

CITY OF MILFORD

Milford, Delaware

Financial Statements

For The Year Ended June 30, 2007

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CITY OF MILFORD, DELAWARE

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**TRANSMITTAL LETTER**

September 26, 2007

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, 2007.

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

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

***THE REPORT***

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

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

## CITY PROFILE

### *Location*

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

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

## FINANCE

### *Services Provided*

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

### *Accounting System and Budgetary Control*

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

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

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

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

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

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

#### **OTHER INFORMATION**

##### *Independent Audit*

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

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Milford, Delaware, as of and for the year ended June 30, 2007, 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, 2007, 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, 2007, 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.

The management's discussion and analysis and other required supplementary information on pages 3 through 7 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Heffler, Radetich & Saitta, LLP*

Philadelphia, Pennsylvania  
October 26, 2007

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2007. 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 \$4.82 million (or about 18.24%), and the net assets of the governmental activities increased \$1.62 million (or about 7.59%).
- During the year, the City's governmental activities incurred total costs of \$8.1 million. Tax revenues generated \$4.3 million, with the deficiency being made up through investment earnings and special items.
- In the City's business-type activities, revenues increased \$4 million to \$33.9 million while expenses decreased approximately \$662.8 thousand to \$27.1 million. The main reason for this was the increase in billing rates billed by the City's utility funds to the city's residents.
- The resources available for appropriation were \$329 thousand more than budgeted for the general fund.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

#### Government-wide Statements

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

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

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

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

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

## Fund Financial Statements

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

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

The City has three kinds of funds:

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

## FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

**Net assets.** The City's *combined* net assets increased between fiscal year 2006 and 2007 approximately \$6.45 million. In comparison, last year net assets increased \$2.8 million.

**Changes in net assets.** The City's total revenues (excluding special items) increased by 8.24 percent to \$40.42 million. This increase was primarily attributable to the increase in utility costs incurred by the City. These costs were correspondingly passed along to its customers.

The total cost of all programs and services increased approximately \$540 thousand, (or approximately 1.6 percent). The City's expenses cover a range of services, with about \$4.46 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 14.53 percent to \$35.12 million, and expenses decreased 2.38 percent to \$27.2 million. The primary cause for the significant increases was the surge in power costs incurred to DEMEC, which ultimately had to be charged to customers.

#### **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As the City completed the year, its governmental funds reported a combined fund balance of \$9.8 million, a \$2 million increase 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 \$329 thousand (9.19%) largely due to excess investment earnings over budgeted amounts. Actual expenditures were \$575 thousand more than the total \$7.62 million budgeted.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2007, the City had invested \$42 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 \$1.8 million, or 4.5 percent, over last year.

### **Long-term Debt**

At year-end, the City had \$11.9 million in bonds and notes outstanding at year end. More detailed information about the City's long-term liabilities is presented in Note 10 to the financial statements. There were no significant transactions in the City's debt obligations during the fiscal year.

CITY OF MILFORD  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and Equivalents	\$ 9,087,681	\$ 10,060,640	\$ 19,148,321
Investments	392,835	4,841,140	5,233,975
Receivables	221,868	2,993,744	3,215,612
Due from Other Governmental Agencies	1,153	-	1,153
Inventories	9,087	1,168,805	1,177,892
Other Assets	106,676	325,366	432,042
Capital Assets			
Land, Infrastructure and Other Assets not being depreciated	5,035,868	368,988	5,404,856
Utility System	-	35,246,280	35,246,280
Buildings	5,878,901	6,097,527	11,976,428
Equipment and Furniture	3,614,376	4,305,488	7,919,864
Construction in Progress	2,082,909	-	2,082,909
Less: Accumulated Depreciation	(612,674)	(20,047,691)	(20,660,365)
Total Capital Assets	<u>15,999,380</u>	<u>25,970,592</u>	<u>41,969,972</u>
Total Assets	<u>\$ 25,818,680</u>	<u>\$ 45,360,287</u>	<u>\$ 71,178,967</u>
<b>LIABILITIES</b>			
Accounts Payable and Accrued Expenses	\$ 598,777	\$ 2,075,239	\$ 2,674,016
Deferred Revenues	1,230,429	-	1,230,429
Long-Term Liabilities			
Due Within One Year			
Bonds, Capital Leases and Contracts	34,250	690,703	724,953
Compensated Absences	117,083	51,091	168,174
Customer Deposits	-	277,301	277,301
Due in More Than One Year			
Bonds, Capital Leases and Contracts	338,154	10,823,875	11,162,029
Compensated Absences	478,826	174,834	653,660
Total Liabilities	<u>2,797,519</u>	<u>14,093,043</u>	<u>16,890,562</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	15,626,976	14,456,014	30,082,990
Restricted for Capital Improvements	-	471,084	471,084
Unrestricted	7,394,185	16,340,146	23,734,331
Total Net Assets	<u>\$ 23,021,161</u>	<u>\$ 31,267,244</u>	<u>\$ 54,288,405</u>

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

CITY OF MILFORD  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2007

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets	
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Primary Government</b>						
Governmental Activities						
General Government	\$ 2,624,848	\$ -	\$ -	\$ (2,624,848)	\$ -	\$ (2,624,848)
Public Safety	3,559,207	348,372	-	(3,210,835)	-	(3,210,835)
Public Works	904,652	246,520	207,011	(451,121)	-	(451,121)
Culture and Recreation	970,549	9,012	-	(824,520)	-	(824,520)
<b>Total Governmental Activities</b>	<b>8,059,256</b>	<b>137,017</b>	<b>207,011</b>	<b>(7,111,324)</b>		<b>(7,111,324)</b>
<b>Business-Type Activities</b>						
Electric Fund	21,329,043	26,704,518	258,000	5,657,222	5,657,222	5,657,222
Water Fund	1,170,619	2,725,438	-	1,604,856	1,604,856	1,604,856
Sewer Fund	2,925,787	3,131,944	-	206,157	206,157	206,157
Other Business-type Activities	801,697	316,904	-	(484,793)	(484,793)	(484,793)
Trash Fund	926,050	1,021,975	-	95,925	95,925	95,925
<b>Total Business-Type Activities</b>	<b>27,153,196</b>	<b>33,900,779</b>	<b>258,000</b>	<b>7,079,367</b>	<b>7,079,367</b>	<b>7,079,367</b>
<b>Total Primary Government</b>	<b>35,212,452</b>	<b>34,037,796</b>	<b>465,011</b>	<b>(7,111,324)</b>	<b>7,079,367</b>	<b>(31,957)</b>
<b>General Revenues:</b>						
Taxes:						
Property Taxes, Levied for General Purposes				2,490,341	-	2,490,341
Franchise Taxes				251,600	-	251,600
Public Service Taxes				1,548,188	-	1,548,188
Grants and Contributions Not Restricted to Specific Programs				89,212	-	89,212
Impact Fees				-	218,181	218,181
Unrestricted Investment Earnings				476,034	662,986	1,139,020
Miscellaneous				386,547	40	386,587
Special Item - Gain on Sale of Asset Transfers				357,274	-	357,274
				3,136,480	(3,136,480)	-
<b>Total General Revenues, Special Items, and Transfers</b>				<b>8,735,676</b>	<b>(2,255,273)</b>	<b>6,480,403</b>
Change in Net Assets				1,624,352	4,824,094	6,448,446
<b>Net Assets - Beginning</b>				<b>21,396,809</b>	<b>26,443,150</b>	<b>47,839,959</b>
<b>Net Assets - Ending</b>				<b>\$ 23,021,161</b>	<b>\$ 31,267,244</b>	<b>\$ 54,288,405</b>

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

**CITY OF MILFORD  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Parks and Recreation Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 4,291,721	\$ 4,772,961	\$ 22,998	\$ 9,087,680
Investments	392,833	-	-	392,833
Taxes Receivable, Net of Allowance for Doubtful Accounts	48,338	40,358	-	88,696
Due From Other Funds	-	-	-	-
Receivable from Other Governments	1,153	-	-	1,153
Other Receivables	105,212	123,111	-	228,323
Inventories	-	-	9,087	9,087
Prepaid Expenses	-	-	-	-
	<u>                  </u>	<u>                  </u>	<u>                  </u>	<u>                  </u>
<b>Total Assets</b>	<b><u>\$ 4,839,257</u></b>	<b><u>\$ 4,936,430</u></b>	<b><u>\$ 32,085</u></b>	<b><u>\$ 9,807,772</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts Payable	\$ 392,981	\$ 106,208	\$ 5,481	\$ 504,670
Compensated Absences - Current	117,083	-	-	117,083
Other Accrued Expenses	81,402	-	-	81,402
Other Payables	11,035	-	1,670	12,705
Due to Other Funds	-	-	-	-
Payable to Other Governments	-	-	-	-
Deferred Revenue	183,507	1,046,921	-	1,230,428
	<u>                  </u>	<u>                  </u>	<u>                  </u>	<u>                  </u>
<b>Total Liabilities</b>	<b><u>786,008</u></b>	<b><u>1,153,129</u></b>	<b><u>7,151</u></b>	<b><u>1,946,288</u></b>
<b>Fund Balances:</b>				
Total Fund Balances, All Unreserved	<u>4,053,249</u>	<u>3,783,301</u>	<u>24,934</u>	<u>7,861,484</u>
	<u>                  </u>	<u>                  </u>	<u>                  </u>	<u>                  </u>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 4,839,257</u></b>	<b><u>\$ 4,936,430</u></b>	<b><u>\$ 32,085</u></b>	<b><u>\$ 9,807,772</u></b>

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

**CITY OF MILFORD  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF  
NET ASSETS  
JUNE 30, 2007**

Total Fund Balance, Governmental Funds		\$ 7,861,484
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
<p>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.</p>		15,999,380
<p>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.</p>		11,527
<p>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.</p>		<u>(851,230)</u>
Net Assets of Governmental Activities in the Statement of Net Assets		<u>\$ 23,021,161</u>

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

CITY OF MILFORD  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2007

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Parks and Recreation Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Property Taxes	\$ 2,490,341	\$ -	\$ -	\$ 2,490,341
Real Estate Transfer Taxes	-	1,075,853	-	1,075,853
Fees and Fines	192,951	-	-	192,951
Licenses and Permits	288,485	-	-	288,485
Engineering & Inspection Fees	224,243	-	-	224,243
Intergovernmental	-	522,445	9,012	531,457
Charges for Services	32,000	-	137,016	169,016
Investment Earnings	276,275	236,852	-	513,127
Miscellaneous	403,220	279,659	20,000	702,879
	<u>3,907,515</u>	<u>2,114,809</u>	<u>166,028</u>	<u>6,188,352</u>
Total Revenues				
<b>EXPENDITURES</b>				
Current:				
General Government	2,236,898	-	10,000	2,246,898
Public Safety	3,248,703	415,744	-	3,664,447
Public Works	674,271	-	-	674,271
Culture and Recreation	845,627	-	203,622	1,049,249
Debt Service:				
Principal	11,609	-	-	11,609
Interest	13,412	-	-	13,412
Capital Outlay	1,166,019	1,139,317	-	2,305,336
	<u>8,196,539</u>	<u>1,555,061</u>	<u>213,622</u>	<u>9,965,222</u>
Total Expenditures				
(Deficiency) Excess of Revenues Over Expenditures	<u>(4,289,024)</u>	<u>559,748</u>	<u>(47,594)</u>	<u>(3,776,870)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	3,925,150	-	-	3,925,150
Transfers Out	-	(788,670)	-	(788,670)
	<u>3,925,150</u>	<u>(788,670)</u>	<u>-</u>	<u>3,136,480</u>
Total Other Financing Sources and Uses				
<b>SPECIAL ITEM</b>				
Proceeds from Sale of Land	450,120	-	-	450,120
	<u>86,246</u>	<u>(228,922)</u>	<u>(47,594)</u>	<u>(190,270)</u>
Net Change in Fund Balances				
Fund Balances - Beginning	3,967,003	4,012,223	72,528	8,051,754
Fund Balances - Ending	<u>\$ 4,053,249</u>	<u>\$ 3,783,301</u>	<u>\$ 24,934</u>	<u>\$ 7,861,484</u>

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

**CITY OF MILFORD**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2007**

Net change in fund balances - total governmental funds:	\$	(190,270)
<p>Amounts reported for Governmental Activities in the Statement of Activities are different because:</p>		
<p>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.</p>		(20,997)
<p>Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays \$2,305,336 exceeded depreciation \$388,480 in the current period.</p>		1,916,856
<p>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.</p>		(92,846)
<p>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.</p>		<u>11,609</u>
Change in net assets of governmental activities	\$	<u><u>1,624,352</u></u>

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

**CITY OF MILFORD  
BUDGET AND ACTUAL (WITH VARIANCES)  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property Taxes	\$ 2,453,085	\$ 2,453,085	\$ 2,490,341	\$ 37,256
Fees and Fines	160,000	160,000	192,951	32,951
Licenses and Permits	498,500	498,500	288,485	(210,015)
Engineering and Inspection Fees	-	-	224,243	224,243
Charges for Services	32,000	32,000	32,000	-
Investment Earnings	80,000	80,000	276,275	196,275
Miscellaneous	355,000	355,000	403,220	48,220
<b>Total Revenues</b>	<u>3,578,585</u>	<u>3,578,585</u>	<u>3,907,515</u>	<u>328,930</u>
<b>EXPENDITURES</b>				
Current:				
General Government	2,128,920	2,132,520	2,236,898	(104,378)
Public Safety	3,384,365	3,391,615	3,248,703	142,912
Public Works	768,390	835,590	674,271	161,319
Culture and Recreation	867,665	867,665	845,627	22,038
Debt Service:				
Principal	11,610	11,610	11,609	1
Interest and Other Charges	13,415	13,415	13,412	3
Capital Outlay	372,000	369,000	1,166,019	(797,019)
<b>Total Expenditures</b>	<u>7,546,365</u>	<u>7,621,415</u>	<u>8,196,539</u>	<u>(575,124)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(3,967,780)</u>	<u>(4,042,830)</u>	<u>(4,289,024)</u>	<u>(246,194)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	4,035,480	4,035,480	3,925,150	(110,330)
Transfers Out	-	-	-	-
<b>Total Other Financing Sources and Uses</b>	<u>4,035,480</u>	<u>4,035,480</u>	<u>3,925,150</u>	<u>(110,330)</u>
<b>SPECIAL ITEM</b>				
Proceeds from Sale of Capital Assets	-	-	450,120	450,120
<b>Net Change in Fund Balances</b>	<u>67,700</u>	<u>(7,350)</u>	<u>86,246</u>	<u>93,596</u>
Fund Balances - Beginning	<u>3,967,003</u>	<u>3,967,003</u>	<u>3,967,003</u>	<u>3,967,003</u>
Fund Balances - Ending	<u>\$ 67,700</u>	<u>\$ (7,350)</u>	<u>\$ 4,053,249</u>	<u>\$ 4,060,599</u>

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

CITY OF MILFORD  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2007

ENTERPRISE FUNDS

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Trash</u>	<u>Total</u>	<u>Internal Service Fund</u>
<b>ASSETS</b>						
Current Assets:						
Cash and Cash Equivalents	\$ 5,868,819	\$ 2,849,541	\$ 1,059,075	\$ 189,933	\$ 9,967,368	\$ 93,272
Investments	1,826,574	981,779	2,032,787	-	4,841,140	-
Accounts Receivable, net of allowance for doubtful accounts	2,216,746	234,695	290,657	98,600	2,840,698	-
Other Receivables	23,580	50,196	26,335	52,935	153,046	-
Inventories	1,109,027	39,959	-	-	1,148,986	19,819
Deferred Bond Discount and Issue Costs	80,687	178,319	66,360	-	325,366	-
<b>Total Current Assets</b>	<u>11,125,433</u>	<u>4,334,489</u>	<u>3,475,214</u>	<u>341,468</u>	<u>19,276,604</u>	<u>113,091</u>
Non-Current Assets:						
Capital Assets:						
Land and Improvements	312,981	27,369	28,638	-	368,988	-
Utility System	9,460,099	12,073,047	13,713,134	-	35,246,280	-
Buildings and Improvements	5,838,126	202,734	45,821	10,846	6,097,527	-
Equipment and Furniture	2,049,822	470,699	288,200	902,238	3,710,959	594,529
Less Accumulated Depreciation	(9,101,154)	(4,925,845)	(5,236,261)	(731,747)	(19,995,007)	(52,684)
<b>Total Non-Current Assets</b>	<u>8,559,874</u>	<u>7,848,004</u>	<u>8,839,532</u>	<u>181,337</u>	<u>25,428,747</u>	<u>541,845</u>
<b>Total Assets</b>	<u>\$ 19,685,307</u>	<u>\$ 12,182,493</u>	<u>\$ 12,314,746</u>	<u>\$ 522,805</u>	<u>\$ 44,705,351</u>	<u>\$ 654,936</u>
<b>LIABILITIES</b>						
Current Liabilities:						
Accounts Payable	\$ 1,750,191	\$ 39,085	\$ 185,631	\$ 44,341	\$ 2,019,248	\$ 29,096
Salaries Payable	15,870	3,100	3,100	4,337	26,407	-
Other Accrued Expenses	487	-	-	-	487	-
Customer Deposits	277,301	-	-	-	277,301	-
Compensated Absences	33,693	6,132	6,132	5,134	51,091	-
Bonds, Notes and Loans Payable	155,000	304,499	231,205	-	690,704	-
<b>Total Current Liabilities</b>	<u>2,232,542</u>	<u>352,816</u>	<u>426,068</u>	<u>53,812</u>	<u>3,065,238</u>	<u>29,096</u>
Non-Current Liabilities:						
Compensated Absences	70,683	13,771	13,771	12,433	110,658	64,176
Bonds, Notes and Loans Payable	3,526,162	4,481,262	2,816,451	-	10,823,875	-
<b>Total Non-Current Liabilities</b>	<u>3,596,845</u>	<u>4,495,033</u>	<u>2,830,222</u>	<u>12,433</u>	<u>10,934,533</u>	<u>64,176</u>
<b>Total Liabilities</b>	<u>5,829,387</u>	<u>4,847,849</u>	<u>3,256,290</u>	<u>66,245</u>	<u>13,999,771</u>	<u>93,272</u>
<b>NET ASSETS</b>						
Invested in Capital Assets, net of related debt	4,930,428	3,058,713	6,039,008	-	14,028,149	-
Restricted for Capital Projects	-	-	252,900	-	252,900	-
Restricted for Capital Improvements	-	149,754	68,430	-	218,184	-
Unrestricted	8,925,492	4,126,177	2,698,119	456,559	16,206,347	561,664
<b>Total Net Assets</b>	<u>\$ 13,855,920</u>	<u>\$ 7,334,644</u>	<u>\$ 9,058,457</u>	<u>\$ 456,559</u>	<u>\$ 30,705,580</u>	<u>\$ 561,664</u>

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

CITY OF MILFORD  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2007

	ENTERPRISE FUNDS					<u>Internal</u>
	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Trash</u>	<u>Total</u>	<u>Service</u> <u>Funds</u>
<b>REVENUES</b>						
Charges for Services	\$ 26,169,175	\$ 2,640,759	\$ 3,104,776	\$ 960,018	\$ 32,874,728	\$ 322,254
Miscellaneous	535,344	84,680	26,751	61,956	708,731	-
Total Operating Revenues	<u>26,704,519</u>	<u>2,725,439</u>	<u>3,131,527</u>	<u>1,021,974</u>	<u>33,583,459</u>	<u>322,254</u>
<b>OPERATING EXPENSES</b>						
Personal Services	1,085,615	208,931	208,325	337,975	1,840,846	565,249
Contractual Services	18,940,065	47,284	2,171,532	332,504	21,491,385	17,847
Utilities	58,771	286,272	28,049	-	373,092	8,395
Repairs and Maintenance	578,020	29,836	28,061	170,886	806,803	104,334
Other Supplies and Expenses	96,164	97,281	93,003	17,608	304,056	99,331
Insurance Claims and Expenses	43,074	8,907	3,458	9,851	65,290	6,541
Amortization	9,975	13,159	3,926	-	27,060	-
Depreciation	374,559	286,516	284,885	57,225	1,003,185	-
Total Operating Expenses	<u>21,186,243</u>	<u>978,186</u>	<u>2,821,239</u>	<u>926,049</u>	<u>25,911,717</u>	<u>801,697</u>
Operating Income (Loss)	<u>5,518,276</u>	<u>1,747,253</u>	<u>310,288</u>	<u>95,925</u>	<u>7,671,742</u>	<u>(479,443)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>						
Interest and Investment Revenues	327,904	171,740	155,740	7,602	662,986	-
Impact Fees	-	149,751	68,430	-	218,181	-
Miscellaneous Revenue	260,220	-	-	-	260,220	-
Operating Grants and Contributions	21,566	50,037	-	-	71,603	-
Interest Expense	(142,405)	(192,433)	(104,548)	-	(439,386)	-
Miscellaneous Expenses	(395)	-	417	-	22	-
Total Non-Operating (Expenses) Revenues	<u>466,890</u>	<u>179,095</u>	<u>120,039</u>	<u>7,602</u>	<u>773,626</u>	<u>-</u>
Income Before Transfers	5,985,166	1,926,348	430,327	103,527	8,445,368	(479,443)
Transfers In	-	508,185	131,371	-	639,556	846,905
Transfers Out	(3,207,183)	(1,001,118)	(323,120)	(96,876)	(4,628,297)	-
Changes in Net Assets	2,777,983	1,433,415	238,578	6,651	4,456,627	367,462
Total Net Assets - Beginning	<u>11,077,937</u>	<u>5,901,229</u>	<u>8,819,879</u>	<u>449,908</u>	<u>26,248,953</u>	<u>194,202</u>
Total Net Assets - Ending	<u>\$ 13,855,920</u>	<u>\$ 7,334,644</u>	<u>\$ 9,058,457</u>	<u>\$ 456,559</u>	<u>\$ 30,705,580</u>	<u>\$ 561,664</u>

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

CITY OF MILFORD  
STATEMENT OF CASH FLOWS  
ALL PROPRIETARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2007

	ENTERPRISE FUNDS				
	Electric	Water	Sewer	Trash	Total
<b>Cash Flows from Operations:</b>					
Receipts from Customers	\$ 25,960,988	\$ 2,539,899	\$ 3,117,799	\$ 949,444	\$ 32,568,130
Other Operating Receipts	594,507	102,869	27,928	64,069	789,373
Payments to Suppliers	(19,839,393)	(477,666)	(2,382,641)	(509,355)	(23,209,055)
Payments to Employees	(1,062,807)	(202,166)	(201,560)	(330,679)	(1,797,212)
Customer Deposits	41,290	-	-	-	41,290
Insurance Premiums Paid	(43,074)	(8,907)	(3,458)	(9,851)	(65,290)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u>5,651,511</u>	<u>1,954,029</u>	<u>558,068</u>	<u>163,628</u>	<u>8,327,236</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>					
Operating Transfers In	-	508,185	131,371	(5,356)	634,200
Operating Transfers (Out)	(3,207,183)	(1,001,118)	(323,120)	(91,520)	(4,622,941)
Increase in Due from Other Funds	-	-	-	-	-
Increase (Decrease) Due to Other Funds	-	-	-	-	-
<b>Net Cash (Used in) Provided by Non-Capital Financing Activities</b>	<u>(3,207,183)</u>	<u>(492,933)</u>	<u>(191,749)</u>	<u>(96,876)</u>	<u>(3,988,741)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>					
Additions to Property, Plant and Equipment	(298,718)	(87,056)	(184,618)	(17,290)	(587,682)
Principal Paid on Bonds	-	(140,123)	(75,650)	-	(215,773)
Interest Paid on Bonds	(142,405)	(192,433)	(104,548)	-	(439,386)
Non-Operating Capital	259,825	-	417	-	260,242
Impact Fees Received	-	149,751	68,430	-	218,181
<b>Net Cash Flows from Capital and Related Financing Activities</b>	<u>(181,298)</u>	<u>(269,861)</u>	<u>(295,969)</u>	<u>(17,290)</u>	<u>(764,418)</u>
<b>Cash Flows from Investing Activities:</b>					
Purchases of Investments	-	(290,154)	(492,635)	-	(782,789)
Proceeds from Sales and Maturities of Investments	255,710	290,159	-	-	545,869
Income on Investments	327,904	171,740	155,740	7,601	662,985
<b>Net Cash Flows from Investing Activities</b>	<u>583,614</u>	<u>171,745</u>	<u>(336,895)</u>	<u>7,601</u>	<u>426,065</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	2,846,644	1,362,980	(266,545)	57,063	4,000,142
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>3,022,175</u>	<u>1,486,561</u>	<u>1,325,620</u>	<u>132,870</u>	<u>5,967,226</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 5,868,819</u>	<u>\$ 2,849,541</u>	<u>\$ 1,059,075</u>	<u>\$ 189,933</u>	<u>\$ 9,967,368</u>
<b>Reconciliation of Operating Income to Net Cash Flows from Operating Activities:</b>					
Operating Income (Loss)	\$ 5,518,276	\$ 1,747,253	\$ 310,288	\$ 95,925	\$ 7,671,742
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation and Amortization	384,534	299,675	288,811	57,225	1,030,245
Effect of Changes in Operating Assets and Liabilities:					
Accounts Receivable, net	(170,589)	(132,708)	14,199	(8,463)	(297,561)
Inventory	(327,416)	(11,955)	-	-	(339,371)
State Grants	21,566	50,037	-	-	71,603
Accounts Payable	161,044	(5,038)	(61,995)	11,645	105,656
Salaries Payable	(1,456)	308	308	(142)	(982)
Customer Deposits	41,290	-	-	-	41,290
Liability for Compensated Absences	24,262	6,457	6,457	7,438	44,614
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u>\$ 5,651,511</u>	<u>\$ 1,954,029</u>	<u>\$ 558,068</u>	<u>\$ 163,628</u>	<u>\$ 8,327,236</u>

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

CITY OF MILFORD  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2007

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	<u>242,413</u>
Total Assets	<u>\$ 242,413</u>
<b>LIABILITIES</b>	
Due to Other Governments	<u>242,413</u>
Total Liabilities	<u>\$ 242,413</u>

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

**CITY OF MILFORD, DELAWARE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**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, 2007.

**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, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

CITY OF MILFORD, DELAWARE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The City reports the following governmental funds:

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

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

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

The City reports the following proprietary funds:

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

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

The City reports the following fiduciary fund types:

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

CITY OF MILFORD, DELAWARE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

**Use of Estimates**

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

**Encumbrances**

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

**Budgets and Budgetary Accounting**

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

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

CITY OF MILFORD, DELAWARE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Budgets and Budgetary Accounting (Continued)**

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

**Cash and Cash Equivalents**

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

**Investments**

Investments are carried at fair market value in accordance with Statement No. 31 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

**Receivables**

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

**Interfund Receivables/Payables**

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

**CITY OF MILFORD, DELAWARE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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

**Inventory**

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

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

**Deferred Bond Discount and Costs**

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

**Fixed Assets**

Fixed assets which include land, buildings, improvements, equipment, vehicles and infrastructure assets, consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage and lighting systems, are reported on the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements. Fixed assets are recorded at historical cost, if purchased, and at fair market value, if donated. The capitalization threshold for all fixed assets is as follows: Buildings and improvements, \$5,000; and equipment and infrastructure, \$1,000. No dollar threshold is set for land. Fixed asset depreciation is recognized using the straight-line method over the estimated useful lives.

**Deferred Revenues**

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

**Compensated Absences**

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

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

CITY OF MILFORD, DELAWARE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Compensated Absences (Continued)**

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

**Long-Term Liabilities**

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

**Fund Equity and Reserves**

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

**Net Assets**

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

CITY OF MILFORD, DELAWARE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Inter-Fund Transactions**

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

**Interest Capitalization**

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

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

The amount of interest expense to be capitalized is based on the weighted-average amount of accumulated expenditures for the period multiplied by the interest rate for the obligation incurred specifically to finance the construction of capital assets. No capitalizable interest was incurred during the year ended June 30, 2007.

CITY OF MILFORD, DELAWARE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

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	\$ 5,035,868
Building and Improvements	5,878,901
Equipment and Furniture	3,614,376
Construction in Progress	2,082,909
Less: Accumulated Depreciation	<u>( 612,674)</u>
Net Capital Asset Differences	<u>\$15,999,380</u>

Long-Term Liability Differences

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

Long-Term Portion of Compensated Absences	\$ 478,826
Current Portion of Bonds Payable	34,250
Long-Term Portion of Bonds Payable	<u>338,154</u>
Total Current and Long-Term Liability Differences	<u>\$ 848,031</u>

CITY OF MILFORD, DELAWARE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

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

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

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

Other Expense Differences

The change in compensated absences and the amortization of the bond discount and the deferred amount on refunding is not reported in the Statement of Revenues, Expenditures and Changes in Fund Balance. The change is reported in the Statement of Activities. The total amount of these differences amounted to \$20,997.

Sale of Asset Difference

The entire sales price (proceeds) of the sale of an assets is recorded as revenue in the Statement of Revenues, Expenditures and Changes in Fund Balance as the proceeds are deemed to be current financial resources, whereas, only the amount in excess of the asset's book value is recognized as revenue in the Statement of Activities. The detail of the difference is presented below:

Proceeds from Sale of Capital Asset	\$450,120
Gain on Sale of Asset	<u>( 92,846)</u>
Net Sale of Asset Difference	<u>\$357,274</u>

CITY OF MILFORD, DELAWARE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

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

Capital Outlay Differences

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

Capital Outlay	\$2,305,336
Depreciation and Amortization	<u>( 388,480)</u>
Net Difference	<u>\$1,916,856</u>

Long-Term Debt Issuance and Repayment Differences

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

Principal Repayment	<u>\$ 11,609</u>
Net Difference	<u>\$ 11,609</u>

NOTE 3 - FINANCIAL INSTRUMENTS

The City has a number of financial instruments. The City estimates that the fair value of all financial instruments as of June 30, 2007, 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, 2007, all of the City's bank balance of \$19,148,321 was either insured or fully collateralized.

CITY OF MILFORD, DELAWARE  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2007

NOTE 4 - CASH AND INVESTMENTS (CONTINUED)

Investments

As of June 30, 2007, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More than 10</u>
U.S. Treasuries	\$3,752,655	\$ -	\$3,653,911	\$ 98,744	\$ -
Certificates of Deposit	384,548	290,579	-	93,969	-
Mutual Bond Funds	<u>1,096,772</u>	<u>897,270</u>	<u>199,500</u>	<u>-</u>	<u>-</u>
Total	<u>\$5,233,975</u>	<u>\$1,187,849</u>	<u>\$3,853,411</u>	<u>\$ 192,713</u>	<u>\$ -</u>

Interest Rate Risk

The City has not adopted a policy that addresses the risk of fluctuating interest rates.

Credit Risk

The City has not adopted a policy that addresses credit risk.

NOTE 5 - REAL ESTATE TAXES

The tax on real estate in the City area for the fiscal year 2007 was [41 mills (\$1,000 of assessed valuation)] as levied by the City Council. The City bills and collects its own real estate taxes. Delinquent taxes are liened by the City. The schedule of real estate taxes levied for the fiscal year 2007 are:

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

**CITY OF MILFORD, DELAWARE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE 6 - IMPACT FEES**

All new water and sewage 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 and sewage for the year ended June 30, 2007 was \$500 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, 2007 is \$218,181.

**NOTE 7 - INTERFUND TRANSACTIONS**

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

Transfers that are not considered operating or residual equity transfers give rise to individual fund interfund receivables and payables. As of June 30, 2007, there are no outstanding interfund balances.

**CITY OF MILFORD, DELAWARE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**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, 2007:

Description	Year Ended June 30, 2007			Balances 6/30/07
	Balances 7/1/06	Additions	Deletions	
<b>City Department:</b>				
Land	\$ 3,205,651	\$ 322,860	(\$ 92,846)	\$ 3,435,665
Buildings and Improvements	1,866,668	54,053	-	1,920,721
Vehicles and Equipment	2,326,125	135,872	(\$ 64,618)	2,397,379
Construction in Progress	1,113,412	969,497	-	2,082,909
Total City Department	8,511,856	1,482,282	( 157,464)	9,836,674
Accumulated Depreciation	( 153,594)	( 135,895)	15,523	( 273,966)
Total City Department, Net	<u>\$ 8,358,262</u>	<u>\$1,346,387</u>	<u>(\$ 141,941)</u>	<u>\$ 9,562,708</u>
<b>Street Department:</b>				
Land Improvements	\$ 868,302	\$ 731,901	\$ -	\$ 1,600,203
Buildings and Improvements	3,958,182	-	-	3,958,182
Vehicles and Equipment	1,068,954	148,043	-	1,216,997
Total Street Department	5,895,438	879,944	-	6,775,382
Accumulated Depreciation	( 87,186)	( 251,524)	-	( 338,710)
Total Street Department, Net	<u>\$ 5,808,252</u>	<u>\$ 628,420</u>	<u>\$ -</u>	<u>\$ 6,436,672</u>
<b>Total Governmental Capital Assets:</b>				
Year Ended June 30, 2007				
Description	Balances 7/1/06	Additions	Deletions	Balances 6/30/07
Land	\$ 4,073,953	\$1,054,761	(\$ 92,846)	\$ 5,035,868
Buildings and Improvements	5,824,850	54,053	( - )	5,878,903
Vehicles and Equipment	3,395,079	283,915	( 64,618)	3,614,376
Construction in Progress	1,113,412	969,497	-	2,082,909
Total Governmental Capital Assets	14,407,294	2,362,226	( 157,464)	16,612,056
Accumulated Depreciation	( 240,780)	( 387,419)	15,523	( 612,676)
Total Governmental Capital Assets, Net	<u>\$14,166,514</u>	<u>\$1,974,807</u>	<u>(\$ 141,941)</u>	<u>\$15,999,380</u>

CITY OF MILFORD, DELAWARE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 9 - FIXED ASSETS (CONTINUED)

The following schedule presents the capital activity of the business-type activities for the year ended June 30, 2007:

Description	Year Ended June 30, 2007			Balances 6/30/07
	Balances 7/1/06	Additions	Deletions	
<b>Electric Fund:</b>				
Land	\$ 325,889	\$ -	(\$ 12,908)	\$ 312,981
Buildings and Improvements	5,838,126	-	-	5,838,126
Electric System	9,140,500	319,599	-	9,460,099
Vehicles and Equipment	2,057,795	8,972	( 16,945)	2,049,822
Total Fixed Assets	17,362,310	328,571	( 29,853)	17,661,028
Accumulated Depreciation	( 8,743,540)	( 374,559)	16,945	( 9,101,154)
Net Book Value	<u>\$ 8,618,770</u>	<u>(\$ 45,988)</u>	<u>(\$ 12,908)</u>	<u>\$ 8,559,874</u>
<b>Water Fund:</b>				
Land	\$ 27,369	\$ -	\$ -	\$ 27,369
Buildings and Improvements	202,734	-	-	202,734
Water System	12,043,226	29,821	-	12,073,047
Vehicles and Equipment	413,463	57,235	-	470,698
Total Fixed Assets	12,686,792	87,056	-	12,773,848
Accumulated Depreciation	( 4,639,328)	( 286,517)	-	( 4,925,845)
Net Book Value	<u>\$ 8,047,464</u>	<u>(\$ 199,461)</u>	<u>\$ -</u>	<u>\$ 7,848,003</u>

CITY OF MILFORD, DELAWARE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 9 - FIXED ASSETS (CONTINUED)

Description	Year Ended June 30, 2007			Balances 6/30/07
	Balances 7/1/06	Additions	Deletions	
<b>Waste Water Fund:</b>				
Land	\$ 28,638	\$ -	\$ -	\$ 28,638
Buildings and Improvements	45,821	-	-	45,821
Waste Water System	13,535,715	177,419	-	13,713,134
Vehicles and Equipment	<u>281,001</u>	<u>7,199</u>	<u>-</u>	<u>288,200</u>
Total Fixed Assets	13,891,175	184,618	-	14,075,793
Accumulated Depreciation	( 4,951,376)	( 284,885)	-	( 5,236,261)
Net Book Value	<u>\$ 8,939,799</u>	<u>(\$ 100,267)</u>	<u>\$ -</u>	<u>\$ 8,839,532</u>
<b>Trash Fund:</b>				
Buildings and Improvements	\$ 5,846	\$ 5,000	\$ -	\$ 10,846
Vehicles and Equipment	<u>889,948</u>	<u>12,290</u>	<u>-</u>	<u>902,238</u>
Total Fixed Assets	895,794	17,290	-	913,084
Accumulated Depreciation	( 674,522)	( 57,225)	-	( 731,747)
Net Book Value	<u>\$ 221,272</u>	<u>(\$ 39,935)</u>	<u>\$ -</u>	<u>\$ 181,337</u>
<b>Total Enterprise Funds:</b>				
Land	\$ 381,896	\$ -	(\$ 12,908)	\$ 368,988
Buildings and Improvements	6,092,528	4,999	-	6,097,527
Electric System	9,140,500	319,599	-	9,460,099
Water System	12,043,226	29,821	-	12,073,047
Waste Water System	13,535,715	177,419	-	13,713,134
Vehicles and Equipment	<u>3,642,208</u>	<u>85,696</u>	<u>( 16,945)</u>	<u>3,710,959</u>
Total Fixed Assets	44,836,073	617,534	( 29,853)	45,423,754
Accumulated Depreciation	( 19,008,766)	( 1,003,186)	16,945	( 19,995,007)
Net Book Value	<u>\$25,827,307</u>	<u>(\$ 385,652)</u>	<u>(\$ 12,908)</u>	<u>\$25,428,747</u>

CITY OF MILFORD, DELAWARE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 10 - LONG-TERM DEBT OBLIGATIONS

Long-Term Debt Schedule

Long-Term liability activity for the year ended June 30, 2007 is as follows:

Governmental Activities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Bonds Payable: Series 2002 General Obligation Bonds	\$ 373,301	\$ -	(\$ 897)	\$ 372,404	\$ 34,250
Less: Deferred Amount on Refunding	( 8,938)	-	614	( 8,324)	( 614)
Total Bonds Payable	364,363	-	( 283)	364,080	33,636
Other Liabilities: Compensated Absences	<u>463,580</u>	<u>132,329</u>	<u>-</u>	<u>595,909</u>	<u>117,083</u>
Governmental Activities Long-Term Liabilities	<u>\$ 827,943</u>	<u>\$ 132,329</u>	<u>(\$ 283)</u>	<u>\$ 959,989</u>	<u>\$ 150,719</u>

Business-Type Activities:

Bonds Payable: Series 1992 A Capital Appreciation Bonds	\$ 1,670,000	\$ -	(\$ - )	\$ 1,670,000	\$ -
Revolving Funds Loan - State of Delaware	1,436,014	-	( 71,115)	1,364,899	73,248
Series 2002 General Obligation Bonds	5,911,699	-	( 189,107)	5,722,592	540,924
Series 2005 General Obligation Bonds	<u>3,790,000</u>	<u>-</u>	<u>-</u>	<u>3,790,000</u>	<u>155,000</u>
	12,807,713	-	( 260,222)	12,547,491	769,172
Less: Bond Discount and Deferred Amount on Refunding	( 1,107,120)	-	74,207	( 1,032,913)	( 78,469)
Total Bonds Payable	11,700,593	-	( 186,015)	11,514,578	690,703
Other Liabilities: Compensated Absences	<u>171,875</u>	<u>54,050</u>	<u>( - )</u>	<u>225,925</u>	<u>51,091</u>
Business-type Activities Long-Term Liabilities	<u>\$11,872,468</u>	<u>\$ 54,050</u>	<u>(\$ 186,015)</u>	<u>\$11,740,503</u>	<u>\$ 741,794</u>

CITY OF MILFORD, DELAWARE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

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 \$945,303 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 \$-. 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>
2008	-	63,311	...
2009	-	67,570	...
2010	-	72,444	...
2011	-	77,556	...
2012	-	83,028	...
2013	-	88,886	...
2014	-	95,157	...
2015	420,000	94,561	6.90%
2016	465,000	69,334	6.95%
2017	395,000	43,294	6.95%
2018	390,000	19,089	6.95%

Series of 1996 Bond Issue

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

CITY OF MILFORD, DELAWARE  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2007

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>	Interest	
		<u>Rate</u>	<u>Amount</u>
2008	560,000	2.55%	209,105
2009	570,000	2.85%	192,575
2010	590,000	3.00%	174,585
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, 2007

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 June 30,	Principal Amount	Interest	
		Rate	Amount
2008	155,000	2.90%	142,405
2009	160,000	3.00%	137,910
2010	165,000	3.10%	133,110
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, 2007

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (CONTINUED)

NOTE PAYABLE - STATE OF DELAWARE

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

Year Ending <u>June 30,</u>	
2008	\$ 73,248
2009	75,461
2010	77,742
2011	80,092
2012	82,832
Thereafter	<u>975,556</u>
	<u>\$1,364,931</u>

NOTE 11 - DEFEASED DEBT - OTHER

On August 1, 1996, the City issued \$9,130,000 in General Obligation Bonds with an average interest rate of 5.67% to redeem \$1,595,000 of outstanding 1989 General Obligation Bonds with an average interest rate of 7.10% and \$2,960,000 of outstanding 1992 - Series B General Obligation Bonds with an average interest rate of 6.31%. The net proceeds of \$4,826,556 (after payment of \$195,438 in underwriter fees, insurance, accrued interest and other issuance costs and \$4,052,000 of new debt to finance additional improvements) were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased in substance portion of the 1989 Bond Issue and 1992 Series B Bond Issue. On April 1, 1999, the City placed a call on the 1989 General Obligation Bond Issue. The General Obligation Bonds, 1992 Series B Issue, are considered to be defeased and the liability for those bonds were removed from the balance sheets of the Water and Sewer funds.

**CITY OF MILFORD, DELAWARE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE 12 - 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 (5.09% for fiscal year 2006 and 6.2% for fiscal year 2007). 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 13 - 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.

**CITY OF MILFORD, DELAWARE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE 13 - COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Government Grant/Award Programs**

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

**Long-Term Debt and Lease Purchases Obligations**

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

**The Parking Authority of the City of Milford, Inc.**

The Parking Authority of the City of Milford, Inc. has a long-term bond payable of which the City of Milford is secondarily liable. The balance of the bond payable is \$58,000 at June 30, 2007.

**Veteran's Home Project**

Effective May 26, 2005, the City entered into an agreement with the State of Delaware's Department of Administrative Services to construct the Veteran's Home, to be located in the City's business park. The City agreed to bear the financial responsibility for the costs associated with utilities, site work and road construction incurred during the project. These costs were estimated at \$1.4 million. As of June 30, 2007, the City had incurred costs of \$1,398,667 related to the project.

Additional Reports

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, 2007, which collectively comprise the City of Milford, Delaware's basic financial statements and have issued our report thereon dated October 26, 2007. 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 control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Milford, Delaware's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Milford, Delaware's financial statements that is more than inconsequential will not be prevented or detected by the City of Milford, Delaware's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Milford, Delaware's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

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.



Philadelphia, Pennsylvania  
October 26, 2007