from investments to cash and cash equivalents.
- The largest portion of BPW's total assets (72.2%) is in the form of capital assets (e.g. infrastructure, treatment plants, wells, buildings, and equipment). BPW uses these capital assets to provide the electric, water, wastewater, and stormwater services to our customers. These assets are capital assets that can't be converted readily to cash.
- BPW made bond principal payments of \$1,105,083 and received loan forgiveness for additional bonds.

Overview of the Financial Statements

The BPW's basic financial statements include the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, Statement of Cash Flows, and notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements themselves.

The Statement of Net Position presents information on all the BPW's assets, deferred outflows, liabilities, and deferred inflows with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the BPW's financial position is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position presents the current period's revenues and expenses. All changes in net position are recognized as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement can be used to determine whether BPW has successfully recovered all costs.

The primary purpose of the Statement of Cash Flows is to provide information about BPW's cash receipts, cash payments, and net cash resulting from activities related to operations, investing, and financing. This statement provides answers to such questions as "Where did cash come from?", "What was it used for?" and "What was the cash in the cash balance during the reporting period?"

The Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position are presented for the Retirement Trust Fund relating to the pension funds for BPW employees.

THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
Management's Discussion and Analysis (MD&A) - Continued
March 31, 2026

Financial Analysis of the Board of Public Works as a Whole

A summary of the BPW's Statements of Net Position at March 31 are presented as follows:

Table A-1
Statement of Net Position
March 31st

	2026	2025	2024
Current Assets			
Unrestricted	\$ 18,193,221	\$ 11,746,681	\$ 7,505,044
Restricted	7,311,383	6,309,719	5,982,546
Non-current Assets			
Capital Assets, Net	70,934,567	66,810,047	59,616,419
Other Assets	1,812,880	1,917,182	2,176,120
Deferred Outflows of Resources	73,950	147,899	221,848
Total Assets & Deferred Outflows	<u>\$ 98,326,001</u>	<u>\$ 86,931,528</u>	<u>\$ 75,501,977</u>
Current Liabilities	\$ 4,297,065	\$ 3,071,222	\$ 2,202,236
Non-current Liabilities	13,540,338	17,281,510	12,190,687
Total Liabilities	<u>\$ 17,837,403</u>	<u>\$ 20,352,732</u>	<u>\$ 14,392,923</u>
Deferred Inflows of Resources	\$ 433,771	\$ 465,045	\$ 354,401
Net Position:			
Net Investment in Capital Assets	\$ 57,653,291	\$ 50,941,920	\$ 49,198,786
Restricted	7,309,786	5,332,136	5,060,838
Unrestricted	15,091,750	9,839,695	6,495,029
Total Net Position	<u>\$ 80,054,827</u>	<u>\$ 66,113,751</u>	<u>\$ 60,754,653</u>

Over time, net position may serve as a useful indication of a government's financial position. In the case of BPW, total assets and deferred outflows of resources exceeded liabilities and deferred inflows by \$80,054,827. The largest portion of BPW's net position (72.0%) reflects its net investment in capital assets used to acquire those assets that are still in service.

Capital assets, net, which represent 72.1% of BPW's assets and deferred outflows, increased in 2026 by \$4,124,520 or 6.2% from 2025 due to capital spending on various improvement projects. Liabilities decreased in 2026 by \$2,515,329 or 12.4% from 2025. BPW continues to draw on State Revolving Fund Loans for projects including Water Tower, Hoornkill Avenue, and Fourth Street, but received principal forgiveness on Donovan Smith Mobile Home Park project, resulting in an overall decrease in liabilities.

THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
Management's Discussion and Analysis (MD&A) - Continued
March 31, 2026

A summary of the BPW's Statements of Revenues, Expenses, and Changes in Net Position for the Years Ended March 31 is presented as follows:

Table A-2
Statements of Changes in Net Position
Years Ended March 31st

	2026	2025	2024
Operating Revenues			
Sales and Assessments	\$ 23,364,509	\$ 22,079,409	\$ 18,176,671
Other	1,156,574	1,134,705	1,932,574
Total Operating Revenues	<u>24,521,083</u>	<u>23,214,114</u>	<u>20,109,245</u>
Operating Expenses			
Purchased Power	9,255,467	9,251,687	7,613,333
Payroll and Administrative	3,661,924	3,312,306	3,426,872
Other Supplies and Expenses	5,122,719	4,870,099	4,774,189
Depreciation and Amortization	2,662,112	2,472,741	2,204,926
Total Operating Expenses	<u>20,702,222</u>	<u>19,906,833</u>	<u>18,019,320</u>
Non-operating Revenues (Expenses)			
Investment Income	695,078	530,606	413,947
Investment Expense	(57,671)	(482,489)	(443,182)
Interest Expense	(175,276)	(157,579)	(192,308)
Impact Fees	1,260,522	1,760,265	760,192
Gain (Loss) on Sale of Assets	-	3,500	(333)
Change in Fair Value of Investments	193,726	136,499	154,938
Grants	7,429,305	187,662	81,953
PFAS Revenue	700,618	-	-
Lease Revenue & Interest GASB 87	75,913	73,353	70,881
Net Non-operating Revenues	<u>10,122,215</u>	<u>2,051,817</u>	<u>846,088</u>
Increase (Decrease) in Net Position	<u>13,941,076</u>	<u>5,359,098</u>	<u>2,936,013</u>
Beginning Net Position	<u>66,113,751</u>	<u>60,754,653</u>	<u>57,818,640</u>
Ending Net Position	<u>\$ 80,054,827</u>	<u>\$ 66,113,751</u>	<u>\$ 60,754,653</u>

Operating revenues in 2026 increased by \$1,306,969 or 5.6% from 2025. The primary reason for the increase in revenues was due to the increase in rates. All departments were net positive contributors. The largest category of operating expenses is purchased power at 44.7%. The largest contributor in 2026 is grant revenue. The State of Delaware granted principal forgiveness on the Donovan Smith Mobile Home Park project, moving the cost of the project from a debt liability to grant revenue. Our investments saw a positive Change in Fair Value for the third year in a row.

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Management's Discussion and Analysis (MD&A) - Continued
March 31, 2026

Long-Term Debt and Capital Projects

The BPW does have authority to directly borrow money, but loans and bonds must also be approved through the City of Lewes. BPW makes principal and interest payments directly to the issuers of the debt. BPW has \$13,281,276 in bond obligations at the end of the year. These monies will be used for major capital renewal and expansion projects. See Note 9 of the notes to the financial statements for further detail on debt outstanding.

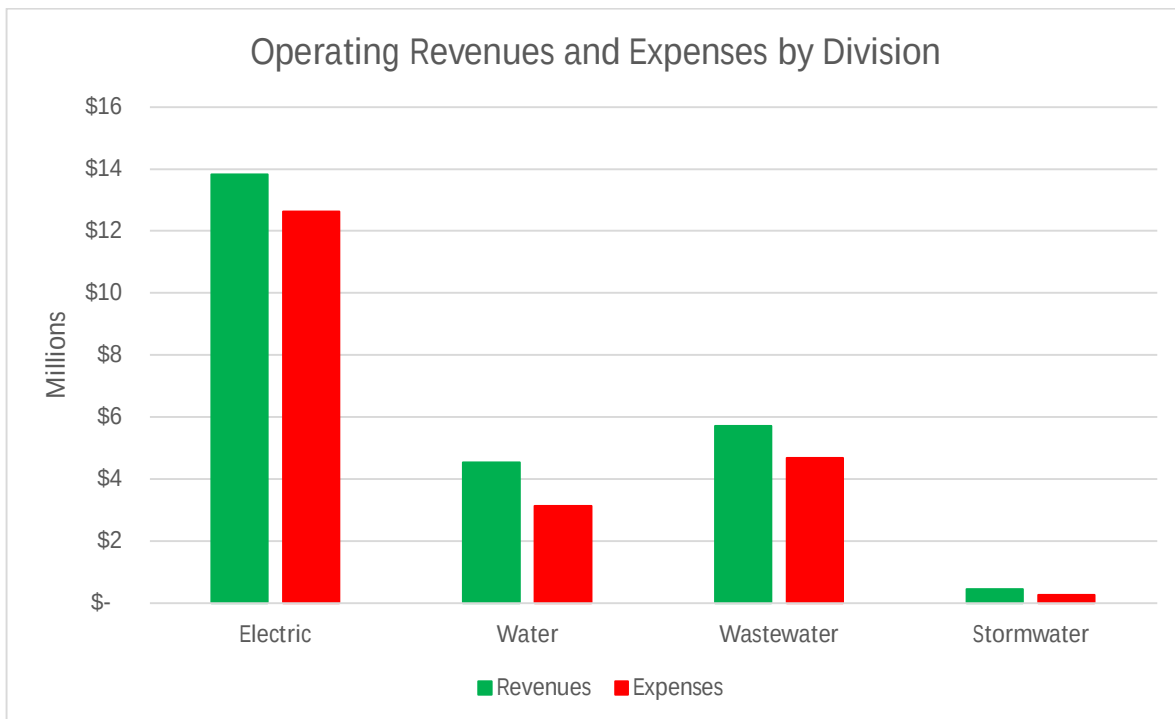
The BPW's capital assets totaled \$70,934,567 for the year ended. Of this amount, \$22,311,862 represented construction in progress at March 31, 2026. See page 42 and 43 for further information on capital projects by department.

Summary of the Financial Reporting Entity

Lewes BPW is chartered by the General Assembly of Delaware to provide electric, water, wastewater, and stormwater services to customers in the City of Lewes and its immediate surrounds. BPW operates an electric distribution system; a water production (wells), treatment and distribution system; a wastewater collection and treatment system; and a stormwater collection system.

The BPW uses enterprise funds to account for its electric, water, wastewater, and stormwater departments. In addition to the basic financial statements and notes to the financial statements, this report presents Schedules of Revenues, Expenses, and Changes in Net Position as well as capital asset information for each department.

The electric department provides the majority of BPW's operating revenues and operating expenses at \$13,821,982 and \$12,624,218, respectively. Purchased power of \$9,255,467 was the largest single cost to the electric department.



THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
Management's Discussion and Analysis (MD&A) - Continued
March 31, 2026

Managerial Report

The 2025–2026 fiscal year reflected the continued evolution of the Lewes Board of Public Works service territory. Since the COVID-19 pandemic, Lewes has transitioned from a community experiencing significant seasonal fluctuations to one with a more consistent year-round population. Coupled with ongoing residential development, this shift has driven continued expansion of the Board's electric, water, wastewater, and stormwater infrastructure to support the community's long-term needs.

This year was marked by significant project activity and continued infrastructure investment across multiple utility systems. BPW continued construction and advancement of several major water and sewer infrastructure projects, including improvements in the Fourth Street and Hoornkill Avenue areas. These projects are intended to replace aging infrastructure, improve system capacity and reliability. The Board also continued to expand utility infrastructure to accommodate new development within its service territory, including projects such as Mitchell's Corner and White's Pond Preserve. These efforts reflect the Board's continued commitment to proactively invest in infrastructure to support current and future demand.

Work also continued on the new elevated water storage tank, which will provide approximately one million gallons of additional storage capacity and improve system pressure and resiliency. This project is expected to be completed in September 2026. The well-header project was completed, providing important improvements to the infrastructure connecting the City's five production wells to the water treatment system. Collectively, these projects represent continued investment in both existing infrastructure and the expansion of utility systems needed to support future growth.

This year, BPW increased its focus on securing grant and low-interest funding by actively participating in a collaborative forum with the City of Lewes and local community organizations. This effort has opened up new pathways for shared resources, community-backed initiatives, and strategic partnerships in the funding process.

BPW also continued to invest in wastewater infrastructure and system resiliency. Planning and evaluation of pump station improvements remained a priority, particularly for facilities vulnerable to flooding and other extreme weather events. The Pump Station Resiliency Study supported through Hazard Mitigation Grant funding continued to evaluate facilities located within the floodplain and identify potential measures to improve reliability and protect critical infrastructure. These efforts are focused on addressing critical infrastructure located within the floodplain and incorporating flood risk and resiliency considerations into the design and planning of future infrastructure improvements.

During the fiscal year, BPW entered into an agreement with Sussex County for the treatment of wastewater flows from the BPW service territory. Under the agreement, Sussex County will receive and treat BPW's wastewater, while BPW will continue to own, operate, and maintain its wastewater collection and transmission system. The agreement provides BPW with an opportunity to address increasing wastewater treatment costs and evolving regulatory requirements while maintaining local control of the collection and transmission system. This arrangement is expected to provide greater long-term financial and operational stability as wastewater treatment requirements and costs continue to change.

In addition to major capital projects, BPW continued to invest in improvements to its facilities and operational infrastructure. During the fiscal year, BPW replaced the fuel shelter roof and the water office roof. These projects improve the condition, functionality, and reliability of BPW's facilities and support the continued efficient operation of the utility systems. Looking ahead, BPW expects capital investment and regulatory compliance to remain significant areas of focus. The Board extended its Emerging Contaminants Grant to evaluate the feasibility of options for addressing PFAS/PFOS, including the potential development of a new water treatment plant or the use of deeper wells. BPW also applied for funding to complete its lead service line inventory and to replace a known section of lead service line within an older development. The

THE BOARD OF PUBLIC WORKS
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Management's Discussion and Analysis (MD&A) - Continued
March 31, 2026

Board has remained proactive, coordinating with consultants, applying for funding where available, and preparing for critical deadlines to ensure full compliance. BPW continues to receive settlement funds from PFAS-related litigation, which will support ongoing water quality initiatives and compliance efforts related to emerging contaminants.

Another key challenge facing the utility industry is power supply reliability and cost stability. As coal-fired power plants are retired nationwide to reduce emissions, the industry struggles to keep up with growing electricity demand due to delays in building new generation facilities. Although the supply and demand issue continues in our service area, proactive planning from our joint action agency, DEMEC, has resulted in a steady wholesale rate.

The Board and staff remain committed to professional development by participating in industry conferences, workshops, and training opportunities. Staying informed about emerging technologies, regulatory changes, and industry best practices helps ensure the Board of Public Works is well prepared to meet future challenges.

The 2025–2026 fiscal year brought continued growth, new challenges, and opportunities for the Lewes Board of Public Works to strengthen the services and infrastructure our community relies on every day. As we look ahead, the Board and staff remain focused on planning for the future, making responsible investments, and adapting to the changing needs of the community. We are grateful to our employees, customers, and community partners for their continued support as we work together to ensure a strong and sustainable future for Lewes.

Economic Factors and Next Year's Budgets and Rates

The 2026-2027 budget shows operating revenues are estimated to increase by 2.7% for the entire utility. This budget is based primarily on the previous 5-year financial history, assuming similar activity, with rate increases and growth considered. The greatest percentage increase in revenue stems from the wastewater department. We are in our final year of our rate setting study to continue towards each department being independently viable, with the highest increase in the Wastewater Department. Primarily due to our robust capital improvement budget, we initially set our increase in all 4 utilities at 2.5% electric, 2.9% water, 6.6% wastewater, and 2.4% stormwater, for fiscal year 2027. However, since a large increase was implemented two years ago in electric, due to the unexpected increase on the cost of purchase power, and expected stability in the wholesale rate this year, we did not raise our electric rate. We also anticipate the power cost adjustment to keep decreasing. BPW is conducting a Cost of Service, Revenue Requirement, and Rate Setting study in fiscal year 2027. This is meant to ensure rates are still in line with the impact users have on our system and cover our operating and capital expenditures. The budget shows operating expenses going up by 1.8%. This number is expected to stay lower than inflation due to a steady rate in our purchase power. Non-operating revenues and expenses are expected to help our net position. Impact fees and grant revenue are expected to be the largest contributors. Lewes continues to see growth from new developments and has been awarded additional grant money to continue studying PFAS treatment options. The change in net position, without accounting for investment market value adjustment, is estimated at \$8,924,618.

Requests for Information

This financial report is designed to provide a general overview of the Board of Public Works finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Kimberly Bellere, Finance Manager, or Robin Davis, General Manager Lewes Board of Public Works, 107 Franklin Avenue, Lewes, DE 19958.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
STATEMENTS OF NET POSITION
MARCH 31, 2026 AND 2025**

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	<u>2026</u>	<u>2025</u>
ASSETS		
Current Assets		
Cash		
Unrestricted	\$ 10,475,412	\$ 3,468,062
Restricted	700,618	-
Reserve Fund Investments		
Unrestricted	3,328,538	4,263,494
Restricted	6,610,765	6,309,719
Accounts Receivable, Net of Allowance	3,111,478	2,477,662
Lease Receivable	68,006	75,220
Inventory	1,092,782	1,346,592
Prepaid Expenses	28,179	28,060
Notes Receivable	88,826	84,591
Total Current Assets	<u>25,504,604</u>	<u>18,053,400</u>
Noncurrent Assets		
Capital Assets, Not Being Depreciated	25,114,999	19,489,324
Capital Assets, Being Depreciated, Net	45,819,568	47,320,723
Notes Receivable	1,445,125	1,526,041
Grants Receivable	190,810	175,951
Lease Receivable	159,732	218,190
Net Pension Asset	17,213	-
Total Noncurrent Assets	<u>72,747,447</u>	<u>68,730,229</u>
Total Assets	<u>98,252,051</u>	<u>86,783,629</u>
DEFERRED OUTFLOW OF RESOURCES		
Pension	<u>73,950</u>	<u>147,899</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	2,641,983	1,586,188
Customer Deposits	131,858	141,334
Accrued Interest	42,683	42,683
Unearned Revenue	137,400	116,800
Accrued Liabilities	211,726	177,122
Current Maturities of Bonds Payable	1,131,415	1,007,095
Total Current Liabilities	<u>4,297,065</u>	<u>3,071,222</u>
Noncurrent Liabilities		
Bonds Payable	12,149,861	14,861,032
Accrued Compensated Absences	144,890	126,650
Unearned Revenue	1,185,271	1,205,871
Unearned Grant Revenue	-	950,000
Other Liabilities	60,316	61,967
Net Pension Liability	-	75,990
Total Noncurrent Liabilities	<u>13,540,338</u>	<u>17,281,510</u>
Total Liabilities	<u>17,837,403</u>	<u>20,352,732</u>
DEFERRED INFLOWS OF RESOURCES		
Leases	227,738	293,410
Pension	206,033	171,635
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>433,771</u>	<u>465,045</u>
NET POSITION		
Net Investment in Capital Assets	57,653,291	50,941,920
Restricted	7,309,786	5,332,136
Unrestricted	15,091,750	9,839,695
Total Net Position	<u>\$ 80,054,827</u>	<u>\$ 66,113,751</u>

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

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED MARCH 31, 2026 AND 2025**

Page 11

	2026	2025
OPERATING REVENUES		
Sales and Assessments	\$ 23,364,509	\$ 22,079,409
Other	1,156,574	1,134,705
Total Operating Revenue	<u>24,521,083</u>	<u>23,214,114</u>
OPERATING EXPENSES		
Purchased Power	9,255,467	9,251,687
Payroll and Employee Related Expenses	1,501,889	1,587,129
Utilities	40,909	44,114
Repairs and Maintenance	1,354,850	1,144,828
Professional and Contractual Services	1,684,947	1,780,250
Other Supplies and Expenses	836,963	766,523
Administrative	2,160,035	1,725,177
In Lieu of Franchise	1,200,189	1,130,587
Bad Debt	4,861	3,797
Depreciation	2,662,112	2,472,741
Total Operating Expenses	<u>20,702,222</u>	<u>19,906,833</u>
Operating Income	<u>3,818,861</u>	<u>3,307,281</u>
NON-OPERATING REVENUES (EXPENSES)		
Reserve Fund Investment Income	695,078	530,606
Investment Expense	(57,671)	(482,489)
Interest Expense	(175,276)	(157,579)
Impact Fees	1,260,522	1,760,265
Gain (Loss) on Sale of Assets	-	3,500
Changes in Fair Value of Reserve Fund Investments	193,726	136,499
Grants	7,429,305	187,662
PFAS Revenue	700,618	-
Lease Revenue	65,672	60,992
Lease Interest	10,241	12,361
Net Non-Operating Revenues	<u>10,122,215</u>	<u>2,051,817</u>
Change in Net Position	<u>13,941,076</u>	<u>5,359,098</u>
NET POSITION, BEGINNING OF YEAR	<u>66,113,751</u>	<u>60,754,653</u>
NET POSITION, END OF YEAR	<u>\$ 80,054,827</u>	<u>\$ 66,113,751</u>

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

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2026 AND 2025**

Page 12

	2026	2025
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 22,716,356	\$ 21,729,879
Other Receipts	206,574	1,184,705
Payments to Suppliers	(15,240,384)	(15,433,411)
Payments to Employees	(1,433,901)	(1,672,021)
Net Cash Provided by Operating Activities	<u>6,248,645</u>	<u>5,809,152</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Investing Activities	769,965	(3,733,881)
Interest Income	695,078	530,606
Net Cash Provided by (Used In) Investing Activities	<u>1,465,043</u>	<u>(3,203,275)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Impact Fees Received	1,260,522	1,760,265
Notes Receivable and Lease Payments Received	152,594	264,014
Proceeds from PFAS settlement	700,618	-
Net Cash Provided by Non-Capital Financing Activities	<u>2,113,734</u>	<u>2,024,279</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Assets	(6,786,632)	(9,666,369)
Proceeds from Long-Term Debt	4,742,048	6,467,093
Proceeds from Sale of Capital Assets	-	3,500
Principal Payments on Long-Term Debt	(7,328,899)	(983,312)
Interest Paid on Long-Term Debt	(175,276)	(157,579)
Proceeds from Grants	7,429,305	154,375
Net Cash Used by Capital and Related Financing Activities	<u>(2,119,454)</u>	<u>(4,182,292)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	7,707,968	447,864
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,468,062</u>	<u>3,020,198</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and Cash Equivalents	10,475,412	3,468,062
Restricted Cash	700,618	-
Total Cash	<u>\$ 11,176,030</u>	<u>\$ 3,468,062</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 3,818,861	\$ 3,307,281
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	2,662,112	2,472,741
Bad Debt	4,861	3,797
(Increase) Decrease in Assets and Deferred Outflows		
Accounts Receivable	(638,677)	(372,724)
Inventory	253,810	(344,442)
Prepaid Expenses	(119)	3,449
Other Assets	(14,859)	(15,849)
Net Pension Asset	(17,213)	-
Deferred Outflow-Pension	73,949	73,949
Increase (Decrease) in Liabilities and Deferred Inflows		
Accounts Payable	1,055,795	768,358
Customer Deposits	(9,476)	23,194
Unearned Grant Revenue	(950,000)	50,000
Accrued Liabilities	34,604	33,051
Accrued Compensated Absences	18,240	(46,887)
Other Liabilities	(1,651)	(1,761)
Net Pension Liability	(75,990)	(316,640)
Deferred Inflows-Pension	34,398	171,635
Net Cash Provided by Operating Activities	<u>\$ 6,248,645</u>	<u>\$ 5,809,152</u>
Noncash Investing Activities - Changes in Fair Value	\$ (193,726)	\$ (136,499)

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

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
STATEMENTS OF FIDUCIARY NET POSITION
PENSION TRUST FUND
NOVEMBER 30, 2025 AND NOVEMBER 30, 2024**

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As of Plan Fiscal Year Ended:	<u>November 30, 2025</u>	<u>November 30, 2024</u>
ASSETS		
Investments	<u>\$ 2,374,035</u>	<u>\$ 2,305,993</u>
 NET POSITION		
Net Position - Restricted for Retirement Benefits	<u> 2,374,035</u>	<u> 2,305,993</u>
Total Net Position	<u>\$ 2,374,035</u>	<u>\$ 2,305,993</u>

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

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
PENSION TRUST FUND
NOVEMBER 30, 2025 AND NOVEMBER 30, 2024**

As of Plan Fiscal Year Ended:	<u>November 30, 2025</u>	<u>November 30, 2024</u>
ADDITIONS		
Contributions	\$ 73,500	\$ 121,580
Investment Earnings	<u>190,871</u>	<u>299,291</u>
Total Additions	<u>264,371</u>	<u>420,871</u>
DEDUCTIONS		
Benefits	173,690	156,404
Administrative	<u>22,579</u>	<u>22,876</u>
Total Deductions	<u>196,269</u>	<u>179,280</u>
Change in Net Position	68,102	241,591
NET POSITION, BEGINNING	<u>2,305,933</u>	<u>2,064,342</u>
NET POSITION, ENDING	<u><u>\$ 2,374,035</u></u>	<u><u>\$ 2,305,933</u></u>

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

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2026 AND 2025**

NOTE 1 ORGANIZATION AND REPORTING ENTITY

Organization

The Board of Public Works of the City of Lewes, Delaware (the "Board") is governed by five volunteer publicly elected directors. The Board was authorized to establish, control, and operate an electric plant, waterworks, wastewater system, and stormwater system for the City of Lewes, Delaware by a law passed by the Delaware Legislature on March 15, 1901. The accounting records are maintained in accordance with generally accepted accounting principles (GAAP) applicable to local governments.

Reporting Entity

The accompanying financial statements present the financial position and changes in net position and cash flows of the Board only. The Board of Public Works of Lewes Delaware Pension Trust was established to provide retirement benefits to eligible retiree's. The Plan is included in the financial reporting entity as a fiduciary component unit because the Plan is (1) considered to be a separate legal entity, (2) the Board appoints a majority of the governing board, and (3) the Plan imposes a financial burden on the Board as it has assumed an obligation to make contributions to the Plan.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Board utilizes the economic resources measurement focus and accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this basis of accounting, revenues are recognized when they are earned, and expenses are recognized when the liability is incurred, regardless of the timing of the related cash flows. Unearned revenue represents monies received but not yet earned. The Board applies Governmental Accounting Standards Board (GASB) pronouncements.

The accounts of the Board are organized on the basis of one major proprietary fund, which is considered a separate accounting entity. The operations of the fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, net position, revenues and expenses. This fund accounts for the operation and management of the electric, water, wastewater, and stormwater departments.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. The Board is intended to be self-supporting through user charges. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and delivering goods in connection with the fund's principle ongoing operations such as charges to customers for sales and services and expenses such as salaries, product costs, administrative expenses, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2026 AND 2025**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

Additionally, the Board reports one fiduciary pension trust fund. The trust fund is maintained to account for assets held by the Board in a trustee capacity and are accounted for in essentially the same manner as the proprietary fund since capital maintenance is critical. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Cash

For the purposes of the Statement of Cash Flows, the Board has defined cash equivalents as all highly liquid deposits and other investment instruments that have a maturity of three months or less.

Investments

The Board invests its funds in various instruments which are stated at fair value for all funds.

Receivables and Allowance for Doubtful Accounts

Receivables are stated at the amount management expects to collect from outstanding balances. The Board utilizes the allowance method for recognizing bad debt expense for receivables. The amount of the allowance is determined by a review of receivables and prior years' experience. At March 31, 2026, and 2025, the allowance account was \$0.

Capital Assets

The Board defines capital assets as those which have an estimated life in excess of one year and an initial, individual cost that equals or exceeds \$10,000. Such assets are valued at historical or estimated historical depreciated cost if actual cost is not available. Donated fixed assets are recorded at acquisition value. The cost of normal maintenance and repairs that does not add value or materially extend an asset's life are expensed.

Expenditures for major assets and improvements of the assets are capitalized as the assets are acquired or constructed. Exhaustible capital assets are depreciated, which is charged as an expense against their operations. Depreciation has been provided over the estimated useful lives using the straight-line method.

Estimated useful lives are as follows:

<u>Category</u>	<u>Years</u>
Infrastructure	10-75
Buildings and Improvements	10-50
Vehicles	10-50
Furniture and Equipment	5-50
Software	3-5

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2026 AND 2025**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting for Compensated Absences

Board policy permits employees to accumulate a limited amount of earned, but unused sick and vacation time. The Board recognizes a liability for leave that has not been used if the leave is attributable to services already rendered, the leave accumulates, and the leave is more likely than not to be used as time off or otherwise paid in cash. At March 31, 2026 and March 31, 2025, the liability for accrued vacation and sick leave is \$144,890 and \$126,650, respectively.

Estimates

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

Net Position

Net position is categorized as net investment in capital assets, restricted and unrestricted and are further described as follows:

- *Net investment in capital assets* – This category groups all capital assets including infrastructure into one component of net position, less any debt outstanding that was used to finance these assets. Accumulated depreciation and the outstanding balances of debt that are attributed to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted*– This category represents those assets which have constraints placed on the expenditures either externally imposed or imposed by law or enabled by legislature.
- *Unrestricted*– This category presents the net position of the Board not included elsewhere.

When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, it is the Board's policy to use restricted resources first. Net position amounts restricted in the Statement of Net Position at March 31, 2026, include amounts for grant programs of \$130,552, for PFAS settlement of \$700,618, and impact fees of \$6,478,616, at March 31, 2025, include amounts for grant programs of \$114,042 and impact fees of \$5,218,094.

Deferred Outflows and Deferred Inflows of Resources

The Board may report decreases in net position that relate to future periods as deferred outflows of resources in a separate section of its statement of net position. The Board has one item that qualifies for reporting this category: deferred outflows related to pension. The difference between projected and actual earnings for pension will be amortized into pension expense over the remaining service life of employees while contributions subsequent to the measurement date will be recognized as a reduction of the net pension asset in the subsequent year.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2026 AND 2025**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows and Deferred Inflows of Resources (Continued)

The Board may report increases in net position that relate to future periods as deferred inflows of resources in a separate section of its statement of net position. The Board has two item that qualifies for reporting this category: difference between projected and actual earnings related to pensions and leases.

Lease-related amounts are recognized at the inception of the lease. The deferred inflow of resources is recorded in amount equal to the corresponding lease receivable plus certain additional amounts received from the lessee at or before commencement of the lease term that relate to future periods, less any incentives paid to, or on behalf of the lessee at or before commencement of the lease term. The inflow of resources is recognized in a systematic and rational manner over the term of the lease.

Pensions

For the purposes of measuring the net pension asset, deferred outflows of resources related to pensions and pension expense, information about the fiduciary net position of the Board of Public Works of Lewes Delaware Pension Trust (BPWLDP), and additions to/deductions from BPWLDP's fiduciary net position have been determined on the same basis as they are reported by BPWLDP.

Adoption of Governmental Accounting Standards Board (GASB) Statements

The Board adopted the required provisions of GASB issued Statement No. 102, "*Certain Risk Disclosures*". The adoption of this GASB Statements resulted in additional disclosures in footnote 17.

Pending Changes in Accounting Principles

In April 2024, the GASB issued Statement No. 103, "*Financial Reporting Model Improvements*". The Board is required to adopt Statement No. 103 for its fiscal year 2027 financial statements.

In September 2024, the GASB issued Statement No. 104, "*Disclosure of Certain Capital Assets*". The Board is required to adopt Statement No. 104 for its fiscal year 2027 financial statements.

In December 2025, the GASB issued Statement No. 105, "*Subsequent Events*". The Board is required to adopt Statement No. 105 for its fiscal year 2028 financial statements.

The Board has not yet completed the various analysis required to estimate the financial statement impact of these new pronouncements.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2026 AND 2025**

NOTE 3 BUDGETS AND BUDGETARY ACCOUNTING

The Board follows these procedures in establishing the annual budgets:

1. In January or February, the Finance Committee holds a budget meeting covering the capital expenditures and operations and maintenance (O&M) expenses and revenues using a 10-year projection. All four individual utilities are reviewed; Electric, Water, Wastewater, and Stormwater. The Finance Committee may ask for another meeting with changes to the original review. After any possible changes are completed to the budget, the Finance Committee will recommend budget approval to the Board.
2. At a special budget/rate meeting or at a monthly board meeting, no later than the end of February, the Finance Committee recommended budgets are presented to the Board and made available for public comment. The one-year O&M and five-year Capital Expenditure budgets are formally adopted at the March board meeting, unless further changes need to be made. The finalized budgets go into effect on April 1, the beginning of the fiscal year.
3. The O&M and Capital Expenditure budgets and projections are reviewed quarterly with the Finance Committee, beginning with first quarter review when June financials are finalized. After Finance Committee review, the administrative team presents the updated year-end projections and possible budget adjustments at the next board meeting.

NOTE 4 CASH AND DEPOSITS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Board's deposits may not be returned to it. The Board has a deposit policy for custodial credit risk requiring deposits to be collateralized. As of March 31, 2026, the carrying amount of the Board's cash deposits and cash equivalents was \$11,176,030 and the bank balance was \$11,206,653. Of the bank balance, \$250,000 was covered by the Federal Deposit Insurance Corporations and the remaining \$10,956,653 was collateralized. As of March 31, 2025, the carrying amount of the Board's cash deposits was \$3,468,062 and the bank balance was \$3,590,801. Of the bank balance \$250,000 was covered by the Federal Deposit Insurance Corporations and the remaining \$3,340,801 was collateralized.

Restricted Cash

The Board received funding from PFAS settlement, related to the treatment of chemicals in public water system. The amounts are restricted for spending based on the terms and conditions of the settlement. As of March 31, 2026, \$700,618 of cash is restricted under the PFAS settlement.

NOTE 5 INVESTMENTS

Reserve fund investments are in mutual funds held by UBS Financial Services and reported at fair value for investments with quoted market prices. All investment income, including changes in the fair market value of investments, is reported as revenue in the statements of revenues, expenses, and changes in net position.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2026 AND 2025**

NOTE 5 INVESTMENTS (CONTINUED)

The pension trust fund has investments that are administered by Nationwide Investment Services Corporation and invested 100% in annuities held by Nationwide Investment Services Corporation. The Nationwide Investment Services Corporation is invested in a diversified portfolio of primarily publicly traded, fixed income securities and mortgages. The fund was previously administered by Great West Life and Annuity Insurance Company.

Fair Value

The Board categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. As of March 31, 2026, and 2025 all of the Board's reserve fund investments and pension trust investments are valued using market closing prices (Level 1 inputs).

Investment Policy

All investments are carried in a third-party managed portfolio of funds with guidelines as directed by the Investment Committee of the Board as follows:

- Equities should range from 15% to 35%.
- Fixed Income should range from 30% to 80%.
- Alternative Investments should range from 10% to 50%.
- Cash and Equivalents should range from 5% to 100%.

Concentration of Credit Risk

The Board does not have a formal policy that places a limit on the amount or percent that may be invested in any one issuer for the proprietary fund or pension trust fund. As of March 31, 2026, and March 31, 2025, the Board did not have any investments subject to concentration of credit risk.

Credit Risk

The Board does not have a formal policy that limits investments to ratings issued by nationally recognized statistical rating organizations for the propriety fund or pension trust fund. The Authority's fixed income funds have a credit rating of AAA 39%, AA 9%, A 13%, BBB 27%, BB 10%, B 0%, Below B 1% and N/R 1%.

Interest Rate Risk

The Board does not have a policy for the pension trust fund limiting investment maturities as a means of managing their exposure to fair value losses arising from increasing interest rates.

Restricted Investments

Certain investments are restricted in the financial statements due to limitations on their use for specific purposes. Investment amounts restricted in the Statement of Net Position at March 31, 2026 includes amounts for impact fees of \$6,478,616, and for customer deposits of \$132,149. Investment amounts restricted in the Statement of Net Position at March 31, 2025 includes amounts for impact fees of \$5,218,094, for customer deposits of \$141,625, and APRA grant for \$950,000.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2026 AND 2025**

NOTE 6 COMPENSATED ABSENCES

Board policy permits employees to accumulate a limited amount of earned, but unused sick and vacation pay. The changes in compensated absences are summarized as follows:

Balance March 31, 2025	\$ 126,650	Balance March 31, 2024	\$ 173,537
Additions/(Reductions)	<u>18,240</u>	Additions/(Reductions)	<u>(46,887)</u>
Balance March 31, 2026	<u>\$ 144,890</u>	Balance March 31, 2025	<u>\$ 126,650</u>

NOTE 7 NOTES RECEIVABLE

In 2017, residents within the Highland Acres development have agreed to pay a note to the Board for the cost of water and wastewater infrastructure setup for the development. Each resident had the option of paying the portion of the note that they owe in full immediately or a monthly payment over 30 years at 2% interest. Payments on this note receivable are used by the Board to pay notes payable due to the Delaware Drinking Water State Revolving Fund and the Delaware Water Pollution Control Revolving Fund, who funded the cost of Highland Acres infrastructure.

The Board records income related to the receivable as deferred until paid and a note receivable for the amount unpaid. This is considered non-operating income for the water and wastewater departments. The amount owed to the Board as of March 31, 2026, and 2025 is \$24,454 and \$28,905 and \$844,390 and \$871,793 for water and wastewater, respectively.

In 2018, residents within the Savannah Place development have agreed to pay a note to the Board for the cost of water and wastewater infrastructure set up for the development. Each resident had the option of paying the portion of the note that they owe in full immediately or a monthly payment over 30 years at 2% interest. Payments on this note receivable are used by the Board to pay notes payable due to the Delaware Water Pollution Control Revolving Fund who funded the cost of Savannah Place infrastructure. The Board records income related to the receivable as deferred until paid and a note receivable for the amount unpaid. The amount owed to the Board as of March 31, 2026, and March 31, 2025, is \$453,444 and \$467,661, respectively.

In 2023, the owner of Donovan-Smith Mobile Home Park has agreed to pay a note to the Board for the cost of sewer district capital improvement cost also referred to as "Utility Assessments". The owner has the option of paying the note in at anytime or a monthly payment over 10 years at 2% interest. Payments on this note receivable are used by the Board to pay notes payable due to the Delaware Drinking Water Revolving Fund and the Delaware Water Pollution Control Revolving Fund who funded the cost of Donovan-Smith MHP infrastructure. The Board records income related to the receivable as deferred until paid and a note receivable for amount unpaid. The amount owed to the Board as of March 31, 2026, and March 31, 2025, is \$211,663 and \$242,273, respectively.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2026 AND 2025**

NOTE 8 CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2026, was as follows:

	Beginning Balance	Additions & Transfers	Deletions & Transfers	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 2,803,137	\$ -	\$ -	\$ 2,803,137
Construction in Progress	16,686,167	6,008,808	(383,133)	22,311,862
Total Capital Assets Not Being Depreciated	19,489,324	6,008,808	(383,133)	25,114,999
Capital Assets Being Depreciated				
Infrastructure	68,269,163	922,570	-	69,191,733
Buildings and Improvements	8,994,011	45,474	-	9,039,485
Furniture and Equipment	1,145,109	131,693	-	1,276,802
Vehicles	2,582,869	61,220	-	2,644,089
Software	340,958	-	-	340,958
Total Capital Assets Being Depreciated	81,332,110	1,160,957	-	82,493,067
Less Accumulated Depreciation for				
Infrastructure	25,694,994	2,110,787	-	27,805,781
Buildings and Improvements	5,973,520	200,553	-	6,174,073
Furniture and Equipment	731,864	100,448	-	832,312
Vehicles	1,476,101	178,866	-	1,654,967
Software	134,908	71,458	-	206,366
Total Accumulated Depreciation	34,011,387	2,662,112	-	36,673,499
Capital Assets, Being Depreciated, Net	47,320,723	(1,501,155)	-	45,819,568
Total Capital Assets	<u>\$ 66,810,047</u>	<u>\$ 4,507,653</u>	<u>\$ (383,133)</u>	<u>\$ 70,934,567</u>

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2026 AND 2025**

NOTE 8 CAPITAL ASSETS (CONTINUED)

Capital asset activity for the year ended March 31, 2025, was as follows:

	Beginning Balance	Additions & Transfers	Deletions & Transfers	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 2,803,137	\$ -	\$ -	\$ 2,803,137
Construction in Progress	14,113,315	8,449,330	(5,876,458)	16,686,167
Total Capital Assets Not Being Depreciated	16,916,452	8,449,330	(5,876,458)	19,489,324
Capital Assets Being Depreciated				
Infrastructure	61,948,955	6,320,208	-	68,269,163
Buildings and Improvements	8,943,896	50,115	-	8,994,011
Furniture and Equipment	1,028,808	116,301	-	1,145,109
Vehicles	2,139,566	606,873	(163,570)	2,582,869
Software	340,958	-	-	340,958
Total Capital Assets Being Depreciated	74,402,183	7,093,497	(163,570)	81,332,110
Less Accumulated Depreciation for				
Infrastructure	23,762,100	1,932,894	-	25,694,994
Buildings and Improvements	5,778,586	194,934	-	5,973,520
Furniture and Equipment	640,529	91,335	-	731,864
Vehicles	1,462,449	177,222	(163,570)	1,476,101
Software	58,552	76,356	-	134,908
Total Accumulated Depreciation	31,702,216	2,472,741	(163,570)	34,011,387
Capital Assets, Being Depreciated, Net	42,699,967	4,620,756	-	47,320,723
Total Capital Assets	\$ 59,616,419	\$ 13,070,086	\$ (5,876,458)	\$ 66,810,047

NOTE 9 LONG-TERM DEBT

Changes in long-term debt for the year ended March 31, 2026, were as follows:

<u>Direct Borrowings:</u>	Beginning Balances	Increases	Decreases	Ending Balances	Due Within One Year
Water					
General Obligation Bonds	\$ 5,650,558	\$ 4,413,940	\$ (2,956,185)	\$ 7,108,313	\$ 87,919
Wastewater					
General Obligation Bonds	10,217,569	328,108	(4,372,714)	6,172,963	1,043,496
Total Debt	<u>\$ 15,868,127</u>	<u>\$ 4,742,048</u>	<u>\$ (7,328,899)</u>	<u>\$ 13,281,276</u>	<u>\$ 1,131,415</u>

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2026 AND 2025**

NOTE 9 LONG-TERM DEBT (CONTINUED)

Changes in long-term debt for the year ended March 31, 2025, are as follows:

<u>Direct Borrowings:</u>	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>	<u>Due Within One Year</u>
Water					
General Obligation Bonds	\$ 3,235,874	\$ 2,516,172	\$ (101,488)	\$ 5,650,558	\$ 86,187
Wastewater					
General Obligation Bonds	<u>7,181,759</u>	<u>3,950,923</u>	<u>(915,113)</u>	<u>10,217,569</u>	<u>920,908</u>
Total Debt	<u>\$ 10,417,633</u>	<u>\$ 6,467,095</u>	<u>\$ (1,016,601)</u>	<u>\$ 15,868,127</u>	<u>\$ 1,007,095</u>

Debt Service Requirements

Principal and interest requirements to amortize the general obligation bonds as of March 31, 2026, are as follows:

<u>Year Ending</u>	<u>Bonds Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2027	\$ 1,131,415	\$ 148,941	\$ 1,280,356
2028	301,934	127,297	429,231
2029	308,003	121,228	429,231
2030	314,193	115,038	429,231
2031	320,509	108,722	429,231
2032-2036	1,701,810	444,349	2,146,159
2037-2041	1,879,857	266,302	2,146,159
2042-2046	1,225,246	92,719	1,317,965
2047-2050	<u>388,063</u>	<u>14,680</u>	<u>402,743</u>
	<u>7,571,030</u>	<u>\$ 1,439,276</u>	<u>\$ 9,010,306</u>
Add: drawn proceeds	<u>5,710,246</u>		
Total Outstanding Debt	<u>\$ 13,281,276</u>		

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2026 AND 2025**

NOTE 9	LONG-TERM DEBT (CONTINUED)	<u>Balance at March 31, 2026</u>	<u>Balance at March 31, 2025</u>
On January 20, 2005, the City of Lewes issued \$12,600,000 of general obligation bonds due to the Delaware Water Pollution Control Revolving Fund. The funds are being used by the Board for the wastewater treatment plant and other sewer capital projects. The loan is amortized over twenty years starting August 1, 2009. The interest rate is 2.5%. There was an additional draw down in 2009 of \$675,860.		\$ 835,432	\$ 1,650,365
On April 1, 2016, the City of Lewes issued \$1,423,401 of general obligation bonds due to the Delaware Water Pollution Control Revolving Funds. The funds are being used by the Board for the development project at Highland Acres. There was an additional draw down of \$6,423 in 2017. The loan will be amortized over thirty years at the annualized interest rate of 2.0%.		1,042,952	1,083,761
On April 1, 2016, the City of Lewes issued \$700,000 of general obligation bonds due to the Delaware Drinking Water State Revolving Fund. The funds are being used by the Board for the development project at Highland Acres. The State of Delaware have forgiven \$597,200 of the debt in 2018, which reduced the balance of debt and was recognized as grant income.		79,584	82,694
On November 1, 2018, the City of Lewes issued \$2,315,000 of general obligation bonds due to the Delaware Water Pollution Control Revolving Fund. The funds are being used by the Board for wastewater disposal systems in the Savannah Place Developments. The loan is amortized over thirty years starting November 1, 2020. The interest rate is 2.0%.		1,972,098	2,037,267
On April 1, 2021, the City of Lewes issued \$2,000,000 of general obligation bonds due to the Delaware Water Pollution Control Revolving Fund, acting by and through the Delaware Department of Natural Resources and Environmental Control, for the purpose of financing the Jones Farm Purchase Well Head Protection Project. The loan is amortized over twenty-two years at the annualized interest rate of 2.0%.		1,638,952	1,722,027
On May 31, 2022, the City of Lewes issued \$1,750,000 of general obligation bonds due to the Delaware Water Pollution Control Revolving Fund acting by and through the Delaware Department of Natural Resources and Environmental Control. On December 22, 2023, an additional \$350,000 of general obligation bonds were issued. The funds are being used by the Board for the replacement and rebuilding of components of the Howard Seymour Water Reclamation Facility. The loan is amortized over eighteen year at the annualized interest rate of 1.0%.		2,002,012	2,100,000
On August 18, 2022, the City of Lewes issued \$2,742,146 of general obligation bonds due to the Delaware Water Pollution Control Revolving Fund acting by and through the Delaware Department of Natural Resources and Environmental Control. On March 17, 2025 an additional 611,669 of general obligation bonds were issued. The funds are being used by the Board for the installation of a sewer main and wastewater disposal system at the Donovan Smith Manufactured Home Park Project. On June 12, 2025 the principal balance of the loan was forgiven by the Delaware Department of Natural Resources and Environmental Control. The total drawdown on the loan by the Board as of March 31, 2025 is \$3,353,815.		-	3,353,815
On August 18, 2022, the City of Lewes issued \$2,869,998 of general obligation bonds due to the Delaware Drinking Water State Revolving Fund acting by and through the Delaware Department of Health and Social Services, Division of Public Health. On March 15, 2025, an additional \$115,990 of general obligation bonds were issued. The funds are being used by the Board for installation of a water main and system at the Donovan Smith Manufactured Home Park Project. On August 17, 2025 the principal balance of the loan was forgiven by the Delaware Department of Health and Social Services, Division of Public Health. The total drawdown on the loan by the Board as of March 31, 2025 is \$2,985,988.		-	2,985,988

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2026 AND 2025**

NOTE 9 LONG-TERM DEBT (CONTINUED)

	Balance at March 31, 2026	Balance at March 31, 2025
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On September 22, 2023, the City of Lewes issued \$2,945,000 of general obligation bond due to Delaware Drinking Water State Revolving Fund acting by and through the Delaware Department of Health and Social Services, Division of Public Health. The funds are being used by the Board for the replacement of an existing water main that crosses under the Lewes-Rehoboth Canal at the Savannah Road Bridge. Amortization of the loan starts when the full principal of the loan is drawn. The total drawdown on the loan by the Board as of March 31, 2026, and March 31, 2025 is \$2,002,485 and \$493,805 respectively.

	\$ 2,945,000	\$ 2,945,000
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On September 22, 2023, the City of Lewes issued \$5,250,000 of general obligation bond due to Delaware Drinking Water State Revolving Fund acting by and through the Delaware Department of Health and Social Services, Division of Public Health. On March 3, 2025, an additional \$1,000,000 of general obligation bonds were issued. The funds are being used by the Board for installation of a new elevated water storage tank at Jones Farm off Kings Highway. Amortization of the loan starts when the full principal of the loan is drawn. The total drawdown on the loan by the Board as of March 31, 2026, and March 31, 2025 is \$3,300,468 and \$609,204 respectively.

	6,250,000	6,250,000
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On March 14, 2025, the City of Lewes issued \$842,105 of general obligation bond due to Delaware Drinking Water State Revolving Fund acting by and through the Delaware Department of Health and Social Services, Division of Public Health. The funds are being used by the Board for the extension of the existing water main to the end of Hoorncill Avenue. Amortization of the loan starts when the full principal of the loan is drawn. There was an initial loan drawdown of \$38,167 in 2026 and the loan was fully undrawn in 2025.

	842,105	-
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On March 14, 2025, the City of Lewes issued \$2,101,808 of general obligation bonds due to the Delaware Water Pollution Control Revolving Fund acting by and through the Delaware Department of Natural Resources and Environmental Control. The funds are being used by the Board for the extension of the existing sanitary sewer line to the end of Hoorncill Avenue. Amortization of the loan starts when the full principal of the loan is drawn. There was an initial loan drawdown of \$48,656 in 2026 and the loan was fully undrawn in 2025.

	2,101,808	-
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On March 14, 2025, the City of Lewes issued \$3,354,653 of general obligation bond due to Delaware Drinking Water State Revolving Fund acting by and through the Delaware Department of Health and Social Services, Division of Public Health. The funds are being used by the Board for the replacement of existing water main from Savannah Road to Park Avenue and 4th Street to Dupont Avenue. Amortization of the loan starts when the full principal of the loan is drawn. There was an initial loan drawdown of \$115,506 in 2026 and the loan was fully undrawn in 2025.

	3,354,653	-
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On March 14, 2025, the City of Lewes issued \$5,233,435 of general obligation bonds due to the Delaware Water Pollution Control Revolving Fund acting by and through the Delaware Department of Natural Resources and Environmental Control. The funds are being used by the Board for the replacement of the existing sewer main, house sewer service laterals, new PVC sewer piper and 14 new manholes. Amortization of the loan starts when the full principal of the loan is drawn. There was an initial loan drawdown of \$204,964 in 2026 and the loan was fully undrawn in 2025.

	5,233,435	-
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Less: current portion

	(1,131,415)	(1,007,095)
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Less: undrawn proceeds

	(15,016,755)	(8,342,790)
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Total Long-Term Portion of Debt

	\$ 12,149,861	\$ 14,861,032
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**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2026 AND 2025**

NOTE 9 LONG-TERM DEBT (CONTINUED)

The direct borrowings with the Delaware Drinking Water State Revolving Fund and Delaware Clean Water State Revolving Fund in the aggregate amount of \$13,281,276 contain provisions that in the event of default, outstanding amounts become immediately due and payable. There are no assets used as collateral and no unused lines of credit for the direct borrowings.

NOTE 10 DEFINED BENEFIT PENSION PLAN

Plan Description

The Board of Public Works of Lewes, Delaware Employee Pension Trust Plan (the Plan) is a single employer defined benefit pension plan established by the Board effective November 15, 1962. The Board has the power and authority to establish and amend the benefit provisions of the Plan. The Plan provides retirement benefits to plan members. Members are qualified to participate in the Plan after one year of service. Normal retirement age is 65. Vesting begins after 3 years of service and requires at least 1,000 hours during a 12-month period. Retirement benefits are calculated by a formula and provide 50% of average annual earnings less 35% of primary social security benefits. Employees may take early retirement with reduced benefits at age 55 and at least 12 years of service.

Effective December 1, 2002, employees with 35 years of service may retire with full benefits after their 60th birthday. Annual reporting for the Plan is presented in the Board's fiduciary fund financial statements.

Contributions

The Board is required to contribute the amount necessary to fund the plan based on an actuarially determined contribution. For 2025, the employer contribution was \$73,500.

Membership of the plan

The membership consisted of the following at November 30, 2025, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	18
Terminated plan members and beneficiaries entitled to but not yet receiving	9
Active plan members	3
Total	30

Assumptions

The Board's net pension asset was measured as of November 30, 2025, and the total liability used to calculate the net asset was determined by rolling forward the liability from an actuarial valuation as of December 1, 2025, using an actuarial assumption of an investment rate of return of 4.0%.

Mortality rates were based on the 2023 Static Table Non-Annuitant.

The actuarial assumptions used in the December 1, 2025, valuations were reviewed by the Board's actuary; a recent experience review was not performed.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2026 AND 2025**

NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Assumptions (Continued)

As of June 24, 2010, the Board elected to end its Defined Benefit Plan and begin a Defined Contribution Plan. All benefit accruals were frozen retroactive to April 1, 2010. All vested amounts will remain in the Defined Benefit Plan and continue to be funded accordingly. Therefore, projected salary increases are not an assumption applicable to the Plan.

Investments

The pension trust fund investments are stated at fair value determined by the trustee. Investments that do not have an established market value are reported at estimated fair value.

The long-term expected rate of return on pension plan investments was determined using the building block method in which best-estimate ranges of future expected real rates of return (expected returns, net of inflation) are developed for each major asset class.

These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target allocation as of November 30, 2025 (see investment policy in Note 5) are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	20% - 45%	5.7%
Fixed Income	30% - 70%	3.4%
Alternative Investments	0% - 15%	6.7%
Cash	0% - 20%	3.0%

Discount Rate

The discount rate used to measure the total pension asset was 4.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and the employer contributions will be made equal to the actuarially determined contribution. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

Rate of Return

For the year ended November 30, 2025, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 8.04%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2026 AND 2025**

NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Changes in the Net Pension Asset

The components and changes in the Board's net pension asset for the year ended November 30, 2025, were as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Changes for the Year:			
Interest	\$ 91,517	\$ -	\$ 91,517
Difference Between Expected and Actual Experience	57,072	-	57,072
Changes in Assumptions	-	-	-
Contributions - Employer	-	73,500	(73,500)
Net Investment Income	-	190,871	(190,871)
Benefit Payments	(173,690)	(173,690)	-
Administrative Expense	-	(22,579)	22,579
Net Increase (Decrease)	(25,101)	68,102	(93,203)
Balances as of November 30, 2024	2,381,923	2,305,933	75,990
Balances as of November 30, 2025	<u>\$ 2,356,822</u>	<u>\$ 2,374,035</u>	<u>\$ (17,213)</u>

As of November 30, 2025, the plan fiduciary net position as a percentage of the total pension liability as 100.73%.

At November 30, 2025, the Board reported deferred outflows of resources and deferred inflow of resources related to the pension plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Projected and Actual Investment Earnings	<u>\$ 73,950</u>	<u>\$ (206,033)</u>
Total	<u>\$ 73,950</u>	<u>\$ (206,033)</u>

The total pension expense recognized in 2025 for the plan was \$36,880. The deferred outflows of resources and deferred inflow of resources will be recognized in pension expense as follows:

Year Ended:	Deferred Outflows of Resources	Deferred Inflows of Resources
2026	\$ 73,950	\$ (62,236)
2027	-	(62,236)
2028	-	(62,235)
2029	-	(19,326)
Total	<u>\$ 73,950</u>	<u>\$ (206,033)</u>

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2026 AND 2025**

NOTE 11 DEFERRED COMPENSATION

The Board offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The plan is available to all employees and permits them to defer the payment of a portion of their salary. Participation in the plan is voluntary and the Board does contribute up to a maximum of 7.5% of the employee's wages to the 457 plan on behalf of its employees. The cost and expense of administering the plans are borne by the participants. The assets and income of the plan is participant directed and for the exclusive benefit of the participants and their beneficiaries

As a result, the assets of the plan are not recorded in the Board's financial statements. At March 2025, employees had contributed \$118,659 and the Board had contributed \$108,173 to the 457 plan in 2026 respectively. At March 2025, employees had contributed \$145,885 and the Board had contributed \$109,346 to the 457 plan in 2025 respectively

NOTE 12 PURCHASE POWER

The Board purchases power from Delaware Municipal Electric Corporation (DEMEC) and the University of Delaware. Beginning in the fiscal year ended March 31, 2011, the Board entered into an agreement with the University of Delaware (the University) wherein the Board purchases excess wind power from the University if it is generated and wherein the University will purchase power from the Board if they need additional power. The Board purchases power from the University at the same price as DEMEC. For the years ended March 31, 2026, and 2025, 98% and 99%, respectively, of the power was purchased from DEMEC and 2% and 1%, after netting their usage respectively, from the University.

NOTE 13 RELATED PARTY TRANSACTIONS

The City of Lewes (the "City") charges the Board rent for the use of buildings and offices owned by the City of Lewes and the Board bills the City for utilities used. In addition, the BPW shall pay to the City a minimum of two percent (2%) to a maximum of five percent (5%) of the monthly adjusted revenues for utility services (gross revenues for utility services less adjustments made to customer accounts), in lieu of franchise fees, no later than thirty (30) days after the utility bills are mailed to customers each month. In 2026 the Board paid 5% in lieu of franchise fees. For the year ended March 31, 2026, rent and in lieu of franchise fees paid to the City were \$141,070 and \$1,200,189 respectively; and were \$138,780 and \$1,130,587 for the year ended March 31, 2025, respectively.

NOTE 14 RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The Board maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Board. Settled claims have not exceeded this coverage in any of the past three fiscal years.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2026 AND 2025**

NOTE 15 COMMITMENTS AND CONTINGENT LIABILITIES

The Board has contractual obligations with various contractors for construction on the Well Header Pipe Replacement Project, Elevated Storage Tank Project, Alaska Avenue Sewer Relining Project, Capes Cove Water and Sewer Project, and Hoornkill Avenue Water & Sewer Project. As of March 31, 2026, \$1,510,526 has been spent with a balance \$174,938 on the open contracts for Well Header Piper Replacement Project, \$2,495,728 has been spent with a balance of \$3,613,102 remaining on the open contracts for Elevated Storage Tank Project, a balance of \$390,828 remaining on the open contracts for Alaska Avenue Sewer Relining, \$152,923 has been spend with a balance \$932,919 remaining on the open contacts for Capes Cove Water & Sewer Projects and a balance \$2,097,897 remaining on the open contracts for Hoornkill Avenue Water & Sewer Projects.

NOTE 16 LEASES

The Board, as the lessor, had entered into a lease of a cellphone tower with Cingular AT&T and a lease of land improvements with Verizon. An initial lease receivable was recorded in the amount of \$ 228,378 and \$245,309 respectively. There was no additional revenue for variables and other payments not included in the measurement of the lease receivable. As of March 31, 2026, and 2025, the value of the lease receivable is \$227,738 and \$293,410, respectively and the related deferred inflow for future payments expected to be collected on the lease is \$227,738 and \$293,410, respectively.

The lessee is required to make fixed annual payments of \$36,800 through \$38,419 respectively. The leases have an interest rate of 4% and 3% respectively. For the year ended March 31, 2026, the Board has recognized lease revenue and interest of \$65,672 and \$10,241, respectively and for the year ended March 31, 2025, the Board has recognized lease revenue and interest of \$60,991 and \$12,362, respectively.

The Board has entered into agreements with external parties relating to office space, underground utility lines, and utility pole infrastructure. These agreements do not meet the criteria of a lease under GASB 87 as the terms and conditions specify that either party can terminate the agreement at any time. Since the terms and conditions of the contracts do not specify a non-cancellable period or payments are variable based on usage, the Board has not recorded a liability in the financial statements for these agreements in accordance with GASB 87.

NOTE 17 CONSTRAINTS

The Board is subject to the Safe Drinking Water Act under the US Environmental Protection Agency (EPA) in order to maintain its permit to operate water and wastewater treatment plants.

EPA regulations require utilities to monitor service lines to ensure the output for lead contamination does not exceed certain levels, and to plan for and implement replacement of lead service lines where issues are identified. As part of the plan to comply with the regulations, the Board has lead service work scheduled over the next 10 years; with project cost of \$1 million per year for a total of \$10 million. The Board plans to fund the project fully with a SRF loan with expected principal forgiveness.

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2026 AND 2025**

NOTE 18 WASTEWATER TREATMENT PLAN

On January 12, 2026, the Board approved a plan with Sussex County (the "County") for the decommissioning of the Board's wastewater treatment system, the Howard Seymour Water Reclamation Facility, and transmittal of all of the sewage to the County treatment system. Based on comprehensive study and extensive reviews, the Board has determined that that this plan would remove the facility from the floodplain, provide an opportunity for regional cooperation on wastewater treatment options, and in turn benefit ratepayers and the surrounding community. As part of the plan, the County will upgrade their treatment facilities to enhance capacity and restore the Board's site to Greenfield condition. The Board has agreed to reimburse the County for 20% of the actual costs of the upgrade subject to a maximum obligation of \$40 million.

Management expects the transaction to occur over the next five to seven years, subject to required upgrades to the County's facility and regulatory approvals from the Department of Natural Resources and Environmental Control. As of March 31, 2026, the Board continues to operate the Howard Seymour Water Reclamation Facility and accordingly all assets, liabilities, revenues, and expenses of the wastewater operating segment remain included in the accompanying financial statements.

NOTE 19 LINE OF CREDIT

The Board has a \$3,000,000 secured line-of-credit available as of March 31, 2026, and 2025. The interest is accrued at a variable rate of Secured Overnight Financing Rate (SOFR) plus 2.00% and a minimum interest rate of 2.15% as of March 31, 2026, and 2025. There was no balance outstanding as of March 31, 2026, and 2025.

NOTE 20 SUBSEQUESANT EVENT

The Board has evaluated subsequent events through September 24, 2026, the date the Board's consolidated financial statements were available to be issued.

In August 2026, the Board authorized the issuance of revenue bonds in the amount of \$4,413,565 from the Delaware Water Pollution Control Revolving Fund, acting by and through the Delaware Department of Natural Resources and Environmental Control. The funding will be used for the 4th Street and Park Avenue Sewer Improvement Project

In August 2026, the Board authorized the issuance of revenue bonds in the amount of \$2,241,347 for the Delaware Drinking Water State Revolving Fund acting by and through the Delaware Department of Health and Social Services, Division of Public. The funding will be used for the for the 4th Street and Park Avenue Water Improvement Project.

REQUIRED SUPPLEMENTARY INFORMATION

BOARD OF PUBLIC WORKS FOR THE CITY OF LEWES, DELAWARE
REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYEES PENSION PLAN
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY/(ASSET) AND RELATED RATIOS
November 30, 2025

	2025	2024	2023	2022	2021	2020	2019	2018	2017
Total pension liability/(asset)									
Interest	\$ 91,517	\$ 95,148	\$ 96,231	\$ 97,998	\$ 103,739	\$ 107,954	\$ 110,791	\$ 108,903	\$ 106,801
Differences between expected and actual experience	57,072	(13,793)	34,360	34,755	(213,693)	(32,647)	12,946	147,727	139,664
Changes of assumptions	-	-	12,124	278	138,632	(1,017)	(13,776)	-	-
Benefit payments, including refunds of employee contributions	(173,690)	(156,404)	(183,038)	(171,692)	(172,402)	(186,895)	(202,470)	(188,806)	(197,129)
Net change in total pension liability	(25,101)	(75,049)	(40,323)	(38,661)	(143,724)	(112,605)	(92,509)	67,824	49,336
Total pension liability - beginning	2,381,923	2,456,972	2,497,295	2,535,956	2,679,680	2,792,285	2,884,794	2,816,970	2,767,634
Total pension liability - ending (a)	<u>\$ 2,356,822</u>	<u>\$ 2,381,923</u>	<u>\$ 2,456,972</u>	<u>\$ 2,497,295</u>	<u>\$ 2,535,956</u>	<u>\$ 2,679,680</u>	<u>\$ 2,792,285</u>	<u>\$ 2,884,794</u>	<u>\$ 2,816,970</u>
Plan fiduciary net position									
Contributions - employer	\$ 73,500	\$ 121,580	\$ -	\$ 110,503	\$ 217,934	\$ -	\$ 326,544	\$ 286,990	\$ 677
Net investment income	190,871	297,134	84,310	(268,096)	185,020	244,983	152,469	(21,516)	22,290
Other Additions	-	2,157	-	-	-	-	-	34,089	-
Benefit payments, including refunds of employee contributions	(173,690)	(156,404)	(183,038)	(171,692)	(172,402)	(186,895)	(202,470)	(188,806)	(197,129)
Administrative expense	(22,579)	(22,876)	(21,133)	(22,468)	(24,168)	(21,926)	(20,199)	(4,545)	(8,231)
Net change in plan fiduciary position	68,102	241,591	(119,861)	(351,753)	206,384	36,162	256,344	106,212	(182,393)
Plan fiduciary net position - beginning	2,305,933	2,064,342	2,184,203	2,535,956	2,329,572	2,293,410	2,037,066	1,930,854	2,113,247
Plan fiduciary net position - ending (b)	<u>\$ 2,374,035</u>	<u>\$ 2,305,933</u>	<u>\$ 2,064,342</u>	<u>\$ 2,184,203</u>	<u>\$ 2,535,956</u>	<u>\$ 2,329,572</u>	<u>\$ 2,293,410</u>	<u>\$ 2,037,066</u>	<u>\$ 1,930,854</u>
Authority's net pension liability/(asset) - ending (a) - (b)	<u>\$ (17,213)</u>	<u>\$ 75,990</u>	<u>\$ 392,630</u>	<u>\$ 313,092</u>	<u>\$ -</u>	<u>\$ 350,108</u>	<u>\$ 498,875</u>	<u>\$ 847,728</u>	<u>\$ 886,116</u>
Plan fiduciary net position as a percentage of the total pension liability	100.73%	96.81%	84.02%	87.46%	100.00%	86.93%	82.13%	70.61%	68.54%
Covered payroll *	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Board net pension liability/(asset) as a percentage of covered payroll *	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.

* All benefit accruals were frozen beginning April 1, 2010

BOARD OF PUBLIC WORKS FOR THE CITY OF LEWES, DELAWARE
REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYEES PENSION PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS - LAST 10 YEARS
November 30, 2025

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Actuarially determined contribution	\$ 184,393	\$ 207,288	\$ 286,990	\$ 326,544	\$ 308,871	\$ 167,934	\$ 110,503	\$ 121,580	\$ 73,500	\$ 36,007
Contributions in relation to the actuarially determined contribution	184,393	677	286,990	326,544	-	217,934	110,503	-	121,580	73,500
Contribution deficiency (excess)	\$ -	\$ 206,611	\$ -	\$ -	\$ 308,871	\$ (50,000)	\$ -	\$ 121,580	\$ (48,080)	\$ (37,493)
Covered payroll *	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered payroll *	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Notes to Schedule

Valuation date: Actuarially determined contribution rates are calculated as of December 1, one year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Unit Cost
Amortization method	Level Dollar
Remaining amortization period	4 years
Asset valuation method	5-year smoothed market
Inflation	0%
Salary increases	0%
Investment rate of return	4.0%, net of plan investment expense
Retirement age	Age 65
Mortality	2023 Static Table Non-Annuitant

Change in Assumptions:

Effective 12/1/18 the mortality table was updated from the 2018 Static Tables to the 2019 Static Tables

Effective 12/1/19 the mortality table was updated from the 2019 Static Tables to the 2020 Static Tables

Effective 12/1/20 the mortality table was updated form the 2020 Static Tables to the 2021 Static Tables

Effective 12/1/21 the mortality table was updated form the 2021 Static Tables to the 2022 Static Tables

Effective 12/1/22 the mortality table was updated form the 2022 Static Tables to the 2023 Static tables

BOARD OF PUBLIC WORKS FOR THE CITY OF LEWES, DELAWARE
REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYEES PENSION PLAN
SCHEDULE OF INVESTMENT RETURNS
NOVEMBER 30, 2025

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	8.04%	21.48%	4.08%	-10.98%	7.90%	11.28%	7.48%	-1.09%	N/A*

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.

* Information not available.

OTHER SUPPLEMENTARY INFORMATION

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
ELECTRIC DEPARTMENT
YEARS ENDED MARCH 31, 2026
AND 2025**

	2026	2025
OPERATING REVENUES		
Sale of Electric Energy		
Residential	\$ 6,571,462	\$ 6,410,325
Commercial	1,749,980	1,819,272
Industrial	4,963,398	4,895,001
Municipal	123,567	137,538
Other	413,575	221,268
Total Operating Revenues	<u>13,821,982</u>	<u>13,483,404</u>
OPERATING EXPENSES		
Purchased Power	9,255,467	9,251,687
Payroll and Employee Related Expenses	600,699	665,686
Utilities	5,427	16,849
Repairs and Maintenance	120,860	112,685
Professional and Contractual Services	86,866	101,374
Other Supplies and Expenses	317,592	299,917
Administrative	974,379	777,731
In Lieu of Franchise	699,478	690,204
Bad Debt	606.00	-
Depreciation	562,844	504,764
Total Operating Expenses	<u>12,624,218</u>	<u>12,420,897</u>
Operating Income	<u>1,197,764</u>	<u>1,062,507</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	221,934	174,199
Investment Expense	(22,192)	(200,658)
Impact Fees	208,588	301,764
Gain (Loss) on Sale of Assets	-	3,500
Changes in Fair Value of Investments	74,545	52,566
Grants	-	25,000
Net Non-Operating Revenue (Expense)	<u>482,875</u>	<u>356,371</u>
Change in Net Position	1,680,639	1,418,878
NET POSITION, BEGINNING OF YEAR	<u>19,166,367</u>	<u>17,747,489</u>
NET POSITION, END OF YEAR	<u>\$ 20,847,006</u>	<u>\$ 19,166,367</u>

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
WATER DEPARTMENT
YEARS ENDED MARCH 31, 2026 AND 2025**

	<u>2026</u>	<u>2025</u>
OPERATING REVENUES		
Sale of Water		
Residential	\$ 2,197,817	\$ 2,118,309
Commercial	306,945	365,848
Industrial	1,348,026	1,225,881
Municipal	21,235	20,019
Other	663,699	769,948
Total Operating Revenues	<u>4,537,722</u>	<u>4,500,005</u>
OPERATING EXPENSES		
Payroll and Employee Related Expenses	828,406	844,246
Utilities	7,034	7,787
Repairs and Maintenance	307,153	279,865
Professional and Contractual Services	302,354	411,751
Other Supplies and Expenses	361,153	306,805
Administrative	554,262	460,713
In Lieu of Franchise	196,272	187,750
Bad Debt	1,163	1,124
Depreciation	572,048	476,390
Total Operating Expenses	<u>3,129,845</u>	<u>2,976,431</u>
Operating Income	<u>1,407,877</u>	<u>1,523,574</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	183,497	140,309
Investment Expense	(13,332)	(123,811)
Interest Expense	(35,665)	(37,395)
Impact Fees	621,140	757,345
Changes in Fair Value of Investments	44,786	31,519
Grants	3,943,087	28,378
PFAS Revenue	700,618	-
Lease Revenue	65,672	60,992
Lease Interest	10,241	12,361
Net Non-Operating Revenue	<u>5,520,044</u>	<u>869,698</u>
Change in Net Position	6,927,921	2,393,272
NET POSITION, BEGINNING OF YEAR	<u>20,583,976</u>	<u>18,190,704</u>
NET POSITION, END OF YEAR	<u><u>\$ 27,511,897</u></u>	<u><u>\$ 20,583,976</u></u>

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
WASTEWATER DEPARTMENT
YEARS ENDED MARCH 31, 2026 AND 2025**

	2026	2025
OPERATING REVENUES		
Wastewater Assessments		
Residential	\$ 4,437,241	\$ 3,693,954
Commercial	350,203	361,444
Industrial	818,730	646,644
Municipal	32,327	27,300
Other	68,195	132,875
Total Operating Revenues	<u>5,706,696</u>	<u>4,862,217</u>
OPERATING EXPENSES		
Payroll and Employee Related Expenses	70,608	76,628
Utilities	28,312	19,438
Repairs and Maintenance	922,090	745,570
Professional and Contractual Services	1,254,448	1,217,094
Other Supplies and Expenses	142,404	142,403
Administrative	531,170	423,766
In Lieu of Franchise	282,172	234,724
Bad Debt	2,750	2,426
Depreciation	1,446,761	1,410,754
Total Operating Expenses	<u>4,680,715</u>	<u>4,272,803</u>
Operating Income (Loss)	<u>1,025,981</u>	<u>589,414</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	274,858	206,429
Investment Expense	(22,147)	(123,951)
Interest Expense	(139,611)	(120,184)
Impact Fees	430,794	701,156
Changes in Fair Value of Investments	74,395	52,414
Grants	3,486,218	134,284
Net Non-Operating Revenue (Expense)	<u>4,104,507</u>	<u>850,148</u>
Change in Net Position	5,130,488	1,439,562
NET POSITION, BEGINNING OF YEAR	<u>24,196,086</u>	<u>22,756,524</u>
NET POSITION, END OF YEAR	<u><u>\$ 29,326,574</u></u>	<u><u>\$ 24,196,086</u></u>

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
STORMWATER DEPARTMENT
YEARS ENDED MARCH 31, 2026 AND 2025**

	2026	2025
OPERATING REVENUES		
Stormwater Assessments		
Residential	\$ 391,267	\$ 314,410
Commercial	33,033	27,994
Industrial	15,624	12,425
Municipal	3,654	3,045
Other	11,105	10,614
Total Operating Revenues	<u>454,683</u>	<u>368,488</u>
OPERATING EXPENSES		
Payroll and Employee Related Expenses	2,176	569
Utilities	136	40
Repairs and Maintenance	4,747	6,708
Professional and Contractual Services	41,279	50,031
Other Supplies and Expenses	15,814	17,398
Administrative	100,224	62,967
In Lieu of Franchise	22,267	17,909
Bad Debt	342	247
Depreciation	80,459	80,833
Total Operating Expenses	<u>267,444</u>	<u>236,702</u>
Operating Income (Loss)	<u>187,239</u>	<u>131,786</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	14,789	9,669
Investment Expense	-	(34,069)
Net Non-Operating Revenue (Expense)	<u>14,789</u>	<u>(24,400)</u>
Change in Net Position	202,028	107,386
NET POSITION, BEGINNING OF YEAR	<u>2,167,322</u>	<u>2,059,936</u>
NET POSITION, END OF YEAR	<u><u>\$ 2,369,350</u></u>	<u><u>\$ 2,167,322</u></u>

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
SCHEDULE OF CAPITAL ASSETS BY DEPARTMENT
MARCH 31, 2026**

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	Beginning Balance	Additions & Transfers	Deletions & Transfers	Ending Balance
<u>Electric</u>				
Capital Assets Not Being Depreciated				
Land	\$ 211,160	\$ -	\$ -	\$ 211,160
Construction in Progress	947,898	26,222	(86,751)	887,369
Total Capital Assets Not Being Depreciated	1,159,058	26,222	(86,751)	1,098,529
Capital Assets Being Depreciated				
Infrastructure	12,027,767	539,080	-	12,566,847
Buildings and Improvements	256,800	12,650	-	269,450
Furniture and Equipment	268,028	15,300	-	283,328
Vehicles	1,548,176	-	-	1,548,176
Software	81,860	-	-	81,860
Total Capital Assets Being Depreciated	14,182,631	567,030	-	14,749,661
Less Accumulated Depreciation for				
Infrastructure	6,767,426	434,061	-	7,201,487
Buildings and Improvements	173,084	7,223	-	180,307
Furniture and Equipment	175,176	31,030	-	206,206
Vehicles	757,678	82,722	-	840,400
Software	15,617	7,808	-	23,425
Total Accumulated Depreciation	7,888,981	562,844	-	8,451,825
Electric Department, Capital Assets, Net	7,452,708	30,408	(86,751)	7,396,365
	Beginning Balance	Additions & Transfers	Deletions & Transfers	Ending Balance
<u>Water</u>				
Capital Assets Not Being Depreciated				
Land	\$ 2,195,320	\$ -	\$ -	\$ 2,195,320
Construction in Progress	8,058,564	5,022,659	(279,819)	12,801,404
Total Capital Assets Not Being Depreciated	10,253,884	5,022,659	(279,819)	14,996,724
Capital Assets Being Depreciated				
Infrastructure	16,570,403	277,758	-	16,848,161
Buildings and Improvements	569,699	18,424	-	588,123
Furniture and Equipment	119,829	25,240	-	145,069
Vehicles	466,616	30,608	-	497,224
Software	83,724	-	-	83,724
Total Capital Assets Being Depreciated	17,810,271	352,030	-	18,162,301
Less Accumulated Depreciation for				
Infrastructure	4,016,270	459,193	-	4,475,463
Buildings and Improvements	286,874	18,978	-	305,852
Furniture and Equipment	105,017	23,181	-	128,198
Vehicles	316,530	45,698	-	362,228
Software	30,365	24,998	-	55,363
Total Accumulated Depreciation	4,755,056	572,048	-	5,327,104
Water Department, Capital Assets, Net	23,309,099	4,802,641	(279,819)	27,831,921

**THE BOARD OF PUBLIC WORKS
OF THE CITY OF LEWES, DELAWARE
SCHEDULE OF CAPITAL ASSETS BY DEPARTMENT (CONTINUED)
MARCH 31, 2026**

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	Beginning Balance	Additions & Transfers	Deletions & Transfers	Ending Balance
<u>Wastewater</u>				
Capital Assets Not Being Depreciated				
Land	\$ 378,794	\$ -	\$ -	\$ 378,794
Construction in Progress	7,258,939	745,187	(16,544)	7,987,582
Total Capital Assets Not Being Depreciated	<u>7,637,733</u>	<u>745,187</u>	<u>(16,544)</u>	<u>8,366,376</u>
Capital Assets Being Depreciated				
Infrastructure	37,994,946	105,735	-	38,100,681
Buildings and Improvements	8,166,394	14,400	-	8,180,794
Furniture and Equipment	715,309	91,153	-	806,462
Vehicles	362,345	30,610	-	392,955
Software	160,792	-	-	160,792
Total Capital Assets Being Depreciated	<u>47,399,786</u>	<u>241,898</u>	<u>-</u>	<u>47,641,684</u>
Less Accumulated Depreciation for				
Infrastructure	14,361,668	1,167,819	-	15,529,487
Buildings and Improvements	5,513,289	174,309	-	5,687,598
Furniture and Equipment	430,331	39,637	-	469,968
Vehicles	256,202	28,793	-	284,995
Software	84,116	36,203	-	120,319
Total Accumulated Depreciation	<u>20,645,606</u>	<u>1,446,761</u>	<u>-</u>	<u>22,092,367</u>
Wastewater Department, Capital Assets, Net	<u>34,391,913</u>	<u>(459,676)</u>	<u>(16,544)</u>	<u>33,915,693</u>
	Beginning Balance	Additions & Transfers	Deletions & Transfers	Ending Balance
<u>Stormwater</u>				
Capital Assets Not Being Depreciated				
Land	\$ 17,863	\$ -	\$ -	\$ 17,863
Construction in Progress	420,786	214,739	(19)	635,506
Total Capital Assets Not Being Depreciated	<u>438,649</u>	<u>214,739</u>	<u>(19)</u>	<u>653,369</u>
Capital Assets Being Depreciated				
Infrastructure	1,676,047	-	-	1,676,047
Buildings and Improvements	1,118	-	-	1,118
Furniture and Equipment	41,943	-	-	41,943
Vehicles	205,732	-	-	205,732
Software	14,582	-	-	14,582
Total Capital Assets Being Depreciated	<u>1,939,422</u>	<u>-</u>	<u>-</u>	<u>1,939,422</u>
Less Accumulated Depreciation for				
Infrastructure	549,630	49,715	-	599,345
Buildings and Improvements	273	43	-	316
Furniture and Equipment	21,340	6,600	-	27,940
Vehicles	145,691	21,652	-	167,343
Software	4,810	2,449	-	7,259
Total Accumulated Depreciation	<u>721,744</u>	<u>80,459</u>	<u>-</u>	<u>802,203</u>
Stormwater Department, Capital Assets, Net	<u>1,656,327</u>	<u>134,280</u>	<u>(19)</u>	<u>1,790,588</u>
Capital Assets, Net	<u>\$ 66,810,047</u>	<u>\$ 4,507,653</u>	<u>\$ (383,133)</u>	<u>\$ 70,934,567</u>



Zelenkofske Axelrod LLC

CERTIFIED PUBLIC ACCOUNTANTS

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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

INDEPENDENT AUDITORS' REPORT

Board of Directors of
The Board of Public Works
of the City of Lewes, Delaware

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the business-type activities of the Board of Public Works of the City of Lewes Delaware (the "Board"), as of March 31, 2026 and 2025, and the aggregate remaining fund information as of November 30, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated September 24, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Board's internal control over financial reporting (internal control) as a basis for designing 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 Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board'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 Board'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Zelenkofske Axlerod LLC

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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 Board'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.

Zelenkofske Axlerod LLC

ZELENKOFSCHE AXELROD LLC

Harrisburg, Pennsylvania
September 24, 2026