

CITY OF MILFORD

Milford, Delaware

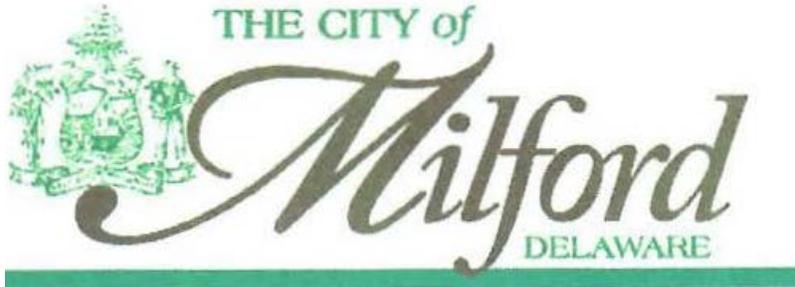
Financial Statements

For The Year Ended June 30, 2019

CITY OF MILFORD, DELAWARE

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TRANSMITTAL LETTER

December 9, 2019

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, 2019.

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's Discussion and Analysis (MD&A), basic financial statements and combining and individual fund statements, required supplementary information and schedules, and additional information and reports, as well as the independent auditor's report on the basic financial statements. Gold Gerstein Group LLC, Certified Public Accountants, has issued an unmodified ("clean") opinion on the City's financial statements for the year ended June 30, 2019. The independent auditor's report is located at the front of the financial section of this report, pages 1-2.

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 10,000 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 auditor's 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.

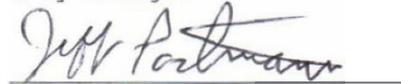
We would like to thank the members of the City Council for their interest and support in planning and conducting the financial operation of the City in a responsible and progressive manner.

Respectively submitted,



Eric Norenberg

City Manager



Jeffrey Portmann
Finance Director

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, 2019, 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, 2019, 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 required supplementary information, as listed in the table of contents, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2019, 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.

Gold Gerstein Group LLC

Gold Gerstein Group LLC

Voorhees, NJ

December 9, 2019

CITY OF MILFORD, DELAWARE

Management's Discussion and Analysis

For the Year Ended June 30, 2019

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, 2019. 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 in the City's website at www.cityofmilford.com. It should be noted that the Independent Auditor's Report describes the auditor's 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 \$90.2 million (net position). This number must be viewed in the context that a significant portion of the City's net position, \$45.6 million (50.6%) 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 \$9.6 million (10.6%). The remaining \$35 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 position increased by approximately \$1.8 million in fiscal year 2019.

CITY OF MILFORD, DELAWARE

Management's Discussion and Analysis

For the Year Ended June 30, 2019

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 \$9.4 million. Within this total \$2.3 million is restricted by specific legal requirements and \$4.4 million has been committed and assigned to specific types of expenditures. The remaining \$2.7 million is unassigned fund balance in the general fund and can be used for any lawful purpose.
- Revenues from the City's governmental activities decreased by approximately \$160 thousand to \$7.6 million (2%).
- The City had total liabilities of approximately \$22.1 million as of June 30, 2019, representing a decrease of approximately \$603 thousand from the prior year.
- The City 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 Position 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, 2019

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 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, 2019

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, billing services and city hall building maintenance cost allocation programs. 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 20 to 22 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 23 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 position and especially net position by category may serve over time as a useful indicator of a government's financial position. In the case of the City, total net position was \$90.2 million as of June 30, 2019.

The largest portion of the City's net position, \$45.6 million (50.6%) 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 the 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, 2019

Amounts in Thousands Unless Stated Otherwise

(Unaudited)

An additional portion of the City's net position \$9.6 million (10.6%) represents resources that are subject to restriction on how they may be used. The remaining balance of unrestricted net position of \$35 million (38.8%) may be used to meet the government's ongoing obligations to citizens and creditors. The current and other assets increased in the Governmental activities by \$653 thousand and increased in the Business type activities by \$4.3 million. The City's total liabilities decreased by approximately \$603 thousand.

Overall the City had an increase in net position of \$5.7 million (6.8%).

Governmental Activities - Governmental activities net position increased by \$1 million. Net position invested in capital assets, net of related debt, increased by \$383 thousand, or 2.3%. Unrestricted net position decreased by \$983 thousand or 10%.

Excluding transfers from business-type activities and special items, total revenues for governmental activities decreased from the previous year by \$160 thousand. Property taxes decreased by \$123 thousand. Total expenses for governmental activities increased by \$776 thousand, or 9%.

Business-Type Activities - Net position from business-type activities increased by \$4.7 million, or 7.9% from \$59.5 million to \$64.2 million. Net position invested in capital assets, net of related debt, increased by \$560 thousand. Unrestricted net position increased by \$2.7 million, while restricted net position increased by \$1.4 million from the previous year.

CITY OF MILFORD, DELAWARE

Management's Discussion and Analysis
 For the Year Ended June 30, 2019

Amounts in Thousands Unless Stated Otherwise
 (Unaudited)

CITY OF MILFORD'S NET POSITION
(Amounts in Thousands)

| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------------|-------------------------|------------------|--------------------------|------------------|------------------|------------------|
| | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 |
| Current and other assets | \$ 9,650 | \$ 10,303 | \$ 34,784 | \$ 39,056 | \$ 44,434 | \$ 49,359 |
| Capital assets, net | 16,856 | 17,239 | 44,470 | 44,382 | 61,326 | 61,621 |
| Total Assets | <u>26,506</u> | <u>27,542</u> | <u>79,254</u> | <u>83,438</u> | <u>105,760</u> | <u>110,980</u> |
| Deferred outflows of resources | 1,355 | 1,537 | 356 | 334 | 1,711 | 1,871 |
| Long term liabilities | 1,727 | 1,766 | 16,222 | 15,473 | 17,949 | 17,239 |
| Other liabilities | 823 | 728 | 3,905 | 4,107 | 4,728 | 4,835 |
| Total Liabilities | <u>2,550</u> | <u>2,494</u> | <u>20,127</u> | <u>19,580</u> | <u>22,677</u> | <u>22,074</u> |
| Deferred inflows of resources | 370 | 612 | - | - | 370 | 612 |
| Net Position | | | | | | |
| Net investment in capital assets | 16,856 | 17,239 | 27,784 | 28,344 | 44,640 | 45,583 |
| Restricted | 693 | 2,325 | 5,843 | 7,247 | 6,536 | 9,572 |
| Unrestricted | 7,392 | 6,409 | 25,856 | 28,602 | 33,248 | 35,011 |
| Total Net Position | <u>\$ 24,941</u> | <u>\$ 25,973</u> | <u>\$ 59,483</u> | <u>\$ 64,193</u> | <u>\$ 84,424</u> | <u>\$ 90,166</u> |

As of June 30, 2019, the City has positive balances in all three categories of net position, 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, 2019

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

The following table provides a summary of the City's operations for the year ended June 30, 2019 with comparative totals for the year ended June 30, 2018.

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

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|-------------------------|------------------|--------------------------|------------------|------------------|------------------|
| | <u>2018</u> | <u>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> | <u>2019</u> |
| Revenues | | | | | | |
| Program Revenues: | | | | | | |
| Fees, fines and charges for services | \$ 97 | \$ 76 | \$ 34,595 | \$ 35,086 | \$ 34,692 | \$ 35,162 |
| Operating grants and contributions | 1,156 | 1,065 | - | - | 1,156 | 1,065 |
| General Revenues: | | | | | | |
| Property taxes | 4,128 | 4,005 | - | - | 4,128 | 4,005 |
| Real estate transfer taxes | 916 | 1,063 | - | - | 916 | 1,063 |
| Franchise taxes | 543 | 683 | - | - | 543 | 683 |
| Impact fees | - | - | 380 | 702 | 380 | 702 |
| Capital grant | - | - | - | 482 | - | 482 |
| Sale of property | 169 | (7) | - | - | 169 | (7) |
| Investment earnings | 89 | 198 | 318 | 608 | 407 | 806 |
| Forgiveness of debt | - | - | 1,342 | - | 1,342 | - |
| Miscellaneous | 686 | 541 | - | - | 686 | 541 |
| Total revenues | <u>7,784</u> | <u>7,624</u> | <u>36,635</u> | <u>36,878</u> | <u>44,419</u> | <u>44,502</u> |
| Expenses | | | | | | |
| General government | 2,078 | 2,208 | - | - | 2,078 | 2,208 |
| Public safety | 4,698 | 5,386 | - | - | 4,698 | 5,386 |
| Public works | 683 | 719 | - | - | 683 | 719 |
| Culture and recreation | 1,133 | 1,055 | - | - | 1,133 | 1,055 |
| Interest on long term debt | - | - | 362 | 346 | 362 | 346 |
| Electric | - | - | 21,585 | 21,630 | 21,585 | 21,630 |
| Water | - | - | 1,808 | 2,118 | 1,808 | 2,118 |
| Sewer | - | - | 3,672 | 4,024 | 3,672 | 4,024 |
| Trash | - | - | 1,264 | 1,274 | 1,264 | 1,274 |
| Total expenses | <u>8,592</u> | <u>9,368</u> | <u>28,691</u> | <u>29,392</u> | <u>37,283</u> | <u>38,760</u> |
| Increase (decrease) in net assets before transfers and special items | (808) | (1,744) | 7,944 | 7,486 | 7,136 | 5,742 |
| Transfers | 2,500 | 2,776 | (2,500) | (2,776) | - | - |
| Change in net position | <u>1,692</u> | <u>1,032</u> | <u>5,444</u> | <u>4,710</u> | <u>7,136</u> | <u>5,742</u> |
| Net position, July 1 | 23,249 | 24,941 | 54,039 | 59,483 | 77,288 | 84,424 |
| Net position, June 30 | <u>\$ 24,941</u> | <u>\$ 25,973</u> | <u>\$ 59,483</u> | <u>\$ 64,193</u> | <u>\$ 84,424</u> | <u>\$ 90,166</u> |

CITY OF MILFORD, DELAWARE

Management's Discussion and Analysis

For the Year Ended June 30, 2019

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 balances 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 \$9.4 million. Within this total \$2.3 million is restricted by specific legal requirements, for street improvements, and \$4.4 million has been committed and assigned to specific types of expenditures. The remaining \$2.7 million is unassigned fund balance in the general fund and can be used for any lawful purpose. In the general fund, the City budgeted (as amended) a fund balance decrease in the current year of \$625 thousand prior to the use of prior balances and reserves. The actual general fund balance decreased by \$100 thousand less than 2% of the total budget. Actual general fund expenditures were within 3% 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 position of the respective enterprise funds were \$10.1 million for water, \$4.3 million for sewer, \$14.1 million for electric and \$97 thousand for Sanitation. The total of all enterprise funds' net position at the end of the fiscal year was \$64.2 million. Change in net position for enterprise funds in 2019 were an increase of \$1.5 million in the water fund, an increase of \$1.1 million in the sewer fund, an increase of \$2.2 million in the electric fund (net of \$2.7 million in interfund transfers) and a decrease of \$135 thousand in the sanitation fund.

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 \$766 thousand, which included \$312 thousand of council approved funding for new police officers, as well as \$198 in additional capital expenditures.

CITY OF MILFORD, DELAWARE

Management's Discussion and Analysis
For the Year Ended June 30, 2019

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 \$16 million all backed by the full faith and credit of the government.

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

| | Government Activities | | Business-Type Activities | | Total | |
|--------------------------|-----------------------|-------------|--------------------------|------------------|------------------|------------------|
| | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 |
| General Obligation Bonds | \$ - | \$ - | \$ 7,905 | \$ 7,505 | \$ 7,905 | \$ 7,505 |
| DE Revolving Fund Loans | - | - | 3,189 | 3,060 | 3,189 | 3,060 |
| USDA Loan | - | - | 4,386 | 4,292 | 4,386 | 4,292 |
| Kent County Note | - | - | 1,172 | 1,147 | 1,172 | 1,147 |
| Total | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 16,652</u> | <u>\$ 16,004</u> | <u>\$ 16,652</u> | <u>\$ 16,004</u> |

During fiscal 2019, the City's outstanding debt decreased by \$648 as a result of scheduled payments of its debt obligations.

No new debt obligations were incurred in fiscal year 2019.

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 35 to 37 of this report.

CITY OF MILFORD, DELAWARE

Management's Discussion and Analysis
For the Year Ended June 30, 2019
(Unaudited)

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2019 amounts to \$61.6 million (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements, and infrastructure assets. The total increase in the City's investment in capital assets, net of accumulated depreciation, for the current fiscal year was \$295 thousand or less than one-half %. Additional information on the City's capital assets can be found in Note 9 on pages 33 and 34 of this report. Major capital asset events during the current fiscal year included the following:

General Fund

- o \$47 thousand for IT servers and software.
- o \$85 thousand for two public safety vehicles
- o \$116 thousand for street department vehicle and crack sealer.
- o \$91 thousand for parks and recreation vehicles and equipment.

Electric Fund

- o \$165 thousand in building improvements.
- o \$180 thousand for service vehicles and an air brake switch.
- o \$459 thousand to upgrade meters to smart meters.
- o \$1 million for the purchase of land.

Water Fund

- o \$48 thousand for a vehicle and solar messaging board.
- o \$789 thousand to upgrade meters to smart meters.

Sewer Fund

- o \$177 thousand for a loader and solar message board.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The fiscal 2020 budget for general fund revenues is up 6% over fiscal 2019. The City's building permit fees increased by 25% this year as the result of a strong housing market. The new Bayhealth campus should assist in keeping this trend going with increased demand for housing and commercial property.

The City was able to maintain water, sewer, solid waste and electric services without increasing rates.

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 2nd Street, Milford, DE 19963 or call 302-424-5141 or email: jportmann@milford-de.gov.

CITY OF MILFORD, DE
STATEMENT OF NET POSITION
June 30, 2019

| | Governmental Activities | Business-type Activities | Total |
|---|------------------------------------|-------------------------------------|----------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and Equivalents | \$ 6,134,892 | \$ 10,613,066 | \$ 16,747,958 |
| Investments | 3,284,261 | 24,341,565 | 27,625,826 |
| Receivables | 817,741 | 2,810,716 | 3,628,457 |
| Inventories | 26,293 | 1,291,131 | 1,317,424 |
| Prepaid Expenses | 39,869 | - | 39,869 |
| Total Current Assets | 10,303,056 | 39,056,478 | 49,359,534 |
| Capital Assets | | | |
| Land, Infrastructure and Other Assets not being depreciated | 18,512,413 | 2,516,514 | 21,028,927 |
| Utility System | - | 62,063,406 | 62,063,406 |
| Buildings and Improvements | 4,822,576 | 7,072,674 | 11,895,250 |
| Equipment and Vehicles | 6,873,133 | 7,999,462 | 14,872,595 |
| Construction in Progress | 127,546 | - | 127,546 |
| Less: Accumulated Depreciation | (13,096,594) | (35,269,625) | (48,366,219) |
| Net Capital Assets | 17,239,074 | 44,382,431 | 61,621,505 |
| Total Assets | 27,542,130 | 83,438,909 | 110,981,039 |
| Deferred Outflows of Resources | 1,537,346 | 333,532 | 1,870,878 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Accounts Payable and Accrued Expenses | 497,497 | 2,654,773 | 3,152,270 |
| Customer Deposits | - | 676,212 | 676,212 |
| Bonds and Notes Payable | - | 737,831 | 737,831 |
| Compensated Absences | 230,266 | 37,722 | 267,988 |
| Total Current Liabilities | 727,763 | 4,106,538 | 4,834,301 |
| Noncurrent Liabilities | | | |
| Net Pension Liability | 845,080 | - | 845,080 |
| Bonds and Notes Payable | - | 15,300,161 | 15,300,161 |
| Compensated Absences | 921,065 | 172,809 | 1,093,874 |
| Total Noncurrent Liabilities | 1,766,145 | 15,472,970 | 17,239,115 |
| Total Liabilities | 2,493,908 | 19,579,508 | 22,073,416 |
| Deferred Inflows of Resources | 612,384 | - | 612,384 |
| NET POSITION | | | |
| Net Investment in Capital Assets | 17,239,074 | 28,344,439 | 45,583,513 |
| Restricted for Capital Improvements: | | | |
| Budgeted by City Council | 2,324,949 | 2,434,255 | 4,759,204 |
| Impact Fees | - | 4,812,435 | 4,812,435 |
| Unrestricted | 6,409,161 | 28,601,804 | 35,010,964 |
| Total Net Position | \$ 25,973,184 | \$ 64,192,933 | \$ 90,166,116 |

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

**CITY OF MILFORD, DE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

| Functions/Programs | Program Revenue | | | | Net (Expense) Revenue and Changes in Net Assets | | |
|--|----------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|----------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | |
| | | | | | Governmental Activities | Business-Type Activities | Total |
| Primary Government | | | | | | | |
| Governmental Activities | | | | | | | |
| General Government | \$ 2,208,126 | \$ - | \$ 40,130 | \$ - | \$ (2,167,996) | | \$ (2,167,996) |
| Public Safety | 5,385,944 | - | 62,653 | - | (5,323,291) | | (5,323,291) |
| Public Works | 719,161 | - | 651,048 | - | (68,113) | | (68,113) |
| Culture and Recreation | 1,055,115 | 75,679 | - | - | (979,436) | | (979,436) |
| Total Governmental Activities | <u>9,368,346</u> | <u>75,679</u> | <u>753,831</u> | <u>-</u> | <u>(8,538,836)</u> | | <u>(8,538,836)</u> |
| Business-Type Activities | | | | | | | |
| Electric Fund | 21,746,892 | 26,324,333 | - | - | | 4,577,441 | 4,577,441 |
| Water Fund | 2,238,236 | 2,948,220 | - | - | | 709,984 | 709,984 |
| Sewer Fund | 4,133,863 | 4,675,596 | - | 482,533 | | 1,024,266 | 1,024,266 |
| Trash Fund | 1,274,139 | 1,137,870 | - | - | | (136,269) | (136,269) |
| Total Business-Type Activities | <u>29,393,130</u> | <u>35,086,019</u> | <u>-</u> | <u>482,533</u> | | <u>6,175,422</u> | <u>6,175,422</u> |
| Total Primary Government | <u>\$ 38,761,476</u> | <u>\$ 35,161,698</u> | <u>\$ 753,831</u> | <u>\$ 482,533</u> | <u>(8,538,836)</u> | <u>6,175,422</u> | <u>(2,363,414)</u> |
| General Revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property Taxes, Levied for General Purposes | | | | | 4,005,414 | - | 4,005,414 |
| Real Estate Transfer Taxes | | | | | 1,063,273 | - | 1,063,273 |
| Franchise Taxes | | | | | 682,960 | - | 682,960 |
| Loss on Sale of Capital Assets | | | | | (7,216) | - | (7,216) |
| Impact Fees | | | | | - | 702,412 | 702,412 |
| Unrestricted Investment Earnings | | | | | 198,101 | 607,953 | 806,054 |
| Miscellaneous | | | | | 811,710 | - | 811,710 |
| Change in Net Position in Internal Service Fund | | | | | 40,895 | - | 40,895 |
| Transfers | | | | | 2,775,680 | (2,775,680) | - |
| Total General Revenues, Special Items, and Transfers | | | | | <u>9,570,817</u> | <u>(1,465,315)</u> | <u>8,105,502</u> |
| Change in Net Position | | | | | 1,031,981 | 4,710,108 | 5,742,088 |
| Net Position- Beginning of Year | | | | | <u>24,941,203</u> | <u>59,482,825</u> | <u>84,424,028</u> |
| Net Position - End of Year | | | | | <u>\$ 25,973,184</u> | <u>\$ 64,192,933</u> | <u>\$ 90,166,116</u> |

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

**CITY OF MILFORD, DE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2019**

| | <u>General Fund</u> | <u>Special Revenue Fund</u> | <u>Non-Major Governmental Fund</u> | <u>Total Governmental Funds</u> |
|---|---------------------|---------------------------------|--|-------------------------------------|
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 2,111,692 | \$ 3,791,487 | \$ 151,088 | \$ 6,054,267 |
| Investments | 3,284,261 | - | - | 3,284,261 |
| Taxes Receivable, net of allowance for doubtful accounts | 159,077 | 281,384 | - | 440,461 |
| Other Receivables | 112,479 | 185,554 | - | 298,033 |
| Prepaid Expenses | 39,869 | - | - | 39,869 |
| Total Assets | <u>\$ 5,707,378</u> | <u>\$ 4,258,425</u> | <u>\$ 151,088</u> | <u>\$ 10,116,891</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts Payable | \$ 155,033 | \$ - | \$ 5,801 | \$ 160,834 |
| Compensated Absences - Current | 213,669 | - | - | 213,669 |
| Other Accrued Expenses | 141,147 | - | - | 141,147 |
| Other Payables | 155,719 | - | 3,877 | 159,596 |
| Total Liabilities | <u>665,568</u> | <u>-</u> | <u>9,678</u> | <u>675,246</u> |
| Fund Balances: | | | | |
| Restricted | 2,324,949 | - | - | 2,324,949 |
| Nonspendable | 39,869 | - | - | 39,869 |
| Assigned | - | 4,258,425 | 141,410 | 4,399,835 |
| Unassigned | 2,676,992 | - | - | 2,676,992 |
| Total Fund Balances | <u>5,041,810</u> | <u>4,258,425</u> | <u>141,410</u> | <u>9,441,645</u> |
| Total Liabilities and Fund Balances | <u>\$ 5,707,378</u> | <u>\$ 4,258,425</u> | <u>\$ 151,088</u> | <u>\$ 10,116,891</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 POSITION
June 30, 2019

| | | |
|--|----|-------------------|
| Total Fund Balance, Governmental Funds | \$ | 9,441,645 |
| 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 Position. | | 17,239,074 |
| Internal Service funds are used by management to charge the costs of centrally managed services to using funds and departments. The assets and liabilities of the internal service fund is included in governmental activities in the Statement of Net Position. The increase is equal to the Internal Service Net Position. | | 137,353 |
| Some liabilities and other items 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 Position. These items include deferred outflows and inflows of resources related to its state pension plan, its net pension liability, and its long-term compensated absences. | | <u>(844,888)</u> |
| Net Position of Governmental Activities | \$ | <u>25,973,184</u> |

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, 2019

| | <u>General Fund</u> | <u>Special Revenue Fund</u> | <u>Non-Major Governmental Fund</u> | <u>Total Governmental Funds</u> |
|---|---------------------|-------------------------------------|--|---|
| REVENUES | | | | |
| Property Taxes | \$ 4,005,414 | \$ - | \$ - | \$ 4,005,414 |
| Real Estate Transfer Taxes | - | 1,063,273 | - | 1,063,273 |
| Fees and Fines | 187,669 | - | - | 187,669 |
| Licenses and Permits | 495,291 | - | - | 495,291 |
| Intergovernmental | 40,130 | 713,701 | - | 753,831 |
| Charges for Services | - | - | 75,679 | 75,679 |
| Investment Earnings | 131,382 | 66,719 | - | 198,101 |
| Miscellaneous | 721,401 | 90,309 | - | 811,710 |
| Total Revenues | <u>5,581,287</u> | <u>1,934,002</u> | <u>75,679</u> | <u>7,590,968</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Government | 1,592,854 | - | - | 1,592,854 |
| Public Safety | 5,087,380 | 295,208 | - | 5,382,588 |
| Public Works | 719,161 | - | - | 719,161 |
| Culture and Recreation | 916,541 | - | 138,574 | 1,055,115 |
| Debt Service: | | | | |
| Principal | - | - | - | - |
| Interest | - | - | - | - |
| Capital Outlay | 672,762 | 194,304 | - | 867,066 |
| Total Expenditures | <u>8,988,698</u> | <u>489,512</u> | <u>138,574</u> | <u>9,616,784</u> |
| (Deficiency) Excess of Revenues Over Expenditures | <u>(3,407,411)</u> | <u>1,444,490</u> | <u>(62,895)</u> | <u>(2,025,816)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | 3,315,889 | - | - | 3,315,889 |
| Transfers Out | (8,209) | (532,000) | - | (540,209) |
| Total Other Financing Sources and Uses | <u>3,307,680</u> | <u>(532,000)</u> | <u>-</u> | <u>2,775,680</u> |
| Net Change in Fund Balances | (99,731) | 912,490 | (62,895) | 749,864 |
| Fund Balances - Beginning | <u>5,141,541</u> | <u>3,345,935</u> | <u>204,305</u> | <u>8,691,781</u> |
| Fund Balances - Ending | <u>\$ 5,041,810</u> | <u>\$ 4,258,425</u> | <u>\$ 141,410</u> | <u>\$ 9,441,645</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, 2019**

| | |
|---|---------------------|
| Net change in fund balances - total governmental funds: | \$ 749,864 |
| Amounts reported for Governmental Activities in the Statement of Activities are different because: | |
| Some items reported in the statement of activities, including changes in deferred outflows and inflows of resources, pension liability, and compensated absences do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | 99,069 |
| Internal Service funds are used by management to charge the costs of centrally managed services to using funds and departments. The increase is equal to the net change in the Internal Service Net Position. | 40,895 |
| 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 \$867,066 exceeded depreciation expense of \$717,697 in the current period. | 149,369 |
| Government funds report the proceeds from the sale of assets as revenue. In contrast, the Statement of Activities reports the difference between the amount of the proceeds and the net book value of the related assets as a gain or loss. | <u>(7,216)</u> |
| Change in net position of governmental activities | <u>\$ 1,031,981</u> |

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

CITY OF MILFORD, DE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2019

| | Business Type Activities - Enterprise Funds | | | | | Governmental Activities - Internal Service Fund |
|---|--|----------------------|----------------------|-------------------|----------------------|--|
| ASSETS | Electric | Water | Sewer | Trash | Total | |
| Current Assets: | | | | | | |
| Cash and Cash Equivalents | \$ 4,505,364 | \$ 3,680,568 | \$ 2,357,529 | \$ 69,605 | \$ 10,613,066 | \$ 80,625 |
| Investments | 10,517,110 | 9,702,008 | 4,122,447 | - | 24,341,565 | - |
| Accounts Receivable, net of allowance for doubtful accounts | 2,021,846 | 225,141 | 318,958 | 131,801 | 2,697,746 | 79,247 |
| Other Receivables | 59,926 | 750 | 51,794 | 500 | 112,970 | - |
| Inventories | 1,272,184 | 18,947 | - | - | 1,291,131 | 26,293 |
| Total Current Assets | 18,376,430 | 13,627,414 | 6,850,728 | 201,906 | 39,056,478 | 186,165 |
| Non-Current Assets: | | | | | | |
| Capital Assets: | | | | | | |
| Land and Improvements | 2,460,507 | 27,369 | 28,638 | - | 2,516,514 | - |
| Utility System | 19,433,098 | 21,841,981 | 20,788,327 | - | 62,063,406 | - |
| Buildings and Improvements | 7,005,480 | 10,853 | 50,691 | 5,650 | 7,072,674 | 21,340 |
| Equipment and Furniture | 3,813,693 | 1,708,867 | 1,333,797 | 1,143,105 | 7,999,462 | 149,947 |
| Less Accumulated Depreciation | (16,463,783) | (8,583,395) | (9,540,066) | (682,381) | (35,269,625) | (101,192) |
| Total Non-Current Assets | 16,248,995 | 15,005,675 | 12,661,387 | 466,374 | 44,382,431 | 70,095 |
| Total Assets | 34,625,425 | 28,633,089 | 19,512,115 | 668,280 | 83,438,909 | 256,260 |
| Deferred Outflows of Resources | | | | | | |
| Deferred Charges on Refundings | 188,396 | - | 145,136 | - | 333,532 | - |
| LIABILITIES | | | | | | |
| Current Liabilities: | | | | | | |
| Accounts Payable | 1,567,909 | 367,779 | 258,164 | 34,515 | 2,228,367 | 35,920 |
| Salaries Payable | 21,563 | 4,993 | 4,764 | 5,059 | 36,379 | - |
| Other Accrued Expenses | 390,027 | - | - | - | 390,027 | - |
| Customer and Other Deposits | 632,462 | - | - | 43,750 | 676,212 | - |
| Compensated Absences | 29,124 | 4,299 | 4,299 | - | 37,722 | 16,597 |
| Bonds, Notes and Loans Payable | 221,883 | 251,070 | 264,878 | - | 737,831 | - |
| Total Current Liabilities | 2,862,968 | 628,141 | 532,105 | 83,324 | 4,106,538 | 52,517 |
| Non-Current Liabilities: | | | | | | |
| Compensated Absences | 116,495 | 17,196 | 17,196 | 21,922 | 172,809 | 66,390 |
| Bonds, Notes and Loans Payable | 4,534,366 | 6,455,234 | 4,310,561 | - | 15,300,161 | - |
| Total Non-Current Liabilities | 4,650,861 | 6,472,430 | 4,327,757 | 21,922 | 15,472,970 | 66,390 |
| Total Liabilities | 7,513,829 | 7,100,571 | 4,859,862 | 105,246 | 19,579,508 | 118,907 |
| NET POSITION | | | | | | |
| Net Investment in Capital Assets | 11,492,746 | 8,299,371 | 8,085,948 | 466,374 | 28,344,439 | 70,095 |
| Restricted for Capital Improvements: | | | | | | |
| Budgeted by City Council | 925,910 | 610,595 | 897,750 | - | 2,434,255 | - |
| Impact Fees | 732,940 | 2,529,859 | 1,549,636 | - | 4,812,435 | - |
| Unrestricted | 14,148,396 | 10,092,693 | 4,264,055 | 96,660 | 28,601,804 | 67,258 |
| Total Net Position | \$ 27,299,992 | \$ 21,532,518 | \$ 14,797,389 | \$ 563,034 | \$ 64,192,933 | \$ 137,353 |

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

CITY OF MILFORD, DE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

| | <u>Business Type Activities - Enterprise Funds</u> | | | | | <u>Governmental Activities -Internal Service Fund</u> |
|--|--|----------------------|----------------------|-------------------|----------------------|---|
| | <u>Electric</u> | <u>Water</u> | <u>Sewer</u> | <u>Trash</u> | <u>Total</u> | |
| REVENUES | | | | | | |
| Charges for Services | \$ 25,757,395 | \$ 2,891,337 | \$ 4,345,462 | \$ 1,132,946 | \$ 34,127,140 | \$ 1,806,949 |
| Miscellaneous | 566,938 | 56,883 | 330,134 | 4,924 | 958,879 | 139 |
| Total Operating Revenues | <u>26,324,333</u> | <u>2,948,220</u> | <u>4,675,596</u> | <u>1,137,870</u> | <u>35,086,019</u> | <u>1,807,088</u> |
| OPERATING EXPENSES | | | | | | |
| Personal Services | 2,278,486 | 259,004 | 435,674 | 440,394 | 3,413,558 | 1,243,615 |
| Contractual Services | 17,061,234 | 109,248 | 2,676,080 | 278,722 | 20,125,284 | 134,780 |
| Utilities | 5,363 | 242,985 | 275 | - | 248,623 | 1,933 |
| Repairs and Maintenance | 560,133 | 98,304 | 33,441 | 115,390 | 807,268 | 224,332 |
| Other Supplies and Expenses | 105,149 | 805,091 | 388,139 | 322,062 | 1,620,441 | 196,114 |
| Insurance Claims and Expenses | 72,144 | 14,344 | 5,087 | 10,804 | 102,379 | 7,045 |
| Depreciation | 986,699 | 489,409 | 484,981 | 106,767 | 2,067,856 | 17,733 |
| Total Operating Expenses | <u>21,069,208</u> | <u>2,018,385</u> | <u>4,023,677</u> | <u>1,274,139</u> | <u>28,385,409</u> | <u>1,825,552</u> |
| Operating Income (Loss) | <u>5,255,125</u> | <u>929,835</u> | <u>651,919</u> | <u>(136,269)</u> | <u>6,700,610</u> | <u>(18,464)</u> |
| NON-OPERATING REVENUES (EXPENSES) | | | | | | |
| Interest and Investment Revenues | 295,642 | 217,730 | 93,353 | 1,228 | 607,953 | - |
| Impact Fees | 160,125 | 542,287 | - | - | 702,412 | - |
| Capital Grant | - | - | 482,533 | - | 482,533 | - |
| Miscellaneous | (561,235) | (100,426) | - | - | (661,661) | - |
| Interest Expense | (116,449) | (119,425) | (110,186) | - | (346,060) | - |
| Total Non-Operating (Expenses) Revenues | <u>(221,917)</u> | <u>540,166</u> | <u>465,700</u> | <u>1,228</u> | <u>785,177</u> | <u>-</u> |
| Income (Loss) Before Transfers | 5,033,208 | 1,470,001 | 1,117,619 | (135,041) | 7,485,787 | (18,464) |
| Transfers (Out) In | <u>(2,783,889)</u> | <u>-</u> | <u>8,209</u> | <u>-</u> | <u>(2,775,680)</u> | <u>59,359</u> |
| Change in Net Position | 2,249,320 | 1,470,001 | 1,125,828 | (135,041) | 4,710,108 | 40,895 |
| Net Position - Beginning of Year, | <u>25,050,672</u> | <u>20,062,517</u> | <u>13,671,561</u> | <u>698,075</u> | <u>59,482,825</u> | <u>96,458</u> |
| Net Position - End of Year | <u>\$ 27,299,992</u> | <u>\$ 21,532,518</u> | <u>\$ 14,797,389</u> | <u>\$ 563,034</u> | <u>\$ 64,192,933</u> | <u>\$ 137,353</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, 2019**

| | ENTERPRISE FUNDS | | | | | Internal Service Fund |
|---|-------------------------|---------------------|---------------------|--------------------|----------------------|----------------------------------|
| | Electric | Water | Sewer | Trash | Total | |
| Cash Flows from Operations: | | | | | | |
| Receipts from Customers | \$ 26,296,738 | \$ 2,876,028 | \$ 4,351,396 | \$ 1,143,442 | \$ 34,667,604 | \$ 1,759,709 |
| Other Operating Receipts | 513,866 | 56,883 | 382,013 | 4,924 | 957,686 | 139 |
| Payments to Suppliers | (17,907,019) | (902,164) | (3,193,665) | (791,303) | (22,794,151) | (564,747) |
| Payments to Employees | (2,306,031) | (257,024) | (433,872) | (438,018) | (3,434,945) | (1,267,658) |
| Insurance Premiums Paid | (72,144) | (14,344) | (5,087) | (10,804) | (102,379) | (7,045) |
| Net Cash Provided (Used) by Operating Activities | <u>6,525,410</u> | <u>1,759,379</u> | <u>1,100,785</u> | <u>(91,759)</u> | <u>9,293,815</u> | <u>(79,602)</u> |
| Cash Flows from Non-Capital Financing Activities: | | | | | | |
| Operating Transfers (Out) | (2,783,889) | - | 8,209 | - | (2,775,680) | 59,359 |
| Net Cash Flows Used in Non-Capital Financing Activities | <u>(2,783,889)</u> | <u>-</u> | <u>8,209</u> | <u>-</u> | <u>(2,775,680)</u> | <u>59,359</u> |
| Cash Flows from Capital and Related Financing Activities: | | | | | | |
| Net cash for additions to Property, Plant and Equipment | (1,525,829) | (316,740) | (247,202) | - | (2,089,771) | (41,169) |
| Principal Paid on Debt | (215,000) | (170,726) | (261,774) | - | (647,500) | - |
| Interest Paid on Debt | (116,449) | (119,425) | (110,186) | - | (346,060) | - |
| Capital Grant | - | - | 482,533 | - | 482,533 | - |
| Impact Fees Received | 160,125 | 542,287 | - | - | 702,412 | - |
| Net Cash Flows Provided by (Used in) Capital and Related Financing Activities | <u>(1,697,153)</u> | <u>(64,604)</u> | <u>(136,629)</u> | <u>-</u> | <u>(1,898,386)</u> | <u>(41,169)</u> |
| Cash Flows from Investing Activities: | | | | | | |
| Net Proceeds/(Purchases) from Sales and Maturities of Short-Term Investments | (857,176) | (2,074,810) | (383,055) | - | (3,315,041) | - |
| Income on Investments | 295,642 | 217,730 | 93,353 | 1,228 | 607,953 | - |
| Net Cash Flows Provided by (Used in) Investing Activities | <u>(561,534)</u> | <u>(1,857,080)</u> | <u>(289,702)</u> | <u>1,228</u> | <u>(2,707,088)</u> | <u>-</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 1,482,834 | (162,305) | 682,663 | (90,531) | 1,912,661 | (61,412) |
| Cash and Cash Equivalents at Beginning of Year | <u>3,022,530</u> | <u>3,842,873</u> | <u>1,684,952</u> | <u>160,136</u> | <u>8,710,491</u> | <u>142,037</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 4,505,364</u> | <u>\$ 3,680,568</u> | <u>\$ 2,367,615</u> | <u>\$ 69,605</u> | <u>\$ 10,623,152</u> | <u>\$ 80,625</u> |
| Reconciliation of Operating Income to Net Cash Flows from Operating Activities: | | | | | | |
| Operating Income | \$ 5,255,125 | \$ 929,835 | \$ 651,919 | \$ (136,269) | \$ 6,700,610 | \$ (18,464) |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | | | | | | |
| Depreciation and Amortization | 986,699 | 489,409 | 484,981 | 106,767 | 2,067,856 | 17,733 |
| Effect of Changes in Operating Assets and Liabilities: | | | | | | |
| Accounts Receivable, net | 465,407 | (15,309) | 57,813 | 5,096 | 513,007 | (47,240) |
| Inventory | (89,584) | 2,191 | - | - | (87,393) | 13,506 |
| Accounts Payable and Accrued Expenses | (85,556) | 351,273 | (95,730) | (75,129) | 94,858 | (21,094) |
| Salaries Payable | (910) | 978 | 800 | 1,281 | 2,149 | - |
| Customer Deposits | 20,864 | - | - | 5,400 | 26,264 | - |
| Liability for Compensated Absences | (26,635) | 1,002 | 1,002 | 1,095 | (23,536) | (24,043) |
| Net Cash Provided by Operating Activities | <u>\$ 6,525,410</u> | <u>\$ 1,759,379</u> | <u>\$ 1,100,785</u> | <u>\$ (91,759)</u> | <u>\$ 9,293,815</u> | <u>\$ (79,602)</u> |

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

CITY OF MILFORD, DE
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2019

| ASSETS | <u>AGENCY</u> |
|-------------------------------|--------------------------|
| Cash and Cash Equivalents | <u>\$ 748,801</u> |
| Total Assets | <u><u>\$ 748,801</u></u> |
| LIABILITIES | |
| Due to Other Governments | \$ 745,190 |
| Deferred Revenue - Trust Fund | <u>3,611</u> |
| Total Liabilities | <u><u>\$ 748,801</u></u> |

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

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

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 accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB).

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 are organized to provide explanations, including required disclosures, of the City's financial activities for the year ended June 30, 2019.

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.

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.

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.

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

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

Government-Wide and Fund Financial Statements

The government-wide financial statements (statement of net position 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.

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.

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 Fund - The special revenue fund accounts 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, or accountability.

Internal Service Fund - Consists of three 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.

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

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

Government-Wide and Fund Financial Statements (continued)

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, 2019 was \$3,611.

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, 2019

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

Budgets and Budgetary Accounting

Budgetary Process

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 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 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.

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."

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

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

Inventories

Inventories are carried at cost for the water fund, and at replacement cost for the electric fund, and are 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 inventories have been presented on an average cost basis.

Capital Assets

Capital 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. Capital assets are recorded at historical cost if purchased, and at fair market value if donated. The capitalization threshold for all capital assets is \$5,000. No dollar threshold is set for land. Capital asset depreciation is recognized using the straight-line method over the estimated lives of the respective assets.

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.

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 GASBS No. 16 (GASB Cod. Sec. C60), *Accounting for Compensated Absences*.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Delaware Public Employees' Retirement System (DPERS) and additions to/deductions from DPERS fiduciary net position have been determined on the same basis as they are reported by DPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

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

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 position. 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.

Subsequent Events

Subsequent events were evaluated through December 9, 2019, which is the date the financial statements were available to be issued. Management of the City has determined that there were no other such events that warranted adjustment to or disclosure in these financial statements.

Deferred Outflows of Resources

Decreases in net assets that related to future periods are recorded as deferred outflows of resources in a separate section of the City's government-wide statement of net position. Deferred outflows of resources are generally reported in the City's statement of net position for pension contributions made subsequent to the measurement date. Deferred outflows of resources also include the difference in the carrying value of refunded debt and its reacquisition price, which is then amortized over the shorter of the life of the refunded or refunding bond.

Deferred Inflows of Resources

Increases in net assets that apply to future periods are recorded as deferred inflows of resources in a separate section of its government-wide statement of net position. Deferred inflows of resources are reported in the City's statement of net position for actual pension plan investment earnings in excess of projected amounts included in determining pension expense. Deferred inflows of resources are attributed to pension expense over a total of 5 years, including the current year.

Government-Wide and Proprietary Fund Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets net of accumulated depreciation and the outstanding balances of any borrowing spent for the acquisition, construction or improvements of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

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

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.
- **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 GASBS No. 62, *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, 2019.

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

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 | \$18,512,413 |
| Buildings and Improvements | 4,822,576 |
| Equipment and Furniture | 6,873,133 |
| Construction in Progress | 127,546 |
| Less: Accumulated Depreciation | <u>(13,096,594)</u> |
| Net Capital Asset Difference | <u>\$17,239,074</u> |

Noncurrent Liability Differences

Noncurrent 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 position.

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

The details of these noncurrent liability differences are presented below:

| | |
|---|---------------------|
| Long-Term Portion of Compensated Absences | (\$ 921,065) |
| Deferred Outflows of Resources-pension | 1,537,346 |
| Deferred Inflows of Resources-pension | (612,384) |
| Net Pension Liability | (845,080) |
| Other | <u>(3,705)</u> |
| Total Current and Long-Term Liability Differences | <u>(\$ 844,888)</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 differences primarily result from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental fund financial statements.

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

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

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 | \$ 867,066 |
| Depreciation | (717,697) |
| Net Difference | <u>\$ 149,369</u> |

Other Differences

Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds as expenditures. These items include the net changes during the year in the following accounts:

| | |
|--------------------------------|------------------|
| Long-Term Compensated Absences | \$ 102,425 |
| Deferred Outflows-pension | (182,415) |
| Deferred Inflows-pension | 242,098 |
| Net Pension Liability | (63,039) |
| Net Difference | <u>\$ 99,069</u> |

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, 2019, 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 2019 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 2019 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

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

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, 2019 was \$2,840 (\$2,731 in fiscal year 2018), \$1,501 (\$1,443 in fiscal year 2018), and \$600 per Estimated Discharge Usage (EDU)(\$600 in fiscal year 2018), 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, 2019 from impact fees is \$4,812,435.

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, 2019, 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.

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, 2019, 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.

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 - CASH AND INVESTMENTS (CONTINUED):

As of June 30, 2019, the City's investments consist of the following:

| Description | Category | Amount | |
|--------------------------|----------|---------------------|---------------------|
| | | Market | Carrying |
| Money Market Funds | 1 | | |
| PFM Asset Management LLC | | \$ 9,009,826 | \$ 9,009,826 |
| Certificates of Deposit | 1 | | |
| PFM Asset Management LLC | | 18,616,000 | 18,616,000 |
| Total | | <u>\$27,625,826</u> | <u>\$27,625,826</u> |

NOTE 9 - CAPITAL ASSETS:

The following schedule presents the capital activity of the governmental activities for the year ended June 30, 2019:

| Description | Year Ended June 30, 2019 | | | | |
|------------------------------|--------------------------|---------------------|-------------|----------------------------|----------------------|
| | Balances 07/01/18 | Additions | Deletions | Adjustments & Transfers | Balances 06/30/19 |
| City Department: | | | | | |
| Land | \$ 8,144,966 | \$ - | \$ - | \$ 66,246 | \$ 8,211,212 |
| Buildings and Improvements | 4,280,850 | 327,839 | - | (45,275) | 4,563,414 |
| Vehicles and Equipment | 5,123,131 | 232,373 | 49,454 | - | 5,306,050 |
| Construction in Progress | 20,971 | 127,546 | - | (20,971) | 127,546 |
| Total City Depreciation | 17,569,918 | 687,758 | 49,454 | (66,246) | 18,208,222 |
| Accumulated Depreciation | (6,645,387) | (328,225) | (49,454) | 233,593 | (6,690,565) |
| Total City Department, Net | <u>\$10,924,531</u> | <u>\$ 359,533</u> | <u>\$ -</u> | <u>\$ 167,347</u> | <u>\$11,517,657</u> |
| Street Department: | | | | | |
| Land Improvements | \$10,301,201 | \$ 66,246 | \$ - | \$ - | \$10,367,447 |
| Buildings and Improvements | 192,916 | - | - | - | 192,916 |
| Vehicles and Equipment | 1,792,326 | 113,061 | 338,304 | - | 1,567,083 |
| Total City Department | 12,286,443 | 179,307 | 338,304 | - | 12,127,446 |
| Accumulated Depreciation | (6,354,861) | (389,472) | (338,304) | - | (6,406,029) |
| Total Street Department, Net | <u>\$ 5,931,582</u> | <u>(\$ 210,165)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,721,417</u> |

| Description | Year Ended June 30, 2019 | | | | |
|---|--------------------------|-------------------|-------------|----------------------------|----------------------|
| | Balances 07/01/18 | Additions | Deletions | Adjustments & Transfers | Balances 06/30/19 |
| Total Government | | | | | |
| Capital Assets: | | | | | |
| Land | \$18,446,167 | \$ - | \$ - | \$ 66,246 | \$18,512,413 |
| Buildings and Improvements | 4,473,766 | 394,085 | - | (45,275) | 4,822,576 |
| Vehicles and Equipment | 6,915,457 | 345,434 | 387,758 | - | 6,873,133 |
| Construction in Progress | 20,971 | 127,546 | - | (20,971) | 127,546 |
| Total Governmental Capital Assets | 29,856,361 | 867,065 | 387,758 | - | 30,335,668 |
| Accumulated Depreciation | (13,000,248) | (717,697) | (387,758) | 233,593 | (13,096,594) |
| Total Governmental Capital Assets, Net | <u>\$16,856,113</u> | <u>\$ 149,368</u> | <u>\$ -</u> | <u>\$ 233,593</u> | <u>\$17,239,074</u> |

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 9 - CAPITAL ASSETS (CONTINUED):

The following schedule presents the capital activity of the business-type activities for the year ended June 30, 2019:

| Description | Year Ended June 30, 2019 | | | | |
|-------------------------------|----------------------------|----------------------------|--------------------|----------------------------|----------------------------|
| | Balances 07/01/18 | Additions | Deletions | Adjustments & Transfers | Balances 06/30/19 |
| Electric Fund: | | | | | |
| Land | \$ 1,434,592 | \$1,025,915 | \$ - | \$ - | \$ 2,460,507 |
| Buildings and Improvements | 6,981,196 | 164,619 | - | (140,335) | 7,005,480 |
| Electric System | 19,885,279 | 38,712 | - | (490,893) | 19,433,098 |
| Vehicles and Equipment | 3,814,422 | 296,583 | 437,648 | 140,335 | 3,813,692 |
| Total Capital Assets | 32,115,489 | 1,525,829 | 437,648 | (490,893) | 32,712,777 |
| Accumulated Depreciation | (15,914,732) | (986,698) | (437,648) | - | (16,463,782) |
| Net Book Value | <u>\$16,200,754</u> | <u>\$ 539,131</u> | <u>\$ -</u> | <u>(\$ 490,893)</u> | <u>\$16,248,992</u> |
| Water Fund: | | | | | |
| Land | \$ 27,369 | \$ - | \$ - | \$ - | \$ 27,369 |
| Buildings and Improvements | 10,853 | - | - | - | 10,853 |
| Water System | 21,706,509 | 268,868 | 404,799 | 271,403 | 21,841,981 |
| Vehicles and Equipment | 1,596,910 | 47,872 | 155,405 | 219,490 | 1,708,867 |
| Total Capital Assets | 23,341,641 | 316,740 | 560,204 | 490,893 | 23,589,070 |
| Accumulated Depreciation | (8,545,439) | (489,409) | (560,204) | (108,751) | (8,583,395) |
| Net Book Value | <u>\$14,796,202</u> | <u>\$(172,669)</u> | <u>\$ -</u> | <u>\$ 382,142</u> | <u>\$15,005,675</u> |
| Waste Water Fund: | | | | | |
| Land | \$ 28,638 | \$ - | \$ - | \$ - | \$ 28,638 |
| Buildings and Improvements | 50,691 | - | - | - | 50,691 |
| Waste Water System | 20,718,650 | - | - | 69,677 | 20,788,327 |
| Vehicles and Equipment | 1,188,545 | 247,202 | 32,373 | (69,677) | 1,333,797 |
| Total Capital Assets | 21,986,524 | 247,202 | 32,373 | - | 22,201,453 |
| Accumulated Depreciation | (9,086,862) | (484,981) | (32,373) | (496) | (9,540,066) |
| Net Book Value | <u>\$12,899,662</u> | <u>\$(237,779)</u> | <u>\$ -</u> | <u>(\$ 496)</u> | <u>\$12,661,387</u> |
| Trash Fund: | | | | | |
| Buildings and Improvements | \$ 5,650 | \$ - | \$ - | \$ - | \$ 5,650 |
| Vehicles and Equipment | 1,494,492 | - | 351,387 | - | 1,143,105 |
| Total Capital Assets | 1,500,142 | - | 351,387 | - | 1,148,755 |
| Accumulated Depreciation | (927,001) | (106,767) | (351,387) | - | (682,381) |
| Net Book Value | <u>\$ 573,141</u> | <u>(\$ 106,767)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 466,374</u> |
| Total Enterprise Funds | | | | | |
| Land | \$ 1,490,599 | \$1,025,915 | \$ - | \$ - | \$ 2,516,514 |
| Buildings and Improvements | 7,176,042 | 164,619 | - | (267,987) | 7,072,674 |
| Electric System | 19,885,279 | 38,712 | - | (490,893) | 19,433,098 |
| Water System | 21,574,233 | 268,868 | 404,799 | 403,679 | 21,841,981 |
| Waste Water System | 20,718,650 | - | - | 69,677 | 20,788,327 |
| Vehicles and Equipment | 8,098,993 | 591,657 | 976,713 | 285,524 | 7,799,461 |
| Total Fixed Assets | 78,943,796 | 2,089,771 | 1,381,512 | - | 79,652,055 |
| Accumulated Depreciation | (34,474,035) | (2,067,856) | (1,381,512) | (109,247) | (35,269,625) |
| Net Book Value | <u>\$44,469,761</u> | <u>\$ 21,915</u> | <u>\$ -</u> | <u>(\$ 109,247)</u> | <u>\$44,382,431</u> |

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 10 - LONG-TERM DEBT OBLIGATIONS:

Long-Term liability activity for the year ended June 30, 2019 is summarized as follows:

Governmental Activities:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Within One Year |
|--|----------------------|-------------------|--------------------|---------------------|-------------------------------|
| General Obligation Bonds | \$ - | \$ - | \$ - | \$ - | \$ - |
| Other Liabilities: | | | | | |
| Net Pension Liability | 908,119 | - | (63,039) | 845,080 | - |
| Compensated Absences | 1,023,300 | 128,031 | - | 1,151,331 | 230,266 |
| Governmental Activities Long-Term Liabilities | <u>\$ 1,931,419</u> | <u>\$ 128,031</u> | <u>(\$ 63,039)</u> | <u>\$ 1,996,411</u> | <u>\$230,266</u> |

Business Activities:

| | | | | | |
|---|---------------------|-------------|---------------------|---------------------|------------------|
| Series of 2016 General Obligation Bonds | \$ 7,905,000 | \$ - | (\$ 400,000) | 7,505,000 | 405,000 |
| Add: Bond Premium | 33,492 | - | (3,555) | 29,937 | 3,373 |
| Total Bonds Payable | 7,938,492 | - | (403,555) | 7,534,937 | 408,373 |
| Revolving Funds Loans - | | | | | |
| State of Delaware 2010 | 697,872 | - | (52,004) | 645,868 | 53,049 |
| State of Delaware 2011 | 2,491,369 | - | (77,180) | 2,414,189 | 155,519 |
| Note Payable - Kent County | 1,172,106 | - | (24,777) | 1,147,329 | 25,339 |
| Note Payable - USDA | 4,385,658 | - | (92,078) | 4,293,580 | 95,551 |
| Total Bonds and Notes Payable | 16,685,497 | - | (649,654) | 16,035,903 | 651,063 |
| Other Liabilities: | | | | | |
| Compensated Absences | 234,067 | - | (23,536) | 210,531 | 37,722 |
| Business-Type Activities Long-Term Liabilities | <u>\$16,919,564</u> | <u>\$ -</u> | <u>(\$ 673,190)</u> | <u>\$16,246,434</u> | <u>\$688,785</u> |

General Obligation Bonds

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.

Series 2016

On December 6, 2016, the City issued General Obligation Bonds, Series of 2016 in the aggregate principal amount of \$8,065,000, with interest rates ranging from 2.0% to 2.55%. The proceeds of the 2016 bond proceeds were utilized to currently refund the Series A of 2011 General Obligation bonds in the outstanding principal amount of \$7,850,000. The 2016 bonds are scheduled to mature January 1, 2037. Semi-annual interest payments commenced July 1, 2017, while annual principal payments commenced January 1, 2018. The bonds had an original issue premium of \$37,171, the unamortized portion of which is included in the balance reflected in the financial statements at June 30, 2019. The current refunding resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$1.3 million.

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

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

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 received proceeds from the loan only after incurring project expenditures. The balance of the loan as of June 30, 2019 is \$4,292,114, which represents total expenditures incurred on the project less principal payments made. Under the terms of the note, the City is making quarterly payments in the amount of \$46,500, which include interest calculated at a rate of 2% on the balance outstanding. The note is scheduled to mature June 28, 2053.

State of Delaware

The City received funds in connection with its Wastewater Collection System Expansion project through financing agreements with the Delaware Water Pollution Control Revolving Fund. Funds received for the first part of the project were repaid in full during fiscal year June 30, 2017. Additional funds were received for the second part of the project under a separate financing agreement. The balance on this obligation as of June 30, 2019 is \$645,868. Semi-annual payments of \$32,852 include interest calculated at an annual rate of 2.0%. The note is scheduled to mature July 1, 2030.

The City has also received funds from the State of Delaware in connection with its Washington Street Water Treatment Facility Replacement Project. The funds were provided by the DE Drinking Water State Revolving Fund only as expenditures were incurred by the City and approved by the State. The total committed loan amount was \$4 million. Interest only payments commenced September 1, 2012 and were due semi-annually at 1% per annum on the balance outstanding as the project progressed. The project was completed during fiscal year June 30, 2018 in the total amount of \$3,832,876. In accordance with the agreement, upon completion of the project, thirty-five percent of the amounts advanced were forgiven, resulting in forgiveness of debt in the amount of \$1,341,507 in fiscal year June 30, 2018. The remaining balance of \$2,491,369 is being amortized over a twenty-year period from the original advance with interest at 1% per annum. The note is scheduled to mature September 1, 2033.

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 balance of the obligation as of June 30, 2019 is \$1,147,329 and is scheduled to mature November 10, 2050.

Long-Term Debt outstanding at June 30, 2019 is summarized as follows:

| | Interest | | | Amount Outstanding | | | |
|--------------------------|-----------|---------------|------------------|--------------------|--------------------|--------------------|---------------------|
| | Rate % | Issue Date | Maturity Date | Electric Fund | Sewer Fund | Water Fund | Total |
| General Obligation Bonds | | | | | | | |
| Series of 2016 | 2.0-2.55 | 12/6/2016 | 1/1/2037 | \$4,735,000 | \$2,770,000 | \$ - | \$7,505,000 |
| USDA | 2.125 | 6/28/2013 | 6/28/2053 | - | - | 4,292,114 | 4,292,114 |
| State of DE FAB#120.33 | 2.0 | 12/22/2009 | 7/1/2030 | - | 645,868 | - | 645,868 |
| State of DE 2012A-SRF | 1.0 | 3/15/2012 | 9/1/2033 | - | 2,414,189 | - | 2,414,189 |
| Note Payable-Kent County | 2.25 | 11/12/2012 | 11/10/2050 | - | 1,147,329 | - | 1,147,329 |
| Total Long-Term Debt | | | | <u>\$4,735,000</u> | <u>\$6,977,386</u> | <u>\$4,292,114</u> | <u>\$16,004,500</u> |

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

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

The annual requirements to amortize all debt outstanding as of June 30, 2019 are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|---------------------|--------------------|---------------------|
| 2020 | \$ 734,459 | \$ 307,712 | \$ 1,042,171 |
| 2021 | 749,704 | 294,356 | 1,044,060 |
| 2022 | 765,046 | 280,531 | 1,045,577 |
| 2023 | 780,486 | 266,479 | 1,046,965 |
| 2024 | 687,012 | 170,208 | 857,220 |
| 2025-2029 | 4,175,026 | 1,048,723 | 5,223,749 |
| 2030-2034 | 3,721,036 | 659,941 | 4,380,977 |
| 2035-2039 | 1,796,536 | 364,117 | 2,160,653 |
| 2040-2044 | 953,573 | 231,130 | 1,184,703 |
| 2045-2049 | 1,061,610 | 122,794 | 1,184,404 |
| 2050-2054 | 580,012 | 18,041 | 598,053 |
| Total | <u>\$16,004,500</u> | <u>\$3,764,030</u> | <u>\$19,768,530</u> |

NOTE 11 - 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.

NOTE 12 - DEFERRED COMPENSATION PLAN:

The City has a deferred compensation plan under Internal Revenue Code (IRC) 457(b) which is available to substantially all City full-time employees. Participants may make salary deferral contributions from their base salaries to the Plan during a calendar year of up to 100% of their net compensation up to the allowable maximum under IRC 457(b)(2). The City will match 100% of the participant's salary deferral contributions up to a maximum of 6% of the participant's base salary. Total contributions to the Plan by the City for the year ended June 30, 2019 was \$225,911.

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 13 - PENSION PLANS:

Defined Contribution Plan

The City has a defined contribution plan under IRC 401(a) which was available to substantially all City full-time employees through December 31, 2004. For plan years beginning January 1, 2005, the City no longer makes contributions to the plan, coinciding with the effective date it elected to participate in the State of Delaware's County and Municipal Pension Plans. All participants in the plan remain in the plan until they separate employment from the City and can continue to invest funds in their respective accounts. The plan is administered by VOYA Financial, and was last amended and restated January 25, 2016 in order to comply with applicable IRS rules and regulations.

State of Delaware's County and Municipal Pension Plans

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. 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. Below is a description of each of these plans:

Police and Firefighters' Pension Plan

The City contributes to a governmental cost-sharing multiple-employer defined benefit pension plan administered by the Delaware Public Employees' Retirement System and managed by its Board of Pension Trustees (the Board). The plan, which is Delaware's County and Municipal Police and Firefighter Pension Plan, covers City sworn police officers. The State of Delaware General Assembly is responsible for setting benefits and amending plan provisions. The State Board of Pension Trustees determines the contributions required. The board is comprised of five members appointed by the Governor and confirmed by the State Senate, plus two ex officio members.

Service benefits under the plan include 2.5% of final average monthly compensation multiplied by years of credited service up to 20 years, plus 3.5% of final average monthly compensation multiplied by years of service in excess of 20 years. The final monthly compensation is the monthly average of the highest three years of compensation. There are also disability benefits as well as survivor benefits provided by the plan. An employee is vested upon 5 years of credited service.

Employer contributions to the plan are determined annually by the Board of Pension Trustees. The employer contribution policy is set by State law and required contributions by active members and by participating employers. The contributions required by participating employers are based on an actuarial valuation and are expressed as a percentage of annual covered payrolls during the period for which the amount is determined. The employer contribution rate in fiscal year 2019 was 10.14% of payroll. In addition, employees are required to contribute 7% of compensation.

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 13 - PENSION PLANS (CONTINUED):

Other Employees' Pension Plan

The City contributes to a governmental cost-sharing multiple-employer defined benefit pension plan administered by the Delaware Public Employees' Retirement System and managed by its Board of Pension Trustees (the Board). The plan, which is Delaware County and Municipal Other Employees Pension Plan, covers all full-time non-uniformed City employees as well as elected officials. The State of Delaware General Assembly is responsible for setting benefits and amending plan provisions. The State Board of Pension Trustees determines the contributions required. The board is comprised of five members appointed by the Governor and confirmed by the State Senate, plus two ex officio members.

Service benefits include 1/60th of final average monthly compensation multiplied by years of credited service, subject to maximum limitations. For this plan, the final average monthly compensation is the monthly average of the highest five years of compensation. There are also disability benefits as well as survivor benefits provided by the plan. An employee is vested upon 5 years of credited service.

Employer contributions to the plan are determined annually by the Board of Pension Trustees. The employer contribution policy is set by State law and required contributions by active members and by participating employers. The contributions required by participating employers are based on an actuarial valuation and are expressed as a percentage of annual covered payrolls during the period for which the amount is determined. The employer contribution rate in fiscal year 2019 was 6.76% of payroll. In addition, employees are required to contribute 3% of compensation in excess of \$6,000.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The components of the total net pension liability of the each plan as of the June 30, 2018 measurement date were as follows:

| | <u>Police & Firefighters</u> | <u>Other Employees</u> |
|--|----------------------------------|------------------------|
| Total pension liability | \$390,500,000 | \$56,269,000 |
| Plan fiduciary net position | <u>367,470,000</u> | <u>53,122,000</u> |
| Employer net pension liability | <u>\$ 23,030,000</u> | <u>\$ 3,147,000</u> |
| Plan fiduciary net position as | | |
| percentage of total pension liability | 94.1% | 94.4% |
| Proportionate share of net pension liability | <u>\$ 528,464</u> | <u>\$ 316,616</u> |

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 13 - PENSION PLANS (CONTINUED):

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued):

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2016 to June 30, 2018. The City's proportionate share of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. As of June 30, 2018 and 2017, the City's proportion for each plan is as follows:

| | June 30, 2018 | June 30, 2017 | Increase (Decrease) |
|-----------------------|---------------|---------------|---------------------|
| Police & Firefighters | 2.2946% | 2.3778% | (0.0832) |
| Other Employees | 10.0609% | 10.3161% | (0.2552) |

For the year ended June 30, 2019, the City recognized pension expense for the plans as follows:

| | |
|-----------------------|------------------|
| Police & Firefighters | \$367,184 |
| Other Employees | <u>189,805</u> |
| Total | <u>\$556,989</u> |

At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Police & Firefighters | | Other Employees | |
|---|---------------------------|-----------|---------------------------|-----------|
| | Deferred Outflows/Inflows | | Deferred Outflows/Inflows | |
| Difference between expected and actual experience | \$455,061 | \$124,631 | \$152,296 | \$181,688 |
| Change of assumptions | 173,602 | 74,584 | 180,758 | -0- |
| Net difference between projected and actual investment earnings | -0- | 92,089 | -0- | 57,223 |
| Changes in proportions | -0- | 24,890 | -0- | 57,279 |
| Contributions subsequent to the measurement date | 269,023 | -0- | 306,606 | -0- |
| Total | \$897,686 | \$316,194 | \$639,660 | \$296,190 |

A total of \$575,629 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date were recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense over five years.

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 13 - PENSION PLANS (CONTINUED)

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2017, and update procedures were used to roll forward the total pension liability to June 30, 2018. The following actuarial assumptions were used and applied to all periods included in the measurement:

- Investment return - 7.0%, includes inflation at 2.50%
- Salary increases - Effective average of 2.50%, which reflects an allowance for inflation of 2.50%, plus merit.

The change in the discount rate assumption to 7.0% from 7.2% was due to an adoption by the Board of Trustees in Fiscal Year 2017. Mortality rates were based on the RP-2014 tables with gender adjustments for healthy annuitants and disabled retirees and an adjusted version on MP-2015 mortality improvement scale on a fully generational basis.

The total pension liabilities are measured based on assumptions pertaining to interest rates, inflation rates and employee demographics in future years. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates the larger the impact on the future financial statements.

Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by an asset allocation percentage which is based on the nature and mix of current and expected plan investments, and by adding expected inflation.

Best estimates of geometric real rates of return for each major asset class as of June 30, 2018 are summarized in the following table:

| <u>Asset Class</u> | <u>Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|-----------------------------|-------------------------|---|
| Domestic Equity | 30.7% | 5.7% |
| International Equity | 13.9% | 5.7% |
| Fixed Income | 23.3% | 2.0% |
| Non-Traditional Investments | 24.4% | 7.8% |
| Cash & Equivalent | 7.7% | 0.0% |

CITY OF MILFORD, DELAWARE
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2019

NOTE 13 - PENSION PLANS (CONTINUED):

Discount Rate

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

Sensitivity of the City's Proportionate Share of the Net Pension Liability

The following presents the City's net pension liability, calculated using the discount rate of 7.0%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage lower (6.0%) or 1-percentage higher (8.0%) than the current rate:

| | 1% Decrease 6.0% | Current Discount Rate 7.0% | 1% Increase 8.0% |
|----------------------------|---------------------|----------------------------------|-----------------------|
| | | | |
| County and Municipal P&F | <u>\$84,424,000</u> | <u>\$23,030,000</u> | <u>(\$26,664,000)</u> |
| County and Municipal Other | <u>\$11,893,000</u> | <u>\$3,147,000</u> | <u>(\$3,917,000)</u> |

Pension Plan Fiduciary Net Position

Detailed information about DPERS' fiduciary net position is available in DPERS Comprehensive Annual Financial Report which can be found on the System's website at <https://open.omb.delaware.gov>.

**CITY OF MILFORD, DE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019**

| | Budgeted Amounts | | Actual Amounts, Budgetary Basis | Variance with Final Budget - Positive (Negative) |
|--|-------------------------|--------------------|--|---|
| | Original | Final | | |
| REVENUES | | | | |
| Property Taxes | \$ 3,927,716 | \$ 3,927,716 | \$ 4,005,414 | \$ 77,698 |
| Fees and Fines | 110,000 | 110,000 | 187,669 | 77,669 |
| Licenses and Permits | 326,000 | 336,000 | 495,291 | 159,291 |
| Sale of Business Park Land | - | - | - | - |
| Intergovernmental | 323,485 | 323,485 | 40,130 | (283,355) |
| Investment Earnings | 30,000 | 30,000 | 131,382 | 101,382 |
| Miscellaneous | 375,065 | 390,065 | 721,401 | 331,336 |
| Total Revenues | 5,092,266 | 5,117,266 | 5,581,287 | 464,021 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Government | 1,604,538 | 1,664,749 | 1,592,854 | 71,895 |
| Public Safety | 4,741,608 | 5,251,249 | 5,087,380 | 163,869 |
| Public Works | 838,505 | 838,505 | 719,161 | 119,344 |
| Culture and Recreation | 987,615 | 986,615 | 916,541 | 70,074 |
| Debt Service: | | | | |
| Principal | - | - | - | - |
| Interest and Other Charges | - | - | - | - |
| Capital Outlay | 545,500 | 743,199 | 672,762 | 70,437 |
| Total Expenditures | 8,717,766 | 9,484,317 | 8,988,698 | 495,619 |
| Deficiency of Revenues Over Expenditures | (3,625,500) | (4,367,051) | (3,407,411) | 959,640 |
| OTHER FINANCING SOURCES | | | | |
| Real Estate Transfer Tax (from Special Revenue Fund) | 500,000 | 500,000 | 500,000 | - |
| Transfers In From Electric Fund | 2,500,000 | 2,500,000 | 2,500,000 | - |
| Other Transfers In/Out | - | 312,641 | 307,680 | (4,961) |
| Net Change in Fund Balance | (625,500) | (1,054,410) | (99,731) | 954,679 |
| DEFICIENCY FUNDED BY | | | | |
| General Fund Prior Balance and Reserves | 625,500 | 1,054,410 | 99,731 | (954,679) |
| Net Revenues, Other Financing Sources, Prior Fund Balances and Expenditures | \$ - | \$ - | \$ - | \$ - |

See accompanying notes to required supplementary information.

**CITY OF MILFORD, DELAWARE
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE LAST FOUR FISCAL YEARS**

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|----------------|----------------|----------------|----------------|
| <u>County & Municipal Police and Firefighters' Pension Plan</u> | | | | |
| Proportion of the net pension liability (asset) | 2.2946% | 2.3779% | 2.3824% | 2.4964% |
| Proportionate share of the net pension liability (asset) | \$ 528,464 | \$ 239,714 | \$ 378,701 | \$ (131,558) |
| Covered-employee payroll | \$ 2,147,178 | \$ 1,905,658 | \$ 1,944,111 | \$ 1,735,698 |
| Proportionate share of the net pension liability as a percentage of covered-employee payroll | 24.6% | 12.6% | 19.5% | -7.6% |
| Plan's fiduciary net position | \$ 367,470,000 | \$ 325,867,000 | \$ 284,298,000 | \$ 273,109,000 |
| Plan fiduciary net position as a percentage of the total pension liability (asset) | 94.1% | 97.0% | 94.7% | -102.0% |
| <u>County & Municipal Other Employees' Pension Plan</u> | | | | |
| Proportion of the net pension liability (asset) | 10.0612% | 10.3165% | 10.8530% | 12.1628% |
| Proportionate share of the net pension liability (asset) | \$ 316,616 | \$ 668,405 | \$ 672,454 | \$ 5,230 |
| Covered-employee payroll | \$ 4,205,852 | \$ 3,476,349 | \$ 3,628,008 | \$ 3,630,778 |
| Proportionate share of the net pension liability as a percentage of covered-employee payroll | 7.5% | 19.2% | 18.5% | 0.1% |
| Plan's fiduciary net position | \$ 53,122,000 | \$ 45,874,000 | \$ 39,292,000 | \$ 37,840,000 |
| Plan fiduciary net position as a percentage of the total pension liability | 94.4% | 87.6% | 86.4% | 99.9% |

See accompanying notes to required supplementary information.

**CITY OF MILFORD, DELAWARE
SCHEDULE OF EMPLOYER CONTRIBUTIONS - PENSION PLAN
FOR THE LAST FOUR FISCAL YEARS**

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|---------------------|---------------------|
| <u>County & Municipal Police and Firefighters' Pension Plan</u> | | | | |
| Contractually required contribution | \$ 217,625 | \$ 269,023 | \$ 240,395 | \$ 251,302 |
| Contributions in relation to the contractually determined contribution | <u>217,625</u> | <u>269,023</u> | <u>240,395</u> | <u>251,302</u> |
| Contribution (excess) deficiency | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> |
| Covered-employee payroll | <u>\$ 2,147,178</u> | <u>\$ 1,905,658</u> | <u>\$ 1,944,111</u> | <u>\$ 1,735,698</u> |
| Contributions as a percentage of covered-employee payroll | <u>10.14%</u> | <u>14.12%</u> | <u>12.37%</u> | <u>14.48%</u> |
| <u>County & Municipal Other Employees' Pension Plan</u> | | | | |
| Contractually required contribution | \$ 284,307 | \$ 259,355 | \$ 225,472 | \$ 235,458 |
| Contributions in relation to the contractually determined contribution | <u>284,307</u> | <u>259,355</u> | <u>225,472</u> | <u>235,458</u> |
| Contribution (excess) deficiency | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> |
| Covered-employee payroll | <u>\$ 4,205,852</u> | <u>\$ 3,476,349</u> | <u>\$ 3,628,008</u> | <u>\$ 3,630,778</u> |
| Contributions as a percentage of covered-employee payroll | <u>6.76%</u> | <u>7.46%</u> | <u>6.21%</u> | <u>6.49%</u> |

See accompanying notes to required supplementary information.

CITY OF MILFORD, DELAWARE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 1 - GENERAL

Required supplementary information includes financial information and disclosures that are required by the Governmental Accounting Standards Board but are not considered part of the basic financial statements.

NOTE 2 - BUDGETARY BASIS

The budgetary comparison schedule is prepared on a basis that is consistent with generally accepted accounting principles (GAAP).

NOTE 3 - PENSION PLANS

The following notes pertain to both the County and Municipal Police and Firefighters Pension Plan and the County and Municipal Other Employees' Pension Plan.

Changes in Benefit Terms

None

Changes in Assumptions

The changes in assumptions used to determine total pension liability are described in Note 13 to the financial statements.

Method and Assumptions used in calculations of actuarially determined contributions

The actuarially determined contribution rates in the Schedule of Employers' Contributions are calculated as of the June 30 two years prior to the end of the fiscal year in which the contributions are reported. Complete descriptions of the methods and assumptions used to determine the contribution rates for Fiscal Year 2017 can be found in the June 30, 2015 actuarial valuation reports. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

- Actuarial Cost Method - Entry Age Normal
- Amortization Method - Open 10 Year Level Percent of Payroll
- Remaining Amortization Period - 10 Years
- Asset Valuation Method - 5 Year Smoothed Market
- Actuarial Assumptions
 - Discount Rate - 7.0%
 - Amortization Growth Rate 3.0%
 - Price Inflation - 3.0%

10-year Reporting Requirements

The preceding required supplementary schedules, as related to pensions, are intended to show information for 10 years. Additional years will be displayed as they become available.

**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 the City of Milford, Delaware, as of and for the year ended June 30, 2019, 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 December 9, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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. Accordingly, we do not express 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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

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.

Gold Gerstein Group LLC

Voorhees, New Jersey
December 9, 2019