

CITY OF MILFORD

Milford, Delaware

Financial Statements

For The Year Ended June 30, 2010

CITY OF MILFORD, DELAWARE

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TRANSMITTAL LETTER

October 26, 2010

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

The Finance Department and City Manager's Office is pleased to submit the Annual Financial Report for the City of Milford, Delaware for the fiscal year ended June 30, 2010.

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

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

THE REPORT

The accompanying financial section includes a Management and Discussion Analysis (MD&A), basic financial statements and combining and individual fund statements and schedules, as well as the independent auditor's report on the basic financial statements. The MD&A is a narrative introduction, overview, and analysis to accompany the basic financial statements. This letter of transmittal is designed to complement and should be read in conjunction with the MD&A. The City of Milford's MD&A can be found immediately following the report of the independent auditors.

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

CITY PROFILE

Location

The City of Milford is the sixth largest city in population in the State of Delaware, serving over 9,000 residents within a rapidly growing corridor along U.S. Route 113/DE Route 1 in Kent and Sussex County. Located on the Mispillion River, within both Kent and Sussex County, the City is approximately 95 miles from Philadelphia, PA, 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 Director of Finance hears and reviews all recommendations made by the independent auditors.



Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Milford, Delaware, as of and for the year ended June 30, 2010, which collectively comprise the City of Milford's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Milford's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, Delaware, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

A handwritten signature in black ink that reads "Heffler, Radtich & Smith, LLP". The signature is written in a cursive, flowing style.

Philadelphia, Pennsylvania
October 26, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Milford's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended June 30, 2010. Please read it in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's total net assets increased throughout the course of the year. Net assets of our business type activities *increased* approximately \$1.8 million (or about 4.64%), and the net assets of the governmental activities decreased \$405 thousand (or about 1.58%).
- During the year, the City's governmental activities incurred total costs of \$9.0 million. Tax revenues generated \$4.0 million, with the deficiency being made up primarily through interfund transfers, operating grants and other miscellaneous income.
- In the City's business-type activities, revenues decreased \$1.3 million while expenses decreased approximately \$907 thousand. The main reason for this was the decrease in charges for service City's utility funds to the city's residents in addition to the amount of personal and contractual services.
- The resources available for appropriation were \$112 thousand less than budgeted for the general fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements* together with *required supplementary information*, and additional reports issued by the City's independent auditor in connection with an audit performed in accordance with *Government Auditing Standards*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the City government, reporting the City's operation in *more detail* than the government-wide statements.

- The *governmental funds* statements tell how *general government* services like public safety were financed in the *short term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short-and long-term* financial information about the activities the government operates *like businesses*, such as the water and sewer system.
- *Fiduciary fund* statements provide information about the financial relationships—like the agency trust—in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.
- Required supplementary information includes a budgeting comparison schedule with respect to the City's General Fund.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's *net assets* and how they have changed. Net assets—the difference between the City's assets and liabilities—is one way to measure the City's financial health, or *position*.

- Increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors such as changes in the City's property tax base and the condition of the City's roads.

The government-wide financial statements of the City are divided into two categories:

- *Governmental activities*—Most of the City's basic services are included here, such as the police, fire, public works, and parks departments, and general administration. Property taxes and state and federal grants finance most of these activities.
- *Business-type activities*—The City charges fees to customers to help it cover the costs of certain services it provides. The City's water, sewer, electric and trash services are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has three kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- *Proprietary funds*—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.
 - In fact, the City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
 - We use internal service funds (the other kind of proprietary fund) to report activities that provide supplies and services for the City's other programs and activities.
- *Fiduciary and agency funds*—The agency fund accounts for assets held by the city in a trustee capacity for impact fees collected on behalf of Kent County. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net assets. The City's *combined* net assets increased between fiscal year 2009 and 2010 approximately \$1.4 million. In comparison, last year net assets increased \$3.1 million.

Changes in net assets.

The City's total revenues decreased \$521 thousand to 41.0 million. The total cost of all programs and services increased approximately \$523 thousand, (or approximately 1.32% percent). The City's expenses cover a range of services, with about \$5.1 million related to public safety and public works.

The narrative that follows considers the operations of governmental and business-type activities separately.

Business-type Activities

Revenues of the City's business-type activities decreased about 3.84 percent to \$35 million, and expenses decreased 2.83 percent to \$31 million. The primary cause for the decreases was the result of a decrease in charges for services and an decrease in contractual services.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a *combined* fund balance of \$6.3 million, a \$468 thousand decrease from the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council revised the City budget several times. These budget amendments fall into three categories:

- Amendments and supplemental appropriations approved shortly after the beginning of the year to reflect the actual beginning account balances.
- Increase in appropriations to prevent budget overruns.

Actual budgetary revenues were greater than general fund revenues by \$112 thousand (2.34%) largely due to charges for services being over budgeted amounts. Actual expenditures were \$137 thousand more than the total \$8.2 million budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, the City had invested \$44.3 (net of accumulated depreciation) million in a broad range of capital assets, including police equipment, buildings, park facilities, roads, bridges, and water and sewer lines. This amount represents a net decrease of \$474 thousand, or 1.0 percent, over last year.

Long-term Debt

At year-end, the City had \$9.9 million in bonds and notes outstanding at year end. More detailed information about the City's long-term liabilities is presented in Note 10 to the financial statements. There were no significant transactions in the City's debt obligations during the fiscal year.

City of Milford
STATEMENT OF NET ASSETS
JUNE 30, 2010

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and Equivalents	\$ 3,418,701	\$ 8,624,326	\$ 12,043,027
Investments	3,592,567	14,279,795	17,872,362
Receivables	240,123	4,191,596	4,431,719
Inventories	762	1,188,798	1,189,560
Other Assets	-	67,053	67,053
Capital Assets			
Land, Infrastructure and Other Assets not being depreciated	8,613,917	368,988	8,982,905
Utility System	-	36,132,744	36,132,744
Buildings	8,253,115	6,097,527	14,350,642
Equipment and Furniture	4,439,616	5,074,538	9,514,154
Construction in Progress	135,596	-	135,596
Less: Accumulated Depreciation	<u>(1,779,550)</u>	<u>(23,062,231)</u>	<u>(24,841,781)</u>
Total Capital Assets	<u>19,662,694</u>	<u>24,611,566</u>	<u>44,274,260</u>
Total Assets	<u>\$ 26,914,847</u>	<u>\$ 52,963,134</u>	<u>\$ 79,877,981</u>
LIABILITIES			
Accounts Payable and Accrued Expenses	\$ 204,329	\$ 2,623,787	\$ 2,828,116
Deferred Revenues	576,529	-	576,529
Long-Term Liabilities			
Due Within One Year			
Bonds, Capital Leases and Contracts	36,966	818,146	855,112
Compensated Absences	95,517	30,782	126,299
Customer Deposits	-	337,510	337,510
Due in More Than One Year			
Bonds, Capital Leases and Contracts	230,347	8,864,484	9,094,831
Compensated Absences	499,298	210,325	709,623
Total Liabilities	<u>1,642,986</u>	<u>12,885,034</u>	<u>14,528,020</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	19,395,381	14,928,936	34,324,317
Restricted for Capital Improvements	-	198,442	198,442
Unrestricted	5,876,480	24,950,722	30,827,202
Total Net Assets	<u>\$ 25,271,861</u>	<u>\$ 40,078,100</u>	<u>\$ 65,349,961</u>

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

**City of Milford
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary Government							
Governmental Activities							
General Government	\$ 2,555,871	\$ 749,206	\$ -	\$ -	\$ (1,806,665)		\$ (1,806,665)
Public Safety	4,162,876	-	100,000	-	(4,062,876)		(4,062,876)
Public Works	936,391	-	242,699	-	(693,692)		(693,692)
Culture and Recreation	1,321,752	84,267	-	-	(1,237,485)		(1,237,485)
Total Governmental Activities	8,976,890	833,473	342,699	-	(7,800,718)		(7,800,718)
Business-Type Activities							
Electric Fund	23,380,481	26,994,843	-	-		3,614,362	3,614,362
Water Fund	1,810,999	2,262,587	-	-		451,588	451,588
Sewer Fund	3,603,166	3,158,537	-	-		(444,629)	(444,629)
Trash Fund	972,484	1,066,905	-	-		94,421	94,421
Internal Service Fund	1,450,971	1,489,716	-	-		38,745	38,745
Total Business-Type Activities	31,218,101	34,972,588	-	-		3,754,487	3,754,487
Total Primary Government	\$ 40,194,991	\$ 35,806,061	\$ 342,699	\$ -	\$ (7,800,718)	\$ 3,754,487	\$ (4,046,231)
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes					3,348,763	-	3,348,763
Franchise Taxes					401,911	-	401,911
Public Service Taxes					238,964	-	238,964
Impact Fees					-	198,442	198,442
Unrestricted Investment Earnings					41,256	321,535	362,791
Miscellaneous					850,757	986	851,743
Special item - Gain on Sale of Asset					14,500	-	14,500
Transfers					2,500,000	(2,500,000)	-
Total General Revenues, Special Items, and Transfers					7,396,151	(1,979,037)	5,417,114
Change in Net Assets					(404,567)	1,775,450	1,370,883
Net Assets - Beginning					25,676,428	38,302,650	63,979,078
Net Assets - Ending					\$ 25,271,861	\$ 40,078,100	\$ 65,349,961

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

**City of Milford
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Parks and Recreation Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and Cash Equivalents	\$ 1,392,946	\$ 1,984,512	\$ 41,243	\$ 3,418,701
Investments	1,992,567	1,600,000	-	3,592,567
Taxes Receivable, Net of Allowance for Doubtful Accounts	45,675	33,239	-	78,914
Other Receivables	158,373	2,836	-	161,209
Inventories	-	-	762	762
Total Assets	<u>\$ 3,589,561</u>	<u>\$ 3,620,587</u>	<u>\$ 42,005</u>	<u>\$ 7,252,153</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 86,934	\$ 296	\$ 12,547	\$ 99,777
Compensated Absences - Current	95,517	-	-	95,517
Other Accrued Expenses	159,352	-	-	159,352
Other Payables	4,314	-	-	4,314
Deferred Revenue	-	576,529	-	576,529
Total Liabilities	<u>346,117</u>	<u>576,825</u>	<u>12,547</u>	<u>935,489</u>
Fund Balances:				
Total Fund Balances, All Unreserved	<u>3,243,444</u>	<u>3,043,762</u>	<u>29,458</u>	<u>6,316,664</u>
Total Liabilities and Fund Balances	<u>\$ 3,589,561</u>	<u>\$ 3,620,587</u>	<u>\$ 42,005</u>	<u>\$ 7,252,153</u>

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

City of Milford
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010

Total Fund Balance, Governmental Funds	\$ 6,316,664
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 this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	19,662,694
Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	59,114
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.	<u>(766,611)</u>
Net Assets of Governmental Activities in the Statement of Net Assets	<u>\$ 25,271,861</u>

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

City of Milford
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Special Revenue Fund	Parks and Recreation Fund	Total Governmental Funds
REVENUES				
Property Taxes	\$ 2,912,659	\$ -	\$ -	\$ 2,912,659
Real Estate Transfer Taxes	-	436,104	-	436,104
Fees and Fines	205,251	-	-	205,251
Licenses and Permits	196,660	-	-	196,660
Engineering & Inspection Fees	238,964	-	-	238,964
Intergovernmental	-	342,699	-	342,699
Charges for Services	749,206	-	84,267	833,473
Investment Earnings	22,887	18,369	-	41,256
Miscellaneous	459,569	352,963	38,225	850,757
	<u>4,785,196</u>	<u>1,150,135</u>	<u>122,492</u>	<u>6,057,823</u>
EXPENDITURES				
Current:				
General Government	2,032,793	-	-	2,032,793
Public Safety	3,751,816	411,060	-	4,162,876
Public Works	936,391	-	-	936,391
Culture and Recreation	1,191,122	-	130,630	1,321,752
Debt Service:				
Principal	36,049	-	-	36,049
Interest	10,667	-	-	10,667
Capital Outlay	219,424	320,244	-	539,668
	<u>8,178,262</u>	<u>731,304</u>	<u>130,630</u>	<u>9,040,196</u>
Total Expenditures (Deficiency) Excess of Revenues Over Expenditures	<u>(3,393,066)</u>	<u>418,831</u>	<u>(8,138)</u>	<u>(2,982,373)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	3,200,334	-	-	3,200,334
Transfers Out	-	(700,334)	-	(700,334)
	<u>3,200,334</u>	<u>(700,334)</u>	<u>-</u>	<u>2,500,000</u>
SPECIAL ITEM				
Proceeds from Sale of Land	14,500	-	-	14,500
	<u>(178,232)</u>	<u>(281,503)</u>	<u>(8,138)</u>	<u>(467,873)</u>
Fund Balances - Beginning	<u>3,421,676</u>	<u>3,325,265</u>	<u>37,596</u>	<u>6,784,537</u>
Fund Balances - Ending	<u>\$ 3,243,444</u>	<u>\$ 3,043,762</u>	<u>\$ 29,458</u>	<u>\$ 6,316,664</u>

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

City of Milford
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, 2010

Net change in fund balances - total governmental funds:	\$ (467,873)
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenses in the statement of revenues, expenditures and changes in fund balance.	(34,575)
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 outlay, \$539,668, exceeded depreciation expense \$477,836 in the current period.	61,832
Governmental funds report repayment of bond principal as an expenditure, In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.	<u>36,049</u>
Change in net assets of governmental activities	<u><u>\$ (404,567)</u></u>

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

**City of Milford
BUDGET AND ACTUAL (WITH VARIANCES)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property Taxes	\$ 2,929,600	\$ 2,929,600	\$ 2,912,659	\$ (16,941)
Fees and Fines	165,000	165,000	205,251	40,251
Licenses and Permits	150,500	150,500	196,660	46,160
Engineering and Inspection Fees	-	-	238,964	238,964
Charges for Services	978,880	1,209,268	749,206	(460,062)
Investment Earnings	25,000	25,000	22,887	(2,113)
Miscellaneous	417,575	417,575	459,569	41,994
Total Revenues	4,666,555	4,896,943	4,785,196	(111,747)
EXPENDITURES				
Current:				
General Government	2,034,529	2,150,740	2,032,793	117,947
Public Safety	3,748,565	3,748,565	3,751,816	(3,251)
Public Works	836,960	836,960	936,391	(99,431)
Culture and Recreation	1,088,580	1,076,418	1,191,122	(114,704)
Debt Service:				
Principal	36,050	36,050	36,049	1
Interest and Other Charges	10,670	10,670	10,667	3
Capital Outlay	891,622	181,800	219,424	(37,624)
Total Expenditures	8,646,976	8,041,203	8,178,262	(137,059)
Excess (Deficiency) of Revenues Over Expenditures	(3,980,421)	(3,144,260)	(3,393,066)	(248,806)
OTHER FINANCING SOURCES (USES)				
Transfers In	3,204,300	3,208,900	3,200,334	(8,566)
Transfers Out	-	-	-	-
Total Other Financing Sources and Uses	3,204,300	3,208,900	3,200,334	(8,566)
SPECIAL ITEM				
Proceeds from Sale of Land	-	-	14,500	14,500
Net Change in Fund Balances	(776,121)	64,640	(178,232)	(242,872)
Fund Balances - Beginning	3,421,676	3,421,676	3,421,676	-
Fund Balances - Ending	\$ 2,645,555	\$ 3,486,316	\$ 3,243,444	\$ (242,872)

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

City of Milford
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010

ENTERPRISE FUNDS

ASSETS	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Trash</u>	<u>Total</u>	<u>Internal Service Fund</u>
Current Assets:						
Cash and Cash Equivalents	\$ 4,872,106	\$ 2,041,790	\$ 1,061,214	\$ 520,155	\$ 8,495,265	\$ 129,061
Investments	7,789,229	3,843,708	2,646,858	-	14,279,795	-
Accounts Receivable, net of allowance for doubtful accounts	2,836,474	514,910	298,792	119,132	3,769,308	-
Other Receivables	29,325	12,988	379,475	500	422,288	-
Inventories	1,124,476	32,700	-	-	1,157,176	31,622
Deferred Bond Discount and Issue Costs	67,053	-	-	-	67,053	-
Total Current Assets	16,718,663	6,446,096	4,386,339	639,787	28,190,885	160,683
Non-Current Assets:						
Capital Assets:						
Land and Improvements	312,981	27,369	28,638	-	368,988	-
Utility System	9,686,361	12,395,663	14,050,720	-	36,132,744	-
Buildings and Improvements	5,838,126	202,734	45,821	10,846	6,097,527	-
Equipment and Furniture	2,137,997	580,252	382,432	927,061	4,027,742	1,046,796
Less Accumulated Depreciation	(10,064,371)	(5,815,563)	(6,134,583)	(835,777)	(22,850,294)	(211,937)
Total Non-Current Assets	7,911,094	7,390,455	8,373,028	102,130	23,776,707	834,859
Total Assets	\$ 24,629,757	\$ 13,836,551	\$ 12,759,367	\$ 741,917	\$ 51,967,592	\$ 995,542
LIABILITIES						
Current Liabilities:						
Accounts Payable	\$ 2,130,370	\$ 49,519	\$ 306,441	\$ 28,583	\$ 2,514,913	\$ 41,858
Salaries Payable	24,863	6,188	6,188	6,468	43,707	-
Other Accrued Expenses	23,309	-	-	-	23,309	-
Customer Deposits	337,510	-	-	-	337,510	-
Compensated Absences	20,454	3,481	3,481	3,366	30,782	-
Bonds, Notes and Loans Payable	170,000	397,183	250,963	-	818,146	-
Total Current Liabilities	2,706,506	456,371	567,073	38,417	3,768,367	41,858
Non-Current Liabilities:						
Compensated Absences	81,817	13,921	13,921	13,464	123,123	87,202
Bonds, Notes and Loans Payable	3,049,552	3,395,894	2,419,038	-	8,864,484	-
Total Non-Current Liabilities	3,131,369	3,409,815	2,432,959	13,464	8,987,607	87,202
Total Liabilities	\$ 5,837,875	\$ 3,866,186	\$ 3,000,032	\$ 51,881	\$ 12,755,974	\$ 129,060
NET ASSETS						
Invested in Capital Assets, net of related debt	\$ 4,691,542	\$ 3,597,378	\$ 5,703,027	\$ 102,130	\$ 14,094,077	\$ 834,859
Restricted for Capital Improvements	42,200	102,215	54,027	-	198,442	-
Unrestricted	14,058,140	6,270,772	4,002,281	587,906	24,919,099	31,623
Total Net Assets	\$ 18,791,882	\$ 9,970,365	\$ 9,759,335	\$ 690,036	\$ 39,211,618	\$ 866,482

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

City of Milford
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	ENTERPRISE FUNDS					Internal Service Fund
	Electric	Water	Sewer	Trash	Total	
REVENUES						
Charges for Services	\$ 26,716,178	\$ 2,237,051	\$ 3,157,313	\$ 1,015,112	\$ 33,125,654	\$ 1,489,716
Miscellaneous	278,665	25,536	1,224	51,793	357,218	-
Total Operating Revenues	<u>26,994,843</u>	<u>2,262,587</u>	<u>3,158,537</u>	<u>1,066,905</u>	<u>33,482,872</u>	<u>1,489,716</u>
OPERATING EXPENSES						
Personal Services	2,092,247	398,599	401,826	406,844	3,299,516	934,127
Contractual Services	20,345,831	49,589	2,408,774	296,572	23,100,766	32,133
Utilities	5,865	240,062	30,687	-	276,614	1,683
Repairs and Maintenance	363,463	34,868	28,491	135,287	562,109	225,727
Other Supplies and Expenses	84,494	577,136	335,559	101,770	1,098,959	250,568
Insurance Claims and Expenses	46,783	9,203	3,784	8,714	68,484	6,733
Amortization	10,500	13,158	3,926	-	27,584	-
Depreciation	297,888	301,325	308,544	23,297	931,054	-
Total Operating Expenses	<u>23,247,071</u>	<u>1,623,940</u>	<u>3,521,591</u>	<u>972,484</u>	<u>29,365,086</u>	<u>1,450,971</u>
Operating Income (Loss)	<u>3,747,772</u>	<u>638,647</u>	<u>(363,054)</u>	<u>94,421</u>	<u>4,117,786</u>	<u>38,745</u>
NON-OPERATING REVENUES (EXPENSES)						
Interest and Investment Revenues	184,194	75,267	59,555	2,519	321,535	-
Impact Fees	42,200	102,215	54,027	-	198,442	-
Miscellaneous Revenue	986	-	-	-	986	-
Interest Expense	(133,110)	(187,059)	(85,209)	-	(405,378)	-
Miscellaneous Expenses	(300)	-	3,634	-	3,334	-
Total Non-Operating (Expenses) Revenues	<u>93,970</u>	<u>(9,577)</u>	<u>32,007</u>	<u>2,519</u>	<u>118,919</u>	<u>-</u>
Income Before Transfers	3,841,742	629,070	(331,047)	96,940	4,236,705	38,745
Capital Contributions						-
Transfers In	262,431	850,000	1,025,000	-	2,137,431	-
Transfers Out	(2,762,431)	(850,000)	(1,025,000)	-	(4,637,431)	-
Changes in Net Assets	1,341,742	629,070	(331,047)	96,940	1,736,705	38,745
Total Net Assets - Beginning	<u>17,450,140</u>	<u>9,341,295</u>	<u>10,090,382</u>	<u>593,096</u>	<u>37,474,913</u>	<u>827,737</u>
Total Net Assets - Ending	<u>\$ 18,791,882</u>	<u>\$ 9,970,365</u>	<u>\$ 9,759,335</u>	<u>\$ 690,036</u>	<u>\$ 39,211,618</u>	<u>\$ 866,482</u>

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

City of Milford
STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2010

	ENTERPRISE FUNDS				
	Electric	Water	Sewer	Trash	Total
Cash Flows from Operations:					
Receipts from Customers	\$ 26,570,942	\$ 2,209,479	\$ 3,177,397	\$ 1,006,663	\$ 32,964,481
Other Operating Receipts	249,844	15,548	(377,501)	52,103	(60,006)
Payments to Suppliers	(20,578,503)	(933,807)	(2,791,906)	(534,441)	(24,838,657)
Payments to Employees	(2,087,730)	(396,482)	(399,708)	(408,076)	(3,291,996)
Customer Deposits	4,890	-	-	-	4,890
Insurance Premiums Paid	(46,783)	(9,203)	(3,784)	(8,714)	(68,484)
Net Cash Provided by Operating Activities	<u>4,112,660</u>	<u>885,535</u>	<u>(395,502)</u>	<u>107,535</u>	<u>4,710,228</u>
Cash Flows from Non-Capital Financing Activities:					
Operating Transfers In	262,431	850,000	1,025,000	-	2,137,431
Operating Transfers (Out)	(2,762,431)	(850,000)	(1,025,000)	-	(4,637,431)
Net Cash Used in Non-Capital Financing Activities	<u>(2,500,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,500,000)</u>
Cash Flows from Capital and Related Financing Activities:					
Additions to Property, Plant and Equipment	(37,197)	(22,192)	(341,722)	-	(401,111)
Principal Paid on Bonds	(165,000)	(301,733)	(244,378)	-	(711,111)
Interest Paid on Bonds	(133,110)	(187,059)	(85,209)	-	(405,378)
Non-Operating Capital	686	-	341,222	-	341,908
Impact Fees Received	42,200	102,215	54,027	-	198,442
Net Cash Flows Used in Capital and Related Financing Activities	<u>(292,421)</u>	<u>(408,769)</u>	<u>(276,060)</u>	<u>-</u>	<u>(977,250)</u>
Cash Flows from Investing Activities:					
Purchase of Investments	(3,046,930)	(2,293,461)	(1,150,608)	-	(6,490,999)
Income on Investments	184,194	75,267	59,555	2,519	321,535
Net Cash Flows from Investing Activities	<u>(2,862,736)</u>	<u>(2,218,194)</u>	<u>(1,091,053)</u>	<u>2,519</u>	<u>(6,169,464)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(1,542,497)</u>	<u>(1,741,428)</u>	<u>(1,762,615)</u>	<u>110,054</u>	<u>(4,936,486)</u>
Cash and Cash Equivalents at Beginning of Year	<u>6,414,603</u>	<u>3,783,218</u>	<u>2,823,829</u>	<u>410,101</u>	<u>13,431,751</u>
Cash and Cash Equivalents at End of Year	<u>\$ 4,872,106</u>	<u>\$ 2,041,790</u>	<u>\$ 1,061,214</u>	<u>\$ 520,155</u>	<u>\$ 8,495,265</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:					
Operating Income (Loss)	\$ 3,747,772	\$ 638,647	\$ (363,054)	\$ 94,421	\$ 4,117,786
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation and Amortization	308,388	314,483	312,470	23,297	958,638
Effect of Changes in Operating Assets and Liabilities:					
Accounts Receivable, net	(174,056)	(37,560)	(358,641)	(8,139)	(578,396)
Inventory	(17,942)	1,224	-	-	(16,718)
Accounts Payable	239,089	(33,377)	11,605	(813)	216,504
Salaries Payable	213	1,444	1,444	(338)	2,763
Customer Deposits	4,890	-	-	-	4,890
Liability for Compensated Absences	4,306	674	674	(893)	4,761
Net Cash Provided by (Used in) Operating Activities	<u>\$ 4,112,660</u>	<u>\$ 885,535</u>	<u>\$ (395,502)</u>	<u>\$ 107,535</u>	<u>\$ 4,710,228</u>

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

City of Milford
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2010

	<u>Agency Fund</u>
ASSETS	
Cash and Cash Equivalents	<u>26,307</u>
Total Assets	<u>\$ 26,307</u>
LIABILITIES	
Due to Other Governments	<u>26,307</u>
Total Liabilities	<u>\$ 26,307</u>

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

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

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

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

The accounting and reporting framework and the more significant accounting policies and practices are discussed in subsequent sections of this Note. The remainder of the notes is organized to provide explanations, including required disclosures, of the City's financial activities for the year ended June 30, 2010.

Financial Reporting Entity

The accompanying financial statements present the City's primary government and component units (if applicable) over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships).

Government-Wide and Fund Financial Statements

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

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.

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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 an other 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 FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The City reports the following governmental funds:

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

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

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

The City reports the following proprietary funds:

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

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

The City reports the following fiduciary fund types:

Agency Fund - The agency fund accounts for assets held by the City in a trustee capacity for impact fees collected on behalf of Kent County.

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

Budgets and Budgetary Accounting

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

- (1) In accordance with the City Charter, prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year. The City Charter requires that the budget be submitted in summary form. In addition, more detailed line item budgets are included and provided for administrative control.

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting (Continued)

- (2) Public hearings are conducted to obtain taxpayer comment.
- (3) Prior to June 30, the budget is legally enacted through passage of an ordinance.
- (4) The City Manager is required by the City Charter to present a monthly report to the City Council explaining any variances from the approved budget.
- (5) Formal budgetary integration is employed as a management control device during the year for the general fund.
- (6) The budget for the general fund is adopted on a basis consistent with generally accepted accounting principles (GAAP) as applicable to governments.
- (7) The budgets for the special revenue fund are approved on a program by program basis by the funding agencies.
- (8) Budgetary amendments are approved by City Council as required throughout the year. If revenues in excess of those estimated in the budget become available, the Council, by ordinance, may make supplemental appropriations for the year up to the amount of such excess.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash, checking and money market accounts, and short-term investments 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."

Subsequent Events

Management has evaluated subsequent events through October 26, 2010, the date the financial statements were available to be issued.

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

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

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

Deferred Bond Discount and Costs

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

Fixed Assets

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

Deferred Revenues

Deferred revenues represent funds received for specific projects which are still in progress. Revenues will be recognized in future years, as the projects reach completion. Deferred revenue in the special revenue fund represents grant awards which have been received but not yet earned.

Compensated Absences

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

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

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences (Continued)

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

Long-Term Liabilities

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

Fund Equity and Reserves

In the fund financial statements, proprietary funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose.

Net Assets

Net assets represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are 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 FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inter-Fund Transactions

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

Interest Capitalization

Interest costs incurred for the acquisition and/or construction of capital assets are capitalized based on the guidelines established by the Statement of Financial Accounting Standards No. 34, Capitalization of Interest Cost. The interest capitalization period begins when the following conditions are present:

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

The amount of interest expense to be capitalized is based on the weighted-average amount of accumulated expenditures for the period multiplied by the interest rate for the obligation incurred specifically to finance the construction of capital assets. No capitalizable interest was incurred during the year ended June 30, 2010.

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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	\$ 8,613,917
Building and Improvements	8,253,115
Equipment and Furniture	4,439,616
Construction in Progress	135,596
Less: Accumulated Depreciation	<u>(1,779,550)</u>
Net Capital Asset Differences	<u>\$ 19,662,694</u>

Long-Term Liability Differences

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

Long-Term Portion of Compensated Absences	\$ 499,298
Current Portion of Bonds Payable	36,966
Long-Term Portion of Bonds Payable	<u>230,347</u>
Total Current and Long-Term Liability Differences	<u>\$ 766,611</u>

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

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

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

Capital Outlay Differences

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

Capital Outlay	\$ 539,668
Depreciation and Amortization	<u>(477,836)</u>
Net Difference	<u><u>\$ 61,832</u></u>

Long-Term Debt Issuance and Repayment Differences

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

Principal Repayment	<u>\$ 36,049</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, 2010, 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 - CASH AND INVESTMENTS

Cash and Cash Equivalents

Custodial Credit Risk - Deposits

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 deposit policy for custodial credit risk. As of June 30, 2010, all of the City's bank balance of \$12,043,027 was either insured or fully collateralized.

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 4 - CASH AND INVESTMENTS (CONTINUED)

The following represents the City deposits which are (Category 1) fully insured or collateralized with securities held by the City or its agent in the City's name, (Category 2) those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent(s) in the City's name, and (Category 3) those deposits which are not collateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name at June 30, 2010 are as follows:

Description	Financial Institution Balances				Carrying Amounts
	Category			Totals	
	1	2	3		
Cash & Cash Equivalents:					
Unrestricted	\$ 9,110,748	\$ -	\$ -	\$ 9,110,748	\$ 9,110,748
Restricted	2,932,279			2,932,279	2,932,279
Totals	\$ 12,043,027	\$ -	\$ -	\$ 12,043,027	\$ 12,043,027

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. At June 30, 2010, the City's investments consist of the following:

Description	Category	Amounts	
		Market	Carrying
Home LN Mtg Corp	1	\$ 15,804,107	\$ 15,804,107
Beal Bank Nevada	1	216,968	216,968
Beal Bank, SSB	1	236,693	236,693
Ally Bank	1	236,668	236,668
FirstBank Puerto Rico	1	237,263	237,263
Banco Bilbao	1	235,222	235,222
Goldman Sachs BK	1	176,075	176,075
CD Bank of America	1	245,839	245,839
CD BMW Bank	1	245,839	245,839
GE Money Bank	1	237,688	237,688
Total Investment by Type		\$ 17,872,362	\$ 17,872,362
Investments:			
Unrestricted		\$ 17,872,362	\$ 17,872,362
Restricted		-	-
Total Investments		\$ 17,872,362	\$ 17,872,362

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 5 - REAL ESTATE TAXES

The tax on real estate in the City area for the fiscal year 2010 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 schedule of real estate taxes levied for the fiscal year 2010 are:

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

NOTE 6 - 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, 2010 was \$1,055, \$1,996, and \$600 per Estimated Discharge Usage (EDU), respectively.

The City has recorded as revenue in the proprietary funds Statement of Revenues, Expenses and Changes in Fund 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, 2010 is \$198,442.

NOTE 7 - 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, 2010, there are no outstanding interfund balances.

NOTE 8 - 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 9 - FIXED ASSETS

The following schedule presents the capital activity of the governmental activities for the year ended June 30, 2010:

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Description	Year Ended June 30, 2010				Balances 6/30/10
	Balances 7/1/09	Additions	Deletions	Transfers	
City Department:					
Land	\$ 6,147,099	\$ -	\$ -	\$ 515,700	\$ 6,662,799
Buildings and Improvements	4,101,554	35,577	-	-	4,137,131
Vehicles and Equipment	2,791,809	175,222	66,533	-	2,900,498
Construction in Progress	385,851	265,445	-	(515,700)	135,596
Total City Department	13,426,313	476,244	66,533	-	13,836,024
Accumulated Depreciation	(661,567)	(306,423)	-	-	(967,990)
Total City Department, Net	\$12,764,746	\$ 169,821	\$ 66,533	\$ -	\$ 12,868,034
Street Department:					
Land Improvements	\$ 1,951,118	\$ -	\$ -	\$ -	\$ 1,951,118
Buildings and Improvements	4,115,984	-	-	-	4,115,984
Vehicles and Equipment	1,478,162	60,956	-	-	1,539,118
Total City Department	7,545,264	60,956	-	-	7,606,220
Accumulated Depreciation	(660,148)	(151,412)	-	-	(811,560)
Total Street Department, Net	\$ 6,885,116	\$ (90,456)	\$ -	\$ -	\$ 6,794,660
Total Governmental Capital Assets:					
Year Ended June 30, 2010					
Description	Balances 7/1/09	Additions	Deletions	Transfers	Balances 6/30/10
Total Governmental Capital Assets:					
Land	\$ 8,098,217	\$ -	\$ -	\$ 515,700	\$ 8,613,917
Buildings and Improvements	8,217,538	35,577	-	-	8,253,115
Vehicles and Equipment	4,269,971	236,178	66,533	-	4,439,616
Construction in Progress	385,851	265,445	-	(515,700)	135,596
Total Governmental Capital Assets:	20,971,577	537,200	66,533	-	21,442,244
Accumulated Depreciation	(1,321,715)	(457,835)	-	-	(1,779,550)
Total Governmental Capital Assets, Net:	\$19,649,862	\$ 79,365	\$ 66,533	\$ -	\$ 19,662,694

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 9 - FIXED ASSETS (CONTINUED)

The following schedule presents the capital activity of the business-type activities for the year ended June 30, 2010:

Description	Year Ended June 30, 2010				Balances 6/30/10
	Balances 7/1/09	Additions	Deletions	Transfers	
Electric Fund:					
Land	\$ 312,981	\$ -	\$ -	\$ -	\$ 312,981
Buildings and Improvements	5,838,126	-	-	-	5,838,126
Electric System	9,649,164	37,197	-	-	9,686,361
Vehicles and Equipment	2,137,997	-	-	-	2,137,997
Total Fixed Assets	17,938,268	37,197	-	-	17,975,465
Accumulated Depreciation	(9,766,483)	(297,888)	-	-	(10,064,371)
Net Book Value	\$ 8,171,785	\$ (260,691)	\$ -	\$ -	\$ 7,911,094
Water Fund:					
Land	\$ 27,369	\$ -	\$ -	\$ -	\$ 27,369
Buildings and Improvements	202,734	-	-	-	202,734
Water System	12,373,471	22,192	-	-	12,395,663
Vehicles and Equipment	580,252	-	-	-	580,252
Total Fixed Assets	13,183,826	22,192	-	-	13,206,018
Accumulated Depreciation	(5,514,238)	(301,325)	-	-	(5,815,563)
Net Book Value	\$ 7,669,588	\$ (279,133)	\$ -	\$ -	\$ 7,390,455
Waste Water Fund:					
Land	\$ 28,638	\$ -	\$ -	\$ -	\$ 28,638
Buildings and Improvements	45,821	-	-	-	45,821
Waste Water System	13,713,134	337,586	-	-	14,050,720
Vehicles and Equipment	378,296	4,136	-	-	382,432
Total Fixed Assets	14,165,889	341,722	-	-	14,507,611
Accumulated Depreciation	(5,826,039)	(308,544)	-	-	(6,134,583)
Net Book Value	\$ 8,339,850	\$ 33,178	\$ -	\$ -	\$ 8,373,028

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 9 - FIXED ASSETS (CONTINUED)

Description	Year Ended June 30, 2010				Balances 6/30/10
	Balances 7/1/09	Additions	Deletions	Transfers	
Trash Fund:					
Buildings and Improvements	\$ 10,846	\$ -	\$ -	\$ -	\$ 10,846
Vehicles and Equipment	927,061	-	-	-	927,061
Total Fixed Assets	937,907	-	-	-	937,907
Accumulated Depreciation	(812,480)	(23,297)	-	-	(835,777)
Net Book Value	\$ 125,427	\$ (23,297)	\$ -	\$ -	\$ 102,130

Description	Year Ended June 30, 2010				Balances 6/30/10
	Balances 7/1/09	Additions	Deletions	Transfers	
Total Enterprise Funds:					
Land	\$ 368,988	\$ -	\$ -	\$ -	\$ 368,988
Buildings and Improvements	6,097,527	-	-	-	6,097,527
Electric System	9,649,164	37,197	-	-	9,686,361
Water System	12,373,471	22,192	-	-	12,395,663
Waste Water System	13,713,134	337,586	-	-	14,050,720
Vehicles and Equipment	4,023,606	4,136	-	-	4,027,742
Total Fixed Assets	46,225,890	401,111	-	-	46,627,001
Accumulated Depreciation	(21,919,240)	(931,054)	-	-	(22,850,294)
Net Book Value	\$24,306,650	\$ (529,943)	\$ -	\$ -	\$ 23,776,707

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 10 - LONG-TERM DEBT OBLIGATIONS

Long-Term Debt Schedule

Long-Term liability activity for the year ended June 30, 2010 is as follows:

Governmental Activities:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds Payable:					
Series 2002 General Obligation Bonds	\$ 303,361	\$ -	\$ (36,048)	\$ 267,313	\$ 36,966
Other Liabilities:					
Compensated Absences	592,415	45,582	-	637,997	138,699
Governmental Activities Long-Term Liabilities	<u>\$ 895,776</u>	<u>\$ 45,582</u>	<u>\$ (36,048)</u>	<u>\$ 905,310</u>	<u>\$ 175,665</u>

Business-Type Activities:

Bonds Payable:					
Series 1992 A Capital Appreciation Bonds	\$ 1,670,000	\$ -	\$ -	\$ 1,670,000	\$ -
Revolving Funds Loan - State of Delaware	1,216,154	-	(77,761)	1,138,393	80,111
Series 2002 General Obligation Bonds	4,661,640		(553,952)	4,107,688	568,035
Series 2005 General Obligation Bonds	<u>3,475,000</u>	<u>-</u>	<u>(165,000)</u>	<u>3,310,000</u>	<u>170,000</u>
	11,022,794	-	(796,713)	10,226,081	818,146
Less: Bond Discount and Deferred Amount on Refunding	<u>(976,594)</u>	<u>-</u>	<u>95,557</u>	<u>(881,037)</u>	<u>(100,671)</u>
Total Bonds Payable	10,046,200	-	(701,156)	9,345,044	717,475
Other Liabilities:					
Compensated Absences	<u>246,788</u>	<u>(5,681)</u>	<u>-</u>	<u>241,107</u>	<u>30,782</u>
Business-type Activities Long-Term Liabilities	<u>\$10,292,988</u>	<u>\$ (5,681)</u>	<u>\$ (701,156)</u>	<u>\$ 9,586,151</u>	<u>\$ 748,257</u>

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 10 - LONG-TERM DEBT OBLIGATIONS

General Obligation Bonds

Series A of 1992 Bond Issue

The 1992 General Obligation Enterprise Bonds, Series A, in the amount of \$839,697 represents the remaining principal portion, net of unamortized appreciation of \$649,349 with variable interest rates of 5.50% to 6.95%. The bonds were used to defease in-substance a portion of the 1989 Bond Issue and to finance additional waste water system improvements. The general obligation bonds have various maturity dates through April, 2018.

The following schedule is a summary of the 1992 Bond Issue, Series A with a balance outstanding of \$1,670,000. Bonds mature on April 1, and October 1, and interest is paid on those dates.

Capital Appreciation Bonds

Year Ending <u>June 30,</u>	<u>Principal</u> Amount	<u>Unamortized</u> <u>Appreciation</u>	<u>Rate</u>
2011	-	77,556	...
2012	-	83,028	...
2013	-	88,886	...
2014	-	95,157	...
2015	420,000	94,561	6.90%
2016	465,000	69,334	6.95%
2017	395,000	43,294	6.95%
2018	390,000	19,089	6.95%

Series of 1996 Bond Issue

The City, having sufficient cash reserves as of January 1, 2006, redeemed the remaining balance outstanding prior to the original maturity date. On January 1, 2006, the City paid the bondholders \$3,491,729, representing the par redemption price and accrued interest.

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (CONTINUED)

SERIES OF 2002 BOND ISSUE

On October 1, 2002, the City issued \$6,675,000 in General Obligation Refunding Bonds with interest rates ranging between 1.35% and 4.35%. The City issued the bonds to advance refund \$3,435,000 of the total \$7,115,000 outstanding Series of 1996 General Obligation Bonds with an interest rate of 4.7%. Also, \$2,865,000 of the \$4,765,000 outstanding Series of 1992 General Obligation Bonds with an interest rate of 6.4% was currently refunded on the same date. The City used a portion of the net proceeds to refund \$3,435,000 of the Series 1996 General Obligation Bonds. In addition, the City used the remaining portion of the net proceeds to provide for the \$2,865,000 defeasance of the Series of 1992 A-Capital Interest Bonds.

The advanced and current refunding reduced total debt service payments over the then remaining term of 18 years by approximately \$830,000, which resulted in an economic gain (difference between the present value debt service payments on the old and new debt) of \$744,000.

The following is a schedule of maturities of the 2002 bond issue:

Year Ending <u>June 30,</u>	Principal <u>Amount</u>	<u>Interest</u>	
		<u>Rate</u>	<u>Amount</u>
2011	605,000	3.20%	155,163
2012	620,000	3.30%	134,640
2013	650,000	3.40%	112,563
2014	665,000	3.55%	88,723
2015	275,000	3.70%	71,126
2016	235,000	3.85%	61,133
2017	240,000	4.00%	51,573
2018	255,000	4.05%	41,421
2019	265,000	4.15%	30,499
2020	275,000	4.25%	18,886
2021	290,000	4.35%	6,453

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (CONTINUED)

General Obligation Bonds (Continued)

SERIES OF 2005 BOND ISSUE

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

The following is a schedule of maturities of the 2005 bond issue:

Year Ending <u>June 30,</u>	Principal <u>Amount</u>	<u>Rate</u>	<u>Interest</u> <u>Amount</u>
2011	170,000	3.20%	127,995
2012	175,000	3.35%	122,555
2013	180,000	3.45%	116,692
2014	185,000	3.55%	110,482
2015	195,000	3.65%	103,915
2016	200,000	3.70%	96,798
2017	210,000	3.80%	89,398
2018	220,000	3.85%	81,418
2019	225,000	3.90%	72,948
2020	230,000	4.00%	64,172
2021	245,000	4.00%	54,972
2022	250,000	4.15%	45,172
2023	265,000	4.15%	34,798
2024	275,000	4.25%	23,800
2025	285,000	4.25%	12,112

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (CONTINUED)

NOTE PAYABLE - STATE OF DELAWARE

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

Year Ending <u>June 30,</u>	
2010	\$ 77,742
2011	80,092
2012	82,832
2013	83,770
2014	86,302
Thereafter	<u>805,416</u>
	<u>\$1,216,154</u>

NOTE 11 - PENSION PLAN

County and Municipal Pension Plan

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

Along with the prior service cost, the City is obligated to pay the ongoing regular contribution rate (6.44% for general employees and 13.87 for police for fiscal year 2009 and 6.15% for general employees and 13.70% for police for the fiscal year 2010). These contribution rates are expected to gradually increase over the next several years. In addition, eligible employees are required to contribute 3% of their earnings in excess of \$6,000 and an additional 2% of their earnings in excess of the Social Security wage base.

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 12 - COMMITMENTS AND CONTINGENCIES

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

Government Grant/Award Programs

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

Long-Term Debt Obligations

As described in Note 10, the City is contingently liable for certain long-term debt obligations.