

**CITY OF MILFORD**

Milford, Delaware

Financial Statements

For The Year Ended June 30, 2013

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CITY OF MILFORD, DELAWARE

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OFFICE OF THE CITY MANAGER  
RICHARD D. CARMEAN  
TELEPHONE (302) 424-3712, FAX (302) 424-3558

201 SOUTH WALNUT STREET  
MILFORD, DE 19963  
[www.cityofmilford.com](http://www.cityofmilford.com)

October 30, 2013

The Honorable Mayor  
and Members of the City Council  
City of Milford  
Milford, Delaware

The Finance Department and City Manager's Office are pleased to submit the Annual Financial Report for the City of Milford, Delaware for the fiscal year ended June 30, 2013.

This report is published to provide the City Council, City staff, our citizens, our bondholders and other interested parties with detailed information concerning the financial condition and activities of the City government. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City.

To the best of our knowledge and belief the enclosed data is accurate in all material respects, and is organized in a manner designed to fairly present the financial position and results of operations of the City as measured by the financial activity of its various funds. We also believe that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

## **THE REPORT**

The accompanying financial section includes a Management and Discussion Analysis (MD&A), basic financial statements and combining and individual fund statements and schedules, as well as the independent auditor's report on the basic financial statements. Beck, Villata & Co., P.C., Certified Public Accountants, have issued an unqualified ("clean") opinion on the City's financial statements for the year ended June 30, 2013. The independent auditor's report is located at the front of the financial section of this report.

The MD&A is a narrative introduction, overview, and analysis to accompany the basic financial statements. This letter of transmittal is designed to complement and should be read in conjunction with the MD&A. The City of Milford's MD&A can be found immediately following the report of the independent auditors.

The Financial Section described above is prepared in accordance with generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board (GASB) and other professional associations, as applicable.

## **CITY PROFILE**

### **Location**

The City of Milford is the sixth largest city in population in the State of Delaware, serving over 9, 500 residents within a rapidly growing corridor along U.S. Route 113/DE Route 1 in Kent and Sussex Counties. Located on

the Mispillion River, within both Kent and Sussex Counties, the City is approximately 95 miles from Philadelphia, Pennsylvania, 85 miles from Baltimore, Maryland, and 100 miles from Washington, D.C. Locally, the City is 19 miles south of Dover, the State Capital.

The City is a home rule city operating under the Council-Manager form of government. The City Council is comprised of the Mayor and eight Council members, who enact local laws, determine policies and adopt the annual budget. The City Manager is appointed by the City Council and is responsible for the daily management of the City. The Basic Financial Statements of the City include all government activities, organizations and functions for which the City is financially accountable as defined by the GASB. Based on these criteria no other governmental organizations are included in this report.

## **FINANCE**

### **Services Provided**

The City provides to its citizens those services that have proven to be necessary and meaningful and which the City at the least cost can provide. Major services provided under general government and enterprise functions are: police protection, water and sewer services, electric services, sanitation services, park and recreational facilities, street improvements and general administrative services.

### **Accounting System and Budgetary Control**

The City's accounting records for general governmental operations are maintained on a modified accrual basis with the revenues being recorded when available and measurable and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records for the City's utilities and other proprietary activities are maintained on the accrual basis.

In developing and maintaining the City's accounting system, consideration is given to the adequacy of the internal control structure. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the City's informal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The City charter provides that the City Council shall adopt the annual budget prepared by City Management. This budget is reviewed by the City Council and is formally adopted by the passage of a budget ordinance. The City Manager is authorized to transfer budgeted amounts between the items and departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.

Budgetary control has been established at the general fund level. Financial reports are produced showing budget and actual expenditures by line item, and are distributed monthly to City departmental and divisional management and to others upon request.

Individual line items are reviewed and analyzed for budgetary compliance. Personnel expenditures are monitored and controlled at a position level and capital expenditures are monitored and controlled item by item. Revenue budgets are reviewed monthly.

## OTHER INFORMATION

### Independent Audit

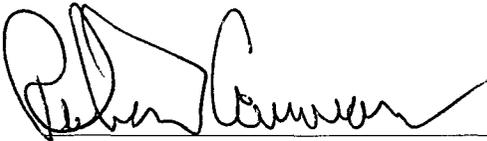
The City Charter requires an annual audit of the accounts, financial records and transactions of the City by independent certified public accountants selected by the City Council. This requirement has been complied with, and the independent auditors' report has been included in this report. Additionally, the City of Milford's Director of Finance hears and reviews all recommendations made by the independent auditors.

### Acknowledgments

The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the entire staff of the Finance Department. Appreciation is expressed to City employees throughout the organization, especially those employees who were instrumental in the successful completion of this report.

We would like to thank the members of the City Council for their interest and support in planning and conducting the financial operation of the City in a responsible and progressive manner.

Respectively submitted,



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Richard D. Carmean  
City Manager



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Jeff Portmann  
Finance Director



**Certified Public Accountants**

Member Firm Private Companies Practice Section  
AICPA Division for CPA Firms

**BECK, VILLATA & CO., P.C.**

[www.beckvillata.com](http://www.beckvillata.com)

Frank C. Beck, CPA/ABV  
Vincent P. Villata, Jr., CPA  
Robert K. Griffin, CPA

INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council  
City of Milford, DE

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Milford, DE as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Milford, DE, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-6 and page 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Milford, DE's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2013, on our consideration of the City of Milford, DE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 City of Milford, DE's internal control over financial reporting and compliance.

*Beck Villata + Co PC*

Voorhees, NJ  
October 30, 2013

**CITY OF MILFORD, DELAWARE**

Management's Discussion and Analysis

For the Year Ended June 30, 2013

**Amounts in Thousands Unless Stated Otherwise**

(Unaudited)

As management of the City of Milford, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities and financial position of the City for the fiscal year ended June 30, 2013. In the broadest context, the financial well-being of a government lies in the underlying wealth and willingness of its citizens and property owners to pay adequate taxes combined with the vision of the government's elected and appointed leadership to spend those taxes strategically so that the City's tax base, service levels, City assets and the City's desirability will be maintained not just for the current year but well into the future. Financial reporting is limited in its ability to provide this "big picture" but rather focuses on financial position and changes in financial position. In other words, are revenues and or expenses higher or lower than the previous year? Have net assets (containing both short and long term assets and liabilities) or fund balances (the current "spendable" assets less current liabilities) of the government been maintained? We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal (pages i-iii of this report) as well as information on the City's annual budget and other community information found on the City's website at [www.cityofmilford.com](http://www.cityofmilford.com). It should be noted that the Independent Auditor's Report describes the auditors' association with the various sections of this report and that all of the additional information from the website and other City sources is unaudited and has not been updated for events that may have occurred subsequent to the issuance of the respective report.

**IN BRIEF**

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by approximately \$64.4 million (net assets). This number must be viewed in the context that a significant portion of the City's net assets, \$23.3 million (36%) are invested in capital assets, net of related debt, and that most capital assets in government do not directly generate revenue nor can they be sold to generate liquid capital. Those net assets restricted for specific purposes total \$3.1 million (5%). The remaining \$38.5 million are unrestricted net assets and may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies. Unrestricted net assets increased by approximately \$1.1 million in fiscal year 2013.

**CITY OF MILFORD, DELAWARE**

Management's Discussion and Analysis

For the Year Ended June 30, 2013

**Amounts in Thousands Unless Stated Otherwise**

(Unaudited)

- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7.7 million. Within this total \$969 thousand is restricted by specific legal requirements and \$2.5 million has been committed and assigned to specific types of expenditures, The remaining \$4.3 million is unassigned fund balance in the general fund and can be used for any lawful purpose.
- The City's long-term liabilities increased by \$1.2 million due primarily to new debt incurred to the United States Department of Agriculture for a new water system expansion project that is in progress, and debt incurred to Kent County in connection with costs incurred to construct a new sewer line.
- The City has seen certain revenues stagnate or decline due to the current economy and has moved aggressively to reduce expenditures accordingly. The City also benefits from strong fund balances and conservative financial practices. The Economic Factors and Next Year's Budget section on the last page of this discussion provide additional information on the subject.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of four components: 1) government wide financial statements, 2) fund financial statements 3) notes to the financial statements and 4) required supplementary information which includes this management's discussion and analysis. In addition to the basic financial statements, this report also contains other supplementary information as listed in the Table of Contents.

**Government Wide Financial Statements** - The government wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences.)

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**CITY OF MILFORD, DELAWARE**

Management's Discussion and Analysis

For the Year Ended June 30, 2013

**Amounts in Thousands Unless Stated Otherwise**

(Unaudited)

Both of the government-wide financial statements distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government and administration, public safety, public works, and cultural and recreation. The business-type activities of the City include water and sewer, electric and sanitation operations. The government wide financial statements can be found on pages 13 and 14 of this report.

**Fund Financial Statements** - A fund is a self-balancing set of accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories-governmental funds and proprietary funds.

**Governmental Funds** - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Non-financial assets such as governmental buildings, roads, drainage ways, park land and long term liabilities such as bonds payable or long term liabilities that will not be paid with current assets are excluded. Such information may be useful in evaluating a government's near term financing requirements. Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**Proprietary Funds** - The City maintains two types of proprietary funds. Enterprise funds are used functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, electric and sanitation operations.

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**CITY OF MILFORD, DELAWARE**

Management's Discussion and Analysis  
For the Year Ended June 30, 2013

**Amounts in Thousands Unless Stated Otherwise**  
(Unaudited)

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses its internal service funds to account for its fleet services, public works, meter department, billing services and city hall building maintenance cost allocation programs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer, Electric, and Sanitation funds, since all are considered to be major funds of the City. All internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements. The basic proprietary fund financial statements can be found on pages 21 to 23 of this report.

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government wide and fund financial statements. The notes to the financial statements can be found on pages 25 through 42.

**Other Information** - In addition to the basic financial statements and accompanying notes, the basic financial statements contain required supplementary information including this discussion and analysis.

**GOVERNMENTAL-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets and especially net assets by category may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$64.4 million as of June 30, 2013.

The largest portion of the City's net assets \$23.3 million (36%) reflects its investments in capital assets (e.g., land, building, equipment, improvements and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently these assets are not available for future spending, and with exception of business type assets, do not generate direct revenue for the City.

They do represent, however, an obligation on the part of the City to maintain these assets into the future. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF MILFORD, DELAWARE**

Management's Discussion and Analysis

For the Year Ended June 30, 2013

**Amounts in Thousands Unless Stated Otherwise**

(Unaudited)

An additional portion of the City's net assets \$2.5 million (4%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets \$38.5 million (61%) may be used to meet the government's ongoing obligations to citizens and creditors. The current and other assets increased in the Governmental and Business type activities by \$308 thousand and \$273 thousand, respectively. Increase in the Governmental activities is primarily due to the sale of city land. Increase in the Business-type activities is primarily from tighter budgetary controls on expenditures for all business type activities. The City's long term liabilities increased by \$1.2 million due primarily to new debt incurred, as previously discussed.

Overall the City had an increase in net assets of \$1.1 million or 0.2%.

**Governmental Activities** - Governmental activities net assets increased by \$490 thousand. Net assets invested in capital assets, net of related debt increased by \$460 thousand or 3.6%. Unrestricted net assets increased by \$30 thousand or .5%.

Excluding transfers from business-type activities and special items, total revenues for governmental activities decreased from the previous year by \$2 million. General revenue (excluding transfers and special items) had a net increase of \$622 thousand or 14.5%. In Program Revenues, fees and fines increased by \$6 thousand and operating grants and contributions increased by \$77 thousand. Total revenues decreased by \$809 thousand because of the sale of land in fiscal 2012. Total expenses for governmental activities increased by \$55 thousand or .7%.

**Business-Type Activities** - Net assets from business-type activities increased by \$598 thousand, or 1.4% from \$43.3 million to \$43.9 million. Net assets invested in capital assets, net of related debt, increased by \$681 thousand. Unrestricted net assets decreased by \$83 thousand. Restricted net assets remained unchanged from the previous year.

**CITY OF MILFORD, DELAWARE**

Management's Discussion and Analysis  
For the Year Ended June 30, 2013

**Amounts in Thousands Unless Stated Otherwise**  
(Unaudited)

**CITY OF MILFORD'S NET ASSETS**  
(Amounts in Thousands)

	Government Activities		Business-Type Activities		Total	
	2012	2013	2012	2013	2012	2013
Current and other assets	\$ 8,019	\$ 8,327	\$ 37,021	\$ 37,294	\$ 45,040	\$ 45,621
Capital assets, net	13,097	13,515	27,496	29,365	40,593	42,880
Total Assets	<u>21,116</u>	<u>21,842</u>	<u>64,517</u>	<u>66,659</u>	<u>85,633</u>	<u>88,501</u>
Long term liabilities	667	685	17,096	18,255	17,763	18,940
Other liabilities	425	643	4,070	4,455	4,495	5,098
Total Liabilities	<u>1,092</u>	<u>1,328</u>	<u>21,166</u>	<u>22,710</u>	<u>22,258</u>	<u>24,038</u>
Net Assets						
Invested in capital assets, net of related debt	12,899	13,359	9,316	9,997	22,215	23,356
Restricted	763	979	1,834	2,108	2,597	3,087
Unrestricted	<u>6,362</u>	<u>6,176</u>	<u>32,201</u>	<u>31,844</u>	<u>38,563</u>	<u>38,020</u>
Total Net Assets	<u>\$ 20,024</u>	<u>\$ 20,514</u>	<u>\$ 43,351</u>	<u>\$ 43,949</u>	<u>\$ 63,375</u>	<u>\$ 64,463</u>

As of June 30, 2013, the City has positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

**CITY OF MILFORD, DELAWARE**

Management's Discussion and Analysis  
For the Year Ended June 30, 2013

**Amounts in Thousands Unless Stated Otherwise**  
(Unaudited)

The following table provides a summary of the City's operations for the year ended June 30, 2013 with comparative totals for the year ended June 30, 2012.

**CITY OF MILFORD'S CHANGES IN NET ASSETS**  
(Amounts in Thousands)

	Government Activities		Business-Type Activities		Total	
	2012	2013	2012	2013	2012	2013
<b>Revenues</b>						
Program Revenues:						
Fees, fines and charges for services	\$ 114	\$ 120	\$ 33,045	\$ 32,154	\$ 33,159	\$ 32,274
Operating grants and contributions	997	920	-	-	997	920
General Revenues:						
Property taxes	3,325	3,957	-	-	3,325	3,957
Franchise taxes	500	488	-	-	500	488
Impact fees	-	-	125	97	125	97
Investment earnings	57	26	277	110	334	136
Gain on sale of assets	1,360	-	-	-	1,360	-
Miscellaneous	403	436	2	1	405	437
Total revenues	<u>6,756</u>	<u>5,947</u>	<u>33,449</u>	<u>32,362</u>	<u>40,205</u>	<u>38,309</u>
<b>Expenses</b>						
General government	1,901	1,842	-	-	1,901	1,842
Public safety	4,061	4,183	-	-	4,061	4,183
Public works	727	744	-	-	727	744
Culture and recreation	1,208	1,184	-	-	1,208	1,184
Interest on long term debt	5	4	667	595	672	599
Electric	-	-	22,165	21,408	22,165	21,408
Water	-	-	1,553	1,670	1,553	1,670
Sewer	-	-	3,189	4,453	3,189	4,453
Trash	-	-	1,056	1,138	1,056	1,138
Total expenses	<u>7,902</u>	<u>7,957</u>	<u>28,630</u>	<u>29,264</u>	<u>36,532</u>	<u>37,221</u>
Increase (decrease) in net assets before transfers	(1,146)	(2,010)	4,819	3,098	3,673	1,088
Transfers	<u>2,500</u>	<u>2,500</u>	<u>(2,500)</u>	<u>(2,500)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	1,354	490	2,319	598	3,673	1,088
Net assets, July 1	<u>18,670</u>	<u>20,024</u>	<u>41,032</u>	<u>43,351</u>	<u>59,702</u>	<u>63,375</u>
Net assets, June 30	<u>\$ 20,024</u>	<u>\$ 20,514</u>	<u>\$ 43,351</u>	<u>\$ 43,949</u>	<u>\$ 63,375</u>	<u>\$ 64,463</u>

**CITY OF MILFORD, DELAWARE**

Management's Discussion and Analysis

For the Year Ended June 30, 2013

**Amounts in Thousands Unless Stated Otherwise**

(Unaudited)

**Financial Analysis of the Government's Funds**

**Governmental Funds** - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending in the next fiscal year. At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7.7 million. Within this total \$979 thousand is restricted by specific legal requirements, for street improvements, and \$2.3 million has been committed and assigned to specific types of expenditures. The remaining \$4.3 million is unassigned fund balance in the general fund and can be used for any lawful purpose. In the general fund, the City originally budgeted a fund balance decrease in the current year of \$498 thousand prior to the use of prior balances and reserves. The actual general fund balance increased by \$49 thousand as the result of increases in various other revenue accounts. Actual general fund expenditures were within \$5 thousand of total budgeted expenses.

**Proprietary Funds** - The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the respective enterprise funds are \$7.7 million for Water, \$5.1 million for sewer, \$18.6 million for electric and \$711 thousand for Sanitation. The total of all enterprise fund net assets exclusive of the internal service funds at the end of the fiscal year was \$43.9 million. Change in net assets for enterprise funds in 2013 were an increase of \$881 thousand in the water, a decrease of \$1 million in the sewer, an increase of \$810 thousand in the electric and a decrease of \$28 thousand in the sanitation fund. The cause of the significant decrease in the sewer fund was that the City incurred costs of approximately \$1.3 million related to the Kent County Sewer Bypass System.

**General Fund Budgetary Highlights** - The City made revisions to the original appropriations approved by the City Council. Overall these changes resulted in an increase in budgeted expenditures from the original budget of 1% or \$249 thousand. Management's estimate of the General Funds budgeted revenues increased \$131 thousand or 2.8% from original budget based on year to date experience.

**CITY OF MILFORD, DELAWARE**

Management's Discussion and Analysis  
 For the Year Ended June 30, 2013

**Amounts in Thousands Unless Stated Otherwise**  
 (Unaudited)

**DEBT ADMINISTRATION**

At the end of the current fiscal year, the City had a total bonded debt and note obligations of \$19,524 million, all backed by the full faith and credit of the government.

**Outstanding Debt at Year End  
 Bonds and Notes Payable**

	<u>Government Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>
General Obligation Bonds	\$ 199	\$ 156	\$ 16,117	\$ 15,095	\$ 16,316	\$ 15,251
Revolving Fund Loans	-	-	2,063	2,028	2,063	2,028
Other Notes Payable	-	-	-	2,245	-	2,245
<b>Total</b>	<u>\$ 199</u>	<u>\$ 156</u>	<u>\$ 18,180</u>	<u>\$ 19,368</u>	<u>\$ 18,379</u>	<u>\$ 19,524</u>

During the fiscal year, the City's total debt increased by \$1.2 million or .65%. There was new debt incurred to the United States Agriculture Department in connection with a water system expansion project, as well as to Kent County for costs incurred to construct a new sewer line.

The City's General Obligation Bond rating is AA- as rated by Standard & Poor's. Additionally, several of the City's bonds are insured.

Additional information on the City's long term debt can be found in footnote 10 on pages 38 to 41 of this report.

**CITY OF MILFORD, DELAWARE**

Management's Discussion and Analysis  
For the Year Ended June 30, 2013

**Amounts in Thousands Unless Stated Otherwise**  
(Unaudited)

**CAPITAL ASSETS**

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2013, amounts to \$42.9 million (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, intangibles, improvements, and infrastructure and construction in progress. The total increase in the City's investment in capital assets, net of accumulated depreciation, for the current fiscal year was \$2.3 million or 5.6%. Additional information on the City's capital assets can be found in note 9 on pages 35 and 36 of this report.

Major capital asset events during the current fiscal year included the following: acquisition of vehicles and equipment totaling \$605 thousand, including public safety and street vehicles totaling \$233 thousand; utility system infrastructure improvements totaling \$1.5 million; and land additions totally \$1.7 million, including \$140 thousand for a "can-do" playground.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

In the fiscal year 2014 Budget, General Fund revenues are budgeted to increase by 1% from the fiscal year 2013 final budget. A reassessment was completed in fiscal year 2012 as required by the city charter at least every 10 years.

In this coming fiscal year, the City's budget will continue to be impacted by the economic downturn but is seeing some encouraging signs. On the positive side, rates charged for services remained unchanged in order to operate the city's four enterprise funds consisting of water, sewer, electric and sanitation. The city's electric service will be adding a new substation to better serve our customers. The city has also been aggressively pursuing the removal of groundwater from our sewer lines which should result in a reduction of expenses to process the sewer discharge at the Kent County sewer processing plant.

**REQUEST FOR INFORMATION**

The financial report is designed to provide our citizens, customers, investors and creditors with general overview of the City's finances. If you have questions about this report or need any additional information, contact the Department of Finance, Attention: Finance Director, 10 SE 2<sup>nd</sup> Street, Milford, DE 19963 or call 302-424-5141 or email: [jportmann@milford-de.gov](mailto:jportmann@milford-de.gov).

**CITY OF MILFORD, DE**  
**STATEMENT OF NET ASSETS**  
**June 30, 2013**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and Equivalents	\$ 3,597,049	\$ 13,986,319	\$ 17,583,368
Investments	4,184,114	18,852,038	23,036,152
Receivables	422,965	2,927,266	3,350,231
Inventories	-	1,313,744	1,313,744
Other Assets	122,404	215,382	337,786
Capital Assets			
Land, Infrastructure and Other Assets not being depreciated	13,384,420	1,260,444	14,644,864
Utility System	-	43,897,421	43,897,421
Buildings	4,260,185	6,294,293	10,554,478
Equipment and Furniture	5,207,014	4,333,601	9,540,615
Construction in Progress	630,104	-	630,104
Less: Accumulated Depreciation	<u>(9,966,519)</u>	<u>(26,421,071)</u>	<u>(36,387,590)</u>
Total Capital Assets	<u>13,515,204</u>	<u>29,364,688</u>	<u>42,879,892</u>
Total Assets	<u>\$ 21,841,736</u>	<u>\$ 66,659,437</u>	<u>\$ 88,501,173</u>
<b>LIABILITIES</b>			
Accounts Payable and Accrued Expenses	\$ 457,610	\$ 2,733,682	\$ 3,191,292
Long-Term Liabilities			
Due Within One Year			
Bonds and Notes Payable	42,986	1,254,913	1,297,899
Compensated Absences	142,886	35,552	178,438
Customer Deposits	-	430,732	430,732
Due in More Than One Year			
Bonds and Notes Payable	112,717	18,112,778	18,225,495
Compensated Absences	571,544	142,207	713,751
Total Liabilities	<u>1,327,743</u>	<u>22,709,864</u>	<u>24,037,607</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	13,359,501	9,996,997	23,356,498
Restricted	978,909	2,107,971	3,086,880
Unrestricted	6,175,583	31,844,605	38,020,188
Total Net Assets	<u>\$ 20,513,993</u>	<u>\$ 43,949,573</u>	<u>\$ 64,463,566</u>

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

**CITY OF MILFORD, DE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2013**

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<b>Primary Government</b>							
Governmental Activities							
General Government	\$ 2,026,485	\$ 31,740	\$ -	\$ -	\$ (1,994,745)		\$ (1,994,745)
Public Safety	4,048,647	-	414,319	-	(3,634,328)		(3,634,328)
Public Works	744,564	-	371,240	-	(373,324)		(373,324)
Culture and Recreation	1,003,766	88,360	-	-	(915,406)		(915,406)
Total Governmental Activities	<u>7,823,462</u>	<u>120,100</u>	<u>785,559</u>	<u>-</u>	<u>(6,917,803)</u>		<u>(6,917,803)</u>
Business-Type Activities							
Electric Fund	21,732,327	24,947,748	-	-		3,215,421	3,215,421
Water Fund	1,697,166	2,491,245	-	-		794,079	794,079
Sewer Fund	4,694,499	3,611,605	-	-		(1,082,894)	(1,082,894)
Trash Fund	1,137,795	1,103,547	-	-		(34,248)	(34,248)
Total Business-Type Activities	<u>29,261,787</u>	<u>32,154,145</u>	<u>-</u>	<u>-</u>		<u>2,892,358</u>	<u>2,892,358</u>
Total Primary Government	<u>\$ 37,085,249</u>	<u>\$ 32,274,245</u>	<u>\$ 785,559</u>	<u>\$ -</u>	<u>\$ (6,917,803)</u>	<u>\$ 2,892,358</u>	<u>\$ (4,025,445)</u>
<b>General Revenues:</b>							
Taxes:							
Property Taxes, Levied for General Purposes					3,957,455	-	3,957,455
Franchise Taxes					487,897	-	487,897
Impact Fees					-	97,443	97,443
Unrestricted Investment Earnings					26,371	109,714	136,085
Miscellaneous					435,670	(1,390)	434,280
Transfers					2,500,000	(2,500,000)	-
Total General Revenues, Special Items, and Transfers					<u>7,407,393</u>	<u>(2,294,233)</u>	<u>5,113,160</u>
Change in Net Assets					489,590	598,125	1,087,715
Net Assets - Beginning					<u>20,024,403</u>	<u>43,351,448</u>	<u>63,375,851</u>
Net Assets - Ending					<u>\$ 20,513,993</u>	<u>\$ 43,949,573</u>	<u>\$ 64,463,566</u>

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

**CITY OF MILFORD, DE  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2013**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Parks and Recreation Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 1,762,607	\$ 1,816,106	\$ 18,336	\$ 3,597,049
Investments	2,732,263	1,451,851	-	4,184,114
Taxes Receivable, Net of Allowance for Doubtful Accounts	130,695	36,223	-	166,918
Other Receivables	207,044	49,003	-	256,047
Prepaid Expenses	122,404	-	-	122,404
<b>Total Assets</b>	<u>\$ 4,955,013</u>	<u>\$ 3,353,183</u>	<u>\$ 18,336</u>	<u>\$ 8,326,532</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts Payable	\$ 208,270	\$ 50,820	\$ 3,755	\$ 262,845
Compensated Absences - Current	142,886	-	-	142,886
Other Accrued Expenses	190,263	-	-	190,263
Other Payables	4,131	-	371	4,502
<b>Total Liabilities</b>	<u>545,550</u>	<u>50,820</u>	<u>4,126</u>	<u>600,496</u>
<b>Fund Balances:</b>				
Restricted	-	978,909	-	978,909
Nonspendable	122,404	-	-	122,404
Assigned	-	2,323,454	14,210	2,337,664
Unassigned	4,287,059	-	-	4,287,059
<b>Total Fund Balances</b>	<u>4,409,463</u>	<u>3,302,363</u>	<u>14,210</u>	<u>7,726,036</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 4,955,013</u>	<u>\$ 3,353,183</u>	<u>\$ 18,336</u>	<u>\$ 8,326,532</u>

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

**CITY OF MILFORD, DE**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS**  
**June 30, 2013**

Total Fund Balance, Governmental Funds \$ 7,726,036

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets. 13,515,204

Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable ), are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Assets. (727,247)

Net Assets of Governmental Activities in the Statement of Net Assets \$ 20,513,993

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

**CITY OF MILFORD, DE**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Parks and Recreation Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Property Taxes	\$ 3,618,679	\$ -	\$ -	\$ 3,618,679
Real Estate Transfer Taxes	-	338,776	-	338,776
Fees and Fines	233,688	-	-	233,688
Licenses and Permits	254,209	-	-	254,209
Engineering & Inspection Fees	-	-	-	-
Intergovernmental	-	785,559	-	785,559
Charges for Services	31,740	-	88,360	120,100
Investment Earnings	19,449	6,922	-	26,371
Miscellaneous	401,672	33,998	-	435,670
	<u>4,559,437</u>	<u>1,165,255</u>	<u>88,360</u>	<u>5,813,052</u>
Total Revenues				
<b>EXPENDITURES</b>				
Current:				
General Government	1,324,153	-	-	1,324,153
Public Safety	3,940,633	108,014	-	4,048,647
Public Works	744,564	-	-	744,564
Culture and Recreation	913,465	-	90,301	1,003,766
Debt Service:				
Principal	41,854	-	-	41,854
Interest	4,237	-	-	4,237
Capital Outlay	541,631	392,470	-	934,101
	<u>7,510,537</u>	<u>500,484</u>	<u>90,301</u>	<u>8,101,322</u>
Total Expenditures				
(Deficiency) Excess of Revenues Over Expenditures	<u>(2,951,100)</u>	<u>664,771</u>	<u>(1,941)</u>	<u>(2,288,270)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	3,000,000	-	-	3,000,000
Transfers Out	-	(500,000)	-	(500,000)
	<u>3,000,000</u>	<u>(500,000)</u>	<u>-</u>	<u>2,500,000</u>
Total Other Financing Sources and Uses				
Net Change in Fund Balances	48,900	164,771	(1,941)	211,730
<b>Fund Balances - Beginning</b>	<u>4,360,563</u>	<u>3,137,592</u>	<u>16,151</u>	<u>7,514,306</u>
<b>Fund Balances - Ending</b>	<u>\$ 4,409,463</u>	<u>\$ 3,302,363</u>	<u>\$ 14,210</u>	<u>\$ 7,726,036</u>

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

**CITY OF MILFORD, DE  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2013**

Net change in fund balances - total governmental funds:	\$ 211,730
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenses in the statement of revenues, expenditures and changes in fund balance.	(133,396)
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays of \$934,101 exceeded depreciation expense of \$564,699 in the current period.	369,402
Governmental funds report repayment of bond principal as an expenditure, In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.	<u>41,854</u>
Change in net assets of governmental activities	<u><u>\$ 489,590</u></u>

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

**CITY OF MILFORD, DE  
BUDGET AND ACTUAL (WITH VARIANCES)  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property Taxes	\$ 3,508,380	\$ 3,508,380	\$ 3,618,679	\$ 110,299
Real Estate Transfer Tax (from Special Revenue Fund)	500,000	500,000	500,000	-
Fees and Fines	150,000	150,000	233,688	83,688
Licenses and Permits	210,000	210,000	254,209	44,209
Charges for Services	32,000	32,000	31,740	(260)
Investment Earnings	7,500	7,500	19,449	11,949
Miscellaneous	243,310	374,764	401,672	26,908
	<u>4,651,190</u>	<u>4,782,644</u>	<u>5,059,437</u>	<u>276,793</u>
<b>EXPENDITURES</b>				
Current:				
General Government	1,297,390	1,297,390	1,324,153	(26,763)
Public Safety	3,944,635	3,944,635	3,940,633	4,002
Public Works	830,130	830,130	744,564	85,566
Culture and Recreation	904,030	904,030	913,465	(9,435)
Debt Service:				
Principal	41,854	41,854	41,854	-
Interest and Other Charges	4,241	4,241	4,237	4
Capital Outlay	627,350	758,804	541,631	217,173
	<u>7,649,630</u>	<u>7,781,084</u>	<u>7,510,537</u>	<u>270,547</u>
Total Expenditures	<u>7,649,630</u>	<u>7,781,084</u>	<u>7,510,537</u>	<u>270,547</u>
Deficiency of Revenues Over Expenditures	(2,998,440)	(2,998,440)	(2,451,100)	547,340
<b>OTHER FINANCING SOURCES</b>				
Transfers In From Electric Fund	2,500,000	2,500,000	2,500,000	-
	<u>2,500,000</u>	<u>2,500,000</u>	<u>2,500,000</u>	<u>-</u>
Net Change in Fund Balance	(498,440)	(498,440)	48,900	547,340
<b>DEFICIENCY FUNDED BY</b>				
General Fund Prior Balance and Reserves	498,440	498,440	-	(498,440)
	<u>498,440</u>	<u>498,440</u>	<u>-</u>	<u>(498,440)</u>
<b>Net Revenues, Other Financing Sources, Prior Fund Balances and Expenditures</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,900</u>	<u>\$ 48,900</u>

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

**CITY OF MILFORD, DE**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**June 30, 2013**

<b>Business Type Activities - Enterprise Funds</b>						<b>Governmental Activities- Internal Service Fund</b>
<b>Electric</b>	<b>Water</b>	<b>Sewer</b>	<b>Trash</b>	<b>Total</b>		
<b>ASSETS</b>						
Current Assets:						
Cash and Cash Equivalents	\$ 9,436,856	\$ 2,698,731	\$ 1,406,888	\$ 443,844	\$ 13,986,319	\$ 183,969
Investments	8,623,459	5,763,770	4,214,809	250,000	18,852,038	-
Accounts Receivable, net of allowance for doubtful accounts	2,124,808	276,311	399,463	97,936	2,898,518	19,682
Other Receivables	26,748	750	750	500	6,294,293	-
Inventories	1,278,853	34,891	-	-	1,313,744	45,824
Deferred Bond Issue Costs	131,745	23,727	59,910	-	215,382	-
<b>Total Current Assets</b>	<b>21,622,469</b>	<b>8,798,180</b>	<b>6,081,820</b>	<b>792,280</b>	<b>37,294,749</b>	<b>249,475</b>
Non-Current Assets:						
Capital Assets:						
Land and Improvements	1,204,437	27,369	28,638	-	1,260,444	-
Utility System	12,887,000	13,626,327	17,384,094	-	43,897,421	-
Buildings and Improvements	6,049,421	197,249	41,973	5,650	6,294,293	-
Equipment and Furniture	2,382,053	632,082	439,034	880,432	4,333,601	1,118,768
Less Accumulated Depreciation	(11,901,752)	(6,679,049)	(7,092,662)	(747,608)	(26,421,071)	(406,593)
<b>Total Non-Current Assets</b>	<b>10,621,159</b>	<b>7,803,978</b>	<b>10,801,077</b>	<b>138,474</b>	<b>29,364,688</b>	<b>712,175</b>
<b>Total Assets</b>	<b>\$ 32,243,628</b>	<b>\$ 16,602,158</b>	<b>\$ 16,882,897</b>	<b>\$ 930,754</b>	<b>\$ 66,659,437</b>	<b>\$ 961,650</b>
<b>LIABILITIES</b>						
Current Liabilities:						
Accounts Payable	\$ 2,027,294	\$ 100,403	\$ 318,471	\$ 47,642	\$ 2,493,810	\$ 98,010
Salaries Payable	35,737	7,111	7,110	11,038	60,996	-
Other Accrued Expenses	178,876	-	-	-	178,876	13,732
Customer Deposits	430,732	-	-	-	430,732	-
Compensated Absences	22,962	4,031	4,031	4,528	35,552	18,382
Bonds, Notes and Loans Payable	338,906	452,985	463,022	-	1,254,913	-
<b>Total Current Liabilities</b>	<b>3,034,507</b>	<b>564,530</b>	<b>792,634</b>	<b>63,208</b>	<b>4,454,879</b>	<b>130,124</b>
Non-Current Liabilities:						
Compensated Absences	91,850	16,122	16,122	18,113	142,207	73,526
Bonds, Notes and Loans Payable	7,782,261	3,578,408	6,752,109	-	18,112,778	-
<b>Total Non-Current Liabilities</b>	<b>7,874,111</b>	<b>3,594,530</b>	<b>6,768,231</b>	<b>18,113</b>	<b>18,254,985</b>	<b>73,526</b>
<b>Total Liabilities</b>	<b>\$ 10,908,618</b>	<b>\$ 4,159,060</b>	<b>\$ 7,560,865</b>	<b>\$ 81,321</b>	<b>\$ 22,709,864</b>	<b>\$ 203,650</b>
<b>NET ASSETS</b>						
Invested in Capital Assets, net of related debt	\$ 2,499,992	\$ 3,772,585	\$ 3,585,946	\$ 138,474	\$ 9,996,997	\$ 712,175
Restricted for Capital Improvements	290,452	1,071,707	745,812	-	2,107,971	-
Unrestricted	18,544,566	7,598,806	4,990,274	710,959	31,844,605	45,825
<b>Total Net Assets</b>	<b>\$ 21,335,010</b>	<b>\$ 12,443,098</b>	<b>\$ 9,322,032</b>	<b>\$ 849,433</b>	<b>\$ 43,949,573</b>	<b>\$ 758,000</b>

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

**CITY OF MILFORD, DE**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	<b>Business Type Activities - Enterprise Funds</b>					<b>Governmental Activities- Internal Service Fund</b>
	<b>Electric</b>	<b>Water</b>	<b>Sewer</b>	<b>Trash</b>	<b>Total</b>	
<b>REVENUES</b>						
Charges for Services	\$ 24,647,844	\$ 2,445,802	\$ 3,578,109	\$ 1,099,272	\$ 31,771,027	\$ 1,857,647
Miscellaneous	299,904	45,443	33,496	4,275	383,118	-
Total Operating Revenues	<u>24,947,748</u>	<u>2,491,245</u>	<u>3,611,605</u>	<u>1,103,547</u>	<u>32,154,145</u>	<u>1,857,647</u>
<b>OPERATING EXPENSES</b>						
Personal Services	1,999,302	375,880	431,139	478,410	3,284,731	1,238,753
Contractual Services	18,507,215	84,933	3,361,490	328,284	22,281,922	83,840
Utilities	6,524	206,317	23,924	-	236,765	4,494
Repairs and Maintenance	285,192	81,399	32,787	107,712	507,090	236,133
Other Supplies and Expenses	102,059	607,903	244,987	177,452	1,132,401	317,965
Insurance Claims and Expenses	67,455	12,947	5,169	11,484	97,055	11,424
Depreciation	439,153	299,992	352,893	34,453	1,126,491	-
Total Operating Expenses	<u>21,406,900</u>	<u>1,669,371</u>	<u>4,452,389</u>	<u>1,137,795</u>	<u>28,666,455</u>	<u>1,892,609</u>
Operating Income	<u>3,540,848</u>	<u>821,874</u>	<u>(840,784)</u>	<u>(34,248)</u>	<u>3,487,690</u>	<u>(34,962)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>						
Interest and Investment Revenues	66,685	19,425	17,080	6,524	109,714	-
Impact Fees	29,550	67,893	-	-	97,443	-
Miscellaneous Revenue	(1,390)	-	-	-	(1,390)	-
Operating Grants and Contributions	-	-	-	-	-	-
Interest Expense	(325,427)	(27,795)	(242,110)	-	(595,332)	-
Miscellaneous Expenses	-	-	-	-	-	-
Total Non-Operating (Expenses) Revenues	<u>(230,582)</u>	<u>59,523</u>	<u>(225,030)</u>	<u>6,524</u>	<u>(389,565)</u>	<u>-</u>
Income Before Transfers	3,310,266	881,397	(1,065,814)	(27,724)	3,098,125	(34,962)
Transfers In	-	-	-	-	-	-
Transfers Out	<u>(2,500,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,500,000)</u>	<u>-</u>
Changes in Net Assets	810,266	881,397	(1,065,814)	(27,724)	598,125	(34,962)
<b>Total Net Assets - Beginning</b>	<u>20,524,744</u>	<u>11,561,701</u>	<u>10,387,846</u>	<u>877,157</u>	<u>43,351,448</u>	<u>792,962</u>
<b>Total Net Assets - Ending</b>	<u>\$ 21,335,010</u>	<u>\$ 12,443,098</u>	<u>\$ 9,322,032</u>	<u>\$ 849,433</u>	<u>\$ 43,949,573</u>	<u>\$ 758,000</u>

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

**CITY OF MILFORD, DE  
STATEMENT OF CASH FLOWS  
ALL PROPRIETARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2013**

	<b>ENTERPRISE FUNDS</b>				
	<b>Electric</b>	<b>Water</b>	<b>Sewer</b>	<b>Trash</b>	<b>Total</b>
<b>Cash Flows from Operations:</b>					
Receipts from Customers	\$ 24,794,351	\$ 2,349,701	\$ 3,450,040	\$ 1,093,355	\$ 31,687,447
Other Operating Receipts	355,026	45,443	83,396	4,275	488,140
Payments to Suppliers	(18,940,870)	(950,420)	(2,266,794)	(599,826)	(22,757,910)
Payments to Employees	(1,981,788)	(373,878)	(429,138)	(476,131)	(3,260,935)
Insurance Premiums Paid	(67,455)	(12,947)	(5,169)	(11,484)	(97,055)
<b>Net Cash Provided by Operating Activities</b>	<b>4,159,264</b>	<b>1,057,899</b>	<b>832,335</b>	<b>10,189</b>	<b>6,059,687</b>
<b>Cash Flows from Non-Capital Financing Activities:</b>					
Operating Transfers In	-	-	-	-	-
Operating Transfers (Out)	(2,500,000)	-	-	-	(2,500,000)
<b>Net Cash Flows Used in Non-Capital Financing Activities</b>	<b>(2,500,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,500,000)</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>					
Net cash (paid) received for additions to Property, Plant and Equipment	(2,395,180)	323,681	(435,576)	-	(2,507,075)
Proceeds from Sale of Land	573,928	-	-	-	573,928
Principal Paid on Bonds	(330,000)	(449,703)	(454,622)	-	(1,234,325)
Interest Paid on Bonds	(325,427)	(27,795)	(242,110)	-	(595,332)
Non-Operating Capital	(1,390)	-	-	-	(1,390)
Impact Fees Received	29,550	67,893	-	-	97,443
<b>Net Cash Flows Used in Capital and Related Financing Activities</b>	<b>(2,448,519)</b>	<b>(85,924)</b>	<b>(1,132,308)</b>	<b>-</b>	<b>(3,666,751)</b>
<b>Cash Flows from Investing Activities:</b>					
Net Proceeds/(Purchases) from Sales and Maturities of Short-Term Investments	(1,169,902)	(2,272,791)	(1,429,480)	-	(4,872,173)
Income on Investments	66,685	19,425	17,080	6,524	109,714
<b>Net Cash Flows provided by (Used in) Investing Activities</b>	<b>(1,103,217)</b>	<b>(2,253,366)</b>	<b>(1,412,400)</b>	<b>6,524</b>	<b>(4,762,459)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(1,892,472)</b>	<b>(1,281,391)</b>	<b>(1,712,373)</b>	<b>16,713</b>	<b>(4,869,523)</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>11,329,328</b>	<b>3,980,122</b>	<b>3,119,261</b>	<b>427,131</b>	<b>18,855,842</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 9,436,856</b>	<b>\$ 2,698,731</b>	<b>\$ 1,406,888</b>	<b>\$ 443,844</b>	<b>\$ 13,986,319</b>
<b>Reconciliation of Operating Income to Net Cash Flows from Operating Activities:</b>					
Operating Income	\$ 3,540,848	\$ 821,874	\$ (840,784)	\$ (34,248)	\$ 3,487,690
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation and Amortization	439,153	299,992	352,893	34,453	1,126,491
Effect of Changes in Operating Assets and Liabilities:					
Accounts Receivable, net	181,097	(96,101)	(78,169)	(5,917)	910
Inventory	(183,328)	5,586	-	-	(177,742)
Accounts Payable and Accrued Expenses	143,448	24,546	130,559	13,622	312,175
Due to Kent County - Sewer Bypass	-	-	1,265,835	-	1,265,835
Salaries Payable	3,482	166	165	621	4,434
Customer Deposits	20,532	-	-	-	20,532
Liability for Compensated Absences	14,032	1,836	1,836	1,658	19,362
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 4,159,264</b>	<b>\$ 1,057,899</b>	<b>\$ 832,335</b>	<b>\$ 10,189</b>	<b>\$ 6,059,687</b>
<b>Noncash Capital Financing Activities</b>					
Additions to Property, Plant and Equipment Financed by:	\$ (2,395,180)	\$ (729,205)	\$ (435,576)	\$ -	\$ (3,559,961)
Delaware Revolving Loans	-	95,661	-	-	95,661
USDA Loan (current and prior year costs)	-	957,225	-	-	957,225
<b>Net Cash</b>	<b>(2,395,180)</b>	<b>323,681</b>	<b>(435,576)</b>	<b>-</b>	<b>(2,507,075)</b>

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

**CITY OF MILFORD, DE**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**June 30, 2013**

<b>ASSETS</b>	<u><b>AGENCY</b></u>
Cash and Cash Equivalents	<u>486,804</u>
Total Assets	<u><u>\$ 486,804</u></u>
 <b>LIABILITIES</b>	
Due to Other Governments	113,912
Deferred Revenue - Trust Fund	<u>372,892</u>
Total Liabilities	<u><u>\$ 486,804</u></u>

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

**CITY OF MILFORD, DELAWARE**  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Introduction**

The City of Milford, Delaware (the "City"), operates under a Council-Manager form of government and provides the following services as authorized by its charter adopted on May 24, 1977: public safety (police), highways and streets, sanitation, health and social services, electric, water, parks and recreation, public improvements, planning and zoning, and administrative services.

The City complies with Generally Accepted Accounting Principles (GAAP) applicable to state and local governments. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary Funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The accounting and reporting framework and the more significant accounting policies and practices are discussed in subsequent sections of this Note. The remainder of the notes is organized to provide explanations, including required disclosures, of the City's financial activities for the year ended June 30, 2013.

**Financial Reporting Entity**

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City has no component units.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (statement of net assets and statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

**CITY OF MILFORD, DELAWARE**  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**Government-Wide and Fund Financial Statements (continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include 1) charges to customers who directly benefit from goods or services provided by a given function or activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided by governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Financial resources used to acquire capital assets are capitalized in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of the related liability, rather than as an expenditure in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter (within sixty days) to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt-service expenditures are recorded only when payment is due. Also, compensated absences are recorded as expenditures when paid.

Sales taxes, franchise taxes, permits and fees, recreation fees, fines and court fees, other miscellaneous revenues and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes are measurable as of the date levied (assessed) and are recognized as revenues when they become available. Available means when due, or past due, and received within the current period or collected soon enough thereafter to be used to pay liabilities of the current period. All other revenues are considered to be measurable and available only when the City receives cash.

**CITY OF MILFORD, DELAWARE**  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

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

The City reports the following governmental funds:

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

Special Revenue Funds - The special revenue funds account for revenues derived from earmarked revenue sources. Separate self-balancing funds are established to account for each restricted special revenue source.

Parks and Recreation Fund - The parks and recreation fund accounts for revenues derived from activities provided by the City's parks and recreation department, which include youth and adult sports leagues, summer camps and clinics, special events and festivals as well as fund raising activities.

The City reports the following proprietary funds:

Enterprise Funds - The Enterprise Funds of the City include the electric, water, sewer and trash funds. Enterprise funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises; where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body had decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Fund - Consists of five internal funds which are used to account for the financing of goods and services provided by one department to other departments of the City on a cost-reimbursement basis.

The City reports the following fiduciary fund types:

Agency Fund - The agency fund accounts for assets held by the City in a trustee capacity for fees collected on behalf of Kent County and the Carlisle Fire Department. In addition, a trust fund was established by an individual during fiscal 2013 to benefit Kent County residents by offsetting individual tax bills in the future. The balance of the fund as of June 30, 2013 was \$374,324.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results may differ from those estimates.

**CITY OF MILFORD, DELAWARE**  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

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

**Encumbrances**

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in governmental funds. Encumbrances as of the year end are reported as reservations of fund balance since they do not constitute expenditures or liabilities but serve as authorization for expenditures in the subsequent year. As of the end of the period, the City had no such encumbrances.

**Budgets and Budgetary Accounting**

The City Council follows these procedures in establishing the budgetary data reflected within the financial statements:

- (1) In accordance with the City Charter, prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year. The City Charter requires that the budget be submitted in summary form. In addition, more detailed line item budgets are included and provided for administrative control.
- (2) Public hearings are conducted to obtain taxpayer comment.
- (3) Prior to June 30, the budget is legally enacted through passage of an ordinance.
- (4) The City Manager is required by the City Charter to present a monthly report to the City Council explaining any variances from the approved budget.
- (5) Formal budgetary integration is employed as a management control device during the year for the general fund.
- (6) The budget for the general fund is adopted on a basis consistent with generally accepted accounting principles (GAAP) as applicable to governments.
- (7) The budgets for the special revenue fund are approved on a program by program basis by the funding agencies.
- (8) Budgetary amendments are approved by City Council as required throughout the year. If revenues in excess of those estimated in the budget become available, the Council, by ordinance, may make supplemental appropriations for the year up to the amount of such excess.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash, checking and money market accounts generally maturing in three months or less.

**CITY OF MILFORD, DELAWARE**  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**Receivables**

Receivables are shown net of the allowances for estimated uncollectible accounts. The allowance for uncollectible accounts is based upon historical data established according to experience and other factors which in the judgment of City officials should be recognized in estimating possible losses. Management believes that they have adequately provided for future probable losses.

**Interfund Receivables/Payables**

Advances between funds are accounted within the appropriate interfund receivable and payable accounts. These advances (reported as "due from/to other funds") are considered "available spendable resources."

**Inventory**

Inventory is carried at cost for the water fund, and at replacement cost for the electric fund, and is determined using the first-in, first out (FIFO) method.

Inventory in the general fund consists of gasoline and diesel fuel held for consumption. Inventory in the internal service fund consists of garage and meter supplies held for consumption. The inventory acquisitions are recorded in the inventory accounts initially and charged to expenditures when used. The cost value of such inventory has been presented on an average cost basis.

**Deferred Bond Discount and Costs**

The deferred bond discounts and costs are being amortized over the respective lives of the bonds, using the straight-line method.

**Fixed Assets**

Fixed assets which include land, buildings, improvements, equipment, vehicles and infrastructure assets, consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage and lighting systems, are reported on the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements. Fixed assets are recorded at historical cost, if purchased, and at fair market value, if donated. The capitalization threshold for all fixed assets is \$5,000. No dollar threshold is set for land. Fixed asset depreciation is recognized using the straight-line method over the estimated useful lives.

**Compensated Absences**

A maximum of 30 days of vacation and 130 days of sick leave may be accumulated by each employee except for those hired before 1992, whose carry-over is not limited. The City accrues a liability for compensated absences which meet the following criteria:

- The City's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
- The obligation relates to rights that vest or accumulate.
- Payment of the compensation is probable.
- The amount can be reasonably estimated.

**CITY OF MILFORD, DELAWARE**  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**Compensated Absences (Continued)**

In accordance with the above criteria, the City has accrued a liability for vacation and sick pay which has been earned but not taken by City employees. For governmental funds, the liability for compensated absences is reported as a long term liability in the government-wide financial statements since it is anticipated that none of the liability will be liquidated with expendable available financial resources. The liability for compensated absences is recorded in proprietary fund types as an accrued liability in accordance with Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences.

**Long-Term Liabilities**

In the government-wide financial statements, and in the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are recorded net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and are amortized over the life of the related debt. In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Government-wide and Proprietary Fund Net Assets:**

- Invested in capital assets, net of related debt - consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted net assets - consist of net assets that are restricted by the City's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors (including those who have donated to the City's parks endowment).
- Unrestricted - all other net assets are reported in this category.

**Governmental Fund Balances:**

In the governmental fund financial statements, fund balances are classified as follows:

- **Non-spendable** - Amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.

**CITY OF MILFORD, DELAWARE**  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**Governmental Fund Balances (Continued):**

- **Restricted** - Amounts that can be spent only for specific purposes because of the City Charter, the City code, state or federal laws, or externally imposed conditions by grantor or creditors.
- **Committed** - Amounts that can be used only for specific purposes determined by a formal action by City Council ordinance or resolution. This included the Budget Reserve Account.
- **Assigned** - Amounts that are designated by the Mayor for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by City Council.
- **Unassigned** - All amounts not included in other spendable classifications.

**Inter-Fund Transactions**

During the course of normal operations, the City has transactions between funds to subsidize operations in certain funds, to allocate administrative costs, to construct assets, to distribute grant proceeds, etc. These transactions are generally reflected as operating transfers, which are transfers from a fund authorized to receive certain revenues to the fund through which the resources are to be expended.

**Interest Capitalization**

Interest costs incurred for the acquisition and/or construction of capital assets are capitalized based on the guidelines established by the Statement of Financial Accounting Standards No. 34, Capitalization of Interest Cost.

The interest capitalization period begins when the following conditions are present:

- Expenditures for the capital asset have been made.
- Activities that are necessary to get the capital asset ready for its intended use are in progress.
- Interest expense is being incurred.

The amount of interest expense to be capitalized is based on the weighted-average amount of accumulated expenditures for the period multiplied by the interest rate for the obligation incurred specifically to finance the construction of capital assets. No capitalizable interest was incurred during the year ended June 30, 2013.

**CITY OF MILFORD, DELAWARE**  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013

**NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:**

**Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets.**

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities in the government-wide statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

Capital Asset Differences

When capital assets (land, building, improvements and equipment) are purchased or constructed for use in governmental fund activities, the costs of those assets are reported as expenditures in the governmental funds. However, these costs are reported as capital assets in the statement of net assets. The details of these differences are presented below:

Land, Infrastructure and Other Assets	\$13,384,420
Building and Improvements	4,260,185
Equipment and Furniture	5,207,014
Construction in Progress	630,104
Less: Accumulated Depreciation	<u>( 9,966,519)</u>
Net Capital Asset Difference	<u>\$13,515,204</u>

**CITY OF MILFORD, DELAWARE**  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013

**NOTE 2 - RECONCILIATION OF GOVERNMENT-SIDE AND FUND FINANCIAL STATEMENTS  
(CONTINUED):**

**Explanation of Certain Differences between the Governmental Fund Balance Sheet  
and the Government-Wide Statement of Net Assets (Continued).**

Long-Term Liability Differences

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund balance sheet. All liabilities (both current and long-term) are reported in the statement of net assets. The details of these differences are presented below:

Long-Term Portion of Compensated Absences	\$ 571,544
Current Portion of Bonds Payable	42,159
Long-Term Portion of Bonds Payable	<u>113,544</u>
Total Current and Long-Term Liability Differences	<u>\$ 727,247</u>

**Explanation of certain differences between the Governmental Fund Statement of  
Revenues, Expenditures and Changes in Fund Balances and the Government-Wide  
Statement of Activities.**

The governmental fund financial statements include a reconciliation between changes in fund balances in the governmental funds and changes in net assets in the government-wide statement of activities. The difference primarily results from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental fund financial statements.

Capital Outlay Differences

Capital Outlays are reported as expenditures in the statement of revenues, expenditures and changes in fund balances. They are reported as capital assets, with the costs allocated over the useful lives of the assets, as depreciation, in the statement of activities. The details of these differences are reported below:

Capital Outlay	\$ 934,101
Depreciation	<u>( 564,699)</u>
Net Difference	<u>\$ 369,402</u>

Long-Term Debt Issuance and Repayment Differences

When long-term debt is issued, it is reported as an other financing source. Repayments are reported as expenditures in the statement of revenues, expenditures and changes in fund balance. Issuance of debt is reported as a long-time liability and repayments are reported as reductions of those liabilities in the statement of activities. The detail of this difference is reported below:

Principal Repayment	<u>\$ 41,854</u>
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**CITY OF MILFORD, DELAWARE**  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013

**NOTE 3 - FINANCIAL INSTRUMENTS**

The City has a number of financial instruments. The City estimates that the fair value of all financial instruments as of June 30, 2013, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet and statement of net assets.

**NOTE 4 - REAL ESTATE TAXES**

The tax on real estate in the City area for the fiscal year 2013 was [46 mills (\$1,000 of assessed valuation)] as levied by the City Council. The City bills and collects its own real estate taxes. Delinquent taxes are liened by the City. The schedules of real estate taxes levied for the fiscal year 2011 are:

- |                         |  |
|-------------------------|--|
| July 1                  | - Levy Date (effective date of enforceable lien) |
| August 1 - September 30 | - Face Payment Period                            |
| October 1               | - 1% Penalty for each subsequent month not paid  |

**NOTE 5 - IMPACT FEES**

All new water, sewage, and electric services within the City of Milford are required to pay a one-time "impact fee." The purpose of the fee is to compensate for the impact of new users to the existing water and sewage systems, in order to provide for future expansion. All impact fees collected are restricted for capital improvements, as specified and approved by City Council that will be required as the result of population growth. The cost of the impact fee for water, sewage, and electric for the year ended June 30, 2013 was \$2,245, \$1,186, and \$600 per Estimated Discharge Usage (EDU), respectively.

The City has recorded as revenue in the proprietary funds Statement of Revenues, Expenses and Changes in Net Assets and in the government-wide Statement of Activities the impact fee monies, as required by GASB No. 33. Resulting restricted net assets at June 30, 2013 is \$2,107,971.

**NOTE 6 - INTERFUND TRANSACTIONS**

During the course of normal operations, the City has numerous transactions between funds including expenses or expenditures and transfers of resources primarily to provide services. The financial statements of the governmental and proprietary fund types generally reflect such transactions as transfers. Transfers that are not considered operating or residual equity transfers give rise to individual fund, interfund receivables and payables. As of June 30, 2013, there are no outstanding interfund balances.

**NOTE 7 - INTERGOVERNMENTAL RECEIVABLES**

Amounts due from other governmental units represent receivables for revenues earned by the City or collections made by another governmental unit on behalf of the City.

**CITY OF MILFORD, DELAWARE**  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013

**NOTE 8 - CASH AND INVESTMENTS**

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk. Deposits are classified as *Category 1* if they are fully insured, registered or held by the City's agent in the City's name. Deposits would be classified as *Category 2* for those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent(s) in the City's name, or *Category 3* for those deposits which are not collateralized, including bank balances that are collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name. As of June 30, 2013, all of the City's bank balances were Category 1 deposits, and the financial institution balances were the same as the carrying amounts.

The City's investments are categorized according to the level of credit risk assumed as of the balance sheet date. *Category 1* includes investments that are insured, registered or are held by the City's agent in the City's name. *Category 2* includes uninsured and unregistered investments held by the counterparty's trust department or agent in the city's name. *Category 3* includes uninsured and unregistered investments held by the counterparty, its trust department or its agent but not in the City's name. As of June 30, 2013, the City's investments consist of the following:

<u>Description</u>	<u>Category</u>	<u>Amount</u>	
		<u>Market</u>	<u>Carrying</u>
Money Market Funds	1		
PFM Asset Management LLC - City Reserves		\$22,536,152	\$22,536,152
Certificates of Deposit	1		
Delaware Federal Credit Union		<u>500,000</u>	<u>500,000</u>
Total		<u>\$23,036,152</u>	<u>\$23,036,152</u>

**CITY OF MILFORD, DELAWARE**  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013

**NOTE 9 - FIXED ASSETS**

The following schedule presents the capital activity of the governmental activities for the year ended June 30, 2013:

Description	Year Ended June 30, 2013				
	Balances 07/01/12	Additions	Deletions	Adjustments & Transfers	Balances 06/30/13
<b>City Department:</b>					
Land	\$ 7,016,070	\$ 35,665	\$ 300	\$ -	\$ 7,051,435
Buildings and Improvements	4,150,461	11,000	-	( 94,194)	4,067,267
Vehicles and Equipment	3,530,596	396,085	92,407	94,194	3,928,468
Construction in Progress	201,685	428,419	-	-	630,104
Total City Depreciation	14,898,812	871,169	92,707	-	15,677,274
Accumulated Depreciation	( 4,776,067)	( 358,899)	( 92,407)	-	( 5,042,559)
<b>Total City Department, Net</b>	<b><u>\$10,122,745</u></b>	<b><u>\$ 512,270</u></b>	<b><u>\$ 300</u></b>	<b><u>\$ -</u></b>	<b><u>\$10,634,715</u></b>
<b>Street Department:</b>					
Land Improvements	\$ 6,220,985	\$ 112,000	\$ -	\$ -	\$ 6,332,985
Buildings and Improvements	192,918	-	-	-	192,918
Vehicles and Equipment	1,312,093	-	33,548	-	1,278,545
Total City Department	7,725,996	112,000	33,548	-	7,804,448
Accumulated Depreciation	( 4,751,706)	( 205,801)	(33,548)	-	( 4,923,959)
<b>Total Street Department, Net</b>	<b><u>\$ 2,974,290</u></b>	<b><u>\$ (93,801)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,880,489</u></b>

Description	Year Ended June 30, 2013				
	Balances 07/01/12	Additions	Deletions	Adjustments & Transfers	Balances 06/30/13
<b>Total Government Capital Assets:</b>					
Land	\$13,237,055	\$ 147,665	\$ 300	\$ -	\$13,384,420
Buildings and Improvements	4,343,379	11,000	-	( 94,194)	4,260,185
Vehicles and Equipment	4,842,689	396,086	125,955	94,194	5,207,014
Construction in Progress	201,685	428,419	-	-	630,104
<b>Total Governmental Capital Assets</b>	<b>22,624,808</b>	<b>983,170</b>	<b>126,255</b>	<b>-</b>	<b>23,481,723</b>
<b>Accumulated Depreciation</b>	<b>( 9,527,773)</b>	<b>( 564,701)</b>	<b>( 125,955)</b>	<b>-</b>	<b>( 9,966,519)</b>
<b>Total Governmental Capital Assets, Net</b>	<b><u>\$13,097,035</u></b>	<b><u>\$ 418,469</u></b>	<b><u>\$ 300</u></b>	<b><u>\$ -</u></b>	<b><u>\$13,515,204</u></b>

**CITY OF MILFORD, DELAWARE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 9 - FIXED ASSETS (CONTINUED)**

The following schedule presents the capital activity of the business-type activities for the year ended June 30, 2013:

Description	Year Ended June 30, 2013				
	Balances 07/01/12	Additions	Deletions	Adjustments & Transfers	Balances 06/30/13
<b>Electric Fund:</b>					
Land	\$ 1,704,152	\$1,565,177	\$564,715	(\$1,500,177)	\$ 1,204,437
Buildings and Improvements	5,850,346	200,177	1,102	-	6,049,421
Electric System	11,061,623	454,917	129,717	1,500,177	12,887,000
Vehicles and Equipment	2,237,169	174,911	30,027	-	2,382,053
<b>Total Fixed Assets</b>	<b>20,853,290</b>	<b>2,395,182</b>	<b>725,561</b>	<b>-</b>	<b>22,522,911</b>
Accumulated Depreciation	( 11,623,455)	( 439,143)	( 160,846)	-	( 11,901,752)
Net Book Value	<u>\$ 9,229,835</u>	<u>\$1,956,039</u>	<u>\$564,715</u>	<u>(\$ -)</u>	<u>\$10,621,159</u>
<b>Water Fund:</b>					
Land	\$ 27,369	\$ -	\$ -	\$ -	\$ 27,369
Buildings and Improvements	202,734	-	5,485	-	197,249
Water System	12,920,131	729,205	23,009	-	13,626,327
Vehicles and Equipment	650,769	-	18,687	-	632,082
<b>Total Fixed Assets</b>	<b>13,801,003</b>	<b>729,205</b>	<b>47,181</b>	<b>-</b>	<b>14,483,027</b>
Accumulated Depreciation	( 6,426,239)	( 299,991)	( 47,181)	-	( 6,679,049)
Net Book Value	<u>\$ 7,374,764</u>	<u>\$ 429,214</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,803,978</u>
<b>Waste Water Fund:</b>					
Land	\$ 28,638	\$ -	\$ -	\$ -	\$ 28,638
Buildings and Improvements	45,821	-	3,848	-	41,973
Waste Water System	16,997,817	401,672	15,395	-	17,384,094
Vehicles and Equipment	410,927	33,904	5,797	-	439,034
<b>Total Fixed Assets</b>	<b>17,483,203</b>	<b>435,576</b>	<b>25,040</b>	<b>-</b>	<b>17,893,739</b>
Accumulated Depreciation	( 6,764,809)	( 352,893)	( 25,040)	-	( 7,092,662)
Net Book Value	<u>\$10,718,394</u>	<u>\$ 82,683</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$10,801,077</u>
<b>Trash Fund:</b>					
Buildings and Improvements	\$ 10,846	\$ -	\$ 5,196	\$ -	\$ 5,650
Vehicles and Equipment	885,822	-	5,390	-	880,432
<b>Total Fixed Assets</b>	<b>896,668</b>	<b>-</b>	<b>10,586</b>	<b>-</b>	<b>886,082</b>
Accumulated Depreciation	( 723,740)	( 34,454)	( 10,586)	-	( 747,608)
Net Book Value	<u>\$ 172,928</u>	<u>(\$ 34,454)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 138,474</u>
<b>Total Enterprise Funds:</b>					
Land	\$ 1,760,159	\$1,565,177	\$ 564,715	(\$1,500,177)	\$ 1,260,444
Buildings and Improvements	6,109,747	200,177	15,631	-	6,294,293
Electric System	11,061,623	454,917	129,717	1,500,177	12,887,000
Water System	12,920,131	729,205	23,009	-	13,626,327
Waste Water System	16,997,817	401,672	15,395	-	17,384,094
Vehicles and Equipment	4,184,687	208,815	59,901	-	4,333,601
<b>Total Fixed Assets</b>	<b>53,034,164</b>	<b>3,559,963</b>	<b>808,368</b>	<b>-</b>	<b>55,785,759</b>
Accumulated Depreciation	( 25,538,243)	( 1,126,481)	( 243,653)	-	( 26,421,071)
Net Book Value	<u>\$27,495,921</u>	<u>\$2,433,482</u>	<u>\$ 564,715</u>	<u>\$ -</u>	<u>\$29,364,688</u>

**CITY OF MILFORD, DELAWARE**  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013

**NOTE 10 - LONG-TERM DEBT OBLIGATIONS**

Long-Term liability activity for the year ended June 30, 2013 is summarized as follows:

**Governmental Activities:**

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Within One Year
Bonds Payable: Series B of 2011 General Obligation Bonds	\$ 193,993	\$ -	(\$ 41,854)	\$ 152,139	\$ 42,159
Bond Premium	4,596	-	( 1,032)	3,564	827
Other Liabilities: Compensated Absences	<u>638,155</u>	<u>76,275</u>	<u>-</u>	<u>714,430</u>	<u>142,886</u>
Governmental Activities Long-Term Liabilities	<u>\$ 836,744</u>	<u>\$ 76,275</u>	<u>(\$ 42,886)</u>	<u>\$ 870,133</u>	<u>\$185,872</u>

**Business Activities:**

Bonds Payable: Series 1992A Capital Appreciation Bond	\$ 1,670,000	\$ -	\$ -	\$ 1,670,000	\$ -
Series 2005 General Obligation Bonds	3,115,000	-	( 330,000)	2,785,000	180,000
Series A of 2011 General Obligation Bonds	8,720,000	-	-	8,720,000	285,000
Series B of 2011 General Obligation Bonds	<u>3,111,008</u>	<u>-</u>	<u>( 773,147)</u>	<u>2,337,861</u>	<u>643,146</u>
Add: Bond Premium 2011 Bonds	16,616,008	-	( 1,103,147)	15,512,861	1,108,146
	172,148	-	( 22,883)	149,265	22,883
Less: Bond Discount and Deferred Amount on Refunding	<u>( 671,048)</u>	<u>-</u>	<u>104,031</u>	<u>( 567,017)</u>	<u>( 32,938)</u>
Total Bonds Payable	16,117,108	-	( 1,021,999)	15,095,109	1,098,091
Revolving Funds Loans - State of Delaware	975,750	-	( 85,027)	890,723	87,597
State of Delaware 2010	989,070	-	( 46,151)	942,919	47,078
State of Delaware 2011	98,071	95,661	-	193,732	-
Note Payable - Kent County	-	1,298,872	( 10,889)	1,287,983	22,147
Note Payable - USDA	<u>-</u>	<u>957,225</u>	<u>-</u>	<u>957,225</u>	<u>-</u>
Total Bonds and Notes Payable	18,179,999	2,351,758	( 1,164,066)	19,367,691	1,254,913
Other Liabilities: Compensated Absences	<u>270,412</u>	<u>-</u>	<u>( 92,653)</u>	<u>177,759</u>	<u>35,552</u>
Business-Type Activities Long-Term Liabilities	<u>\$18,450,411</u>	<u>\$ 2,351,758</u>	<u>(\$1,256,719)</u>	<u>\$19,545,450</u>	<u>\$1,290,465</u>

**CITY OF MILFORD, DELAWARE**  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013

**NOTE 10 - LONG-TERM DEBT OBLIGATIONS (CONTINUED)**

Bonds payable at June 30, 2013 are comprised of the following individual issues:

	Interest Rate %	Issue Date	Maturity Date	Amount Outstanding				Total
				General Fund	Electric Fund	Sewer Fund	Water Fund	
General Obligation Bonds								
Series 1992A Capital Appreciation	0.00	4/1/1992	4/1/2018	\$ -	\$ -	\$ -	\$ 1,670,000	\$ 1,670,000
Series 2005 Refunding	3.45-4.25	6/1/2005	4/1/2025	-	2,785,000	-	-	2,785,000
Series A 2011	2.00-4.40	6/30/2011	11/1/2037	-	5,350,000	3,370,000	-	8,720,000
Series B 2011 Refunding	2.00-3.00	6/30/2011	11/1/2021	152,139	-	703,176	1,634,685	2,490,000
Total Amounts Outstanding				<u>\$ 152,139</u>	<u>\$ 8,135,000</u>	<u>\$ 4,073,176</u>	<u>\$ 3,304,685</u>	<u>\$ 15,665,000</u>

The annual aggregate maturities for all of the general obligation bonds as of June 30, 2013 are as follows:

Year Ending June 30,	General Obligation Bonds		
	Principal	Interest	Total
2014	1,160,000	475,639	1,635,639
2015	1,195,000	453,522	1,648,522
2016	1,200,000	435,254	1,635,254
2017	1,140,000	415,980	1,555,980
2018	1,170,000	393,075	1,563,075
2019-2023	3,705,000	1,578,261	5,283,261
2024-2028	2,585,000	978,707	3,563,707
2029-2033	2,205,000	502,031	2,707,031
2034-2037	1,305,000	117,583	1,422,583
Total	<u>\$15,665,000</u>	<u>\$ 5,350,052</u>	<u>\$21,015,052</u>

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The City is required to compute, at the time taxes are levied, the rate of tax required to provide a fund to pay interest and principal at maturity. The City is in compliance with this requirement.

**CITY OF MILFORD, DELAWARE**  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013

**NOTE 10 - LONG-TERM DEBT OBLIGATIONS (CONTINUED)**

**General Obligation Bonds (continued)**

The 1992 General Obligation Enterprise Bonds, Series A, represents the remaining principal portion, net of unamortized appreciation of \$649,349 with variable interest rates of 5.50% to 6.95%. The bonds were used to defease in-substance a portion of the 1989 Bond Issue and to finance additional waste water system improvements. The general obligation bonds have various maturity dates through April 2018.

On June 1, 2005, the City issued \$3,790,000 in General Obligation Refunding Bonds with the average rate of interest not to exceed 4.50%. The City issued the bonds to advance refund the total amount outstanding under the Series of 2000 General Obligation Bonds of \$3,580,000 with interest rates ranging from 4.70% to 5.65% per annum. The advanced refunding reduced total debt service payments over the then remaining term of 20 years by approximately \$384,000.

On June 30, 2011, the City issued \$9,000,000 in General Obligation Bonds in connection with planned electric and sewer capital projects, with interest rates ranging from 2.0% to 4.4%. The bonds are scheduled to mature January 1, 2037. Annual principal payments are scheduled to commence January 1, 2013, with semi-annual interest payments commencing January 1, 2012. The bonds had an original issue premium of \$108,620, the unamortized portion of which is included in the balance reflected in the financial statements at June 30, 2012.

On June 30, 2011, the City issued \$3,720,000 in General Obligation Bonds with interest rates ranging between 2.0% and 3.0%. The City issued the bonds in order to currently refund \$3,770,000 of outstanding 2002 Refunding Bonds with interest rates ranging from 3.2% to 4.35%. The Series B 2011 General Obligation Bonds are scheduled to mature January 1, 2021, with annual principal payments commencing January 1, 2012. Semi-annual interest payments also commenced January 1, 2012. The current refunding reduced total debt service payments over the next 10 years by \$276,000. This resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$259,000.

**Note Payable - USDA**

In June 2013, the City issued bonds in the amount of \$5 million in connection with its Southeast Water Expansion project. The funding for the project is being provided by the United States Department of Agriculture (USDA) under the federal direct loan for water and waste disposal systems program. Under the program, the City receives proceeds from the loan only after incurring project expenditures. The balance of the loan as of June 30, 2013 is \$957,225, which represents total expenditures incurred on the project to date. Under the terms of the note, the City is making quarterly payments in the amount of \$46,500 commencing September 28, 2013, which include interest calculated at a rate of 2% on the balance outstanding. The agreement with the USDA also calls for the City to utilize the remaining unliquidated funds of \$4,042,775 for the project by May 31, 2015.

**Note Payable - Kent County**

In connection with previous sewer problems, Kent County was forced to construct a new sewer line, a significant portion of which runs through the City of Milford. The county issued bonds to cover the cost, and it was agreed that the City would pay for the portion of the line that runs through its jurisdiction. Under the agreement, the City is paying the County in quarterly installments of \$12,735, which include interest at a rate of 2.25% per annum. The obligation is scheduled to mature in November 10, 2050. The total cost to the City for the line was \$1,298,871, and was recorded as a period expense for the current fiscal year ended June 30, 2013, as the City does not have title to the asset.

**CITY OF MILFORD, DELAWARE**  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013

**NOTE 10 - LONG-TERM DEBT OBLIGATIONS (CONTINUED)**

**Notes Payable - State of Delaware**

In connection with its Wastewater Collection System Expansion Project, the City entered into a financing agreement with the Delaware Water Pollution Control Revolving Fund, acting by and through the Delaware Department of Natural Resources and Environmental Control, a public agency of the State of Delaware. Under terms of the agreement, interest only payments were due semi-annually at a rate of three percent (3%) per annum on the amounts that had been advanced to fund the project. Semi-annual payments of principal and interest (at 3%) are due through scheduled maturity of July 1, 2022. The note is secured by the full faith and credit of the City.

During fiscal year 2011, the City received additional funds under this program in connection with the second part of its System Expansion Project which is still in progress. The balance on this related note as of June 30, 2013 is \$942,919. Semi-annual payments commenced January 1, 2013 which include interest calculated at an annual rate of 2.0%. The note is scheduled to mature July 1, 2030.

Aggregate maturities of these two notes are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 134,675	\$ 44,695	\$ 179,370
2015	138,270	41,100	179,370
2016	141,962	37,408	179,370
2017	145,757	33,613	179,370
2018	149,656	29,714	179,370
2019-2023	696,134	87,049	783,183
2024-2028	299,003	29,512	328,515
2029-2030	<u>128,185</u>	<u>3,220</u>	<u>131,405</u>
	<u>\$1,833,642</u>	<u>\$306,311</u>	<u>\$2,139,953</u>

The City has received funds from the State of Delaware in connection with its Washington Street Water Treatment Facility Replacement Project. The funds are being provided by the DE Drinking Water State Revolving Fund only as expenditures are incurred by the City and approved by the State. Interest will be payable semi-annually commencing September 1, 2012 at 1% per annum. Upon completion of the project, if the City has complied with all of the requirements of the State, thirty-five percent of the amounts advanced will be forgiven, and the remaining balance will be amortized over a twenty year period with interest at 1% per annum. The balance outstanding as of June 30, 2013 is \$193,732, which represents the total amount of advances received on the project.

**CITY OF MILFORD, DELAWARE**  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013

**NOTE 11 - PENSION PLAN**

**County and Municipal Pension Plan**

Effective January 1, 2005, City Council elected, under provisions of the Delaware Code, to participate in the County and Municipal Police/Firefighter and the General Employees Retirement Funds. In connection with this election, the City agreed to fund prior service cost up to a maximum of fifteen (15) years for all eligible employees. The total cost to the City for the funding of the prior service cost was \$3,260,008. Such funding was provided for from the City's reserves in its Water and Sewer Funds, as well as from assets of its existing retirement fund. This cost was included within the fiscal June 30, 2005 financial statements, and was allocated to all of the City's funds based on the actuarial data that was provided in order to determine the total prior service cost.

Along with the prior service cost, the City is obligated to pay the ongoing regular contribution rate (6.84% for fiscal year 2013). For sworn officers, the contribution rate was 14.75% for fiscal year 2013. These contribution rates are expected to gradually increase over the next several years. In addition, eligible employees are required to contribute 3% of their earnings in excess of \$6,000 and an additional 2% of their earnings in excess of the Social Security wage base.

**NOTE 12 - COMMITMENTS AND CONTINGENCIES**

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The City does not anticipate losses as a result of these transactions.

**Government Grant/Award Programs**

The City participates in a number of federal and state assisted programs. These programs are subject to program compliance audits by the grantors or their representatives. Accordingly, the City's compliance with applicable program requirements will be established at some future date. The amount, if any, of expenditures, not already disclosed, which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

**CITY OF MILFORD, DE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

<b>Federal Grantor/Pass-Through Grantor/Program Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass- Through Entity Identifying Number</b>	<b>Federal Expenditures</b>
U.S. Department of Agriculture, Rural Utilities Service Direct Loan for Water and Waste Disposal Systems	10.760	N/A	\$ 957,225
Federal Emergency Management Agency Passed through Delaware Emergency Management Agency Hurricane reimbursement expenses - Federal Disaster 4090	14.269	51-6000177	19,604
Environmental Protection Agency Passed through State of DE Department of Health and Social Services Capitalization Grants for Drinking Water State Revolving Funds	66.458	51-6000177	<u>152,080</u>
Total Expenditures of Federal Awards			<u>\$ 1,128,909</u>

See accompanying notes to schedule of expenditures of federal awards.

**CITY OF MILFORD, DELAWARE**  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The City of Milford, DE Schedule of Expenditures of Federal Awards (Schedule) includes the activity of all federal award programs administered by the primary government

**Basis of Presentation**

The Schedule presents total federal awards expended for each individual federal program in accordance with OMB Circular A-133. Federal award program titles are reported in the Catalog of Federal Domestic Assistance (CFDA). Federal award programs included expenditures, pass-throughs to non-state agencies (i.e. payments to subrecipients), non-monetary assistance, and loan programs.

**Basis of Accounting**

The expenditures for each of the federal assistance programs are presented in the Schedule on the accounting basis as presented on the fund financial statements. For the governmental funds, expenditures are presented on the modified accrual basis. For expenditure in proprietary funds, expenditures are presented on the accrual basis. Both the modified accrual and accrual basis of accounting incorporate an estimation approach to determine the amount of expenditures incurred if not yet billed by a vendor.

**NOTE 2 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule which is prepared on the basis explained in Note 1 to this Schedule.

**NOTE 3 - FEDERALLY FUNDED LOAN PROGRAMS**

**Water and Waste Disposal Systems for Rural Communities (CFDA 10.760)**

In June 2013, the City issued bonds in the amount of \$5 million in connection with its Southeast Water Expansion project. The funding for the project is being provided by the United States Department of Agriculture (USDA) under the federal direct loan for water and waste disposal systems program. Under the program, the City receives proceeds from the loan only after incurring project expenditures. The balance of the loan as of June 30, 2013 is \$957,225, which represents total expenditures incurred on the project to date. Under the terms of the note, the City is making quarterly payments commencing September 28, 2013, which include interest calculated at a rate of 2% on the balance outstanding. The agreement with the USDA also calls for the City to utilize the remaining unliquidated funds of \$4,042,775 for the project by May 31, 2015.

**Clean Water State Revolving Funds (CFDA 66.458)**

The City receives loans from the State of Delaware by way of capitalization grants awarded to the state to create and maintain Clean Water State Revolving Funds (CWSRF) programs. The state uses the funds to provide long-term sources of financing for construction of wastewater treatment facilities and implementation of water management activities. CWSRF outstanding loans for which the related project is completed do not have continuing audit requirements.



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www.beckvillata.com

Frank C. Beck, CPA/ABV  
Vincent P. Villata, Jr., CPA  
Robert K. Griffin, CPA

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

To the Mayor and City Council  
**City of Milford**  
Milford, Delaware

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Milford, Delaware, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Milford, Delaware's basic financial statements and have issued our report thereon dated October 30, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered City of Milford, Delaware's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of, but not for the purpose of expressing an opinion on the effectiveness of the City of Milford, Delaware'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 combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency.

#### **Compliance and Other Matters**

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

#### **City of Milford, Delaware's Response to Finding**

City of Milford, Delaware's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Milford, Delaware's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

#### **Purpose of this Report**

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

*Beck Villalov + Co PC*

Voorhees, New Jersey  
October 30, 2013



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www.beckvillata.com

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the City Council  
City of Milford, Delaware

**Report on Compliance for Each Major Federal Program**

We have audited City of Milford, Delaware's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Milford, Delaware's major federal programs for the year ended June 30, 2013. City of Milford, Delaware's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of City of Milford, Delaware's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Milford, Delaware's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Milford, Delaware's compliance.

### *Opinion on Each Major Federal Program*

In our opinion, City of Milford, Delaware, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

### **Report on Internal Control Over Compliance**

Management of City of Milford, Delaware, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Milford, Delaware's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Milford, Delaware's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Back Villatoro & Co PC*

Voorhees, NJ  
October 30, 2013

**CITY OF MILFORD, DELAWARE**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2013

**SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unmodified opinion on the financial statements of the City of Milford, DE.
2. One significant deficiency disclosed during the audit of the financial statements is reported in this schedule of findings and questioned costs. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of the City of Milford, DE, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses in internal control over major federal award programs for the City of Milford, DE are reported.
5. The auditor's report on compliance for the major federal award programs for the City of Milford, DE expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major program was: U.S. Department of Agriculture, Rural Utilities Services, *Direct Loan for Water and Waste Disposal Systems*, CFDA No. 10.760.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. City of Milford, DE did not qualify as a low-risk auditee.

**CITY OF MILFORD, DELAWARE**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)  
FOR THE YEAR ENDED JUNE 30, 2013

**SIGNIFICANT DEFICIENCY**

**Financial Statement Preparation**

**Condition:** The City of Milford, like many governmental units, has historically relied on its auditors to draft its annual financial statements and required disclosures as part of the year-end audit process. Upon completion of audit fieldwork, management reviews and approves any adjustments made to the general ledger, and then reviews and approves the audited financial statements prior to issuance.

While the City's accounting personnel have possessed the level of skill necessary to produce the basic financial statements, they have lacked the technical expertise needed to ensure compliance with the current reporting standards promulgated by GAAP. Further, the city does not have the necessary technical reference materials and resources needed to ensure the propriety and completeness of all of the required financial disclosures applicable to its financial statements. We believe these resource limitations would limit the organization's ability to comply with the requirements as outlined and as such would be deemed an internal control deficiency with respect to the financial reporting control.

**Criteria:** U.S. generally accepted auditing standards require management be responsible for the preparation of an organization's financial statements and all required disclosures in accordance with U.S. generally accepted accounting principles (GAAP). Accordingly, to comply with these standards an organization must not only have accounting personnel that have the expertise in the area of financial reporting standards, but a system in place that ensures on-going training for its personnel in the area of financial reporting and the necessary reference materials or other resources to ensure compliance with financial reporting standards.

**Recommendation:** We acknowledge that this is an element of internal control embodied in the standards that may be difficult for some organizations to overcome. For many governmental units like the City of Milford, it has been more cost effective to rely on its auditors for this technical expertise. We recommend that the City continue to monitor the cost/benefit of this control as its operations evolve as to whether it would ever be appropriate to develop all of the internal resources necessary to remedy this condition.

**Management response:** We have a small and limited staff but we do provide city council monthly and year-end financial reports, as well as all budgetary reports. Our annual audited financial statements and footnotes have been outsourced to our auditors because of the cost/benefit standpoint and our auditors have direct knowledge that aids in preparing the annual audited financial statement package. Our trial balance and financial package is used for basis in preparation of the annual audited financial statement package.