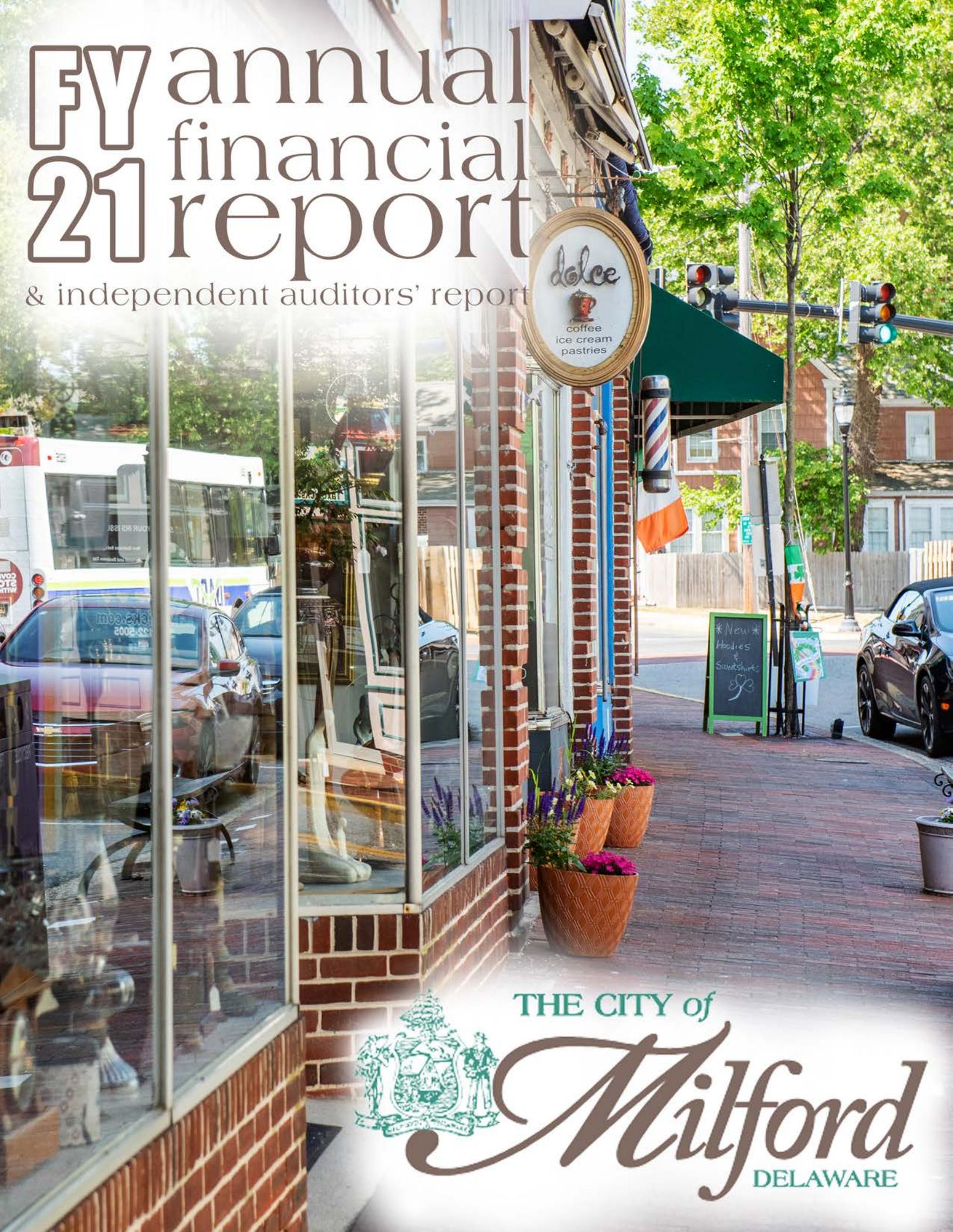


FY annual financial 21 report

& independent auditors' report



THE CITY of

Milford
DELAWARE



The City of Milford, Delaware

Annual Financial Statements

Including Independent Auditor's Report

As of and for the Year Ended June 30, 2021

The City of Milford, Delaware
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The City of Milford, Delaware

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TRANSMITTAL LETTER

December 9, 2022

The Honorable Mayor and Members of the City Council
City of 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, 2021.

This report is published to provide the City Council, City staff, our citizens, 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 data presented 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 sufficiently inform that data to enable the reader to gain a complete understanding of the City's financial condition and performance.

REPORT STRUCTURE

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 addition information and reports, as well as the independent auditor's report on the basic financial statements. Zelenkofske Axelrod LLC has issued an unmodified opinion on the City's financial statements for the year ended June 30, 2021. The independent auditor's report is located at the front of the financial section of this report.

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

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

CITY PROFILE

Location & Demographics

The City of Milford is the sixth largest city in population in the State of Delaware, serving more than 11,000 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.

Form of Government

The City is a home rule city operating under the Council-Manager form of government. The City Council is composed 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.

OPERATIONS AND FINANCIAL MANAGEMENT

Services Provided

The City of Milford provides critical public services and utilities in the most efficient and cost-effective manner possible for the benefit of its citizens, the business community and non-resident utility customers. Major services provided under general government and enterprise functions include 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 revenues recognized when available and measurable, and expenditures recorded when goods or services are received and associated 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 judgements by management.

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

The City Charter provides 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 major fund levels. Financial reports are produced showing current cash and investment balances, restricted and committed funding detail and actual expenditures by line item versus budget. Revenue performance versus levelized budgetary expectations is incorporated into the monthly financial report. The reporting package is published for public consumption and distributed monthly to City departmental and divisional management and presented to City Council in an open meeting for review and approval.

Internally, line-item detail is reviewed and analyzed for budgetary compliance at the purchase order level before discretionary spending is authorized. Personnel expenditures are monitored and controlled at the departmental level on a position-by-position basis, and capital expenditures are monitored to ensure compliance with budgetary approvals and funding methods.

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.

Acknowledgements

The preparation of this report could not have been accomplished without the efficient and dedicated service of the City's Finance Department staff. We sincerely appreciate the efforts made by the Finance team as well as dedicated employees throughout the City.

We sincerely thank the members of City Council and the Finance Committee for their earnest, responsible oversight of the City's independent audit process, but most important, the keen interest and enthusiastic support of our progressive improvements to the transparency and comprehensiveness of the City's financial planning and reporting processes.

Respectfully submitted,



Mark A. Whitfield
City Manager



Louis C. Vitola
Finance Director



Zelenkofske Axlerod LLC

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

City Council
City of Milford, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Milford (City) as of and for the year ended June 30, 2021, 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, each major fund and the aggregate remaining fund information of the City as of June 30, 2021, 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, the budgetary comparison schedule and the pension schedules on pages 3 to 13 and 56 to 59, respectively, be presented to supplement the basic financial statements.



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City of Milford, Delaware

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, (Uniform Guidance), the transmittal letter and other information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2022 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Zelenkofske Axlerod LLC

ZELENKOFOSKE AXELROD LLC

Harrisburg, Pennsylvania
December 9, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Administrative and Financial Management of the City of Milford, Delaware are pleased to 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, 2021. In the broadest context, the financial well-being of a government lies in the underlying means and willingness of its citizens and property owners to fund their pro rata allocation of taxes to support the vision of the government's elected and appointed leadership to deploy tax receipts strategically to ensure 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 the net changes in financial position from year to year. In other words, are revenues and expenses higher or lower than the previous year? Has net position (containing both short- and long-term assets and liabilities) or fund balances (the current "spendable" assets less current liabilities) of the City 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 contained in the City's annual budget and other community information that can be found by visiting the City's website at www.cityofmilford.com. It should be noted that small differences across different financial statements and tables may differ due to rounding. In addition, the Independent Auditor's Report describes the auditor's association with the various sections of this report and that all additional information from the website and other City sources is unaudited and has not been updated for events that may have occurred following the issuance of the respective report.

IN BRIEF

The assets and deferred outflows of resources of the City on a "government wide" or consolidated basis exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by approximately \$102.1 million (net position). This number must be viewed in the context that a significant portion of the City's net position (\$47.4 million, or 46.4%) is 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. Additionally, net position restricted for specific purposes total \$8.7 million (8.5%), while another \$8.7 million was assigned by City Council for certain ongoing projects and planned initiatives. The remaining \$37.3 million represents unrestricted, unassigned net position 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 \$10.7 million (30%) during fiscal year 2021, while unrestricted, unassigned net position increased by \$2 million (5.6%).

As of the close of the past fiscal year, the City's governmental activities (a subset of the government-wide information reported in the preceding paragraph) reported \$28 million combined ending net position. Within this total, \$17.4 million (62%) is invested in capital assets, net of related debt, \$5.9 million is assigned by City Council and \$4.7 million represents unrestricted, unassigned net position.

The City's business-type activities include water, sewer, electric and trash operations and, combined with the governmental activities, constitute the balance of the activity measured on a government-wide basis. Business-type activities closed the year with a \$6.2 million increase in net position to \$74.2 million, \$30 million of which is invested in capital assets, net of related debt and \$8.7 million of which is restricted by specific legal requirements and \$2.9 million of which has been assigned by City Council for certain ongoing projects and planned initiatives. The remaining \$32.6 million is unrestricted and unassigned.

Additional details regarding the structure of the City's financial reporting segments and the performance of the City's various funds and departments can be found in the sections that follow.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves to introduce the City's basic financial statements, which are composed 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 discussion and analysis. 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, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between them reported as net position (similar to a private sector balance sheet). Net position can be divided into restricted and unrestricted net position, with the former representing balances that are legally or contractually reserved for a particular purpose. Over time, increases or decreases in net position 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 position changed during the fiscal year. All changes in net position 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). When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to apply restricted net position first.

The government-wide financial statements distinguish between functions of the City that are principally supported by (1) taxes and intergovernmental revenues (governmental activities) versus (2) 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 culture and recreation. The business-type activities of the City include water, sewer, electric and solid waste operations. The government-wide financial statements can be found on pages 15 and 16 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 City funds 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. Governmental fund balance can be divided into restricted, committed, assigned, and unassigned fund balance categories. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended by fund balance class follows: restricted, followed by committed, assigned and lastly unassigned. 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 activities. The governmental financial statements can be found on pages 17 and 19.

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 solid waste operations. 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 solid waste funds, because all are major funds of the City. All internal service funds are combined into a single aggregated presentation in the basic proprietary fund financial statements, which can be found on pages 21 through 23.

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 24 through 54.

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.

CITY OF MILFORD, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2021 (UNAUDITED)

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following table (“*MDA Schedule 1*”) summarizes the City’s net position resulting from both the governmental activities and business-type activities reported in Milford’s government-wide financial statements as of June 30, 2021, including comparative tools as of June 30, 2020, as restated pursuant to the implementation of GASB Statement No. 84 and a restatement of government-wide noncurrent liabilities.

MDA Schedule 1

CITY OF MILFORD NET POSITION (*Unaudited*)
(Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2020 <i>(as Restated)</i>	2021	2020 <i>(as Restated)</i>	2021	2020 <i>(as Restated)</i>	2021
Current and other assets	\$ 10,894	\$ 15,872	\$ 42,163	\$ 48,529	\$ 53,057	\$ 64,401
Capital assets, net	17,233	17,438	45,548	46,176	62,781	63,614
Total Assets	<u>28,127</u>	<u>33,310</u>	<u>87,711</u>	<u>94,705</u>	<u>115,838</u>	<u>128,015</u>
Deferred outflows of resources	1,583	1,593	311	289	1,894	1,882
Long term liabilities	2,515	1,799	15,260	15,474	17,775	17,273
Other liabilities	642	4,297	4,764	5,366	5,406	9,664
Total Liabilities	<u>3,157</u>	<u>6,096</u>	<u>20,024</u>	<u>20,840</u>	<u>23,180</u>	<u>26,936</u>
Deferred inflows of resources	423	829	-	-	423	829
Net Position						
Net investment in capital assets	17,233	17,438	29,157	29,958	46,390	47,396
Restricted	2,474	-	9,923	8,688	12,397	8,688
Unrestricted	6,423	10,540	28,918	35,508	35,341	46,048
Total Net Position	<u>\$ 26,130</u>	<u>\$ 27,978</u>	<u>\$ 67,998</u>	<u>\$ 74,154</u>	<u>\$ 94,128</u>	<u>\$ 102,132</u>

Over time, a government’s net position (especially *changes in net position by category*) may serve as a useful indicator of the organization’s financial condition. The City of Milford is no different; the \$8 million (8.5%) improvement in Milford’s total net position from \$94.1 million as of June 30, 2020 (as restated) to \$102.1 million as of June 30, 2021 reflects positive financial performance (See *MDA Schedule 1*). The City’s net position in FY21 was impacted by the implementation of GASB Statement No. 84 (“GASB 84”) and to a lesser extent, the FY21 allocation of \$3.2 million in funding through the American Rescue Plan Act of 2021 (“ARPA”). The adoption of GASB 84 required a prior period adjustment to incorporate net position formerly reported separately as agency funds into the FY21 opening net position.

The largest portion of the City's net position, \$47.4 million (46.4%) reflects investments in capital assets (e.g., land, building, equipment, improvements and infrastructure), less any outstanding debt used to acquire those assets. The City uses its capital assets and equipment to provide services 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, however, represent an obligation on the part of the City to maintain these assets into the future.

CITY OF MILFORD, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2021 (UNAUDITED)

Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources required to repay this debt must be provided from other sources, as the capital assets themselves cannot be used to liquidate these liabilities. In addition to the capital assets, another \$17.4 million (17.1%) of the City's net position is subject to legal and local restrictions; the majority of the restricted funds are intended for investment in the repair, maintenance and replacement of the capital assets. The remaining balance of unrestricted net position may be used to meet the City's ongoing obligations to citizens, employees and creditors. The following table ("MDA Schedule 2") provides a summary of the City's operations for the years ended June 30, 2021 and 2020, as restated pursuant to GASB Statement No. 84 and a restatement of government-wide noncurrent liabilities.

MDA Schedule 2

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

	Governmental Activities		Business-Type Activities		Total	
	2020	2021	2020	2021	2020	2021
	<i>(as Restated)</i>				<i>(as Restated)</i>	
Revenues						
Program Revenues:						
Fees, fines and charges for services	\$ 197	\$ 154	\$ 33,434	\$ 34,242	\$ 33,631	\$ 34,396
Operating grants and contributions	812	1,507	83	-	895	1,507
General Revenues:						
Property taxes	4,196	4,340	-	-	4,196	4,340
Real estate transfer taxes	954	1,243	-	-	954	1,243
Franchise taxes	1,044	1,647	-	-	1,044	1,647
Impact fees	-	-	885	2,555	885	2,555
Capital grant	580	177	517	1,405	1,097	1,582
Gain on sale of property	(214)	138	-	-	(214)	138
Investment earnings	156	43	584	284	740	327
Miscellaneous	689	234	126	25	815	260
Total revenues	\$ 8,414	\$ 9,483	\$ 35,630	\$ 38,511	\$ 44,044	\$ 47,996
Expenses						
General government	3,102	2,640	-	-	3,102	2,640
Public safety	6,080	5,790	-	-	6,080	5,790
Public works	678	750	-	-	678	750
Culture and recreation	953	956	-	-	953	956
Interest on long-term debt	-	-	336	340	336	340
Electric	-	-	21,083	21,275	21,083	21,275
Water	-	-	2,198	2,130	2,198	2,130
Sewer	-	-	4,322	4,828	4,322	4,828
Trash	-	-	1,327	1,284	1,327	1,284
Total expenses	\$ 10,813	\$ 10,135	\$ 29,268	\$ 29,856	\$ 40,081	\$ 39,991
Increase (decrease) in net assets before transfers and special items	(2,399)	(652)	6,362	8,656	3,963	8,004
Transfers	2,556	2,500	(2,556)	(2,500)	-	-
Change in net position	157	1,848	3,806	6,156	3,963	8,004
Net position, July 1	25,973	26,130	64,193	67,999	90,166	94,129
Net position, June 30	\$ 26,130	\$ 27,978	\$ 67,999	\$ 74,154	\$ 94,129	\$ 102,132

CITY OF MILFORD, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2021 (UNAUDITED)

Total net position increased by \$8 million (8.5%) during fiscal year 2021, marking the City's strongest improvement in government-wide net position in the last three years. The FY21 performance exceeded the year-over-year increase of \$4 million, or 4.4% achieved during the prior fiscal year (See *MDA Schedule 2*) and the \$5.7 million (6.8%) achieved two years prior (not included in exhibit). This year's overall increase in net position consists of a \$1.8 million increase in governmental activities (+7.1%) and a \$6.2 million increase in business-type activities (+9.1%), the former of which is boosted by higher one-time and potentially unsustainable revenue sources, such as realty transfer taxes and grant revenue. The improvement in business-type activities is attributable to utility revenue growth through a combination of organic growth in volume/consumption as well as rate adjustments prescribed by multi-year utility rate studies. Additional detail is provided for the governmental and business-type activities in the following paragraph and the next two sections.

The 2021 government-wide increase of \$8 million is composed of growth in current assets (about \$11.3 million) offset by \$4.2 million increases in current liabilities, netting \$7.1 million in positive growth in liquid net position. Growth in the City's total capital assets, net of accumulated depreciation, combined with a reduction in long-term liabilities widened net position by about \$1.3 million, further reflecting a healthy year for the City's consolidated balance sheet. Changes in deferred inflows and outflows (net reduction of \$0.4 million) partially offset the positive increases in short- and long-term components of net position to arrive at the net increase of \$8 million, \$5 million of which pushed restricted funds from \$12.4 million to \$17.4 million this year. The remainder of \$3 million represents growth in both net investment in capital assets and unrestricted net position. Net investment in capital assets grew in a relatively balanced way, with governmental and business-type activities posting minor gains of 1.2% and 2.7%, respectively (\$1.0 million in total). However, the \$2 million increase in government-wide unrestricted net position was mixed across governmental activities (\$1.7 million *reduction*) and business-type activities (\$3.7 million *growth*). The reduction in unrestricted net position across governmental activities during FY21 is attributable to reduced reliance on restricted funding sources, such as realty transfer taxes and economic development funding, and a greater reliance on internal, unrestricted sources of funding, such as operating cash and general fund reserves, to meet operating and capital needs.

Government Activities – The two leftmost columns in *MDA Schedule 2* summarize the City's governmental revenues, expenses, transfers and changes in net position, which ties from *MDA Schedule 2* back to *MDA Schedule 1*.

Revenues generated by governmental activities increased 13% versus the prior year, excluding transfers from business-type activities and special items. While revenue increases are nearly always positive, the governmental revenue increase in FY21 must be couched with the reality that the increases were driven primarily by franchise fees and leases, operating grants and realty transfer taxes, the latter two of which are not guaranteed, reliable sources of recurring revenue. While franchise fees and other lease revenues are more reliable and stable income sources, they are also subject to long- and mid-term market pressures, regulatory risk and technological obsolescence, and are not guaranteed to recur at the level of previous years. Property tax revenue, perhaps the City's most reliable and sustainable revenue source, increased in FY21 by

CITY OF MILFORD, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2021 (UNAUDITED)

\$144,000 (3%). The increase in property tax revenue was commensurate with the FY19-20 increase, resulting from the combination of parcel growth (count) and growth in assessed value (new construction, not reassessment-driven). The City's property tax rate did not change from 2007-2021, so property tax growth has been driven entirely by new development in Milford, which is a positive sign. In addition, the City increased the property tax rate from \$0.46 to \$0.48275 per \$100 of assessed value effective FY22, so we expect property tax revenue growth to stabilize the City's revenue in the event we face volatility in other revenue sources.

Governmental expenditures decreased by \$0.7 million in FY21, representing improvement of \$1.6 million compared to last year's increase of \$0.9 million from FY19 to FY20. On a percentage basis, the overall decrease was mixed, as public works expense increases of \$0.1 million (11%) were offset by reductions in general governmental and public safety decreases of \$0.46 million (-15%) and \$0.29 million (-5%), respectively. Parks & recreation operational expenditures were slightly higher than FY20 expenditures.

Business – Type Activities – Net position from business-type activities increased by \$6.2 million, or 9.1% from \$68.0 million to \$74.2 million during fiscal year 2021 (See *MDA Schedule 2*). All four major utilities contributed to the positive change in net position across business activities, with the water fund's \$2.1 million (9.3%) increase in net position pacing the electric and sewer funds' increases of 1.9 million (6.4%) and \$1.6 million (10%), respectively, followed by the solid waste fund's increase of \$0.6 million. The positive changes started with top-line revenue as all four utilities posted revenue increases over FY20. The City's revenue growth was balanced and healthy, comprised of steady, organic growth in rate base and controlled, phased increases in usage rates determined through cost-of-service studies conducted for all business-type activities. Further, aside from the sewer fund's 12% increase in operating expenses, the utilities otherwise controlled operating expenses, posting a year-over-year increase of \$0.1 million, or 0.3% (excluding sewer) and 2.0% overall (including sewer). As a result, business-type activities combined to close the year with strong positive operating income of \$4.7 million. In FY20, operating income approached \$4.9 million across the four major utilities, representing an operating margin of 14.4% versus the 13.8% operating margin posted in FY21, which was primarily attributable to the reported operating loss of \$0.16 million in the sewer fund. The sewer fund achieved revenue expectations driven by the aforementioned growth in the customer base and rate increase, but higher costs of service drove the operating loss. The cost increase in the sewer fund was primarily the result of infiltration and inflow costs registering 49% higher than FY20 and nearly 59% higher than the previous five years. Management views this as a one-time anomaly resulting from high activity on residential and commercial development projects, active sewer projects and higher than average rainfall. While infiltration and inflow occur regularly in sewerage systems and can be impacted by weather and ground conditions beyond the control of the City public works and sewer personnel, there are certain initiatives the City has been undertaking on an ongoing basis to identify and address potential sources of infiltration and inflow. As of the preparation of this report, infiltration and inflow costs tracked significantly lower in FY22. Finally, adjusted for non-operating items, all four utilities, including the sewer fund, generated positive income before transfers.

CITY OF MILFORD, DELAWARE
MANAGEMENT’S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2021 (UNAUDITED)

Investment Policies – The City’s accumulated cash surplus and reserves attributable to governmental and business-type activities are combined and invested pursuant to the City’s investment policies, as amended. During the year, the City continued the initiative started in fiscal year 2021 to reallocate investment balances to more heavily weight money market funds in response to changes in the market to capture additional yield without being exposed to incremental risk. Additional information about the City’s investments can be found in Note 8 on page 35. MDA Schedule 3 exhibits a breakdown of the City’s investments by broad asset type as of June 30, 2021 and 2020.

MDA Schedule 3

Description	Category	Carrying Values as of June 30,	
		2021	2020
Money Market Funds			
PFM Asset Management, LLC	1	\$ 9,432,721	\$ 15,729,139
Wilmington Savings Fund Society, NA	1	20,000,000	-
Certificates of Deposit			
PFM Asset Management, LLC	1	-	12,671,000
Total Investments		\$ 29,432,721	\$ 28,400,139

FUND FINANCIAL STATEMENT ANALYSIS

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 combined governmental funds reported ending balances of \$11.5 million (See Governmental Funds Balance Sheet on page 17). Within this total, a small amount is categorized as “nonspendable” (prepaid expenses), \$5.9 million is restricted by specific legal requirements, primarily for (a) capital investments in infrastructure and other eligible expenditures pursuant to the US Treasury’s Final Rule governing the use of \$2.9 million in funding advanced through the American Rescue Plan Act of 2021 (“ARPA”) and (b) street improvements, and \$0.2 million has been committed and assigned to specific types of expenditures. The remaining \$5.3 million represents unassigned fund balance in the general fund and can be used for any lawful purpose. In the general fund, the City budgeted a fund balance decrease in the current year of \$2.0 million prior to the use of cash and reserves, although the actual general fund balance exceeded budget expectations to the extent that cash was added to general fund reserves. Actual general fund expenditures were significantly below total budgeted expenses due to cost control measures and staffing below targeted budget.

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 (See pages 21-23). Unrestricted net position in the enterprise funds totaled \$35.5 million, made up of the electric fund (\$18.8 million), water fund (\$11 million), sewer fund (\$5.1 million) and solid waste fund

CITY OF MILFORD, DELAWARE
MANAGEMENT’S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2021 (UNAUDITED)

(\$0.6 million). The total net position across all enterprise funds at the end of the fiscal year was \$74.2 million, representing an increase of \$6.2 million versus fiscal year 2020 as a result of positive increases in net position in the electric, water, sewer, and solid waste funds of \$1.9 million, \$2.1 million, \$1.6 million, and \$0.6 million, respectively versus the prior period.

General Fund Budgetary Highlights – City Council made revisions to the original appropriations approved by the Council before the start of the fiscal year. Overall, these changes resulted in an increase in budgeted operating expenditures of \$0.8 million, net of offsetting increases in anticipated revenues of \$0.6 million. The changes were primarily driven by grant-funded projects, and general administration and public safety expenditures that are added to budget controls when grant revenue is received and spent through the ordinary requisition, purchase order and accounts payable processes.

DEBT ADMINISTRATION

As of June 30, 2021, the City’s bonded indebtedness and outstanding note obligations (See *MDA Schedule 4*) totaled \$16.1 million, all of which is backed by the full faith and credit of the City of Milford taxing authority.

MDA Schedule 4

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

	Government Activities		Business-Type Activities		Total	
	2020	2021	2020	2021	2020	2021
General Obligation Bonds	\$ -	\$ -	\$ 7,127	\$ 6,710	\$ 7,127	\$ 6,710
DE Revolving Fund Loans	-	-	2,851	2,667	2,851	2,667
USDA Loans	-	-	4,791	5,673	4,791	5,673
Kent County Note	-	-	1,122	1,096	1,122	1,096
Total	\$ -	\$ -	\$ 15,891	\$ 16,147	\$ 15,891	\$ 16,147

During fiscal year 2021, the City's outstanding debt increased by \$0.26 million as a result of scheduled payments of debt obligations totaling \$0.74 million offset by \$1.0 million in the new issuance related to phase two of the City’s USDA sewer loan program.

The City’s General Obligation Bond Rating is AA- as rated by S&P Global Credit. Additional information about the City’s long-term debt obligations and a detailed roll-forward of long-term liabilities can be found in Note 10 on pages 41 to 44 of this report.

In connection with the City’s January 2021 referendum, which was approved by the requisite majority of Milford voters, the City issued a bond anticipation note in FY22, the details of which are discussed in Note 19 – Subsequent Events on page 54 of this report.

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2021 amounts to \$63.6 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 \$0.8 million representing an increase of 1.3% versus fiscal year 2020. Additional information on the City's capital assets can be found in Note 9 on pages 38 to 40 of this report. Major capital asset purchases and projects initiated during fiscal year 2021 included the following:

General Fund

- \$606 thousand in street and parking lot paving and construction in progress
- \$198 thousand in building improvements, technology upgrades, vehicles and equipment

Internal Service Funds

- \$45 thousand for billing equipment and public works vehicle replacement
- \$87 thousand in ongoing building improvements to City Hall

Electric Fund

- \$609 thousand for a bucket truck, material handler and other equipment
- \$340 thousand in electric distribution infrastructure
- \$164 thousand for transformers, switches, and other distribution upgrades
- \$102 thousand for building improvements, LED streetlights, and GIS mapping software

Water Fund

- \$152 thousand for vehicles and equipment
- \$549 thousand to upgrade wells and service lines on SE 2nd St, Mispillion St, Lovers Ln

Sewer Fund

- \$1 million in sewer line upgrades, primarily NE and NW Front St sewer line replacement
- \$237 thousand in sewer equipment and vehicle replacement.

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ECONOMIC FACTORS AND NEXT YEAR’S BUDGET

The fiscal year 2022 budget for general fund activity is 9.85% higher than fiscal year 2021. The balance between cost control and the delivery of broad services demanded by Milford residents was struck well during the 2022 budget process. Personnel costs in support of our valuable employees represent the largest contribution to general fund costs. Increases in personnel costs, capital expenditures and nonrecurring expenditures, such as a compensation study, citizen survey and property reassessment, contributed to the budget increase in FY22. While a portion of the higher general fund costs will be offset with expected proceeds through the American Rescue Plan Act of 2021 (“ARPA”), economic development initiatives, organic growth in the City’s tax base, and the inaugural water fund transfer to the general fund, the City was not immune from a property tax increase following a period of more than a decade without any increase. The COVID-19 pandemic has continued to cause disruptions in all manner of City operations, but staff remain steadfast in their dedication to service excellence, fiscal responsibility and efficiency. Moreover, City leadership and staff are aligned in efforts to uphold and improve the quality of life in Milford through citywide accessibility to high-quality services, infrastructure, public safety, parks and recreation, backed by strategic investments in property, capital projects and infrastructure to support the City’s growing population and thriving business community.

TIMING OF FY21 FINANCIAL STATEMENTS AND INDEPENDENT AUDIT REPORT

Staffing shortages in the City’s Finance Department, exacerbated by a 42% reduction in third-party contract support contributed to delayed financial statement production and audit processes in FY21. Internal and third-party staffing have rebounded ahead of FY22, promising a return to the City’s normal reporting cycle going forward. The City’s FY23 budget includes provisions to maintain current staffing while increasing contractual services to augment financial reporting and audit requirements. Milford conducted a wage study to promote retention and recruitment through role-based and market-based wage scale realignment. In addition, City Council instituted a pay scale adjustment effective July 1, 2022 to combat the turnover risk associated with cost and wage escalation. The lessons learned during the ‘great resignation’ combined with the swift and meaningful changes instituted by City leadership will significantly reduce the risk of delayed reporting going forward. The City’s financial and operating results were strong in FY21, as increases in revenue and net position outpaced those of FY19 and FY20. The City’s financial position remained healthy throughout FY22. Monthly, unaudited financial reports, the City’s audits, budgets, capital improvement plans and other documents are reported regularly on the City’s website for the benefit of Milford citizens and City stakeholders.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's financial structure and past performance. If you have questions about this report or if you would like to request additional information, please contact the Department of Finance, Attention: Finance Director, 10 SE 2nd Street, Milford, DE 19963, call 302-424-5141 or email the finance team at finance@milford-de.gov.

BASIC FINANCIAL STATEMENTS

CITY OF MILFORD, DE
STATEMENT OF NET POSITION
JUNE 30, 2021

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and Equivalents	\$ 7,233,701	\$ 15,632,433	\$ 22,866,134
Restricted Cash	5,867,781	-	5,867,781
Investments - Unrestricted	1,829,774	18,914,490	20,744,264
Investments - Restricted	-	8,688,456	8,688,456
Receivables	857,603	3,941,606	4,799,209
Inventories	33,030	1,351,963	1,384,992
Prepaid Expenses	49,720	-	49,720
Total Current Assets	<u>15,871,609</u>	<u>48,528,949</u>	<u>64,400,557</u>
Non-Current Assets			
Capital Assets			
Assets Not Depreciated			
Land	8,145,959	2,522,399	10,668,358
Construction in Progress	986,118	283,893	1,270,011
Utility System & Infrastructure	10,467,446	66,222,531	76,689,977
Buildings and Improvements	5,263,295	7,348,799	12,612,094
Equipment and Vehicles	6,781,340	8,715,542	15,496,881
Less: Accumulated Depreciation	(14,205,952)	(38,917,088)	(53,123,040)
Net Capital Assets	<u>17,438,206</u>	<u>46,176,076</u>	<u>63,614,282</u>
Total Assets	<u>33,309,815</u>	<u>94,705,025</u>	<u>128,014,839</u>
DEFERRED OUTFLOWS OF RESOURCES			
	<u>1,593,059</u>	<u>288,794</u>	<u>1,881,853</u>
LIABILITIES			
Current Liabilities			
Accounts Payable and Accrued Expenses	990,919	3,816,800	4,807,719
Customer Deposits	250,779	722,993	973,772
Unearned Revenue	2,947,371	-	2,947,371
Bonds and Notes Payable	-	797,185	797,185
Compensated Absences	108,406	29,155	137,561
Total Current Liabilities	<u>4,297,475</u>	<u>5,366,134</u>	<u>9,663,609</u>
Noncurrent Liabilities			
Net Pension Liability	608,858	-	608,858
Bonds and Notes Payable	-	15,349,560	15,349,560
Contingent Liabilities	203,516	-	203,516
Compensated Absences	986,479	124,120	1,110,599
Total Noncurrent Liabilities	<u>1,798,853</u>	<u>15,473,681</u>	<u>17,272,533</u>
Total Liabilities	<u>6,096,328</u>	<u>20,839,814</u>	<u>26,936,142</u>
DEFERRED INFLOWS OF RESOURCES			
	<u>828,554</u>	<u>-</u>	<u>828,554</u>
NET POSITION			
Net Investment in Capital Assets	17,438,206	29,957,901	47,396,107
Restricted for Capital Improvements:	-	8,688,456	8,688,456
Unrestricted:			
Assigned by City Council	5,867,781	2,862,555	8,730,336
Unassigned	4,672,005	32,645,090	37,317,095
Total Net Position	<u>\$ 27,977,992</u>	<u>\$ 74,154,002</u>	<u>\$ 102,131,994</u>

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

CITY OF MILFORD, DE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental Activities							
General Government	\$ 2,639,928	\$ 120,070	405,530	\$ -	\$ (2,114,329)	\$ -	\$ (2,114,329)
Public Safety	5,789,587	-	604,486	133,880	(5,051,221)	-	(5,051,221)
Public Works	750,052	-	326,420	-	(423,632)	-	(423,632)
Culture and Recreation	955,591	33,680	170,819	42,700	(708,392)	-	(708,392)
Total Governmental Activities	10,135,158	153,750	1,507,255	176,580	(8,297,574)	-	(8,297,574)
Business-Type Activities							
Electric Fund	21,381,213	25,152,252	-	252,337	4,023,377	4,023,377	4,023,377
Water Fund	2,240,440	3,047,543	-	175,456	982,559	982,559	982,559
Sewer Fund	4,950,452	4,668,212	-	977,633	695,393	695,393	695,393
Trash Fund	1,283,960	1,373,646	-	-	89,686	89,686	89,686
Total Business-Type Activities	29,856,064	34,241,652	-	1,405,427	5,791,015	5,791,015	5,791,015
Total Primary Government	\$ 39,991,222	\$ 34,395,402	\$ 1,507,255	\$ 1,582,006	(8,297,574)	5,791,015	(2,506,559)
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes					4,340,239	-	4,340,239
Real Estate Transfer Taxes					1,243,007	-	1,243,007
Franchise Taxes & Fees					1,646,754	-	1,646,754
Gain(Loss) on Disposal of Capital Assets					137,722	-	137,722
Impact Fees					-	2,554,860	2,554,860
Unrestricted Investment Earnings					43,498	284,295	327,793
Miscellaneous					229,525	25,000	254,525
Change in Net Position in Internal Service Fund					4,908	-	4,908
Transfers					2,500,000	(2,500,000)	-
Total General Revenues, Special Items, and Transfers					10,145,653	364,155	10,509,808
Change in Net Position					1,848,079	6,155,169	8,003,249
Net Position- Beginning of Year (Restated)					26,129,913	67,998,833	94,128,746
Net Position - End of Year					\$ 27,977,992	\$ 74,154,002	\$ 102,131,994

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



**CITY OF MILFORD, DE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2021**

	<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	\$ 4,221,518	\$ 2,529,602	\$ 138,839	\$ 6,889,959
Restricted Cash	-	5,247,109	620,672	5,867,781
Investments	1,829,774	-	-	1,829,774
Taxes Receivable, net of allowance for doubtful accounts	58,283	140,749	-	199,032
Other Receivables	205,268	340,001	-	545,269
Prepaid Expenses	49,720	-	-	49,720
Total Assets	<u>\$ 6,364,563</u>	<u>\$ 8,257,461</u>	<u>\$ 759,511</u>	<u>\$ 15,381,535</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	233,180	\$ 68,156	\$ 1,817	303,153
Compensated Absences - Current	106,500	-	-	106,500
Unearned Revenue	5,175	2,942,196	-	2,947,371
Other Accrued Expenses	286,613	-	-	286,613
Other Payables	273,734	-	131	273,865
Total Liabilities	<u>905,204</u>	<u>3,010,352</u>	<u>1,948</u>	<u>3,917,503</u>
Fund Balances:				
Restricted	-	5,247,109	620,672	5,867,781
Nonspendable	49,720	-	-	49,720
Assigned	93,401	-	136,891	230,292
Unassigned	5,316,240	-	-	5,316,240
Total Fund Balances	<u>5,459,360</u>	<u>5,247,109</u>	<u>757,563</u>	<u>11,464,032</u>
Total Liabilities and Fund Balances	<u>\$ 6,364,563</u>	<u>\$ 8,257,461</u>	<u>\$ 759,511</u>	<u>\$ 15,381,535</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
FOR THE YEAR ENDED JUNE 30, 2021

Total Fund Balance, Governmental Funds	\$	11,464,032
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Amounts reported for governmental activities in the Statement of Net Position 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.		17,225,194
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Internal service funds are used by management to charge the costs of centrally managed services to the funds and departments that consume the services. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position. The increase is equal to the Internal Service Net Position, including Capital Assets net of accumulated depreciation.		210,224
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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 and contingent liabilities.		(921,458)
		(921,458)

Net Position of Governmental Activities	\$	27,977,992
		27,977,992

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, 2021

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Non-Major Governmental Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Property Taxes	\$ 4,340,239	\$ -	\$ -	\$ 4,340,239
Real Estate Transfer Taxes	-	1,243,007	-	1,243,007
Fees and Fines	135,538	15,913	-	151,451
Licenses and Permits	1,138,216	-	133,880	1,272,096
Franchise and Lease Revenue	399,787	-	-	399,787
Intergovernmental	508,131	999,124	-	1,507,255
Charges for Services	120,070	-	33,680	153,750
Investment Earnings	33,528	9,970	-	43,498
Miscellaneous	229,525	-	-	229,525
	<u>6,905,034</u>	<u>2,268,014</u>	<u>167,560</u>	<u>9,340,608</u>
EXPENDITURES				
Current:				
General Government	1,815,022	-	-	1,815,022
Public Safety	5,560,531	229,056	-	5,789,587
Public Works	644,166	105,886	-	750,052
Culture and Recreation	929,293	-	26,298	955,591
Capital Outlay	563,038	316,869	-	879,907
	<u>9,512,050</u>	<u>651,811</u>	<u>26,298</u>	<u>10,190,159</u>
(Deficiency) Excess of Revenues Over Expenditures	<u>(2,607,016)</u>	<u>1,616,203</u>	<u>141,262</u>	<u>(849,551)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	3,367,635	-	-	3,367,635
Transfers Out	(367,635)	(500,000)	-	(867,635)
Proceeds from Asset Sales	147,795	-	-	147,795
	<u>3,147,795</u>	<u>(500,000)</u>	<u>-</u>	<u>2,647,795</u>
Net Change in Fund Balances	540,779	1,116,203	141,262	1,798,244
Fund Balances - Beginning (Restated)	<u>4,918,581</u>	<u>4,130,906</u>	<u>616,301</u>	<u>9,665,788</u>
Fund Balances - Ending	<u>\$ 5,459,360</u>	<u>\$ 5,247,109</u>	<u>\$ 757,563</u>	<u>\$ 11,464,032</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, 2021

Net change in fund balances - total governmental funds: \$ 1,798,244

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, compensated absences and other differences in noncurrent items do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (50,354)

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 change in the Internal Service Net Position 4,908

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 \$879,907 exceeded depreciation expense of \$774,552 in the current period. 105,355

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. (10,073)

Change in net position of governmental activities \$ 1,848,079

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

CITY OF MILFORD, DE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2021

	Business Type Activities - Enterprise Funds					<i>Governmental Activities - Internal Service Fund</i>
	Electric	Water	Sewer	Solid Waste	Total	
ASSETS						
Current Assets						
Cash and Cash Equivalents	\$ 5,186,835	\$ 6,020,424	\$ 3,911,689	\$ 513,485	\$ 15,632,433	\$ 343,742
Investments - Unrestricted	13,172,522	4,782,910	887,627	71,430	18,914,490	-
Investments - Restricted	1,047,790	4,574,502	3,066,164	-	8,688,456	-
Accounts Receivable, net of allowance for doubtful accounts	1,992,033	267,278	420,473	94,810	2,774,594	113,302
Other Receivables	21,908	175,456	967,183	2,465	1,167,012	-
Inventories	1,333,086	18,877	-	-	1,351,963	33,030
Total Current Assets	22,754,174	15,839,448	9,253,137	682,190	48,528,949	490,074
Non-Current Assets						
Capital Assets						
Land and Improvements	2,460,507	33,254	28,638	-	2,522,399	-
Construction in Progress	100,008	175,456	8,429	-	283,893	87,912
Utility System	19,952,164	22,842,223	23,428,144	-	66,222,531	-
Buildings and Improvements	7,056,014	123,078	164,057	5,650	7,348,799	21,340
Vehicles and Equipment	4,043,044	1,893,756	1,443,371	1,335,371	8,715,542	253,404
Less Accumulated Depreciation	(18,249,981)	(9,462,784)	(10,440,025)	(764,298)	(38,917,088)	(149,644)
Net Capital Assets	15,361,756	15,604,983	14,632,614	576,723	46,176,076	213,012
Total Non-Current Assets	15,361,756	15,604,983	14,632,614	576,722	46,176,076	213,012
Total Assets	38,115,930	31,444,431	23,885,751	1,258,912	94,705,025	703,086
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Charges On Refundings	166,880	-	121,914	-	288,794	-
LIABILITIES						
Current Liabilities:						
Accounts Payable	1,808,286	240,046	780,725	37,296	2,866,354	104,149
Salaries and Wages Payable	20,786	9,297	9,030	5,792	44,905	23,138
Other Accrued Expenses	463,737	-	441,804	-	905,541	-
Customer and Other Deposits	668,043	-	-	54,950	722,993	250,779
Compensated Absences	23,058	190	190	5,717	29,155	1,906
Bonds and Notes Payable	231,024	258,334	307,827	-	797,185	-
Total Current Liabilities	3,214,934	507,868	1,539,576	103,755	5,366,133	379,972
Non-Current Liabilities:						
Compensated Absences	69,769	24,564	24,564	5,223	124,120	112,892
Bonds and Notes Payable	4,075,355	5,942,226	5,331,980	-	15,349,560	-
Total Non-Current Liabilities	4,145,123	5,966,790	5,356,544	5,223	15,473,680	112,892
Total Liabilities	7,360,057	6,474,658	6,896,119	108,978	20,839,812	492,864
NET POSITION						
Net Investment in Capital Assets	11,055,378	9,404,423	8,992,808	505,292	29,957,901	213,012
Restricted for Capital Improvements	1,047,790	4,574,502	3,066,164	-	8,688,456	-
Unrestricted:						
Assigned by City Council	362,000	1,946,899	482,226	71,430	2,862,555	-
Unassigned	18,457,585	9,043,947	4,570,347	573,211	32,645,090	(2,788)
Total Net Position	\$ 30,922,753	\$ 24,969,771	\$ 17,111,545	\$ 1,149,933	\$ 74,154,002	210,224

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, 2021

	Business Type Activities - Enterprise Funds					<i>Governmental Activities - Internal Service Fund</i>
	Electric	Water	Sewer	Solid Waste	Total	
REVENUES						
Charges for Services	\$ 24,830,790	\$ 2,972,221	\$ 4,667,142	\$ 1,345,758	\$ 33,815,911	\$ 2,647,117
Miscellaneous	321,462	75,322	1,070	27,888	425,741	-
Total Operating Revenues	25,152,252	3,047,543	4,668,212	1,373,646	34,241,652	2,647,117
OPERATING EXPENSES						
Personnel Services	2,584,069	313,390	519,127	382,521	3,799,107	1,641,971
Contractual Services	16,851,873	62,042	3,034,654	345,737	20,294,307	167,603
Utilities	4,913	222,640	282	-	227,834	3,745
Repairs and Maintenance	383,411	99,713	22,159	135,395	640,678	630,441
Other Supplies and Expenses	61,303	818,280	640,289	278,135	1,798,006	156,996
Insurance Claims and Expenses	81,218	20,663	12,181	10,322	124,385	8,428
Bad Debt Expense	23,780	82	1,355	3,436	28,653	-
Depreciation	1,284,002	593,031	597,769	128,414	2,603,216	23,025
Total Operating Expenses	21,274,569	2,129,841	4,827,816	1,283,960	29,516,186	2,632,209
Operating Income (Loss)	3,877,683	917,702	(159,606)	89,686	4,725,465	14,908
NON-OPERATING REVENUES (EXPENSES)						
Interest and Investment Revenue	133,603	105,133	44,631	928	284,295	-
Impact Fees	203,650	1,539,487	811,723	-	2,554,860	-
Capital Grant	252,337	175,456	977,633	-	1,405,427	-
Miscellaneous	10,000	-	15,000	-	25,000	(10,000)
Interest Expense	(106,643)	(110,599)	(122,635)	-	(339,877)	-
Total Non-Operating Revenues (Expenses)	492,947	1,709,477	1,726,352	928	3,929,704	(10,000)
Income Before Transfers	4,370,630	2,627,179	1,566,746	90,614	8,655,169	4,908
Transfers In (Out)	(2,500,000)	(500,000)	-	500,000	(2,500,000)	-
Change in Net Position	1,870,630	2,127,179	1,566,746	590,614	6,155,169	4,908
Net Position - Beginning of Year	29,052,123	22,842,592	15,544,799	559,319	67,998,833	205,316
Net Position - End of Year	\$ 30,922,753	\$ 24,969,771	\$ 17,111,545	\$ 1,149,933	\$ 74,154,002	\$ 210,224

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, 2021

	ENTERPRISE FUNDS					<i>Governmental Activities - Internal Service Fund</i>
	Electric	Water	Sewer	Solid Waste	Total	
Cash Flows from Operations:						
Receipts from Customers	\$ 24,512,159	\$ 2,923,888	\$ 4,572,739	\$ 1,340,924	\$ 33,349,710	\$ 2,793,014
Other Operating Receipts	321,412	76,072	5,079	25,923	428,486	-
Payments to Suppliers	(17,154,955)	(1,358,580)	(2,978,308)	(759,709)	(22,251,552)	(907,513)
Payments to Employees	(2,610,703)	(309,739)	(515,719)	(377,582)	(3,813,742)	(1,662,786)
Insurance Premiums Paid	(81,218)	(20,663)	(12,181)	(10,322)	(124,385)	(8,428)
Net Cash Provided by Operating Activities	4,986,695	1,310,978	1,071,610	219,233	7,588,516	214,288
Cash Flows from Non-Capital Financing Activities						
Operating Transfers In (Out)	(2,500,000)	(500,000)	-	500,000	(2,500,000)	-
Net Cash Flows Provided by (Used in) Non-Capital Financing Activities	(2,500,000)	(500,000)	-	500,000	(2,500,000)	-
Cash Flows Provided by (Used in) Capital and Related Financing Activities:						
Net cash for additions to Capital Assets	(1,226,977)	(722,880)	(275,385)	-	(2,225,242)	(133,024)
Principal Paid on Debt	(225,000)	(254,675)	(263,105)	-	(742,780)	-
Interest Paid on Debt	(106,643)	(110,599)	(122,635)	-	(339,877)	-
Interfund Loan Repayments	10,000	500,000	-	(500,000)	10,000	(10,000)
Capital Grant	252,337	-	30,596	-	282,933	-
Impact Fees and Other Development Fees	203,650	1,539,487	811,723	-	2,554,860	-
Net Cash Flows Provided by (Used in) Capital and Related Financing Activities	(1,092,633)	951,333	181,194	(500,000)	(460,106)	(143,024)
Cash Flows from Investing Activities						
Net Proceeds/(Purchases) from Sales and Maturities of Short-Term Investments	(2,615,710)	563,511	409,821	(71,430)	(1,713,807)	-
Income on Investments	133,603	105,133	44,631	928	284,296	-
Net Cash Flows Provided by (Used in) Investing Activities	(2,482,107)	668,644	454,452	(70,502)	(1,429,512)	-
Net Increase (Decrease) in Cash and Cash Equivalents	(1,088,045)	2,430,956	1,707,256	148,732	3,198,899	71,264
Cash and Cash Equivalents - Beginning of Year	6,274,880	3,589,468	2,204,433	364,753	12,433,534	272,478
Cash and Cash Equivalents - End of Year	\$ 5,186,835	\$ 6,020,424	\$ 3,911,689	\$ 513,485	\$ 15,632,433	\$ 343,742
Cash Flows from Operating Activities						
Operating Income (Loss)	\$ 3,877,683	\$ 917,702	\$ (159,606)	\$ 89,686	\$ 4,725,465	\$ 14,908
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Depreciation and Amortization	1,284,002	593,031	597,769	128,414	2,603,216	23,025
Effect of Changes in Operating Assets & Liabilities:						
Accounts Receivable, net	(282,855)	(47,501)	(89,037)	(6,913)	(426,306)	(104,881)
Inventory	(80,058)	(3,881)	-	-	(83,938)	(13,228)
Accounts Payable & Accrued Expenses	226,603	(152,025)	719,075	(442)	793,211	64,500
Salaries Payable	(6,504)	2,407	2,165	(462)	(2,394)	(14,944)
Customer Deposits	(12,047)	-	-	3,550	(8,497)	250,779
Liability for Compensated Absences	(20,129)	1,243	1,243	5,401	(12,241)	(5,871)
Net Cash Provided by Operating Activities	\$ 4,986,695	\$ 1,310,978	\$ 1,071,610	\$ 219,233	\$ 7,588,516	\$ 214,288

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



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STOP

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THANK YOU

Small informational poster on the wall.

Miford
ELECTRIFICATION

Champion

OUTRAGEOUS!

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NOTES TO THE BASIC FINANCIAL STATEMENTS

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, as amended: 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. GAAP 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, 2021. Please note that slight differences may exist due to rounding.

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 GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results may differ from those estimates.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in governmental funds. Encumbrances as of the end of the fiscal year are reported as reservations of fund balance because they do not constitute expenditures or liabilities, but rather serve as authorization for expenditures in the following year. As of June 30, 2021, the City had no such encumbrances.

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 are normally 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 (a) charges to customers who directly benefit from goods or services provided by a given function or activity and (b) 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.

The City uses Fund Accounting to provide separate financial statements for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements, while non-major funds are consolidated and reported in a single column 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.

Non-Major Governmental Fund – This fund accounts for revenues derived from activities provided by the City's parks and recreation department, which include primarily youth and adult sports leagues, summer camps and clinics. In addition, the fund accounts for building permit revenue levied for specific recreational and public safety initiatives, the latter of which are restricted for local fire and ambulance companies.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Government-Wide and Fund Financial Statements (continued)

The City reports the following proprietary funds:

Enterprise Funds – The Enterprise Funds of the City include the electric, water, wastewater (“sewer”) and sanitation (“solid waste” or “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 five internal funds which are used to account for the financing of goods and services provided by one department to other departments of the City on a cost-recovery basis.

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 a source of financing. 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.

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 60 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. Similarly, accrued compensated absences are recorded as expenditures only when paid.

Permits and fees, recreation fees, fines and court fees, franchise fees and taxes, 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, which 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 therefore only available and recordable upon receipt of cash.

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 each year, the City Manager submits to 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.
- 2) Public hearings are conducted to solicit comment from taxpayers and ratepayers.
- 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Cash and Cash Equivalents

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

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."

Inventories

Inventory in the internal service fund consists of garage supplies, meter parts and fittings, gasoline and diesel fuel held for consumption. The inventory acquisitions are recorded in the inventory accounts initially and charged to expenditures when used. The inventory is reported at cost and is presented on an average cost basis.

Inventories in the water and electric funds consist primarily of meters and other equipment and appurtenances required for service connection and revenue billing. The electric fund also carries certain system infrastructure components and replacement parts that serve the dual purpose of internal consumption for repair and maintenance as well as for sale to third party developers required to share in the cost of new connections to the electric system. Inventories in the water and electric funds are reported at cost and 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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, for whom carry-over is unlimited. 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 activities, the liability for compensated absences is split between current and non-current liabilities in the government-wide financial statements. Only the current portion of compensated absences is reported on the governmental funds balance sheet. 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.

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 statements 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 issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Subsequent Events

Subsequent events were evaluated through the opinion date, which is the date the financial statements were available to be issued. Management of the City have disclosed (1) the execution of a bond anticipation note (BAN) directly placed with a commercial bank as approved by City Council and authorized following a city-wide referendum authorizing approval of the issuance of debt for the construction of buildings and related equipment in support of Milford's Police Department and public safety initiatives, (2) the \$6.5 million acquisition of 182.3 acres of land on December 15, 2021 for the purpose of developing a business campus within the City of Milford, and (3) the \$0.5 million acquisition of 19.4 acres of land on December 15, 2021 for the purpose of assembling a greenway through Milford. Please see note 19: Subsequent Events for additional detail. Management of the City have determined that no events, including the disclosed events, resulted in any adjustment to the accounts reported in these financial statements.

Deferred Outflows of Resources

Decreases in net position that relate 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 generally include pension contributions made subsequent to the measurement date but may also include differences in pension plan actuarial data between measurement dates, such as differences between expected and actual plan experience, the effect of actuarial assumption changes, actual investment earnings below expected earnings on plan assets, and changes in the City's proportion of the broader plan. 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 position that apply to future periods are recorded as deferred inflows of resources in a separate section of the City's government-wide statement of net position. Deferred inflows of resources may include differences in pension plan actuarial data between measurement dates, such as differences between expected and actual plan experience, the effect of actuarial assumption changes, actual pension plan investment earnings in excess of projected amounts, and changes in the City's proportion of the broader plan.

Deferred outflows and inflows of resources, excluding employer-specific amounts, will be recognized as pension expense over a total of five years, including the current year.

Government-Wide and Proprietary Fund Net Positions

Net position represents the extent to which the sum of assets and deferred outflows of resources differ from the sum of liabilities and deferred inflows of resources. 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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to apply restricted net position first.

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 due to the City Charter, 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 includes 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.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended by fund balance class follows: restricted, followed by committed, assigned and lastly unassigned.

Interfund Transactions

The City records transactions between funds to support operations in certain funds, to return a risk premium to certain funds, to allocate administrative and overhead costs among funds, to construct assets, to distribute grant proceeds and to coordinate other activities that impact more than one fund. 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 expended. Interfund loans having repayment terms beyond one year are reported separately as noncurrent assets (lending fund) and noncurrent liabilities (borrowing fund) in the statements of net position.

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 necessary to prepare the capital asset for its intended use are in progress.
- Interest expense is being incurred.

No capitalizable interest was incurred during the year ended June 30, 2021.

CITY OF MILFORD, DELAWARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

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 Position

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net position of governmental activities in the government-wide statement of net position. The difference results from the long-term economic focus on the statement of net position 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 position. The details of these differences are presented below:

	All Governmental	Internal Service Funds	Governmental, excluding Internal Service Funds
Land	\$ 8,145,959	\$ -	\$ 8,145,959
Construction in Progress	986,118	87,912	898,206
Utility System & Infrastructure	10,467,446	-	10,467,446
Buildings and Improvements	5,263,295	21,340	5,241,955
Equipment and Vehicles	6,781,340	253,404	6,527,936
Less: Accumulated Depreciation	(14,205,952)	(149,644)	(14,056,308)
Net Difference in Capital Assets	<u>\$ 17,438,206</u>	<u>\$ 213,012</u>	<u>\$ 17,225,194</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. The details of these noncurrent liability differences are presented below:

Noncurrent Portion of Compensated Absences	\$ (873,589)
Deferred Outflow of Resources - Pension	1,593,059
Deferred Inflow of Resources - Pension	(828,554)
Net Pension Liability	(608,858)
Contingencies, net of Other Changes in Liabilities	(203,516)
Total Current and Long-Term Liability Differences	<u>\$ (921,458)</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 position 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 THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

NOTE 2: RECONCILIATION OF GOV'T-WIDE 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:

	All Governmental	Internal Service Funds	Governmental, excluding Internal Service Funds
Capital Outlay	\$ 1,012,931	\$ 133,024	\$ 879,907
Depreciation and Amortization	(797,577)	(23,025)	(774,552)
Net Difference	<u>\$ 215,354</u>	<u>\$ 109,999</u>	<u>\$ 105,355</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:

Noncurrent Portion of Compensated Absences	\$ 25,435
Net Change in Pension Liability and Pension Deferred Inflows/Outflows	127,727
Other Liabilities	(203,516)
Total Current and Long-Term Liability Differences	<u>\$ (50,354)</u>

NOTE 3: FINANCIAL INSTRUMENTS

The City invests its eligible reserves in a variety of financial instruments pursuant to its investment policy and records investments at adjusted cost. The City estimates that the fair value of all financial instruments as of June 30, 2021 does not differ materially from the aggregate carrying values of its financial instruments as reported in the accompanying balance sheet and statement of net position.

NOTE 4: REAL ESTATE TAXES

The millage rate levied by City Council on all non-exempt real estate in the City of Milford for the fiscal year ended June 30, 2021 was 4.60 mills (\$4.60 per \$1,000 of assessed valuation, or "AV"), and is commonly expressed as \$0.46 per \$100 of AV. The City executes the annual tax billing, periodic supplemental billing and all real estate tax payment collection internally, though property assessment is conducted by a professional firm through a contractual arrangement. Delinquent taxes are subject to lien by the City. The schedules of real estate taxes levied for the fiscal year 2021 follow:

July 1:	Levy Date (effective date of enforceable lien)
August 1 - September 30:	Face Payment Period
October 1:	Penalty of 1% of cumulative past due balance each month

NOTE 5: IMPACT FEES

All applications for new service connections to water, sewage, and electric systems within the City of Milford's utility service territories are required to contribute 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 the construction, maintenance and expansion of the City's utility infrastructure systems resulting from the growth demands of new development. The commercial impact fees for the year ended June 30, 2021 were \$3,072 and \$1,623 per Equivalent Dwelling Unit (EDU) for water and sewage, respectively, and \$600 and \$1,200 for electric connections of 200 amps and 400 amps, respectively.

The City has recorded as revenue in the proprietary funds Statement of Revenues, Expenses and Changes in Net Position and in the government-wide Statement of Activities the impact fee monies, as required by GASB No. 33. Restricted net position as of June 30, 2021 attributable to cumulative impact fee collections is \$8,688,456.

NOTE 6: INTERFUND TRANSACTIONS

During the course of normal operations, the City has numerous transactions between funds including 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 interfund receivables and payables within individual funds. As of June 30, 2021, no transfers qualified as interfund loans, and one interfund transaction among subsidiary funds related to funding of capital expenditures nets to \$0 in the governmental funds.

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

It is the policy of the City of Milford to invest its funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City, while conforming to all state and local statutes governing the investment of public funds, using the "prudent person" standard for managing the overall portfolio. The primary objective of the policy is safety (preservation of capital), followed by liquidity, and lastly yield.

The City of Milford utilizes a pooled cash and investment concept for all funds to maximize transactional efficiency and the effectiveness of its investment management program. Investment income from this internal pooling is allocated to the respective funds based upon the sources of funds invested. The deposits and investments associated with the City's participation in the State of Delaware Police and Firefighters' Pension Fund and the State of Delaware County and Municipal Pension Plans are held and managed separately.

CITY OF MILFORD, DELAWARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

NOTE 8: CASH AND INVESTMENTS, CONTINUED

Custodial Credit Risk

Custodial credit risk is the risk of loss of City deposits in the event of financial institution failure. The City maintains a formal deposit policy within its broader Investment Policy Statement to manage custodial credit risk. As of June 30, 2021, the City of Milford's bank balances totaled \$29,178,660. FDIC insurance applied to \$250,000 of the deposits, while the remainder of \$28,928,660 was hedged against custodial credit risk because it was collateralized with securities pledged by the City's financial institution and held by its custodian in the name of the City of Milford. Deposits are classified as Category 1 if fully insured, registered or held by the agent in the City's name. The carrying amount of the deposits as of June 30, 2021 was \$28,733,915 and is reported in the financial statements as follows:

Government-wide Statement of Net Position	
Governmental Activities	\$13,101,482
Business-type Activities	<u>15,632,433</u>
Total carrying amount of deposits	<u><u>\$28,733,915</u></u>

Investments

The City of Milford investment policy authorizes the City to invest in obligations of the U.S. Treasury, Federal Agencies, mutual funds invested in securities issued or guaranteed by the U.S. Government and any Federal Agencies, mutual funds invested in corporate debt instruments, registered investment companies (money market funds), repurchase agreements, certificates of deposit, time deposits, taxable and tax-exempt municipal bonds, commercial paper, corporate bonds, and any State of Delaware local government investment pool.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City of Milford manages its exposure to declines in fair values by limiting the maximum maturity length of investments by security class and investment objective. Certain short-term corporate debt instruments are limited to final maturity of 270-365 days, while certificates of deposit, municipal and corporate bonds are limited to three years or five years depending on the investment objective.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The City of Milford investment policy requires that fixed income securities have a dollar-weighted average credit rating no less than the minimum credit rating at the time of purchase, as rated by Moody's, S&P Ratings and/or Fitch Ratings. The policy has no rating restrictions on the securities issued by the U.S. Government or any of its agencies. Unless FDIC insured, short-term corporate debt instruments must be issued by domestic institutions and carry a short-term rating of A-1 or P-1 by S&P Ratings or Moody's, respectively. Issuers of long-term corporate and municipal debt must hold a long-term rating of at least BBB+, Baa1 or BBB+ by S&P Ratings, Moody's or Fitch Ratings, respectively.

CITY OF MILFORD, DELAWARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

NOTE 8: CASH AND INVESTMENTS, CONTINUED

Custodial credit risk - investments

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the City of Milford will not be able to recover the value of its investments or collateral securities that are in the possession of a third party. To limit its exposure, the City’s investment policy requires all security transactions that are exposed to custodial credit risk to be processed before the release of City funds on a delivery versus payment (DVP) basis with the underlying investments held by an independent third-party custodian acting as the City of Milford’s agent, in the name of the City of Milford, and evidenced by safekeeping receipts in the City’s name.

Concentration of credit risk

The concentration of credit risk is the risk of loss that may be caused by the City of Milford’s investment in a single issuer. The City’s investment policy limits the amount of the portfolio that can be invested in any one investment vehicle to no more than 20% of the portfolio, except for U.S. Treasury obligations or securities issued by agencies of the U.S. Government.

The City of Milford’s investment policy specifically prohibits the use of or the investment in derivatives and tri-party repurchase agreements.

Fair value of investments

The City of Milford measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles (GAAP). These guidelines recognize a three-tiered fair value hierarchy as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than those in Level 1; and
- Level 3: Unobservable inputs.

As of June 30, 2021, the Government had the following investments:

Year Ended June 30, 2021			
Description	Category	Market Value	Carrying Value
Money Market Funds			
PFM Asset Management, LLC	1	\$ 9,432,721	\$ 9,432,721
Wilmington Savings Fund Society, NA	1	20,000,000	20,000,000
Total Investments		\$ 29,432,721	\$ 29,432,721

CITY OF MILFORD, DELAWARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

NOTE 9: CAPITAL ASSETS

The following schedule presents the capital activity of governmental activities for the fiscal year, including Internal Service Funds:

Year Ended June 30, 2021					
Asset Categories by Function	Balances 7/1/2020	Additions	Reductions	Adjustments & Transfers	Balances 6/30/2021
<u>Total Governmental</u>					
Capital Assets:					
Land	\$ 8,144,967	\$ 11,065	\$ 10,073	\$ -	\$ 8,145,959
Street Improvements	10,367,446	100,000	-	-	10,467,446
Buildings and Improvements	5,155,254	108,041	-	-	5,263,295
Vehicles and Equipment	6,557,847	330,310	106,817	-	6,781,340
Construction in Progress	522,603	463,515	-	-	986,118
<hr/>					
Total Governmental Capital Assets	30,748,117	1,012,931	116,890	-	31,644,158
Accumulated Depreciation	(13,515,191)	(797,577)	(106,816)	-	(14,205,952)
<hr/>					
Total Governmental Capital Assets, Net	<u>\$ 17,232,926</u>	<u>\$ 215,354</u>	<u>\$ 10,074</u>	<u>\$ -</u>	<u>\$ 17,438,206</u>

The following schedule presents the capital activity of governmental activities for the fiscal year, excluding Internal Service Funds:

Year Ended June 30, 2021					
Asset Categories by Function	Balances 7/1/2020	Additions	Reductions	Adjustments & Transfers	Balances 6/30/2021
<u>Governmental, excluding Internal Service Funds</u>					
Capital Assets:					
Land	\$ 8,144,967	\$ 11,065	\$ 10,073	\$ -	\$ 8,145,959
Street Improvements	10,367,446	100,000	-	-	10,467,446
Buildings and Improvements	5,133,914	108,041	-	-	5,241,955
Vehicles and Equipment	6,349,555	285,198	106,817	-	6,527,936
Construction in Progress	522,603	375,603	-	-	898,206
<hr/>					
Total Governmental Capital Assets	30,518,485	879,907	116,890	-	31,281,502
Accumulated Depreciation	(13,388,572)	(774,552)	(106,816)	-	(14,056,308)
<hr/>					
Total Governmental Capital Assets, Net	<u>\$ 17,129,913</u>	<u>\$ 105,355</u>	<u>\$ 10,074</u>	<u>\$ -</u>	<u>\$ 17,225,194</u>

CITY OF MILFORD, DELAWARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

NOTE 9: CAPITAL ASSETS, CONTINUED

The following schedule presents the capital activity of business-type activities for the fiscal year:

Asset Categories by Function	Year Ended June 30, 2021				
	Balances 7/1/2020	Additions	Reductions	Adjustments & Transfers	Balances 6/30/2021
<u>Electric Fund:</u>					
Land	\$ 2,460,507	\$ -	\$ -	\$ -	\$ 2,460,507
Construction in Progress	-	100,008	-	-	100,008
Buildings and Improvements	7,056,015	-	-	-	7,056,015
Electric System	19,400,654	551,510	-	-	19,952,164
Vehicles and Equipment	4,084,171	575,197	616,323	-	4,043,045
Total Capital Assets	33,001,347	1,226,714	616,323	-	33,611,738
Accumulated Depreciation	(17,582,301)	(1,284,002)	(616,323)	-	(18,249,980)
Net Book Value	15,419,046	(57,288)	0	-	15,361,758
<u>Water Fund:</u>					
Land	27,369	5,885	-	-	33,254
Construction in Progress	-	175,456	-	-	175,456
Buildings and Improvements	118,251	4,827	-	-	123,078
Water System	22,468,335	373,888	-	-	22,842,223
Vehicles and Equipment	1,878,608	162,824	147,676	-	1,893,756
Total Capital Assets	24,492,563	722,880	147,676	-	25,067,767
Accumulated Depreciation	(9,017,428)	(593,031)	(147,676)	-	(9,462,783)
Net Book Value	15,475,135	129,849	0	-	15,604,984
<u>Sewer Fund:</u>					
Land	28,638	-	-	-	28,638
Construction in Progress	-	8,429	-	-	8,429
Buildings and Improvements	159,229	4,828	-	-	164,057
Waste Water System	22,386,158	1,041,986	-	-	23,428,144
Vehicles and Equipment	1,432,172	231,867	220,668	-	1,443,371
Total Capital Assets	24,006,197	1,287,110	220,668	-	25,072,639
Accumulated Depreciation	(10,062,924)	(597,769)	(220,668)	-	(10,440,025)
Net Book Value	13,943,273	689,341	0	-	14,632,614
<u>Solid Waste Fund:</u>					
Buildings and Improvements	5,650	-	-	-	5,650
Vehicles and Equipment	1,473,128	-	137,757	-	1,335,371
Total Capital Assets	1,478,778	-	137,757	-	1,341,021
Accumulated Depreciation	(767,902)	(128,414)	(137,757)	(5,740)	(764,299)
Net Book Value	\$ 710,876	\$ (128,414)	0	\$ (5,740)	\$ 576,723

CITY OF MILFORD, DELAWARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

NOTE 9: CAPITAL ASSETS, CONTINUED

The following schedule summarizes the capital activity of business-type activities for the fiscal year:

Asset Categories by Function	Year Ended June 30, 2021				Balances 6/30/2021
	Balances 7/1/2020	Additions	Reductions	Adjustments & Transfers	
<u>Total Enterprise Funds</u>					
Land	\$ 2,516,514	\$ 5,885	\$ -	\$ -	\$ 2,522,399
Construction in Progress	-	283,893	-	-	283,893
Buildings and Improvements	7,339,145	9,655	-	-	7,348,800
Electric System	19,400,654	551,510	-	-	19,952,164
Water System	22,468,335	373,888	-	-	22,842,223
Waste Water System	22,386,158	1,041,986	-	-	23,428,144
Vehicles and Equipment	8,868,079	969,887	1,122,424	-	8,715,542
Total Fixed Assets	82,978,885	3,236,703	1,122,424	-	85,093,164
Accumulated Depreciation	(37,430,556)	(2,603,216)	(1,122,424)	(5,740)	(38,917,088)
Net Book Value	\$ 45,548,329	\$ 633,487	\$ 0	\$ (5,740)	\$ 46,176,076

The following schedule summarizes the activity of internal service fund activities for the fiscal year:

Asset Categories by Function	Year Ended June 30, 2021				Balances 06/30/21
	Balances 7/1/2020	Additions	Reductions	Adjustments & Transfers	
<u>Internal Service Funds:</u>					
Land	\$ -	\$ -	\$ -	\$ -	\$ -
Buildings and Improvements	21,340	-	-	-	21,340
Vehicles and Equipment	208,292	45,112	-	-	253,404
Construction in Progress	-	87,912	-	-	87,912
Total Internal Service Funds	229,632	133,024	-	-	362,656
Accumulated Depreciation	(126,619)	(23,025)	-	-	(149,644)
Total Internal Service Funds, Net	\$ 103,013	\$ 109,999	\$ -	\$ -	\$ 213,012

Depreciation expense for governmental activities, which amounted to \$774,552 (exclusive of internal service funds) for the year ended June 30, 2021, was charged to the general government function of the primary government. Depreciation expense of \$2,603,216 for the business-type activities was charged to the funds as noted above.

CITY OF MILFORD, DELAWARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

NOTE 10: LONG-TERM DEBT OBLIGATIONS

Long-Term liability activity for the year ended June 30, 2021 is summarized as follows:

	Year Ended June 30, 2021				
	Balances 06/30/20	Additions	Reductions	Balances 06/30/21	Current Portion
Governmental Activities:					
Net Pension Liability	\$ 1,131,610	\$ 223,362	\$ (746,114)	\$ 608,858	\$ -
Compensated Absences	1,244,448	-	(149,563)	1,094,885	108,406
Governmental Activities					
Total Debt Obligations:	<u>\$ 2,376,058</u>	<u>\$ 223,362</u>	<u>\$ (895,677)</u>	<u>\$ 1,703,743</u>	<u>\$ 108,406</u>
Business-Type Activities:					
General Obligation Bonds					
Series 2016	\$ 7,100,000	\$ -	\$ (415,000)	\$ 6,685,000	\$ 425,000
Bond Premium	26,562	-	(1,856)	24,706	1,856
Total General Obligation Bonds	7,126,562	-	(416,856)	6,709,706	426,856
State of Delaware					
DNREC WPC RF, 2010	592,820	-	(26,924)	565,896	55,203
Water SRF, 2012A	2,258,670	-	(157,078)	2,101,592	158,653
Note Payable, Kent County	1,121,991	-	(25,914)	1,096,077	26,502
USDA Notes Payable					
Water Facilities, 2013	4,196,565	-	(97,597)	4,098,968	99,681
Sewer Facilities, 2019	594,772	-	(9,702)	585,070	19,553
Sewer Facilities, 2020	-	1,000,000	(10,564)	989,436	10,737
Total Bonds and Notes Payable	<u>15,891,380</u>	<u>1,000,000</u>	<u>(744,636)</u>	<u>16,146,744</u>	<u>797,185</u>
Other Liabilities					
Compensated Absences	165,517	-	(12,241)	153,276	29,155
Business-Type Activities					
Total Debt Obligations:	<u>\$ 16,056,897</u>	<u>\$ 1,000,000</u>	<u>\$ (756,877)</u>	<u>\$ 16,300,020</u>	<u>\$ 826,340</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. Annually, the City is required to compute the rate of property tax required to provide a fund to pay interest and principal at maturity. The City is in compliance with this requirement.

NOTE 10: LONG-TERM DEBT OBLIGATIONS, CONTINUED

General Obligation Bonds, Series 2016

On December 6, 2016, the City issued General Obligation Bonds, Series 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 issuance were utilized to currently refund the outstanding principal balance of \$7,850,000 related to the General Obligation Bonds, Series 2011 A. 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 as of June 30, 2021. The current refunding resulted in net cash outflows of \$261,788 in fiscal year 2017 while representing an economic gain (difference between the present values of the debt service payments on the old and new debt) of about \$1.3 million.

United States Department of Agriculture (USDA)

Water Facility Loan

In June 2013, the City issued bonds in an amount not to exceed \$5 million in connection with its Southeast Water Expansion project. The funding for the project was provided by the USDA under the federal direct loan for rural water and waste disposal systems program. Pursuant to program terms, the City was eligible for distributions of loan proceeds only after incurring project expenditures. The project was completed and the City expended a cumulative total of \$5 million through fiscal year 2017. The balance of the loan as of June 30, 2021 is \$4,098,968, which represents total project expenditures under the program less principal payments made. Under the terms of the note, the City is required to make quarterly payments in the amount of \$46,500, which include interest calculated at the fixed annual rate of 2.125% on the outstanding balance, which the remainder of each payment applied to the principal balance. The note is scheduled to mature June 28, 2053.

Sewer Facility Loans

In September 2015, Milford City Council approved a resolution to borrow an amount not to exceed \$1.6 million to finance various sewer infrastructure projects, including a supervisory control and data acquisition (SCADA) system, pump station upgrades, inflow and infiltration remediation, and related projects; collectively the "sewer project." A financing agreement was reached with the USDA under the federal direct loan for rural water and waste disposal systems program in two phases. The borrowing limit in phase one is \$0.6 million subject to an annual rate of interest not to exceed 2.375%; the actual rate as determined at final loan closing in December 2019 was 1.75%. The borrowing limit in phase two is \$1 million subject to an annual rate of interest not to exceed 2.125%; the actual rate as determined at final loan closing in December 2020 was 1.25%. Pursuant to program terms, the City is eligible for distributions of loan proceeds only after incurring project expenditures. Certain project components were completed during fiscal year 2021 and the City expended a cumulative total of \$1 million through June 30, 2021 under phase two of the loan program to reach the cumulative total of \$1.6 million across both

NOTE 10: LONG-TERM DEBT OBLIGATIONS, CONTINUED

phases. The balance of the 2019 facilities loan as of June 30, 2021 is \$585,070, representing the balance attributable to phase one project financing. The balance of the 2020 facilities loan as of June 30, 2021 is \$989,436, representing the balance attributable to phase one project financing. Under terms of the notes, the City is required to make quarterly payments in the amount of \$5,226 and \$7,960, which include interest calculated at the fixed annual rate of 1.75% and 1.25% on the outstanding balance of the phase one and two loans, respectively, with the remainder of each payment applied to the corresponding principal balance. The notes underlying loans phase one and two are scheduled to mature on December 31, 2059 and 2060, respectively.

State of Delaware Revolving Funds

Water Pollution Control Revolving Fund (WPC RF)

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 the fiscal year ended June 30, 2017. Additional funds were received for the second part of the project under a separate financing agreement. The balance of this obligation, as of June 30, 2021, is \$565,896. Semi-annual payments of \$32,852 include interest calculated at an annual rate of 2.0%. The note is scheduled to mature of July 1, 2030.

Drinking Water State Revolving Fund (SRF)

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 Delaware Drinking Water State Revolving Funding only as expenditures were incurred by the City and approved by the State, subject to a maximum funding commitment of \$4 million. Interest only payments commenced September 1, 2012 and were due semi-annually at 1% per annum on the balancing outstanding as the project progressed. The project was completed during the fiscal year ended June 30, 2018 at a total cost 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 2018. The remaining balance of \$2,491,369 is being amortized over a twenty-year period from the original advance date with interest at 1% per annum. The balance of this obligation as of June 30, 2021 is \$2,101,592. The note is scheduled to mature September 1, 2033.

Kent County Levy Court

Sewer Infrastructure Improvement Loan

Kent County constructed a new southern transmission bypass sewer line and related facilities (the “bypass”) to remediate failing components of its sewer infrastructure. The County issued bonds to finance the cost of the improvements, a significant portion of which run through the City of Milford and benefit the users of Milford’s sewer system. Pursuant to the Agreement for

CITY OF MILFORD, DELAWARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

NOTE 10: LONG-TERM DEBT OBLIGATIONS, CONTINUED

Services, as amended, between the City and Kent County, the City is responsible for the pro rata portion of the debt service attributable to the costs of the bypass installed in the City's sewer service territory. The City is required to remit payments in quarterly installments of \$12,735, which include interest at the fixed rate of 2.25% per annum. The balance of the obligation as of June 30, 2021 is \$1,096,077 and is scheduled to mature November 10, 2050.

Long-Term Debt outstanding as of June 30, 2021 is summarized as follows:

Obligation	Interest Rate (%)	Issue Date	Maturity Date	Amounts Outstanding as of June 30, 2021 (in thousands)			Total
				Electric Fund	Water Fund	Sewer Fund	
General Obligation Bonds							
Series of 2016	2.00-2.55	12/6/16	1/1/37	\$ 4,290	\$ -	\$ 2,395	\$ 6,685
Premium, Series of 2016	2.00-2.55	12/6/16	1/1/37	16	-	8	25
USDA							
Note Payable, 2013	2.125	6/28/13	6/28/53	-	4,099	-	4,099
Note Payable, 2019	1.750	12/31/19	12/31/59	-	-	584	584
Note Payable, 2020	1.250	12/31/20	12/31/60	-	-	990	990
State of Delaware							
DNREC WPC RF, 2010	2.00	12/22/09	7/1/30	-	-	566	566
Drinking Water SRF, 2012A	1.00	3/15/12	9/1/33	-	2,102	-	2,102
Kent County, 2012	2.25	11/12/12	11/10/50	-	-	1,096	1,096
Total Long-Term Debt Obligations				\$ 4,306	\$ 6,201	\$ 5,640	16,147

The annual requirements to amortize all debt outstanding as of June 30, 2021 follow:

Year Ending June 30	Principal	Interest	Total
2022	\$797,185	\$302,972	\$1,100,157
2023	812,519	288,493	1,101,012
2024	823,451	273,801	1,097,252
2025	839,554	258,787	1,098,341
2026	855,733	243,497	1,099,230
2027-2031	4,477,371	977,363	5,454,734
2032-2036	3,163,089	594,990	3,758,079
2037-2041	1,423,334	350,193	1,773,527
2042-2046	1,219,667	228,455	1,448,122
2047-2051	1,287,874	98,693	1,386,567
2052-2056	239,764	23,955	263,719
2057-2061	207,203	7,245	214,448
Total	\$16,146,744	\$3,648,444	\$19,795,188

NOTE 11: COMMITMENTS AND CONTINGENCIES

Open Claims/Judgments

In the ordinary course of the City's municipal and public utility operations, various commitments and contingent liabilities arise in addition to the normal encumbrances for the purchase of goods and services. The City does not anticipate material losses as a result of these transactions over and above the amounts reported in the statement of activities, which includes a provision for claims incurred.

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's employee benefits program includes a deferred compensation plan under Internal Revenue Code (IRC) 457(b) which is available to substantially all full-time City employees. Participants may elect contributions through base salary deferral to the Plan not to exceed the lesser of the allowable calendar year maximum under IRC 457(b)(2) and 100% of net compensation. The City matches 100% of employee contributions up to a maximum of 6.0% of the base salary. The City made contributions into the Plan totaling \$299,713 for the year ended June 30, 2021.

NOTE 13: ADOPTION OF GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS

The City adopted the provisions of GASB Statement No. 84, *Fiduciary Activities* which resulted in a restatement which is further described in Note 16.

The City also adopted GASB Statement No. 93, *Replacement of Interbank Offered Rates*, GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans-an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, and GASB Statement No. 98, *The Annual Comprehensive Financial Report*. The adoption of these Statements had no effect on previously reported amounts.

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NOTE 14: PENDING CHANGES IN ACCOUNTING PRINCIPLES

The GASB has approved the following:

- Statement No. 87, *Leases*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
- Statement No. 96, *Subscription-Based Information Technology Arrangements*
- Statement No. 99, *Omnibus 2022*
- Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*
- Statement No. 101, *Compensated Absences*

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

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NOTE 15: POST-RETIREMENT BENEFITS

Defined Contribution Plan

The City has a defined contribution plan under IRC 401(a) which was available to substantially all full-time City employees through December 31, 2004 (the “legacy plan”). For plan years beginning January 1, 2005, the City no longer makes contributions to the legacy plan, coinciding with the effective date of the City’s election to participate in the State of Delaware’s County and Municipal Pension Plans. All participants in the legacy plan will remain in the legacy plan until separation of employment from the City and may continue to invest funds in their respective accounts. The legacy 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 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 and Firefighter and the General Employees Retirement Funds. In connection with this election, the City agreed to fund prior service costs up to the maximum of 15 years of service for all eligible employees. Funding was provided from the City’s Water and Sewer reserves and from assets of its existing retirement funds. Descriptions of the State of Delaware Plans, important disclosures and information follow.

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 (DPERS) and managed by the State Board of Pension Trustees. The plan, which is the State of Delaware County and Municipal Police and Firefighter Pension Plan, covers the City of Milford’s 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 composed 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 consecutive years of compensation. There are also disability benefits as well as survivor benefits provided by the plan. An employee is vested upon five years of credited service.

Employer contributions to the plan are determined annually by the State 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 2021 was 16.84% of payroll. In addition, employees are required to contribute 7% of compensation.

NOTE 15: POST-RETIREMENT BENEFITS, 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 the State Board of Pension Trustees. The plan, which is the State of 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 composed 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 five years of credited service.

Employer contributions to the plan are determined annually by the State Board of Pension Trustees. The employer contribution policy is set by State law and required contribution by active members and by participating employers. The contributions required by participating employers are based on 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 2021 was 7.28% of pension-creditable payroll. In addition, employees are required to contribute 3.0% 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 each plan as of the June 30, 2020 measurement date were as follows:

	Police & Firefighters	Other Employees
Total pension liability	\$ 461,752,000	\$ 69,593,575
Plan fiduciary net position	446,384,000	67,470,200
Employer net pension liability	15,368,000	2,123,375
Plan fiduciary net position as percentage of total pension liability	96.67%	96.95%
Proportionate share of net pension liability	\$ 406,563	\$ 202,295

CITY OF MILFORD, DELAWARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

NOTE 15: POST-RETIREMENT BENEFITS, CONTINUED

The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate net pension liability was determined by rolling forward the DPERs total pension liability as of June 30, 2019 to June 30, 2020. The City's proportionate share of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it related to the total one-year reported covered payroll. As of June 30, 2020 and 2019, the City's proportion for each plan is as follows:

	June 30, 2020	June 30, 2019	Increase (Decrease)
Police & Firefighters	2.6455%	2.4289%	0.2166%
Other Employees	9.5271%	9.4728%	0.0542%

For the year ended June 30, 2021, the City recognized pension expense for the plans as follows:

Police & Firefighters	\$	401,073
Other Employees		303,727
Total	\$	704,800

As of June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Police & Fire		Other Employees	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	\$ 404,508	\$ 128,104	\$ 141,312	\$ 142,731
Change of assumptions	150,109	61,420	119,179	-
Net difference between projected and actual investment earnings	-	288,245	-	151,301
Change in proportion	33,332	17,152	1,279	39,601
Contributions subsequent to the measurement date	412,206	-	331,134	-
Total	\$ 1,000,155	\$ 494,921	\$ 592,904	\$ 333,633

CITY OF MILFORD, DELAWARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

NOTE 15: POST-RETIREMENT BENEFITS, CONTINUED

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year	Police & Fire	Other Employees	Total
2021	\$ (81,257)	\$ (49,853)	\$ (131,110)
2022	(22,951)	(20,796)	(43,747)
2023	35,700	17,218	52,918
2024	(7,421)	(5,457)	(12,878)
2025	53,081	(3,551)	49,530
Thereafter	115,876	(9,424)	106,452
Total	\$ 93,028	\$ (71,863)	\$ 21,165

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2019, and update procedures were used to roll forward the total pension liability to June 30, 2020. 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 discount rate assumption of 7.0% is unchanged from the prior year. 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.

CITY OF MILFORD, DELAWARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

NOTE 15: POST-RETIREMENT BENEFITS, CONTINUED

Best estimates of geometric real rates of return for each major asset class as of June 30, 2020 are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	28.5%	5.7%
International Equity	15.2%	5.7%
Fixed Income	28.8%	2.0%
Alternative Investments	23.0%	7.8%
Cash & Equivalents	4.5%	0.0%

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 resulting net pension liability if calculated using a discount rate one percentage point lower (6.0%) or higher (8.0%) than the current rate:

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Police and Firefighters	\$ 2,263,001	\$ 406,563	\$ (1,108,630)
Other Employees	\$ 1,228,704	\$ 202,295	\$ (640,027)

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, DELAWARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

NOTE 16: RESTATEMENT OF NET POSITION / FUND BALANCE:

IMPLEMENTATION OF GASB STATEMENT NO. 84, FIDUCIARY ACTIVITIES

The City implemented GASB Statement No. 84, *Fiduciary Activities*, for the period ended June 30, 2021. As a result, a prior period adjustment was required to recognize certain Parks and Recreation permit revenue totaling \$93,400 through June 30, 2020 previously accumulated and reported as a fiduciary obligation related to the development of parks and recreation facilities. Parks and recreation permit fees of \$42,700 collected during the fiscal year ended June 30, 2021 were reported as cash and assigned fund balance on the Governmental Funds Balance Sheet and Statement of Net Position, as licenses and permits revenue on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, and as culture and recreation capital grants and contributions on the Government Wide Statement of Activities. Similarly, a prior period adjustment was required to recognize certain permit fee collections totaling \$486,792 through June 30, 2020 previously accumulated and reported as a fiduciary obligation to offset the impact of growth and development on local fire and rescue resources. Enhancement funding fees generated through building permit assessments totaling \$133,880 during the fiscal year ended June 30, 2021 were reported as cash and restricted fund balance on the Governmental Funds Balance Sheet and Statement of Net Position, as licenses and permits revenue on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, and as public safety capital grants and contributions on the Government Wide Statement of Activities. Additionally, \$436,145 in sewer impact fees collected on behalf of Kent County in connection with the County’s investment in sewer infrastructure utilized by the City of Milford for the treatment and disposal of wastewater were reported as cash and restricted net position on the Proprietary Funds and Government Wide Statements of Net Position. Through the period ended June 30, 2020, sewer impact fees collected on behalf of Kent County were reported in the fiduciary funds.

UNDERSTATEMENT OF PAYABLES

Noncurrent liabilities understated in the Government-Wide Statement of Net Position as of June 30, 2020 are reflected in the Government-Wide Statement of Activities Net Position – Beginning of Year as Restated for the Year Ended June 30, 2021.

	Governmental Activities	General Fund	Non-Major Governmental Fund
Net Position/Fund Balance, as previously stated	\$ 25,937,415	\$ 4,825,181	\$ 129,509
Understatement due to change in custodial funds	580,192	93,400	486,792
Understatement of payables	(387,694)	-	-
Net Position/Fund Balance, as restated	<u>\$ 26,129,913</u>	<u>\$ 4,918,581</u>	<u>\$ 616,301</u>

NOTE 17: THE DELAWARE MUNICIPAL ELECTRIC CORPORATION:

The City is a member of the Delaware Municipal Electric Corporation (DEMEC). DEMEC is a public corporation constituted as Joint Action Agency and a wholesale electric utility. DEMEC was established in 1979 and represents eight municipal electric distribution utilities located in the State of Delaware and provides full requirements wholesale electric power supply service to all eight members, including the City of Milford, through the operation of owned generation assets and various wholesale supply contracts with external parties. The City purchases 100% of its electric supply requirements from DEMEC under a long-term full requirements service contract dated January 1, 2004 (the "Agreement"), which will remain in effect unless terminated upon one year's written notice by either party. The obligation of the City to purchase and pay for full requirements service, including its allocated costs under any then current forward contract for capacity and energy between DEMEC and a third party in effect as of the date of notice of termination, shall survive the termination of the Agreement. On May 1, 2001, the City entered into separate power sales agreements to purchase an interest in the capacity produced by Unit 1 of the Warren F. "Sam" Beasley Power Station located in Smyrna, Delaware (the "Facilities"). On May 1, 2011, the City entered into separate power sales agreements to purchase an interest in the capacity produced by Unit 2 of the Facilities. The City is entitled to 20.3 percent of all power supply and ancillary benefits produced from the existing nominal 45 MW and 50 MW natural gas-fired combustion turbine generators installed in connection with Units 1 & 2, respectively, for the useful life of the Facilities. Under the terms of the various agreements, DEMEC is authorized to act as agent for the City in all matters relating to the acquisition and delivery of its wholesale power supply and management of energy cost risk on behalf of the City in the energy markets.

NOTE 18: IMPACT OF CORONAVIRUS (COVID-19):

The World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The pandemic is affecting global markets, supply chains, labor, and communities, including the City of Milford. Specific to the City of Milford, COVID-19 may impact various 2022 operations and financial results, including but not limited to the City's utility and real estate tax collections, utility revenue, lodging tax revenue due to travel restrictions, Parks and Recreation activity due to safety and distancing requirements, and other events, as well as increases in expenditures for emergency preparedness. City Management is taking appropriate actions to mitigate any negative impact, including the delay or deferral of non-critical spending and the solicitation of federal and state grant proceeds to offset emergency preparedness costs and employee safety initiatives. The full impact of COVID-19 on the City's financial condition is unknown, as events continue to develop into 2022. However, no events occurring during the reporting period and no events occurring during the period from July 1, 2021 through the opinion date resulted in the need to recognize any additional expense or record any additional liabilities. Management's expectation is that the impact of the COVID-19 pandemic on the City's financial position will not reach the level of significant materiality, though Management and Council remain diligent in efforts to operate efficiently, avoid unnecessary spending, work safely, and maximize services to the community during the pandemic. Further, the City of Milford was a

NOTE 18: IMPACT OF CORONAVIRUS (COVID-19), CONTINUED:

recipient of funding through the American Rescue Plan Act of 2021 (“ARPA”), which provided a significant level of support to defray any emergency expenditures, meet infrastructure needs and replace revenue shortfalls. Specifically, the City of Milford is categorized as a Non-entitlement Unit of Local Government in the US Department of the Treasury Final Rule governing Coronavirus State and Local Fiscal Recovery Funds. As such, the City’s ARPA funding allocation of \$6,333,892, payable in two equal, annual tranches, was population-driven. The first tranche in the amount of \$3,166,946 was received in June 2021. \$224,750 of the funding was utilized before June 30, 2021, leaving the balance of \$2,942,196 reported as restricted cash and unearned revenue in the special revenue fund in the governmental funds balance sheet on page 17. The second tranche payment of \$3,166,946 was received in June 2022.

NOTE 19: SUBSEQUENT EVENTS:

Bond Anticipation Note (BAN), Series 2021 – Police Facility Contract Award

The City closed on a bond anticipation note (BAN), series 2021 with PNC Bank, N.A. in an amount not to exceed \$20 million on November 30, 2021 as authorized by Council on December 14, 2020 and approved by referendum on January 26, 2021. The temporary, construction-period loan bears a variable rate of interest calculated daily based on the tax-exempt equivalent of the Bloomberg Short Term Bank Yield Index or “BSBY” plus a fixed margin, subject to a floor of 1.08%, billed monthly as applied only to outstanding principal balances drawn. The loan matures on November 30, 2024, at which point the entire principal balance is due and payable in full. The City anticipates satisfying the BAN in full on or before the maturity date with a permanent issuance of long-term, tax-exempt general obligation bonds at a fixed rate of interest. City Council awarded construction contracts totaling \$13,650,954 in April 2022 to build the police facility. As of the issue date, the City incurred construction expenses totaling \$1,686,461 on the project, of which \$80,899 was withheld as retainage, \$22,012 is payable, and \$1,583,550 was satisfied through draws against the BAN.

Property Acquisition – Business Campus

On December 15, 2021, the City acquired agricultural property containing 182 acres of land for the purpose of developing a business campus with commercial and industrial uses. The City’s cash reserves were utilized for the acquisition; no debt issuance or other financing was used to support the acquisition. The City expects to fund the utility and road infrastructure with a combination of utility reserves, intergovernmental grants, fees and other ongoing revenues.

Property Acquisition – Greenway/Trail System

On December 15, 2021, the City acquired agricultural property containing 19 acres of land for the purpose of preserving undeveloped lands and creating a greenway through a natural corridor to interconnect several areas of the City with a series of parks, trails and open space. The City’s cash reserves were utilized for the acquisition; no debt issuance or other financing was used to support the acquisition. The City expects to fund development of parks and trails with a combination of governmental fund reserves, intergovernmental grants, fees and other revenues.



The City of Milford

Required Supplementary Information

As of and for the Year Ended June 30, 2021

**CITY OF MILFORD, DE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property Taxes	\$ 4,316,000	\$ 4,316,000	\$ 4,340,239	\$ 24,239
Fees and Fines	114,000	118,000	135,538	17,538
Licenses and Permits	418,000	534,290	1,138,216	603,926
Franchise & Lease Revenue	369,100	369,100	399,787	30,687
Charges for Services	80,007	99,507	120,070	20,563
Intergovernmental	379,368	738,191	508,131	(230,060)
Investment Earnings	20,000	20,000	33,528	13,528
Miscellaneous	15,000	78,655	229,525	150,870
Total Revenues	<u>5,711,475</u>	<u>6,273,743</u>	<u>6,905,034</u>	<u>631,290</u>
EXPENDITURES				
Current:				
General Government	4,026,589	4,269,309	1,815,022	2,454,287
Public Safety	5,694,739	5,973,076	5,560,531	412,545
Public Works	793,646	793,646	644,166	149,480
Culture and Recreation	1,080,966	1,088,542	929,293	159,249
Capital Outlay	403,200	1,282,741	563,038	719,703
Total Expenditures	<u>11,999,140</u>	<u>13,407,314</u>	<u>9,512,050</u>	<u>3,895,264</u>
Deficiency of Revenues Over Expenditures	<u>(6,287,665)</u>	<u>(7,133,571)</u>	<u>(2,607,016)</u>	<u>4,526,554</u>
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	-
Proceeds from Sale of Assets	5,000	5,000	147,795	142,795
Other Transfers In	1,336,759	2,162,089	367,635	(1,794,454)
Transfers Out	(12,144)	(12,144)	(367,635)	(355,491)
Net Change in Fund Balance	<u>(1,958,050)</u>	<u>(1,978,626)</u>	<u>540,779</u>	<u>2,519,404</u>
DEFICIENCY FUNDED BY (SURPLUS DIRECTED TO)				
General Fund Balance and Reserves	<u>1,958,050</u>	<u>1,978,626</u>	<u>(540,779)</u>	<u>(2,519,404)</u>
Net Revenues, Other Financing Sources, Prior Fund Balances and Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF MILFORD, DELAWARE
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE LAST SIX FISCAL YEARS (DOLLAR AMOUNTS IN THOUSANDS)

<u>County & Municipal Police and Firefighters' Pension Plan</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Proportion of the net pension liability (asset)	2.6455%	2.4289%	2.2946%	2.3779%	2.3824%	2.4964%
Proportionate share of the net pension liability (asset)	\$ 407	\$ 698	\$ 528	\$ 240	\$ 379	\$ (132)
Covered-employee payroll	\$ 2,412	\$ 2,147	\$ 1,906	\$ 1,944	\$ 1,736	N/A
Proportionate share of the net pension liability as a percentage of covered-employee payroll	16.9%	32.5%	24.6%	12.6%	21.8%	N/A
Plan's fiduciary net position	\$ 446,384	\$ 396,829	\$ 367,470	\$ 325,867	\$ 284,298	\$ 273,109
Plan fiduciary net position as a percentage of the total pension liability (asset)	96.7%	93.3%	94.1%	97.0%	94.7%	-102.0%
<u>County & Municipal Other Employees' Pension Plan</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Proportion of the net pension liability (asset)	9.5271%	9.4728%	10.0609%	10.3165%	10.8530%	12.1628%
Proportionate share of the net pension liability (asset)	\$ 202	\$ 434	\$ 317	\$ 668	\$ 672	\$ 5
Covered-employee payroll	\$ 4,107	\$ 4,206	\$ 3,476	\$ 3,628	\$ 3,631	N/A
Proportionate share of the net pension liability as a percentage of covered-employee payroll	4.9%	10.3%	9.1%	18.4%	18.5%	N/A
Plan's fiduciary net position	\$ 67,470	\$ 58,536	\$ 53,122	\$ 45,874	\$ 39,292	\$ 37,840
Plan fiduciary net position as a percentage of the total pension liability	96.9%	92.7%	94.4%	87.6%	86.4%	99.9%

The accompanying notes are an integral part of this schedule.

**CITY OF MILFORD, DELAWARE
SCHEDULE OF EMPLOYER CONTRIBUTIONS - PENSION PLAN
FOR THE LAST SIX FISCAL YEARS (DOLLAR AMOUNTS IN THOUSANDS)**

	2021	2020	2019	2018	2017	2016
<u>County & Municipal Police and Firefighters' Pension Plan</u>						
Contractually required contribution	\$ 406	\$ 358	\$ 218	\$ 269	\$ 240	\$ 251
Contributions in relation to the contractually determined contribution	406	358	218	269	240	251
Contribution (excess) deficiency	<u>\$ -0-</u>					
Covered-employee payroll	\$ 2,485	\$ 2,412	\$ 2,147	\$ 1,906	\$ 1,944	\$ 1,736
Contributions as a percentage of covered-employee payroll	<u>16.35%</u>	<u>14.85%</u>	<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	\$ 340	\$ 307	\$ 284	\$ 259	\$ 225	\$ 235
Contributions in relation to the contractually determined contribution	340	307	284	259	225	235
Contribution (excess) deficiency	<u>\$ -0-</u>					
Covered-employee payroll	\$ 4,687	\$ 4,107	\$ 4,206	\$ 3,476	\$ 3,628	\$ 3,631
Contributions as a percentage of covered-employee payroll	<u>7.25%</u>	<u>7.47%</u>	<u>6.76%</u>	<u>7.46%</u>	<u>6.21%</u>	<u>6.49%</u>

The accompanying notes are an integral part of this schedule.

CITY OF MILFORD, DELAWARE
NOTES TO THE REQUIRED SUPPLEMENTARY SCHEDULES
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

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 15 to the basic 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 2021 can be found in the June 30, 2019 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 – 2.5%

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.

The City of Milford

Additional Information and Reports

As of and for the Year Ended June 30, 2021

CITY OF MILFORD, DELAWARE

ADDITIONAL INFORMATION

JUNE 30, 2021

Taxation

The City annually adopts an assessment listing based on its own assessments of real property. Real Property was last reassessed in the City of Milford in 2012. The assessment reflected recorded sale data available in 2012. Assessments are based on 100% of the 2012 appraised value. Appraisals for all classifications of property are equal to estimated replacement cost less depreciation.

Tax Assessments

Year	Assessment	Ratio, Assessed to Market Value	Market Value
2021	\$ 1,322,462,352	69%	\$ 1,911,072,763
2020	1,304,217,652	74%	1,762,456,286
2019	1,108,131,359	78%	1,420,681,230
2018	1,076,761,765	75%	1,435,213,740
2017	1,064,336,304	81%	1,319,777,017
2016	1,049,526,712	89%	1,175,823,786
2015	1,038,988,192	91%	1,141,745,266
2014	1,030,515,982	95%	1,084,753,665
2013	1,012,236,303	96%	1,054,412,816
2012*	1,005,583,223	96%	1,047,482,524

**Reassessment completed in September 2012*

The City's property tax rate was \$0.46 per \$100 of assessed value throughout the FY21 reporting period. City Council approved the rate of \$0.48275 per \$100 of assessed value effective FY22. Milford also collects a Realty Transfer Tax (RTT) of 1.50% of the consideration of all property transfers within City limits effective July 1, 2001.

Tax Appeals

Milford City Council serves in the capacity of Board of Appeals to review assessments when appealed by property owners. There are generally few appeals of assessments each year.

Ratable Classification	2021 Assessed Value (AV)	2021 Market Value (MV)*	AV ÷ MV
Public Utilities	\$5,401,952	\$7,806,289	
Agriculture	878,100	1,268,931	
Residential	610,189,400	881,776,590	
Multi-Family	43,996,300	63,578,468	
Commercial	310,143,000	448,183,526	
Industrial	11,488,400	16,601,734	
Exempt	340,365,200	491,857,225	
TOTAL	\$1,322,462,352	\$1,911,072,763	69%

**Estimated based on City of Milford market sales data sampling*

CITY OF MILFORD, DELAWARE
ADDITIONAL INFORMATION, CONTINUED
JUNE 30, 2021

Top 20 Taxpayers

	2021 Assessed Value	Land Use	Parcel Owner	2021 Tax Levy
\$	31,529,800	COMMERCIAL	CLARK AVENUE REALTY	\$ 145,037
	18,827,600	COMMERCIAL	MILFORD PLAZA	86,607
	16,426,800	COMMERCIAL	WAL-MART STORES	75,563
	16,712,200	RESIDENTIAL	KEY PROPERTIES LLC	62,681
	9,447,900	MULTI-FAMILY	RESERVE AT SAW MILL	43,460
	9,203,100	MULTI-FAMILY	WATERGATE AT MILFORD	42,334
	8,252,800	COMMERCIAL	MILFORD CENTER	37,963
	6,869,500	COMMERCIAL	CYPRESS CAPITAL	31,600
	6,734,300	MULTI-FAMILY	CASCADES	30,978
	6,558,100	COMMERCIAL	BALTIMORE AIRCOIL COMPANY	30,167
	6,547,100	COMMERCIAL	US COLD STORAGE	30,117
	6,144,700	COMMERCIAL	HELMICK MILFORD	28,266
	5,302,800	MULTI-FAMILY	CASE EDWARDS MANAGEMENT	24,393
	5,162,300	INDUSTRIAL	PURDUE RE HOLDINGS	23,747
	4,899,500	MULTI-FAMILY	PURDUE RE HOLDINGS	22,538
	4,799,800	COMMERCIAL	TRAN CON BUILDERS	22,079
	4,763,300	COMMERCIAL	SW ACQUISITIONS	21,911
	4,530,600	COMMERCIAL	RIVERWALK CENTER AT MILFORD	20,841
	4,431,600	COMMERCIAL	SHAWNEE FARM	20,385
	4,280,000	MULTI-FAMILY	PARSON THORNE REALTY ASSOC	19,688

Tax Collections and Delinquent Taxes

Year Ended June 30	Tax Collection			Past Due
	Taxes Budgeted	Cash Collection	Collection as % of Budget	Outstanding as of June 30
2021	\$ 4,296,000	\$ 4,322,838	101%	\$ 180,783
2020	4,126,385	4,074,644	99%	241,673
2019	3,902,716	3,943,184	101%	210,077
2018	3,820,560	4,038,010	105%	178,337
2017	3,732,970	3,817,534	102%	344,177
2016	3,701,000	3,720,159	101%	307,883
2015	3,746,000	3,660,900	98%	359,772
2014	3,556,965	3,518,917	99%	358,545
2013	3,483,380	3,433,254	99%	281,371
2012	2,989,155	2,974,203	99%	231,245

CITY OF MILFORD, DELAWARE
 ADDITIONAL INFORMATION, CONTINUED
 JUNE 30, 2021

Selected Debt Ratios

Selected Demographic Data and Corresponding Direct Debt Ratios

	Direct Debt ¹	Population ²	Assessed Valuation (AV) ¹
	\$ 6,685,000	11,190	\$ 1,322,462,352
Direct Debt per Capita		\$ 597	
Direct Debt as % of AV			0.51%

¹ Debt and AV measured as of and for the period ended June 30, 2021, respectively

² Based on 2020 US Census

Largest Employers

The largest employers in and around the City of Milford follow:

Name	Description	Employee Count*
Perdue Farms, Inc.	Poultry Processing	1,550
Bayhealth, Inc.	Healthcare	800
Milford School District	Education	558
Dentsply Sirona, Inc.	Dental Supplies	525
Sea Watch International, Inc.	Seafood Processing	280
Kent-Sussex Industries, Inc.	Agricultural Products	117
City of Milford	Government	105
First State Manufacturing, Inc.	Industrial Sewing	100

****Employee counts represent estimates based on the City of Milford 2017 Comprehensive Plan***

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The City of Milford

Other Supplemental Information Single Audit

For Year Ended June 30, 2021



Zelenkofske Axlerod LLC

CERTIFIED PUBLIC ACCOUNTANTS

EXPERIENCE | EXPERTISE | ACCOUNTABILITY

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

INDEPENDENT AUDITOR'S REPORT

City Council
City of Milford, Delaware

We have audited, in accordance with the 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 (the "City"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 9, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing 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 the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2021-001 that we consider to be a material weakness.

Compliance and Other Matters

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



Zelenkofske Axlerod LLC

CERTIFIED PUBLIC ACCOUNTANTS

EXPERIENCE | EXPERTISE | ACCOUNTABILITY

City Council
City of Milford, Delaware

City's Response to Finding

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

Purpose of this Report

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

Zelenkofske Axlerod LLC

Zelenkofske Axlerod LLC

Harrisburg, Pennsylvania
December 9, 2022



Zelenkofske Axlerod LLC

CERTIFIED PUBLIC ACCOUNTANTS

EXPERIENCE | EXPERTISE | ACCOUNTABILITY

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

City Council
City of Milford, Delaware

Report on Compliance for Each Major Federal Program

We have audited the City of Milford's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2021. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinions on compliance for the City's major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2021.



Zelenkofske Axlerod LLC

CERTIFIED PUBLIC ACCOUNTANTS

EXPERIENCE | EXPERTISE | ACCOUNTABILITY

City Council
City of Milford, Delaware

Report on Internal Control Over Compliance

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

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

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

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

Zelenkofske Axlerod LLC

ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania
December 9, 2022

**CITY OF MILFORD, DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021**

Federal Grantor/Pass-through Grantor/Program	Federal AL Number	Pass Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
US Department of Agriculture Community Facilities Loans and Grants Loan	10.766	n/a	\$ -	\$ 54,236
Grant			-	883,468
Total			-	937,704*
US Department of the Treasury American Rescue Plan Act	21.027	n/a	-	224,750
US Department of Justice Coronavirus Emergency Supplemental Funding	16.034	n/a	-	79,839
US Department of Justice Bulletproof Vest Partnership	16.607	n/a	-	1,119
US Department of Justice Edward Byrne Memorial Justice Assistance	16.738	n/a	-	38,522
Total expenditures of federal awards			\$ -	\$ 1,281,934

*Denotes tested as a Major Program.

See Notes to the Schedule of Expenditures of Federal Awards which is an integral part of this Schedule.

CITY OF MILFORD, DELAWARE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1 – BASIS OF PRESENTATION

The City of Milford, Delaware is the reporting entity for financial reporting purpose as defined in Note 1 to the City’s basic financial statements. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Milford, Delaware under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – INDIRECT COST RATE

The City of Milford did not use the 10% de minimis indirect cost rate allowed by the Uniform Guidance.

NOTE 4 – USDA COMMUNITY FACILITIES LOANS AND GRANTS

The objective of the USDA Community Facilities Program is to provide loans or grant funds for the development of essential community facilities. The City received funds in the form of both loan draws and grants for its ongoing sewer improvements project. Federal expenditures presented in the Schedule were incurred pursuant to direct loan 9 and grant 10 in the amounts of \$54,236 and \$883,468, respectively, for a total of \$937,704.

NOTE 5 – RISK-BASED AUDIT APPROACH

The 2021 threshold for determining Type A and Type B programs is \$750,000. The following program was audited as major:

<u>ALN</u>	<u>Name of Federal Program or Cluster</u>
10.766	Community Facilities Loans and Grants

The amounts expended under the program audited as a major federal program for the year ended June 30, 2021, totaled \$937,704 or 73.1% of total federal awards expended.

**CITY OF MILFORD, DELAWARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2021**

Section I – Summary of Auditor’s Results:

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant Deficiency(s) identified that are not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant Deficiency(s) identified that are not considered to be material weaknesses? yes X none reported

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes X no

Identification of major programs:

<u>ALN Number(s)</u>	<u>Name of Program or Cluster</u>
10.766	Community Facilities Loans and Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes X no

CITY OF MILFORD, DELAWARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2021

Section II – Financial Statement Findings and Questioned Costs

Finding 2021-001 Accounting Records/Financial Statement Close Process

Criteria: The accounts of the City should include all significant transactions in the period of benefit and reconciliations for all accounts. The year-end closing process including financial statement preparation and audit preparation should be performed in a timely manner.

Condition: During the audit, material audit adjustments were required, and significant delays occurred. Final closing and the preparation of trial balances were not completed until several months after the City’s year-end. Multiple versions of the trial balances and financial statements were provided. These various versions contained significant revisions from the previous versions of the trial balances and financial statements without any clear trail or notation of the changes made. Certain basic account reconciliations were not readily available at our request and had to be prepared after the request was made. The lack of timely reconciliation procedures and timely closing created a condition that may adversely affect the City’s ability to initiate, record, and process financial data reliably and could result in a misstatement in the financial statements that will not be prevented or detected. As part of the audit process, it was noted that adjustments to several accounts were necessary, and a prior period adjustment was needed to correct an error in the prior year’s financial statements.

Cause: The finance department experienced staffing issues throughout the year and the closing process. The issues and delays encountered by the City resulted in significant additional account reconciliation, review, and journal entries to correct balances after year-end.

Effect: Internal controls were not operating effectively, and the financial records did not reflect the correct financial activity of the period resulting in a material misstatement to the financial statements. This also resulted in significant delays in the financial reporting and audit process.

Questioned Costs: No known questioned costs

Recommendation: The City should review procedures in place with responsible employees and revise procedures, as necessary, to ensure accounts are reconciled, financial statements are prepared, and the audit may be completed in a timely manner.

**CITY OF MILFORD, DELAWARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2021**

Management's
Response:

Management agrees with the finding and is implementing procedures and staff augmentation to rectify the noted issues.

CITY OF MILFORD, DELAWARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2021

Section III – Federal Award’s Findings and Questioned Costs

None noted.

**CITY OF MILFORD, DELAWARE
SUMMARY OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2021**

The summary which follows indicates the current year status of findings identified in the prior year Single Audit Report.

<u>Program</u>	<u>Prior Year Finding</u>	<u>Brief Description of Finding</u>	<u>Current Year Status</u>
None			

Milford

River Town.

Art Town.

Home Town.



#wearemilford