

CITY OF MILFORD

Milford, Delaware

Financial Statements

For The Year Ended June 30, 2011

CITY OF MILFORD, DELAWARE

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TRANSMITTAL LETTER

October 26, 2011

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

The Finance Department and City Manager's Office is pleased to submit the Annual Financial Report for the City of Milford, Delaware for the fiscal year ended June 30, 2011.

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

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

THE REPORT

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

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

CITY PROFILE

Location

The City of Milford is the sixth largest city in population in the State of Delaware, serving over 9,000 residents within a rapidly growing corridor along U.S. Route 113/DE Route 1 in Kent and Sussex Counties. Located on the Mispillion River, within both Kent and Sussex Counties, the City is approximately 95 miles from Philadelphia, Pennsylvania, 85 miles from Baltimore, Maryland, and 100 miles from Washington, D.C. Locally, the City is 19 miles south of Dover, the State Capital.

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

FINANCE

Services Provided

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

Accounting System and Budgetary Control

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

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

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

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

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

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

OTHER INFORMATION

Independent Audit

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



Certified Public Accountants

*Member Firm Private Companies Practice Section
AICPA Division for CPA Firms*

BECK, VILLATA & CO., P.C.

www.beckvillata.com

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

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Milford, Delaware, as of and for the year ended June 30, 2011, which collectively comprise the City of Milford's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Milford's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Milford, Delaware, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 26, 2011, on our consideration of the City of Milford, Delaware internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Milford, Delaware's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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Cherry Hill, New Jersey
October 26, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Milford's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended June 30, 2011. Please read it in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's total net assets increased throughout the course of the year. Net assets of our business type activities increased approximately \$2.7 million (or about 6.85%), while the net assets of the governmental activities decreased \$423 thousand (or about 2.28%).
- During the year, the City's governmental activities incurred total costs of \$8.3 million. Tax revenues generated \$3.9 million, with the deficiency being made up through interfund transfers from the other funds, as well as investment earnings and special items.
- In the City's business-type activities, revenues increased \$1.4 million while expenses increased approximately \$184 thousand. The main reason for this was an increase in billing by the City's utility funds to the city's residents due to increased consumption.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operation in more detail than the government-wide statements.
- The governmental funds statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending.

- Proprietary fund statements offer short- and long-term financial information about the activities the government operates like businesses, such as the water and sewer system.
- Fiduciary fund statements provide information about the financial relationship-like the agency trust-in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.
- Required supplementary information includes a budgeting comparison schedule with respect to the City's General Fund.

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

Government-wide Statements

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

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

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

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

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

Fund Financial Statements

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

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

The City has three kinds of funds:

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

The City's combined net assets increased between fiscal year 2010 and 2011 approximately \$2.3 million. In comparison, last year net assets increased \$1.4 million.

Changes in Net Assets

The City's total revenues increased \$1.4 million to \$42 million. The total cost of all programs and services increased approximately \$231 thousand, (or approximately 0.6 percent). The City's expenses cover a range of services, with about \$5.2 million related to public safety and public works.

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

Business-type Activities

Revenues of the City's business-type activities increased about 4 percent to \$36 million, and expenses increased .6 percent to \$31.4 million.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$6 million, a \$349 thousand decrease from the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

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

Actual general fund revenues exceeded budgeted revenues by \$107 thousand (2.5%) Actual expenditures were \$215 thousand more than the total \$7.5 million budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2011, the City had invested \$39.4 million in a broad range of capital assets, including police equipment, buildings, park facilities, roads, bridges, and water and sewer lines. This amount represents a net increase (including additions and deductions) of \$2.7 million, or 7.4 percent, over last year.

Long-term Debt

At year-end, the City had \$18.9 million in bonds and notes outstanding. More detailed information about the City's long-term liabilities is presented in Note 10 to the financial statements. There were several significant transactions in the City's debt obligations during the fiscal year, including issuance of Series A of 2011 bonds in the amount of \$9,000,000 for electric and sewer capital projects, and Series B of 2011 bonds in the amount of \$3,720,000 for the purpose of current funding of the Series 2002 bonds.

CITY OF MILFORD, DE
STATEMENT OF NET ASSETS
JUNE 30, 2011

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and Equivalents	\$ 2,967,308	\$ 17,727,478	\$ 20,694,786
Investments	3,598,650	14,365,904	17,964,554
Receivables	324,351	3,700,936	4,025,287
Inventories	-	1,146,696	1,146,696
Other Assets	95,460	243,920	339,380
Capital Assets			
Land, Infrastructure and Other Assets not being depreciated	8,876,212	1,461,358	10,337,570
Utility System	-	38,548,908	38,548,908
Buildings	8,095,313	6,109,747	14,205,060
Equipment and Furniture	4,662,584	5,471,825	10,134,409
Construction in Progress	230,229	-	230,229
Less: Accumulated Depreciation	<u>(9,041,126)</u>	<u>(25,025,360)</u>	<u>(34,066,486)</u>
Total Capital Assets	<u>12,823,212</u>	<u>26,566,478</u>	<u>39,389,690</u>
Total Assets	<u>\$ 19,808,981</u>	<u>\$ 63,751,412</u>	<u>\$ 83,560,393</u>
LIABILITIES			
Accounts Payable and Accrued Expenses	\$ 291,935	\$ 2,512,390	\$ 2,804,325
Deferred Revenues	-	-	-
Long-Term Liabilities			
Due Within One Year			
Bonds, Capital Leases and Contracts	33,919	772,553	806,472
Compensated Absences	96,948	53,283	150,231
Customer Deposits	-	344,450	344,450
Due in More Than One Year			
Bonds, Capital Leases and Contracts	199,188	17,943,992	18,143,180
Compensated Absences	516,767	213,119	729,886
Total Liabilities	<u>1,138,757</u>	<u>21,839,787</u>	<u>22,978,544</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	12,590,105	7,849,933	20,440,038
Restricted	730,699	1,833,976	2,564,675
Unrestricted	5,349,420	32,227,716	37,577,136
Total Net Assets	<u>\$ 18,670,224</u>	<u>\$ 41,911,625</u>	<u>\$ 60,581,849</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, 2011**

<u>Functions/Programs</u>	<u>Program Revenue</u>				<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
					<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Primary Government							
Governmental Activities							
General Government	\$ 1,786,979	\$ 30,229	\$ 140,036	\$ -	\$ (1,616,714)		\$ (1,616,714)
Public Safety	4,391,516	-	326,162	-	(4,065,354)		(4,065,354)
Public Works	802,362	-	246,855	-	(555,507)		(555,507)
Culture and Recreation	1,332,901	114,715	-	-	(1,218,186)		(1,218,186)
Total Governmental Activities	<u>8,313,758</u>	<u>144,944</u>	<u>713,053</u>	<u>-</u>	<u>(7,455,761)</u>		<u>(7,455,761)</u>
Business-Type Activities							
Electric Fund	23,999,264	28,083,448	50,000	-		4,134,184	4,134,184
Water Fund	1,719,995	2,278,721	-	-		558,726	558,726
Sewer Fund	3,033,504	3,245,170	-	-		211,666	211,666
Trash Fund	1,005,820	1,130,791	-	-		124,971	124,971
Internal Service Fund	1,643,575	1,656,394	-	-		12,819	12,819
Total Business-Type Activities	<u>31,402,158</u>	<u>36,394,524</u>	<u>50,000</u>	<u>-</u>		<u>5,042,366</u>	<u>5,042,366</u>
Total Primary Government	<u>\$ 39,715,916</u>	<u>\$ 36,539,468</u>	<u>\$ 763,053</u>	<u>\$ -</u>	<u>\$ (7,455,761)</u>	<u>\$ 5,042,366</u>	<u>\$ (2,413,395)</u>
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes					3,282,292	-	3,282,292
Franchise Taxes					366,818	-	366,818
Public Service Taxes					222,778	-	222,778
Impact Fees					-	60,560	60,560
Unrestricted Investment Earnings					58,583	74,792	133,375
Miscellaneous					493,228	8,946	502,174
Special item - Gain on Sale of Asset					109,440	-	109,440
Transfers					2,500,000	(2,500,000)	-
Total General Revenues, Special Items, and Transfers					<u>7,033,139</u>	<u>(2,355,702)</u>	<u>4,677,437</u>
Change in Net Assets					(422,622)	2,686,664	2,264,042
Net Assets - Beginning (restated)					<u>19,092,846</u>	<u>39,224,961</u>	<u>58,317,807</u>
Net Assets - Ending					<u>\$ 18,670,224</u>	<u>\$ 41,911,625</u>	<u>\$ 60,581,849</u>

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

**CITY OF MILFORD, DE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Parks and Recreation Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and Cash Equivalents	\$ 1,310,292	\$ 1,603,566	\$ 53,450	\$ 2,967,308
Investments	1,998,650	1,600,000	-	3,598,650
Taxes Receivable, Net of Allowance for Doubtful Accounts	97,332	60,926	-	158,258
Other Receivables	160,407	5,686	-	166,093
Prepaid Expenses	95,460	-	-	95,460
Total Assets	<u>\$ 3,662,141</u>	<u>\$ 3,270,178</u>	<u>\$ 53,450</u>	<u>\$ 6,985,769</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 134,010	\$ 38,073	\$ 3,125	\$ 175,208
Compensated Absences - Current	96,948	-	-	96,948
Other Accrued Expenses	165,478	-	-	165,478
Other Payables	2,856	-	828	3,684
Deferred Revenue	-	-	-	-
Total Liabilities	<u>399,292</u>	<u>38,073</u>	<u>3,953</u>	<u>441,318</u>
Fund Balances:				
Restricted	-	730,699	-	730,699
Nonspendable	95,460	-	-	95,460
Assigned	-	2,501,406	49,497	2,550,903
Unassigned	3,167,389	-	-	3,167,389
Total Fund Balances	<u>3,262,849</u>	<u>3,232,105</u>	<u>49,497</u>	<u>6,544,451</u>
Total Liabilities and Fund Balances	<u>\$ 3,662,141</u>	<u>\$ 3,270,178</u>	<u>\$ 53,450</u>	<u>\$ 6,985,769</u>

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

CITY OF MILFORD, DE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Total Fund Balance, Governmental Funds \$ 6,544,451

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. 12,823,212

Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. 52,435

Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets. (749,874)

Net Assets of Governmental Activities in the Statement of Net Assets \$ 18,670,224

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, 2011

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Parks and Recreation Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Property Taxes	\$ 2,998,316	\$ -	\$ -	\$ 2,998,316
Real Estate Transfer Taxes	-	283,976	-	283,976
Fees and Fines	167,809	-	-	167,809
Licenses and Permits	199,009	-	-	199,009
Engineering & Inspection Fees	222,778	-	-	222,778
Intergovernmental	140,036	573,017	-	713,053
Charges for Services	30,229	-	114,715	144,944
Investment Earnings	36,849	21,734	-	58,583
Miscellaneous	478,583	7,861	6,784	493,228
	<u>4,273,609</u>	<u>886,588</u>	<u>121,499</u>	<u>5,281,696</u>
EXPENDITURES				
Current:				
General Government	1,201,102	-	-	1,201,102
Public Safety	3,983,443	408,073	-	4,391,516
Public Works	802,362	-	-	802,362
Culture and Recreation	1,231,441	-	101,460	1,332,901
Debt Service:				
Principal	36,966	-	-	36,966
Interest	9,480	-	-	9,480
Capital Outlay	271,940	214,641	-	486,581
	<u>7,536,734</u>	<u>622,714</u>	<u>101,460</u>	<u>8,260,908</u>
Total Expenditures	<u>7,536,734</u>	<u>622,714</u>	<u>101,460</u>	<u>8,260,908</u>
(Deficiency) Excess of Revenues Over Expenditures	<u>(3,263,125)</u>	<u>263,874</u>	<u>20,039</u>	<u>(2,979,212)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	3,152,060	-	-	3,152,060
Transfers Out	-	(652,060)	-	(652,060)
Proceeds of Refunding Bonds	233,107	-	-	233,107
Debt Service - Principal on Refunded Bonds	(230,347)	-	-	(230,347)
Issuance Costs on Refunding Bonds	(2,760)	-	-	(2,760)
	<u>3,152,060</u>	<u>(652,060)</u>	<u>-</u>	<u>2,500,000</u>
Total Other Financing Sources and Uses	<u>3,152,060</u>	<u>(652,060)</u>	<u>-</u>	<u>2,500,000</u>
SPECIAL ITEM				
Proceeds from Sale of Land	130,470	-	-	130,470
	<u>130,470</u>	<u>-</u>	<u>-</u>	<u>130,470</u>
Net Change in Fund Balances	19,405	(388,186)	20,039	(348,742)
Fund Balances - Beginning	<u>3,243,444</u>	<u>3,620,291</u>	<u>29,458</u>	<u>6,893,193</u>
Fund Balances - Ending	<u>\$ 3,262,849</u>	<u>\$ 3,232,105</u>	<u>\$ 49,497</u>	<u>\$ 6,544,451</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, 2011**

Net change in fund balances - total governmental funds:	\$ (348,742)
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenses in the statement of revenues, expenditures and changes in fund balance.	(52,044)
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 depreciation \$524,353 exceeded capital outlays \$486,581 in the current period.	(37,772)
Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold	(21,030)
Governmental funds report repayment of bond principal as an expenditure, In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.	<u>36,966</u>
Change in net assets of governmental activities	<u><u>\$ (422,622)</u></u>

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

**CITY OF MILFORD, DE
BUDGET AND ACTUAL (WITH VARIANCES)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property Taxes	\$ 2,914,600	\$ 2,914,600	\$ 2,998,316	\$ 83,716
Fees and Fines	169,000	169,000	167,809	(1,191)
Licenses and Permits	190,500	190,500	199,009	8,509
Engineering and Inspection Fees	180,400	413,788	222,778	(191,010)
Intergovernmental	-	-	140,036	140,036
Charges for Services	41,000	41,000	30,229	(10,771)
Investment Earnings	25,000	25,000	36,849	11,849
Miscellaneous	412,575	412,575	478,583	66,008
Total Revenues	3,933,075	4,166,463	4,273,609	107,146
EXPENDITURES				
Current:				
General Government	1,253,115	1,259,515	1,201,102	58,413
Public Safety	3,783,060	3,783,060	3,983,443	(200,383)
Public Works	742,825	742,825	802,362	(59,537)
Culture and Recreation	1,058,615	1,117,615	1,231,441	(113,826)
Debt Service:				
Principal	36,050	36,050	36,966	(916)
Interest and Other Charges	10,670	10,670	9,480	1,190
Capital Outlay	203,400	371,388	271,940	99,448
Total Expenditures	7,087,735	7,321,123	7,536,734	(215,611)
Deficiency of Revenues Over Expenditures	(3,154,660)	(3,154,660)	(3,263,125)	(108,465)
OTHER FINANCING SOURCES (USES)				
Transfers In	3,204,300	3,204,300	3,152,060	(52,240)
Transfers Out	-	-	-	-
Total Other Financing Sources and Uses	3,204,300	3,204,300	3,152,060	(52,240)
SPECIAL ITEM				
Proceeds from Sale of Land	-	-	130,470	130,470
Net Change in Fund Balances	49,640	49,640	19,405	(30,235)
Fund Balances - Beginning	3,243,444	3,243,444	3,243,444	-
Fund Balances - Ending	<u>\$ 3,293,084</u>	<u>\$ 3,293,084</u>	<u>\$ 3,262,849</u>	<u>\$ (30,235)</u>

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

**CITY OF MILFORD, DE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011**

ENTERPRISE FUNDS

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Trash</u>	<u>Total</u>	<u>Internal Service Fund</u>
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 10,098,221	\$ 2,594,693	\$ 4,312,425	\$ 532,136	\$ 17,537,475	\$ 190,003
Investments	7,703,919	3,798,488	2,863,497	-	14,365,904	-
Accounts Receivable, net of allowance for doubtful accounts	2,979,640	214,622	335,708	131,330	3,661,300	-
Other Receivables	3,301	10,393	25,442	500	39,636	-
Inventories	1,054,300	41,762	-	-	1,096,062	50,634
Deferred Bond Issue Costs	147,477	29,659	66,784	-	243,920	-
Total Current Assets	21,986,858	6,689,617	7,603,856	663,966	36,944,297	240,637
Non-Current Assets:						
Capital Assets:						
Land and Improvements	1,405,351	27,369	28,638	-	1,461,358	-
Utility System	10,593,827	12,734,716	15,220,365	-	38,548,908	-
Buildings and Improvements	5,850,346	202,734	45,821	10,846	6,109,747	-
Equipment and Furniture	2,293,995	625,892	382,432	1,064,818	4,367,137	1,104,688
Less Accumulated Depreciation	(11,323,334)	(6,117,746)	(6,441,584)	(866,676)	(24,749,340)	(276,020)
Total Non-Current Assets	8,820,185	7,472,965	9,235,672	208,988	25,737,810	828,668
Total Assets	\$ 30,807,043	\$ 14,162,582	\$ 16,839,528	\$ 872,954	\$ 62,682,107	\$ 1,069,305
LIABILITIES						
Current Liabilities:						
Accounts Payable	\$ 2,054,255	\$ 38,591	\$ 228,718	\$ 32,446	\$ 2,354,010	\$ 84,112
Salaries Payable	28,498	6,049	6,048	7,257	47,852	-
Other Accrued Expenses	26,416	-	-	-	26,416	-
Customer Deposits	344,450	-	-	-	344,450	-
Compensated Absences	21,204	3,720	3,720	3,459	32,103	21,180
Bonds, Notes and Loans Payable	172,917	359,636	240,000	-	772,553	-
Total Current Liabilities	2,647,740	407,996	478,486	43,162	3,577,384	105,292
Non-Current Liabilities:						
Compensated Absences	84,822	14,869	14,869	13,847	128,407	84,712
Bonds, Notes and Loans Payable	8,449,043	3,156,632	6,338,317	-	17,943,992	-
Total Non-Current Liabilities	8,533,865	3,171,501	6,353,186	13,847	18,072,399	84,712
Total Liabilities	\$ 11,181,605	\$ 3,579,497	\$ 6,831,672	\$ 57,009	\$ 21,649,783	\$ 190,004
NET ASSETS						
Invested in Capital Assets, net of related debt	\$ 198,225	\$ 3,956,697	\$ 2,657,355	\$ 208,988	\$ 7,021,265	\$ 828,668
Restricted for Capital Improvements	257,828	912,632	663,516	-	1,833,976	-
Unrestricted	19,169,385	5,713,756	6,686,985	606,957	32,177,083	50,633
Total Net Assets	\$ 19,625,438	\$ 10,583,085	\$ 10,007,856	\$ 815,945	\$ 41,032,324	\$ 879,301

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

CITY OF MILFORD, DE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	ENTERPRISE FUNDS					Internal Service Fund
	Electric	Water	Sewer	Trash	Total	
REVENUES						
Charges for Services	\$ 27,697,694	\$ 2,240,621	\$ 3,245,170	\$ 1,078,718	\$ 34,262,203	\$ 1,656,394
Miscellaneous	385,754	38,100	-	52,073	475,927	-
Total Operating Revenues	<u>28,083,448</u>	<u>2,278,721</u>	<u>3,245,170</u>	<u>1,130,791</u>	<u>34,738,130</u>	<u>1,656,394</u>
OPERATING EXPENSES						
Personal Services	2,021,633	368,632	394,425	436,110	3,220,800	1,122,158
Contractual Services	20,933,716	69,303	1,896,621	342,591	23,242,231	19,491
Utilities	8,678	244,045	29,905	-	282,628	4,712
Repairs and Maintenance	386,275	33,208	34,558	90,039	544,080	219,179
Other Supplies and Expenses	64,407	502,267	265,824	99,256	931,754	272,515
Insurance Claims and Expenses	39,936	7,779	3,111	6,924	57,750	5,520
Depreciation	405,824	302,183	307,001	30,900	1,045,908	-
Total Operating Expenses	<u>23,860,469</u>	<u>1,527,417</u>	<u>2,931,445</u>	<u>1,005,820</u>	<u>29,325,151</u>	<u>1,643,575</u>
Operating Income	<u>4,222,979</u>	<u>751,304</u>	<u>313,725</u>	<u>124,971</u>	<u>5,412,979</u>	<u>12,819</u>
NON-OPERATING REVENUES (EXPENSES)						
Interest and Investment Revenues	43,565	14,507	15,782	938	74,792	-
Impact Fees	-	39,487	21,073	-	60,560	-
Miscellaneous Revenue	8,946	-	-	-	8,946	-
Operating Grants and Contributions	50,000	-	-	-	50,000	-
Interest Expense	(138,495)	(192,578)	(81,299)	-	(412,372)	-
Miscellaneous Expenses	(300)	-	(20,760)	-	(21,060)	-
Total Non-Operating (Expenses) Revenues	<u>(36,284)</u>	<u>(138,584)</u>	<u>(65,204)</u>	<u>938</u>	<u>(239,134)</u>	<u>-</u>
Income Before Transfers	4,186,695	612,720	248,521	125,909	5,173,845	12,819
Transfers In	-	-	-	-	-	-
Transfers Out	(2,500,000)	-	-	-	(2,500,000)	-
Changes in Net Assets	1,686,695	612,720	248,521	125,909	2,673,845	12,819
Total Net Assets - Beginning	<u>17,938,743</u>	<u>9,970,365</u>	<u>9,759,335</u>	<u>690,036</u>	<u>38,358,479</u>	<u>866,482</u>
Total Net Assets - Ending	<u>\$ 19,625,438</u>	<u>\$ 10,583,085</u>	<u>\$ 10,007,856</u>	<u>\$ 815,945</u>	<u>\$ 41,032,324</u>	<u>\$ 879,301</u>

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

**CITY OF MILFORD, DE
STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2011**

	ENTERPRISE FUNDS				
	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Trash</u>	<u>Total</u>
Cash Flows from Operations:					
Receipts from Customers	\$ 27,554,528	\$ 2,540,909	\$ 3,208,254	\$ 1,066,520	\$ 34,370,211
Other Operating Receipts	411,778	40,695	354,033	52,073	858,579
Payments to Suppliers	(21,399,015)	(868,813)	(2,304,631)	(528,023)	(25,100,482)
Payments to Employees	(2,014,263)	(369,584)	(393,378)	(434,846)	(3,212,071)
Customer Deposits	6,940	-	-	-	6,940
Insurance Premiums Paid	(39,936)	(7,779)	(3,111)	(6,924)	(57,750)
Net Cash Provided by Operating Activities	<u>4,520,032</u>	<u>1,335,428</u>	<u>861,167</u>	<u>148,800</u>	<u>6,865,427</u>
Cash Flows from Non-Capital Financing Activities:					
Operating Transfers In	-	-	-	-	-
Operating Transfers (Out)	(2,500,000)	-	-	-	(2,500,000)
Net Cash Used in Non-Capital Financing Activities	<u>(2,500,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,500,000)</u>
Cash Flows from Capital and Related Financing Activities:					
Additions to Property, Plant and Equipment	(2,168,052)	(384,693)	(566,871)	(137,757)	(3,257,373)
Proceeds from Bond Issuance	5,578,162	-	3,530,458	-	9,108,620
Debt Issue Costs	(84,894)	-	(54,025)	-	(138,919)
Principal Paid on Bonds	(170,000)	(397,183)	(253,385)	-	(820,568)
Interest Paid on Bonds	(136,954)	(99,863)	(81,299)	-	(318,116)
Non-Operating Capital	58,946	-	-	-	58,946
Impact Fees Received	-	39,487	21,073	-	60,560
Net Cash Flows Provided by (Used in) Capital and Related Financing Activities	<u>3,077,208</u>	<u>(842,252)</u>	<u>2,595,951</u>	<u>(137,757)</u>	<u>4,693,150</u>
Cash Flows from Investing Activities:					
Net Proceeds/Purchases from Sales and Maturities of Short-Term Investments	85,310	45,220	(221,689)	-	(91,159)
Income on Investments	43,565	14,507	15,782	938	74,792
Net Cash Flows from Investing Activities	<u>128,875</u>	<u>59,727</u>	<u>(205,907)</u>	<u>938</u>	<u>(16,367)</u>
Net Increase in Cash and Cash Equivalents	5,226,115	552,903	3,251,211	11,981	9,042,210
Cash and Cash Equivalents at Beginning of Year	<u>4,872,106</u>	<u>2,041,790</u>	<u>1,061,214</u>	<u>520,155</u>	<u>8,495,265</u>
Cash and Cash Equivalents at End of Year	<u>\$ 10,098,221</u>	<u>\$ 2,594,693</u>	<u>\$ 4,312,425</u>	<u>\$ 532,136</u>	<u>\$ 17,537,475</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:					
Operating Income	\$ 4,222,979	\$ 751,304	\$ 313,725	\$ 124,971	\$ 5,412,979
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation and Amortization	405,824	302,183	307,001	30,900	1,045,908
Effect of Changes in Operating Assets and Liabilities:					
Accounts Receivable, net	(117,142)	302,883	317,117	(12,198)	490,660
Inventory	70,176	(9,062)	-	-	61,114
Accounts Payable	(76,115)	(10,928)	(77,723)	3,863	(160,903)
Salaries Payable	3,615	(2,139)	(140)	789	2,125
Customer Deposits	6,940	-	-	-	6,940
Liability for Compensated Absences	3,755	1,187	1,187	475	6,604
Net Cash Provided by (Used in) Operating Activities	<u>\$ 4,520,032</u>	<u>\$ 1,335,428</u>	<u>\$ 861,167</u>	<u>\$ 148,800</u>	<u>\$ 6,865,427</u>
Noncash Capital Financing Activities					
Issuance of Series B of 2011 Refunding Bonds	\$ -	\$ 2,504,664	\$ 1,077,406	\$ -	\$ 3,582,070
Current Refunding of Series 2002 Bonds	-	(2,475,005)	(1,064,648)	-	(3,539,653)
Deferred Bond Issuance Costs	-	(29,659)	(12,758)	-	(42,417)
Net Cash	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Additions to Property, Plant and Equipment	2,168,052	384,693	1,169,645	137,757	3,860,147
Financed by Delaware Revolving Loans	-	-	(602,774)	-	(602,774)
Net Cash	<u>2,168,052</u>	<u>384,693</u>	<u>566,871</u>	<u>137,757</u>	<u>3,257,373</u>

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

**CITY OF MILFORD, DE
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2011**

ASSETS	<u>AGENCY</u>
Cash and Cash Equivalents	<u>42,290</u>
Total Assets	<u><u>\$ 42,290</u></u>
 LIABILITIES	
Due to Other Governments	<u>42,290</u>
Total Liabilities	<u><u>\$ 42,290</u></u>

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

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Introduction

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

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

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

Financial Reporting Entity

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

Government-Wide and Fund Financial Statements

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

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

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

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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

The City reports the following governmental funds:

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

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

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The City reports the following governmental funds (Continued):

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

The City reports the following proprietary funds:

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

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

The City reports the following fiduciary fund types:

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

Use of Estimates

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

Encumbrances

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

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

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

Budgets and Budgetary Accounting

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

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

Cash and Cash Equivalents

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

Receivables

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

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

Interfund Receivables/Payables

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

Inventory

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

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

Deferred Bond Discount and Costs

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

Fixed Assets

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

Compensated Absences

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

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

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

Compensated Absences (Continued)

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

Long-Term Liabilities

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

Government-wide and Proprietary Fund Net Assets:

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

Governmental Fund Balances:

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

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

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

Governmental Fund Balances (Continued):

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

Inter-Fund Transactions

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

Interest Capitalization

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

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

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

The amount of interest expense to be capitalized is based on the weighted-average amount of accumulated expenditures for the period multiplied by the interest rate for the obligation incurred specifically to finance the construction of capital assets. No capitalizable interest was incurred during the year ended June 30, 2011.

Changes in Beginning Fund Balances/Net Assets

The City discovered during the current year that certain infrastructure assets reflected in its government-wide financial statement, as well as an asset in its electric fund had not been properly depreciated in prior years.

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

Changes in Beginning Fund Balances/Net Assets (Continued):

The following summarizes the changes in beginning fund balances/net assets as of the beginning of the fiscal year:

	<u>Special Revenue Fund</u>	<u>Electric Fund</u>	<u>Governmental Activities</u>
Fund Balance/Net Assets, beginning of year, as previously stated	\$ 3,043,762	\$18,791,882	\$25,271,861
Deferred Revenue reclassified to restricted fund balance	576,529	-	576,529
Decrease resulting from recognition of depreciation in prior years not previously recognized	<u>-</u>	<u>(853,139)</u>	<u>(6,755,544)</u>
Fund Balance/Net Assets, beginning of year, as restated	<u>\$ 3,620,291</u>	<u>\$17,938,743</u>	<u>\$19,092,846</u>

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

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

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

Capital Asset Differences

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

Land, Infrastructure and Other Assets	\$ 8,876,212
Building and Improvements	8,095,313
Equipment and Furniture	4,662,584
Construction in Progress	230,229
Less: Accumulated Depreciation	<u>(9,041,126)</u>
Net Capital Asset Difference	<u>\$12,823,212</u>

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

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

Long-Term Liability Differences

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

Long-Term Portion of Compensated Absences	\$ 516,767
Current Portion of Bonds Payable	33,919
Long-Term Portion of Bonds Payable	<u>199,188</u>
Total Current and Long-Term Liability Differences	<u>\$ 749,874</u>

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

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

Capital Outlay Differences

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

Capital Outlay	\$ 486,581
Depreciation	<u>(524,353)</u>
Net Difference	<u>(\$ 37,772)</u>

Long-Term Debt Issuance and Repayment Differences

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

Principal Repayment	<u>\$ 36,966</u>
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CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 - FINANCIAL INSTRUMENTS

The City has a number of financial instruments. The City estimates that the fair value of all financial instruments as of June 30, 2011, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet and statement of net assets.

NOTE 4 - CASH AND INVESTMENTS

Cash and Cash Equivalents

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of June 30, 2011, all of the City's bank balance of \$20,556,314 was either insured or fully collateralized.

NOTE 5 - REAL ESTATE TAXES

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

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

NOTE 6 - IMPACT FEES

All new water, sewage, and electric services within the City of Milford are required to pay a one-time "impact fee." The purpose of the fee is to compensate for the impact of new users to the existing water and sewage systems, in order to provide for future expansion. All impact fees collected are restricted for capital improvements, as specified and approved by City Council that will be required as the result of population growth. The cost of the impact fee for water, sewage, and electric for the year ended June 30, 2011 was \$2,075, \$1,097, and \$600 per Estimated Discharge Usage (EDU), respectively.

The City has recorded as revenue in the proprietary funds Statement of Revenues, Expenses and Changes in Fund Net Assets and in the government-wide Statement of Activities the impact fee monies, as required by GASB No. 33. Resulting restricted net assets at June 30, 2011 is \$1,833,976.

NOTE 7 - INTERFUND TRANSACTIONS

During the course of normal operations, the City has numerous transactions between funds including expenses or expenditures and transfers of resources primarily to provide services. The financial statements of the governmental and proprietary fund types generally reflect such transactions as transfers.

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 7 - INTERFUND TRANSACTIONS

Transfers that are not considered operating or residual equity transfers give rise to individual fund, interfund receivables and payables. As of June 30, 2011, there are no outstanding interfund balances.

NOTE 8 - INTERGOVERNMENTAL RECEIVABLES

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

NOTE 9 - FIXED ASSETS

The following schedule presents the capital activity of the governmental activities for the year ended June 30, 2011:

Description	Year Ended June 30, 2011				
	Balances 07/01/10	Additions	Deletions	Adjustments & Transfers	Balances 06/30/11
City Department:					
Land	\$ 6,662,799	\$ -	\$ 18,994	\$ -	\$ 6,643,805
Buildings and Improvements	4,137,131	-	-	-	4,137,131
Vehicles and Equipment	3,343,808	156,320	20,357	-	3,479,771
Construction in Progress	135,596	94,633	-	-	230,229
Total City Depreciation	14,279,334	250,953	39,351	-	14,490,936
Accumulated Depreciation	(967,991)	(324,103)	(18,321)	(3,196,942)	(4,470,715)
Total City Department, Net	\$13,311,343	(\$ 73,150)	\$ 21,030	(\$ 3,196,942)	\$10,020,221
Street Department:					
Land Improvements	\$ 1,951,118	\$ 123,487	\$ -	\$ 157,802	\$ 2,232,407
Buildings and Improvements	4,115,984	-	-	(157,802)	3,958,182
Vehicles and Equipment	1,095,808	87,005	-	-	1,182,813
Total City Department	7,162,910	210,492	-	-	7,373,402
Accumulated Depreciation	(811,559)	(121,096)	-	(3,637,756)	(4,570,411)
Total Street Department, Net	\$ 6,351,351	\$ 89,396	\$ -	(\$3,637,756)	\$ 2,802,991
Year Ended June 30, 2011					
Description	Balances 07/01/10	Additions	Deletions	Adjustments & Transfers	Balances 06/30/11
Total Government					
Capital Assets:					
Land	\$ 8,613,917	\$ 123,487	\$ 18,994	\$ 157,802	\$ 8,876,212
Buildings and Improvements	8,253,115	-	-	(157,802)	8,095,313
Vehicles and Equipment	4,439,616	243,325	20,357	-	4,662,584
Construction in Progress	135,596	94,633	-	-	230,229
Total Governmental Capital Assets	21,442,244	461,445	39,351	-	21,864,338
Accumulated Depreciation	(1,779,550)	(445,199)	(18,321)	(6,834,698)	(9,041,126)
Total Governmental Capital Assets, Net	\$19,662,694	\$ 16,246	\$ 21,030	(\$6,834,698)	\$12,823,212

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 9 - FIXED ASSETS (CONTINUED)

The following schedule presents the capital activity of the business-type activities for the year ended June 30, 2011:

Description	Year Ended June 30, 2011				
	Balances 07/01/10	Additions	Deletions	Adjustments & Transfers	Balances 06/30/11
Electric Fund:					
Land	\$ 312,981	\$1,092,370	\$ -	\$ -	\$ 1,405,351
Buildings and Improvements	5,838,126	12,220	-	-	5,850,346
Electric System	9,686,361	907,466	-	-	10,593,827
Vehicles and Equipment	2,137,997	155,998	-	-	2,293,995
Total Fixed Assets	17,975,465	2,168,054	-	-	20,143,519
Accumulated Depreciation	(10,064,371)	(405,824)	-	(853,139)	(11,323,334)
Net Book Value	\$ 7,911,094	\$1,762,230	\$ -	(\$ 853,139)	\$ 8,820,185
Water Fund:					
Land	\$ 27,369	\$ -	\$ -	\$ -	\$ 27,369
Buildings and Improvements	202,734	-	-	-	202,734
Water System	12,395,663	339,053	-	-	12,734,716
Vehicles and Equipment	580,252	45,640	-	-	625,892
Total Fixed Assets	13,206,018	384,693	-	-	13,590,711
Accumulated Depreciation	(5,815,563)	(302,183)	-	-	(6,117,746)
Net Book Value	\$ 7,390,455	\$ 82,510	\$ -	\$ -	\$ 7,472,965
Waste Water Fund:					
Land	\$ 28,638	\$ -	\$ -	\$ -	\$ 28,638
Buildings and Improvements	45,821	-	-	-	45,821
Waste Water System	14,050,720	1,169,645	-	-	15,220,365
Vehicles and Equipment	382,432	-	-	-	382,432
Total Fixed Assets	14,507,611	1,169,645	-	-	15,677,256
Accumulated Depreciation	(6,134,583)	(307,001)	-	-	(6,441,584)
Net Book Value	\$ 8,373,028	\$ 882,644	\$ -	\$ -	\$ 9,235,672

Description	Year Ended June 30, 2011				
	Balances 07/01/10	Additions	Deletions	Adjustments & Transfers	Balances 06/30/11
Trash Fund:					
Buildings and Improvements	\$ 10,846	\$ -	\$ -	\$ -	\$ 10,846
Vehicles and Equipment	927,061	137,757	-	-	1,064,818
Total Fixed Assets	937,907	137,757	-	-	1,075,664
Accumulated Depreciation	(835,777)	(30,899)	-	-	(866,676)
Net Book Value	\$ 102,130	\$ 106,858	\$ -	\$ -	\$ 208,988

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 9 - FIXED ASSETS (CONTINUED)

The following schedule presents the capital activity of the business-type activities for the year ended June 30, 2011:

<u>Description</u>	Year Ended June 30, 2011				
	Balances 07/01/10	Additions	Deletions	Adjustments & Transfers	Balances 06/30/11
Total Enterprise Funds:					
Land	\$ 368,988	\$1,092,370	\$ -	\$ -	\$ 1,461,358
Buildings and Improvements	6,097,527	12,220	-	-	6,109,747
Electric System	9,686,361	907,466	-	-	10,593,827
Water System	12,395,663	339,053	-	-	12,734,716
Waste Water System	14,050,720	1,169,645	-	-	15,220,365
Vehicles and Equipment	4,027,742	339,395	-	-	4,367,137
Total Fixed Assets	46,627,001	3,860,149	-	-	50,487,150
Accumulated Depreciation	(22,850,294)	(1,045,907)	-	(853,139)	(24,749,340)
Net Book Value	<u>\$23,776,707</u>	<u>\$2,814,242</u>	<u>\$ -</u>	<u>(\$ 853,139)</u>	<u>\$25,737,810</u>

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 10 - LONG-TERM DEBT OBLIGATIONS

Long-Term Debt Schedule

Long-Term liability activity for the year ended June 30, 2011 is as follows:

Governmental Activities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Within One Year</u>
Bonds Payable:					
Series 2002 General Obligation Bonds	\$ 267,313	\$ -	(\$ 267,313)	\$ -	\$ -
Series B 2011 General Obligation Bonds	-	227,292	-	227,292	32,700
Bond Premium	-	5,815	-	5,815	1,219
Other Liabilities:					
Compensated Absences	<u>637,997</u>	<u>-</u>	<u>(24,282)</u>	<u>613,715</u>	<u>96,948</u>
Governmental Activities Long-Term Liabilities	<u>\$ 905,310</u>	<u>\$ 233,107</u>	<u>(\$ 291,595)</u>	<u>\$ 846,822</u>	<u>\$130,867</u>

Business Activities:

Bonds Payable:					
Series 1992A Capital Appreciation Bond	\$ 1,670,000	\$ -	\$ -	\$ 1,670,000	\$ -
Revolving Funds Loans - State of Delaware	1,138,393	-	(80,111)	1,058,282	82,532
State of Delaware 2010	337,585	600,353	-	937,938	-
Series 2002 General Obligation Bonds	4,107,688	-	(4,107,688)	-	-
Series 2005 General Obligation Bonds	3,310,000	-	(170,000)	3,140,000	175,000
Series A of 2011 General Obligation Bonds	-	9,000,000	-	9,000,000	-
Series B of 2011 General Obligation Bonds	<u>-</u>	<u>3,492,708</u>	<u>-</u>	<u>3,492,708</u>	<u>512,300</u>
	10,563,666	13,093,061	(4,357,799)	19,298,928	769,832
Add: Bond Premium 2011 Bonds	-	197,982	-	197,982	27,054
Less: Bond Discount and Deferred Amount on Refunding	<u>(881,037)</u>	<u>-</u>	<u>100,672</u>	<u>(780,365)</u>	<u>(24,333)</u>
Total Bonds Payable	9,682,629	13,291,043	(4,257,127)	18,716,545	772,553
Other Liabilities:					
Compensated Absences	<u>241,107</u>	<u>25,295</u>	<u>-</u>	<u>266,402</u>	<u>53,283</u>
Business-Type Activities Long-Term Liabilities	<u>\$ 9,923,736</u>	<u>\$13,316,338</u>	<u>(\$4,257,127)</u>	<u>\$18,982,947</u>	<u>\$825,836</u>

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 10 - LONG-TERM DEBT OBLIGATIONS

General Obligation Bonds

Series A of 1992 Bond Issue

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

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

Capital Appreciation Bonds

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

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (CONTINUED)

SERIES OF 2002 BOND ISSUE

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

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

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

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

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (CONTINUED)

General Obligation Bonds (Continued)

SERIES OF 2005 BOND ISSUE

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

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

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

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (CONTINUED)

NOTES PAYABLE - STATE OF DELAWARE

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

Year Ending <u>June 30,</u>	
2011	\$ 82,532
2012	85,027
2013	87,597
2014	90,245
2015	92,972
Thereafter	<u>619,909</u>
	<u>\$1,058,282</u>

The City has also received additional funds under this program in connection with the second part of its System Expansion Project which is still in progress. The balance on the related note as of June 30, 2011 is \$937,938. Semi-annual interest payments are due during construction at an annual rate of 2.0%. Amortized loan payments shall begin semi-annually after the completion of the project.

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

SERIES A OF 2011 BOND ISSUE

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

The following is a schedule of maturities of the Series A 2011 bond issue:

Year Ending <u>June 30,</u>	<u>Principal</u>		<u>Interest</u>	
	<u>Total</u>	<u>Rate</u>	<u>Total</u>	
2012	\$ -	2.00%	\$ 159,887	
2013	280,000	2.00%	318,007	
2014	285,000	2.00%	312,407	
2015	290,000	2.00%	306,707	
2016	295,000	2.00%	300,906	
2017	300,000	2.00%	295,007	
2018	310,000	3.00%	289,007	
2019	320,000	3.00%	279,707	
2020	330,000	3.00%	270,107	
2021	340,000	3.00%	260,207	
2022	350,000	3.50%	250,007	
2023	365,000	3.50%	237,758	
2024	375,000	3.50%	224,983	
2025	390,000	3.75%	211,857	
2026	405,000	3.75%	197,234	
2027	420,000	4.00%	182,045	
2028	435,000	4.00%	165,245	
2029	455,000	4.05%	147,845	
2030	470,000	4.05%	129,419	
2031	490,000	4.05%	110,382	
2032	500,000	4.25%	90,539	
2033	290,000	4.25%	69,288	
2034	305,000	4.25%	56,962	
2035	320,000	4.40%	44,000	
2036	335,000	4.40%	29,920	
2037	345,000	4.40%	15,180	

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

SERIES B OF 2011 BOND ISSUE

On June 30, 2011, the City issued \$3,720,000 in General Obligation Bonds with interest rates ranging between 2.0% and 3.0%. The City issued the bonds in order to currently refund \$3,770,000 of outstanding 2002 Refunding Bonds with interest rates ranging from 3.2% to 4.35%. The Series B 2011 General Obligation Bonds are scheduled to mature January 1, 2021, with annual principal payments commencing January 1, 2012. Semi-annual interest payments are also scheduled to commence January 1, 2012.

The current refunding reduced total debt service payments over the next 10 years by \$276,000. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$259,000.

The following is a schedule of maturities of the Series B 2011 bond issue:

Year Ending <u>June 30,</u>	Principal <u>Amount</u>	<u>Interest</u>	
		<u>Rate</u>	<u>Amount</u>
2012	\$ 545,000	2.00%	\$ 43,792
2013	685,000	2.00%	76,200
2014	690,000	2.00%	62,500
2015	290,000	2.00%	48,700
2016	240,000	2.00%	42,900
2017	235,000	3.00%	38,100
2018	250,000	3.00%	31,050
2019	255,000	3.00%	23,550
2020	260,000	3.00%	15,900
2021	270,000	3.00%	8,100

CITY OF MILFORD, DELAWARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 11 - PENSION PLAN

County and Municipal Pension Plan

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

Along with the prior service cost, the City is obligated to pay the ongoing regular contribution rate (6.15% for fiscal year 2010 and 6.2% for fiscal year 2011). For sworn officers, the contribution rate was 13.7% for fiscal year 2010 and 13.9% for fiscal year 2011. These contribution rates are expected to gradually increase over the next several years. In addition, eligible employees are required to contribute 3% of their earnings in excess of \$6,000 and an additional 2% of their earnings in excess of the Social Security wage base.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

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

Government Grant/Award Programs

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

Government Auditing Standards Reports

City of Milford, DE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Contract Number	Award Period	Award Amount	Expenditures
FEDERAL FINANCIAL ASSISTANCE:					
Federal Grantor: Department of Justice Pass-Through: Office of Community Policing Activities					
Public Safety Partnership and Community Policing Grants	16.710	2009CKWX0664	9/1/2009 - 8/31/2011	\$ 486,040	<u>278,350</u>
Total	16.710				<u>278,350</u>
Federal Grantor: Environmental Protection Agency Pass-Through: State of Delaware Revolving Fund - Division of Water Resources					
Capitalization Grants for Clean Water State Revolving Funds	66.458	PAB#12000033	12/30/09 - 12/30/2029	2,835,586	<u>547,088</u>
Total	66.458				<u>547,088</u>
Federal Grantor: Environmental Protection Agency Pass-Through: State of Delaware Department of Agriculture					
Forest Health Protection	10.680	07-00-11420004-064	5/1/2007 - 12/31/10	10,784	<u>6,859</u>
Total	10.680				<u>6,859</u>
Federal Grantor: U.S. Department of Energy					
Replacement of Street Lighting with Red Lights	81.128	DE-EE0002906	12/15/09 - 12/14/10	50,000	<u>50,000</u>
Total	81.128				<u>50,000</u>
Total Federal Assistance					<u><u>\$ 882,297</u></u>

The accompanying notes are an integral part of this schedule.

CITY OF MILFORD, DELAWARE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

1. General Information:

The accompanying schedule of expenditures of federal awards presents the activities in all the federal financial assistance programs of City of Milford, DE. All financial assistance received directly from federal agencies as well as financial assistance passed through other governmental agencies or not-for-profit organizations are included on the schedule.

2. Basis of Accounting:

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting. The amounts reported in this schedule as expenditures may differ from certain financial reports submitted to federal funding agencies due to those reports being submitted on either a cash or modified accrual basis of accounting.



Certified Public Accountants

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Robert K. Griffin, CPA

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Milford, Delaware, as of and for the year ended June 30, 2011, which collectively comprise the City of Milford, Delaware's basic financial statements and have issued our report thereon dated October 26, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Milford, Delaware's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Milford, Delaware's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Milford, Delaware's internal control over financial reporting.

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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

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

This report is intended solely for the information and use of management and City Council and is not intended to be and should not be used by anyone other than these specified parties.

Back Villalobos & Co PC

Cherry Hill, New Jersey
October 26, 2011



Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited City of Milford, DE's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of City of Milford, DE's major federal programs for the year ended June 30, 2011. City of Milford, DE's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Milford, DE's management. Our responsibility is to express an opinion on City of Milford, DE's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Milford, DE's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Milford, DE's compliance with those requirements.

In our opinion, City of Milford, DE complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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

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

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, city council, others within the entity, State of Delaware, federal awarding agencies, and other pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Back Villalobos & Co PC

Cherry Hill, NJ
October 26, 2011

CITY OF MILFORD, DELAWARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

I. Summary of Auditors' Results:

1. The auditors' report issued on the basic financial statements of City of Milford was an unqualified opinion.
2. No material weakness in internal control related to the audit of the financial statements are reported in this schedule.
3. The audit disclosed no instances of noncompliance which are material to the financial statements in accordance with Government Auditing Standards.
4. No significant deficiencies in the internal control over major programs were disclosed by the audit.
5. The auditors' report issued on compliance for major programs was an unqualified opinion.
6. No audit findings are disclosed that are required to be reported in accordance with section 510(a) of Circular A-133.
7. The following federal programs were designated as major programs:

<u>Federal Agency/ Pass through Entity</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Federal Expenditures</u>
Federal Agency: Environmental Protection Agency			
State of Delaware Revolving fund Loan	66.458	PAB#12000033	\$547,088

8. The dollar threshold used to distinguish between Type A and Type B programs (as specified in Section 520(b) of OMB Circular A-133) was \$300,000.
9. City of Milford did not qualify as a low-risk auditee.

CITY OF MILFORD, DELAWARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

II. Significant Deficiency in Internal Control over Financial Reporting:

2011-1 Financial Statement Preparation

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

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

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

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

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

III. Findings Related to Federal, State, County and City Awards:

NONE