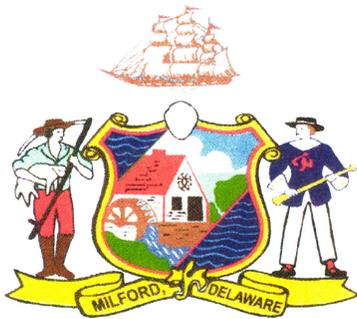


City of Milford



City Council Committee Agenda

Milford City Hall Council Chambers
201 South Walnut Street
Milford, DE 19963

Finance Committee Meeting January 9, 2016 5:30 p.m.

Call to Order - Chairman Douglas Morrow

City of Milford FY2016 Audit Report

Finance Director Position

Early Bond Buy-Out

Adjourn

This agenda may be subject to change to include additional items including executive sessions or the deletion of items including executive sessions which arise at the time of the public body's meeting.

SUPPORTING DOCUMENTS MUST BE SUBMITTED TO THE CITY CLERK IN ELECTRONIC FORMAT NO LATER THAN ONE WEEK PRIOR TO MEETING; NO PAPER DOCUMENTS WILL BE ACCEPTED OR DISTRIBUTED AFTER PACKET HAS BEEN POSTED ON THE CITY OF MILFORD WEBSITE.

CITY OF MILFORD

Milford, Delaware

Financial Statements

For The Year Ended June 30, 2016

CITY OF MILFORD, DELAWARE

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10 S.E. 2nd Street
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www.cityofmilford.com

TRANSMITTAL LETTER

October 28, 2016

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

The Finance Department and City Manager's Office are pleased to submit the Annual Financial Report for the City of Milford, Delaware for the fiscal year ended June 30, 2016.

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

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

THE REPORT

The accompanying financial section includes a Management's Discussion and Analysis (MD&A), basic financial statements and combining and individual fund statements and schedules, as well as the independent auditor's report on the basic financial statements. Beck, Villata & Co., P.C., Certified Public Accountants, has issued an unmodified ("clean") opinion on the City's financial statements for the year ended June 30, 2016. The independent auditor's report is located at the front of the financial section of this report.

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

The Financial Section described above is prepared in accordance with generally accepted accounting principles for governments as prescribed by the Governmental 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

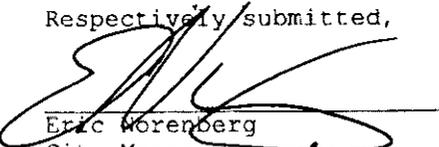
The City Charter requires an annual audit of the accounts, financial records and transactions of the City by independent certified public accountants selected by the City Council. This requirement has been complied with, and the independent auditor's report has been included in this report. Additionally,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

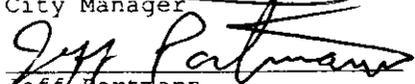
Acknowledgments

The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the entire staff of the Finance Department. Appreciation is expressed to City employees throughout the organization, especially those employees who were instrumental in the successful completion of this report.

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

Respectively submitted,


Eric Worenberg
City Manager


Jeff Fortmann
Finance Director



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 AUDITOR'S REPORT

To the Mayor and City Council
City of Milford, DE

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Milford, DE as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Milford, DE, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-13 and page 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Milford, DE's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2016, on our consideration of the City of Milford, DE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Milford, DE's internal control over financial reporting and compliance.

Beck Villata & Co PC

Voorhees, NJ
October 28, 2016

CITY OF MILFORD, DELAWARE

Management's Discussion and Analysis

For the Year Ended June 30, 2016

Amounts in Thousands Unless Stated Otherwise

(Unaudited)

As management of the City of Milford, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities and financial position of the City for the fiscal year ended June 30, 2016. In the broadest context, the financial well-being of a government lies in the underlying wealth and willingness of its citizens and property owners to pay adequate taxes combined with the vision of the government's elected and appointed leadership to spend those taxes strategically so that the City's tax base, service levels, City assets and the City's desirability will be maintained not just for the current year but well into the future. Financial reporting is limited in its ability to provide this "big picture" but rather focuses on financial position and changes in financial position. In other words, are revenues and or expenses higher or lower than the previous year? Have net assets (containing both short and long term assets and liabilities) or fund balances (the current "spendable" assets less current liabilities) of the government been maintained? We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal (pages i-iii of this report) as well as information on the City's annual budget and other community information found on the City's website at www.cityofmilford.com. It should be noted that the Independent Auditor's Report describes the auditor's association with the various sections of this report and that all of the additional information from the website and other City sources is unaudited and has not been updated for events that may have occurred subsequent to the issuance of the respective report.

IN BRIEF

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by approximately \$73.4 million (net position). This number must be viewed in the context that a significant portion of the City's net position, \$36.6 million (49.9%) are invested in capital assets, net of related debt, and that most capital assets in government do not directly generate revenue nor can they be sold to generate liquid capital. Those net assets restricted for specific purposes total \$5.9 million (8.1%). The remaining \$30.9 million are unrestricted net assets and may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies. Unrestricted net position increased by approximately \$3.9 million in fiscal year 2016

CITY OF MILFORD, DELAWARE

Management's Discussion and Analysis

For the Year Ended June 30, 2016

Amounts in Thousands Unless Stated Otherwise

(Unaudited)

- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$8.2 million. Within this total \$1.1 million is restricted by specific legal requirements and \$2.4 million has been committed and assigned to specific types of expenditures. The remaining \$4.7 million is unassigned fund balance in the general fund and can be used for any lawful purpose.
- The City's liabilities increased by \$3.5 million due primarily to borrowings in connection with a new water storage and treatment facility in the southeast area and a new water treatment plant to replace the old Washington Street plant.
- The City has seen certain revenues start to increase as the recovery from the economic downturn continues due to the economic conditions and has also moved aggressively to reduce expenditures accordingly. The City also benefits from strong fund balances and conservative financial practices. The Economic Factors and Next Year's Budget section on the last page of this discussion provide additional information on the subject.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of four components: 1) government wide financial statements, 2) fund financial statements 3) notes to the financial statements and 4) required supplementary information which includes this management's discussion and analysis. In addition to the basic financial statements, this report also contains other supplementary information as listed in the Table of Contents.

Government Wide Financial Statements - The government wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences.)

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CITY OF MILFORD, DELAWARE

Management's Discussion and Analysis

For the Year Ended June 30, 2016

Amounts in Thousands Unless Stated Otherwise

(Unaudited)

Both of the government-wide financial statements distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government and administration, public safety, public works, and cultural and recreation. The business-type activities of the City include water and sewer, electric and sanitation operations. The government-wide financial statements can be found on pages 14 and 15 of this report.

Fund Financial Statements - A fund is a self-balancing set of accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories-governmental funds and proprietary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Non-financial assets such as governmental buildings, roads, drainage ways, park land and long term liabilities such as bonds payable or long term liabilities that will not be paid with current assets are excluded. Such information may be useful in evaluating a government's near term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds - The City maintains two types of proprietary funds. Enterprise funds are presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, electric and sanitation operations.

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CITY OF MILFORD, DELAWARE

Management's Discussion and Analysis
For the Year Ended June 30, 2016

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses its internal service funds to account for its fleet services, billing services and city hall building maintenance cost allocation programs. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer, Electric, and Sanitation funds, since all are considered to be major funds of the City. All internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements. The basic proprietary fund financial statements can be found on pages 21 to 23 of this report.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government wide and fund financial statements. The notes to the financial statements can be found on pages 25 through 43.

Other Information - In addition to the basic financial statements and accompanying notes, the basic financial statements contain required supplementary information including this discussion and analysis.

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

As noted earlier, net position and especially net position by category may serve over time as a useful indicator of a government's financial position. In the case of the City, total net position was \$73.4 million as of June 30, 2016.

The largest portion of the City's net position, \$36.6 million (49.9%) reflects its investments in capital assets (e.g., land, building, equipment, improvements and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently these assets are not available for future spending, and with exception of business type assets, do not generate direct revenue for the City.

They do represent, however, an obligation on the part of the City to maintain these assets into the future. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF MILFORD, DELAWARE

Management's Discussion and Analysis

For the Year Ended June 30, 2016

Amounts in Thousands Unless Stated Otherwise

(Unaudited)

An additional portion of the City's net position \$5.9 million (8.1%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position of \$30.9 million (42%) may be used to meet the government's ongoing obligations to citizens and creditors. The current and other assets increased in the Governmental activities by \$400 thousand and increased in the Business type activities by \$4.7 million. The City's long-term liabilities increased by \$3.3 million to borrowings for its capital projects.

Overall the City had an increase in net position of \$3.9 million (5.7%).

Governmental Activities - Governmental activities net position increased by \$216 thousand. Net position invested in capital assets, net of related debt increased by \$146 thousand or 1%. Unrestricted net position increased by \$150 thousand or 2.3%.

Excluding transfers from business-type activities and special items, total revenues for governmental activities decreased from the previous year by \$1.2 million. General revenue (excluding transfers and special items) had a net increase of \$141 thousand or 2.7%. In Program Revenues, fees and fines decreased by \$22 thousand and operating grants and contributions increased by \$1.3 million. Total expenses for governmental activities decreased by \$132 thousand or 1.6%.

Business-Type Activities - Net position from business-type activities increased by \$3.7 million, or 7.9% from \$47.1 million to \$50.8 million. Net position invested in capital assets, net of related debt, decreased by \$1.2 million. Unrestricted net position increased by \$3.3 million, while restricted net position increased by \$1.6 million from the previous year.

CITY OF MILFORD, DELAWARE

Management's Discussion and Analysis
For the Year Ended June 30, 2016

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

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

	Governmental Activities		Business-Type Activities		Total	
	2015	2016	2015	2016	2015	2016
Current and other assets	\$ 8,680	\$ 9,086	\$ 27,840	\$ 32,531	\$ 36,520	\$ 41,617
Capital assets, net	14,922	15,081	38,934	41,183	53,856	56,264
Total Assets	<u>23,602</u>	<u>24,167</u>	<u>66,774</u>	<u>73,714</u>	<u>90,376</u>	<u>97,881</u>
Deferred Outflows of Resources	-	-	88	83	88	83
Long term liabilities	876	924	16,360	19,647	17,236	20,571
Other liabilities	384	605	3,311	3,311	3,695	3,916
Total Liabilities	<u>1,260</u>	<u>1,529</u>	<u>19,671</u>	<u>22,958</u>	<u>20,931</u>	<u>24,487</u>
Net Position						
Net investment in capital assets	14,857	15,003	22,832	21,623	37,689	36,626
Restricted	1,077	1,077	3,265	4,874	4,342	5,951
Unrestricted	6,408	6,558	21,094	24,342	27,502	30,900
Total Net Position	<u>\$ 22,342</u>	<u>\$ 22,638</u>	<u>\$ 47,191</u>	<u>\$ 50,839</u>	<u>\$ 69,533</u>	<u>\$ 73,477</u>

As of June 30, 2016, the City has positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

CITY OF MILFORD, DELAWARE

Management's Discussion and Analysis
For the Year Ended June 30, 2016

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

The following table provides a summary of the City's operations for the year ended June 30, 2016 with comparative totals for the year ended June 30, 2015.

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

	Governmental Activities		Business-Type Activities		Total	
	2015	2016	2015	2016	2015	2016
Revenues						
Program Revenues:						
Fees, fines and charges for services	\$ 106	\$ 84	\$ 33,391	\$ 34,507	\$ 33,497	\$ 34,591
Operating grants and contributions	1,703	385	-	-	1,703	385
General Revenues:						
Property taxes	4,122	4,347	-	-	4,122	4,347
Franchise taxes	437	441	-	-	437	441
Impact fees	-	-	170	254	170	254
Investment earnings	18	20	31	33	49	53
Miscellaneous	710	620	33	18	743	638
Total revenues	<u>7,096</u>	<u>5,897</u>	<u>33,625</u>	<u>34,812</u>	<u>40,721</u>	<u>40,709</u>
Expenses						
General government	2,031	2,121	-	-	2,031	2,121
Public safety	4,504	4,431	-	-	4,504	4,431
Public works	854	719	-	-	854	719
Culture and recreation	922	907	-	-	922	907
Interest on long term debt	2	3	636	557	638	560
Electric	-	-	22,991	21,949	22,991	21,949
Water	-	-	1,495	1,552	1,495	1,552
Sewer	-	-	3,664	3,496	3,664	3,496
Trash	-	-	1,056	1,031	1,056	1,031
Total expenses	<u>8,313</u>	<u>8,181</u>	<u>29,842</u>	<u>28,585</u>	<u>38,155</u>	<u>36,766</u>
Increase (decrease) in net assets before transfers and special items	(1,217)	(2,284)	3,783	6,227	2,566	3,943
Transfers	2,500	2,500	(2,500)	(2,500)	-	-
Change in net position	1,283	216	1,283	3,727	2,566	3,943
Net position, July 1	21,138	22,421	45,829	47,112	66,967	69,533
Net position, June 30	<u>\$ 22,421</u>	<u>\$ 22,637</u>	<u>\$ 47,112</u>	<u>\$ 50,839</u>	<u>\$ 69,533</u>	<u>\$ 73,476</u>

CITY OF MILFORD, DELAWARE

Management's Discussion and Analysis

For the Year Ended June 30, 2016

Amounts in Thousands Unless Stated Otherwise

(Unaudited)

Financial Analysis of the Government's Funds

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending in the next fiscal year. At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$8.2 million. Within this total \$1.1 million is restricted by specific legal requirements, for street improvements, and \$2.4 million has been committed and assigned to specific types of expenditures. The remaining \$4.7 million is unassigned fund balance in the general fund and can be used for any lawful purpose. In the general fund, the City budgeted (as amended) a fund balance decrease in the current year of \$453 thousand prior to the use of prior balances and reserves. The actual general fund balance increased by \$50 thousand as the result primarily of reductions in general government costs. Actual general fund expenditures were within 3% of total budgeted expenses.

Proprietary Funds - The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the respective enterprise funds are \$9.2 million for water, \$4.3 million for sewer, \$10.2 million for electric and \$573 thousand for Sanitation. The total of all enterprise funds' net position at the end of the fiscal year was \$50.8 million. Change in net position for enterprise funds in 2016 were an increase of \$1.3 million in the water, an increase of \$1.8 million in the sewer, an increase of \$643 thousand in the electric (net of \$2.5 million transfer to the general fund) and an increase of \$8 thousand in the sanitation fund.

General Fund Budgetary Highlights - The City made revisions to the original appropriations approved by the City Council. Overall these changes resulted in an increase in budgeted expenditures from the original budget of .4% or \$28 thousand. Management's estimate of the General Funds budgeted revenues increased \$35 thousand or .7% from original budget based on year to date experience.

CITY OF MILFORD, DELAWARE

Management's Discussion and Analysis
 For the Year Ended June 30, 2016

Amounts in Thousands Unless Stated Otherwise
 (Unaudited)

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had a total bonded debt and note obligations of \$19,663 million, all backed by the full faith and credit of the government.

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

	Government Activities		Business-Type Activities		Total	
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
General Obligation Bonds	\$ 92	\$ 78	\$ 10,813	\$ 9,827	\$ 10,905	\$ 9,905
DE Revolving Fund Loans	-	-	2,360	3,999	2,360	3,999
USDA Loan	-	-	1,774	4,539	1,774	4,539
Kent County Note	-	-	1,243	1,220	1,243	1,220
Total	<u>\$ 92</u>	<u>\$ 78</u>	<u>\$ 16,190</u>	<u>\$ 19,585</u>	<u>\$ 16,282</u>	<u>\$ 19,663</u>

During the fiscal year, the City's total debt increased by \$3.4 million or 20.8%. As the City continued payments of its general obligation bonds, there were additional borrowings in connection with capital projects under agreements with the United States Department of Agriculture (USDA) as well as under a Delaware State Revolving Loan agreement.

The City's General Obligation Bond rating is AA- as rated by Standard & Poor's. Additionally, several of the City's bonds are insured.

Additional information on the City's long term debt can be found in footnote 10 on pages 37 to 40 of this report.

CITY OF MILFORD, DELAWARE

Management's Discussion and Analysis
For the Year Ended June 30, 2016
(Unaudited)

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2016 amounts to \$56.2 million (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, intangibles, improvements, and infrastructure assets. The total increase in the City's investment in capital assets, net of accumulated depreciation, for the current fiscal year was \$2.4 million or 4.4%. Additional information on the City's capital assets can be found in note 9 on pages 36 and 37 of this report. Major capital asset events during the current fiscal year included the following:

General Fund

- o \$115 thousand for a dump truck and snow plow for the Streets Department.
- o \$71 thousand for public safety vehicles.
- o \$63 thousand in IT costs for software and server.
- o \$26 thousand for a parks and recreation passenger van.
- o \$28 thousand for a mower and water reel and pump.

Electric Fund

- o \$92 thousand for GIS software and hardware.
- o \$186 thousand to extend electric to SE Milford

Water Fund

- o \$1.5 million for continued construction of the SE Milford Water Tower, Well & Treatment Plant.
- o \$1.5 million for continued construction of the Washington Water Well & Treatment Plant.
- o \$53 thousand for a service truck with attached crane.
- o \$72 thousand for a mower and an excavator.

Sewer Fund

- o \$450 thousand in pumping station improvements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The fiscal 2016 budget for general fund revenues increased 2.9% over fiscal 2015. In the upcoming fiscal year, the City continues to see signs of improvements from the recent economic downturn. Rates charged for water, sewer and electric remained unchanged. The solid waste revenue was increased by \$50 cents per customer per month to offset additional costs of recycling and yard waste disposal. The City is building a new water storage and treatment facility in the southeast area and building a new water treatment plant to replace the old Washington Street plant.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with general overview of the City's finances. If you have questions about this report or need any additional information, contact the Department of Finance, Attention: Finance Director, 10 SE 2nd Street, Milford, DE 19963 or call 302-424-5141 or email: jportmann@milford-de.gov.

CITY OF MILFORD, DE
STATEMENT OF NET POSITION
June 30, 2016

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and Equivalents	\$ 6,666,909	\$ 8,398,414	\$ 15,065,323
Investments	2,033,712	17,766,019	19,799,731
Receivables	315,900	5,153,814	5,469,714
Inventories	23,501	1,212,865	1,236,366
Other Assets	44,958	-	44,958
Capital Assets			
Land, Infrastructure and Other Assets not being depreciated	15,981,948	1,460,444	17,442,392
Utility System	-	56,795,544	56,795,544
Buildings	4,352,426	7,048,390	11,400,816
Equipment and Furniture	6,251,983	6,644,553	12,896,536
Construction in Progress	199,136	-	199,136
Less: Accumulated Depreciation	<u>(11,703,833)</u>	<u>(30,765,602)</u>	<u>(42,469,435)</u>
 Total Assets	 <u>24,166,640</u>	 <u>73,714,441</u>	 <u>97,881,081</u>
 Deferred Outflows of Resources			
Deferred Charges on Refundings	<u>-</u>	<u>82,651</u>	<u>82,651</u>
LIABILITIES			
Accounts Payable and Accrued Expenses	605,331	2,642,006	3,247,337
Customer Deposits	-	540,475	540,475
Long-Term Liabilities			
Due Within One Year			
Bonds and Notes Payable	14,873	1,179,310	1,194,183
Compensated Absences	168,976	43,072	212,048
Due in More Than One Year			
Bonds and Notes Payable	64,177	18,381,289	18,445,466
Compensated Absences	<u>675,904</u>	<u>172,285</u>	<u>848,189</u>
 Total Liabilities	 <u>1,529,261</u>	 <u>22,958,437</u>	 <u>24,487,698</u>
NET POSITION			
Net Investment in Capital Assets	15,002,610	21,622,730	36,625,340
Restricted	1,077,027	4,874,093	5,951,120
Unrestricted	<u>6,557,742</u>	<u>24,341,832</u>	<u>30,899,574</u>
 Total Net Position	 <u>\$ 22,637,379</u>	 <u>\$ 50,838,655</u>	 <u>\$ 73,476,034</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, 2016**

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental Activities							
General Government	\$ 2,124,078	\$ 6,585	\$ 42,734	\$ -	\$ (2,074,759)		\$ (2,074,759)
Public Safety	4,430,813	-	-	-	(4,430,813)		(4,430,813)
Public Works	719,200	-	341,628	-	(377,572)		(377,572)
Culture and Recreation	906,728	77,620	-	-	(829,108)		(829,108)
Total Governmental Activities	8,180,819	84,205	384,362	-	(7,712,252)		(7,712,252)
Business-Type Activities							
Electric Fund	22,135,624	25,183,637	-	-		3,048,013	3,048,013
Water Fund	1,736,388	2,822,939	-	-		1,086,551	1,086,551
Sewer Fund	3,681,330	5,467,685	-	-		1,786,355	1,786,355
Trash Fund	1,031,354	1,032,778	-	-		1,424	1,424
Total Business-Type Activities	28,584,696	34,507,039	-	-		5,922,343	5,922,343
Total Primary Government	\$ 36,765,515	\$ 34,591,244	\$ 384,362	\$ -	\$ (7,712,252)	\$ 5,922,343	\$ (1,789,909)
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes					4,346,999	-	4,346,999
Franchise Taxes					440,975	-	440,975
Impact Fees					-	253,816	253,816
Unrestricted Investment Earnings					20,344	32,693	53,037
Miscellaneous					627,999	17,932	645,931
Change in Net Position in Internal Service Fund					(8,205)	-	(8,205)
Transfers					2,500,000	(2,500,000)	-
Total General Revenues, Special Items, and Transfers					7,928,112	(2,195,559)	5,732,553
Change in Net Position					215,860	3,726,784	3,942,644
Net Position- Beginning of Year					22,421,519	47,111,871	69,533,390
Net Position - End of Year					\$ 22,637,379	\$ 50,838,655	\$ 73,476,034

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

**CITY OF MILFORD, DE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016**

	<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	\$ 3,094,011	\$ 3,457,847	\$ 17,970	\$ 6,569,828
Investments	2,033,712	-	-	2,033,712
Taxes Receivable, Net of Allowance for Doubtful Accounts	76,207	31,108	-	107,315
Other Receivables	119,168	76,169	-	195,337
Prepaid Expenses	44,958	-	-	44,958
Total Assets	<u>\$ 5,368,056</u>	<u>\$ 3,565,124</u>	<u>\$ 17,970</u>	<u>\$ 8,951,150</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 134,479	\$ 101,008	\$ 3,385	\$ 238,872
Compensated Absences - Current	157,715	-	-	157,715
Other Accrued Expenses	312,086	-	-	312,086
Other Payables	-	-	349	349
Total Liabilities	<u>604,280</u>	<u>101,008</u>	<u>3,734</u>	<u>709,022</u>
Fund Balances:				
Restricted	-	1,077,027	-	1,077,027
Nonspendable	44,958	-	-	44,958
Assigned	-	2,387,089	14,236	2,401,325
Unassigned	4,718,818	-	-	4,718,818
Total Fund Balances	<u>4,763,776</u>	<u>3,464,116</u>	<u>14,236</u>	<u>8,242,128</u>
Total Liabilities and Fund Balances	<u>\$ 5,368,056</u>	<u>\$ 3,565,124</u>	<u>\$ 17,970</u>	<u>\$ 8,951,150</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
June 30, 2016

Total Fund Balance, Governmental Funds

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets.

Internal Service funds are used by management to charge the costs of centrally managed services to using funds and departments. The assets and liabilities of the internal service fund is included in governmental activities in the Statement of Net Position. The increase is equal to the Internal Service Net Position.

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

Some liabilities, (such as Notes 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 statements, but are included in the governmental activities of the Statement of Net Assets.

Net Position of Governmental Activities

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, 2016

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Parks and Recreation Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Property Taxes	\$ 3,767,182	\$ -	\$ -	\$ 3,767,182
Real Estate Transfer Taxes	-	579,817	-	579,817
Fees and Fines	185,870	-	-	185,870
Licenses and Permits	255,105	-	-	255,105
Intergovernmental	42,734	341,628	-	384,362
Charges for Services	6,585	-	77,620	84,205
Investment Earnings	13,858	6,486	-	20,344
Miscellaneous	536,188	91,811	-	627,999
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	4,807,522	1,019,742	77,620	5,904,884
EXPENDITURES				
Current:				
General Government	1,465,183	-	-	1,465,183
Public Safety	4,266,351	164,462	-	4,430,813
Public Works	719,200	-	-	719,200
Culture and Recreation	838,953	-	67,775	906,728
Debt Service:				
Principal	14,664	-	-	14,664
Interest	3,156	-	-	3,156
Capital Outlay	525,440	207,568	-	733,008
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	7,832,947	372,030	67,775	8,272,752
(Deficiency) Excess of Revenues Over Expenditures	<u>(3,025,425)</u>	<u>647,712</u>	<u>9,845</u>	<u>(2,367,868)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	3,075,000	-	-	3,075,000
Transfers Out	-	(575,000)	-	(575,000)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Sources and Uses	3,075,000	(575,000)	-	2,500,000
Net Change in Fund Balances	49,575	72,712	9,845	132,132
Fund Balances - Beginning	<hr/>	<hr/>	<hr/>	<hr/>
	4,714,201	3,391,404	4,391	8,109,996
Fund Balances - Ending	<u>\$ 4,763,776</u>	<u>\$ 3,464,116</u>	<u>\$ 14,236</u>	<u>\$ 8,242,128</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, 2016**

Net change in fund balances - total governmental funds:	\$ 132,132
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.	(4,927)
Internal Service funds are used by management to charge the costs of centrally managed services to using funds and departments. The decrease is equal to the net change in the Internal Service Net Position.	(8,205)
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays of \$733,008 exceeded depreciation expense of \$650,812 in the current period.	82,196
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>14,664</u>
Change in net position of governmental activities	<u><u>\$ 215,860</u></u>

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

**CITY OF MILFORD, DE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property Taxes	\$ 3,701,000	\$ 3,701,000	\$ 3,767,182	\$ 66,182
Fees and Fines	165,000	165,000	185,870	20,870
Licenses and Permits	195,000	198,200	255,105	56,905
Intergovernmental	-	-	42,734	42,734
Charges for Services	16,000	16,000	6,585	(9,415)
Investment Earnings	6,500	6,500	13,858	7,358
Miscellaneous	483,500	433,500	536,188	102,688
	<u>4,567,000</u>	<u>4,520,200</u>	<u>4,807,522</u>	<u>287,322</u>
EXPENDITURES				
Current:				
General Government	1,509,705	1,518,395	1,465,183	53,212
Public Safety	4,231,380	4,264,505	4,266,351	(1,846)
Public Works	929,135	929,135	719,200	209,935
Culture and Recreation	839,895	839,895	838,953	942
Debt Service:				
Principal	14,664	14,664	14,664	-
Interest and Other Charges	2,476	2,476	3,156	(680)
Capital Outlay	493,185	479,570	525,440	(45,870)
	<u>8,020,440</u>	<u>8,048,640</u>	<u>7,832,947</u>	<u>215,693</u>
Deficiency of Revenues Over Expenditures	(3,453,440)	(3,528,440)	(3,025,425)	503,015
OTHER FINANCING SOURCES				
Real Estate Transfer Tax (from Special Revenue Fund)	500,000	575,000	575,000	-
Transfers In From Electric Fund	2,500,000	2,500,000	2,500,000	-
	<u>(453,440)</u>	<u>(453,440)</u>	<u>49,575</u>	<u>503,015</u>
DEFICIENCY FUNDED BY				
General Fund Prior Balance and Reserves	453,440	453,440	(49,575)	(503,015)
Net Revenues, Other Financing Sources, Prior Fund Balances and Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

CITY OF MILFORD, DE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2016

Business Type Activities - Enterprise Funds						Governmental Activities - Internal Service Fund
	Electric	Water	Sewer	Trash	Total	
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 3,473,389	\$ 1,935,711	\$ 2,710,303	\$ 279,011	\$ 8,398,414	\$ 97,081
Investments	6,738,592	7,165,404	3,612,023	250,000	17,766,019	-
Accounts Receivable, net of allowance for doubtful accounts	2,661,143	252,808	385,588	127,240	3,426,779	13,248
Other Receivables	3,000	1,711,129	12,406	500	1,727,035	-
Inventories	1,185,302	27,563	-	-	1,212,865	23,501
Total Current Assets	14,061,426	11,092,615	6,720,320	656,751	32,531,112	133,830
Non-Current Assets:						
Capital Assets:						
Land and Improvements	1,404,437	27,369	28,638	-	1,460,444	-
Utility System	17,864,460	20,317,264	18,613,820	-	56,795,544	-
Buildings and Improvements	6,981,196	10,853	50,691	5,650	7,048,390	-
Equipment and Furniture	3,327,656	1,567,708	749,730	999,459	6,644,553	118,198
Less Accumulated Depreciation	(14,072,607)	(7,677,545)	(8,207,540)	(807,910)	(30,765,602)	(70,472)
Total Non-Current Assets	15,505,142	14,245,649	11,235,339	197,199	41,183,329	47,726
Total Assets	29,566,568	25,338,264	17,955,659	853,950	73,714,441	181,556
Deferred Outflows of Resources						
Deferred Charges on Refundings	-	61,234	21,417	-	82,651	-
LIABILITIES						
Current Liabilities:						
Accounts Payable	1,687,755	409,112	289,236	28,689	2,414,792	54,024
Salaries Payable	55,488	13,650	13,648	13,509	96,295	-
Other Accrued Expenses	130,919	-	-	-	130,919	-
Customer and Other Deposits	522,575	-	-	17,900	540,475	-
Compensated Absences	26,077	6,104	6,104	4,787	43,072	11,261
Bonds, Notes and Loans Payable	156,335	645,026	377,949	-	1,179,310	-
Total Current Liabilities	2,579,149	1,073,892	686,937	64,885	4,404,863	65,285
Non-Current Liabilities:						
Compensated Absences	104,306	24,415	24,415	19,149	172,285	45,044
Bonds, Notes and Loans Payable	4,781,111	7,988,713	5,611,465	-	18,381,289	-
Total Non-Current Liabilities	4,885,417	8,013,128	5,635,880	19,149	18,553,574	45,044
Total Liabilities	7,464,566	9,087,020	6,322,817	84,034	22,958,437	110,329
NET POSITION						
Net Investment in Capital Assets	10,567,696	5,611,910	5,245,925	197,199	21,622,730	47,726
Restricted for Capital Improvements	1,295,164	1,500,265	2,078,664	-	4,874,093	-
Unrestricted	10,239,142	9,200,303	4,329,670	572,717	24,341,832	23,501
Total Net Position	\$ 22,102,002	\$ 16,312,478	\$ 11,654,259	\$ 769,916	\$ 50,838,655	\$ 71,227

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

CITY OF MILFORD, DE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Business Type Activities - Enterprise Funds</u>					Governmental Activities - Internal Service Fund
	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Trash</u>	<u>Total</u>	
REVENUES						
Charges for Services	\$ 24,847,947	\$ 2,795,451	\$ 4,427,133	\$ 1,028,883	\$ 33,099,414	\$ 1,146,132
Miscellaneous	335,690	27,488	1,040,552	3,895	1,407,625	-
Total Operating Revenues	<u>25,183,637</u>	<u>2,822,939</u>	<u>5,467,685</u>	<u>1,032,778</u>	<u>34,507,039</u>	<u>1,146,132</u>
OPERATING EXPENSES						
Personal Services	1,865,490	311,940	466,103	619,348	3,262,881	708,885
Contractual Services	18,448,800	65,367	2,362,694	285,934	21,162,795	114,752
Utilities	7,945	212,760	476	-	221,181	990
Repairs and Maintenance	509,080	85,884	33,971	53,258	682,193	175,662
Other Supplies and Expenses	145,768	509,626	228,190	26,078	909,662	133,916
Insurance Claims and Expenses	82,863	16,613	5,252	12,196	116,924	4,440
Depreciation	888,794	349,833	399,155	34,540	1,672,322	15,692
Total Operating Expenses	<u>21,948,740</u>	<u>1,552,023</u>	<u>3,495,841</u>	<u>1,031,354</u>	<u>28,027,958</u>	<u>1,154,337</u>
Operating Income (Loss)	<u>3,234,897</u>	<u>1,270,916</u>	<u>1,971,844</u>	<u>1,424</u>	<u>6,479,081</u>	<u>(8,205)</u>
NON-OPERATING REVENUES (EXPENSES)						
Interest and Investment Revenues	12,055	8,409	5,284	6,945	32,693	-
Impact Fees	65,400	188,416	-	-	253,816	-
Miscellaneous Revenue	17,932	-	-	-	17,932	-
Interest Expense	(186,859)	(184,365)	(185,489)	-	(556,713)	-
Miscellaneous Expenses	(25)	-	-	-	(25)	-
Total Non-Operating (Expenses) Revenues	<u>(91,497)</u>	<u>12,460</u>	<u>(180,205)</u>	<u>6,945</u>	<u>(252,297)</u>	<u>-</u>
Income (Loss) Before Transfers	3,143,400	1,283,376	1,791,639	8,369	6,226,784	(8,205)
Transfers Out	<u>(2,500,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,500,000)</u>	<u>-</u>
Change in Net Position	643,400	1,283,376	1,791,639	8,369	3,726,784	(8,205)
Net Position - Beginning of Year,	<u>21,458,602</u>	<u>15,029,102</u>	<u>9,862,620</u>	<u>761,547</u>	<u>47,111,871</u>	<u>79,432</u>
Net Position - End of Year	<u>\$ 22,102,002</u>	<u>\$ 16,312,478</u>	<u>\$ 11,654,259</u>	<u>\$ 769,916</u>	<u>\$ 50,838,655</u>	<u>\$ 71,227</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, 2016**

	ENTERPRISE FUNDS					Internal Service Fund
	Electric	Water	Sewer	Trash	Total	
Cash Flows from Operations:						
Receipts from Customers	\$ 24,739,913	\$ 2,744,056	\$ 4,349,190	\$ 1,039,749	\$ 32,872,908	\$ 1,132,884
Other Operating Receipts	343,298	22,544	1,040,552	3,895	1,410,289	-
Payments to Suppliers	(19,413,701)	(797,639)	(2,559,945)	(380,340)	(23,151,625)	(397,376)
Payments to Employees	(1,838,167)	(304,762)	(458,926)	(621,976)	(3,223,831)	(714,073)
Insurance Premiums Paid	(82,863)	(16,613)	(5,252)	(12,196)	(116,924)	(4,440)
Net Cash Provided by Operating Activities	3,748,480	1,647,586	2,365,619	29,132	7,790,817	16,995
Cash Flows from Non-Capital Financing Activities:						
Operating Transfers (Out)	(2,500,000)	-	-	-	(2,500,000)	-
Net Cash Flows Used in Non-Capital Financing Activities	(2,500,000)	-	-	-	(2,500,000)	-
Cash Flows from Capital and Related Financing Activities:						
Net cash for additions to Property, Plant and Equipment	(299,498)	(197,692)	(494,206)	-	(991,396)	(17,285)
Principal Paid on Debt	(155,000)	(691,457)	(412,504)	-	(1,258,961)	-
Interest Paid on Debt	(186,859)	(184,365)	(185,489)	-	(556,713)	-
Non-Operating Capital	17,932	-	-	-	17,932	-
Impact Fees Received	65,400	188,416	-	-	253,816	-
Net Cash Flows Used in Capital and Related Financing Activities	(558,025)	(885,098)	(1,092,199)	-	(2,535,322)	(17,285)
Cash Flows from Investing Activities:						
Net Proceeds/(Purchases) from Sales and Maturities of Short-Term Investments	(2,411,071)	(1,400,398)	(454,387)	-	(4,265,856)	-
Income on Investments	12,055	8,409	5,284	6,945	32,693	-
Net Cash Flows Provided by (Used in) Investing Activities	(2,399,016)	(1,391,989)	(449,103)	6,945	(4,233,163)	-
Net Increase (Decrease) in Cash and Cash Equivalents	(1,708,561)	(629,501)	824,317	36,077	(1,477,668)	(290)
Cash and Cash Equivalents at Beginning of Year	5,181,950	2,565,212	1,885,986	242,934	9,876,082	97,371
Cash and Cash Equivalents at End of Year	\$ 3,473,389	\$ 1,935,711	\$ 2,710,303	\$ 279,011	\$ 8,398,414	\$ 97,081
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:						
Operating Income	\$ 3,234,897	\$ 1,270,916	\$ 1,971,844	\$ 1,424	\$ 6,479,081	\$ (8,205)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:						
Depreciation and Amortization	888,794	349,833	399,155	34,540	1,672,322	15,692
Effect of Changes in Operating Assets and Liabilities:						
Accounts Receivable, net	(169,242)	(56,339)	(77,943)	(7,034)	(310,558)	(13,248)
Inventory	(25,302)	(4,409)	-	-	(29,711)	9,797
Accounts Payable and Accrued Expenses	(276,806)	80,407	65,386	(15,070)	(146,083)	18,147
Salaries Payable	13,958	3,225	3,224	(325)	20,082	-
Customer Deposits	68,816	-	-	17,900	86,716	-
Liability for Compensated Absences	13,365	3,953	3,953	(2,303)	18,968	(5,188)
Net Cash Provided by Operating Activities	\$ 3,748,480	\$ 1,647,586	\$ 2,365,619	\$ 29,132	\$ 7,790,817	\$ 16,995
Noncash Capital Financing Activities						
Additions to Property, Plant and Equipment Financed by:	\$ (299,498)	\$ (3,148,094)	\$ (494,206)	\$ -	\$ (3,941,798)	\$ (17,285)
Delaware Revolving Loan	-	332,067	-	-	332,067	-
USDA Loan	-	2,618,335	-	-	2,618,335	-
Net Cash	\$ (299,498)	\$ (197,692)	\$ (494,206)	\$ -	\$ (991,396)	\$ (17,285)

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

CITY OF MILFORD, DE
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2016

ASSETS	<u>AGENCY</u>
Cash and Cash Equivalents	<u>593,834</u>
Total Assets	<u><u>\$ 593,834</u></u>
 LIABILITIES	
Due to Other Governments	168,603
Deferred Revenue - Trust Fund	<u>368,841</u>
Total Liabilities	<u><u>\$ 537,444</u></u>

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

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Introduction

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

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

The accounting and reporting framework and the more significant accounting policies and practices are discussed in subsequent sections of this Note. The remainder of the notes is organized to provide explanations, including required disclosures, of the City's financial activities for the year ended June 30, 2016.

Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City has no component units.

Use of Estimates

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

Encumbrances

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

Government-Wide and Fund Financial Statements

The government-wide financial statements (statement of net position and statement of activities) report information on all of the non-fiduciary activities of the

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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

Government-Wide and Fund Financial Statements (continued)

primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

The City reports the following governmental funds:

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

Special Revenue 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, or accountability.

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

The City reports the following fiduciary fund types:

Agency Fund - The agency fund accounts for assets held by the City in a trustee capacity for fees collected on behalf of Kent County and the Carlisle Fire Department. In addition, a trust fund was established by an individual during fiscal 2013 to benefit Kent County residents by offsetting individual tax bills in the future. The balance of the fund as of June 30, 2016 was \$425,230.

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus.

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

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

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

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

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.

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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

Budgets and Budgetary Accounting (continued)

- (4) The City Manager is required by the City Charter to present a monthly report to City Council explaining any variances from the approved budget.
- (5) Formal budgetary integration is employed as a management control device during the year for the general fund.
- (6) The budget for the general fund is adopted on a basis consistent with GAAP as applicable to governments.
- (7) The budgets for the special revenue fund are approved on a program by program basis by the funding agencies.
- (8) Budgetary amendments are approved by City Council as required throughout the year. If revenues in excess of those estimated in the budget become available, the Council, by ordinance, may make supplemental appropriations for the year up to the amount of such excess.

Cash and Cash Equivalents

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

Receivables

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

Interfund Receivables/Payables

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

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.

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 lives of the respective assets.

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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

Compensated Absences

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

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

In accordance with the above criteria, the City has accrued a liability for vacation and sick pay which has been earned but not taken by City employees. For governmental funds, the liability for compensated absences is reported as a long term liability in the government-wide financial statements since it is anticipated that none of the liability will be liquidated with expendable available financial resources. The liability for compensated absences is recorded in proprietary fund types as an accrued liability in accordance with 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 position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are recorded net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and are amortized over the life of the related debt. In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the State of DE County/Municipal Pension Plans (DEMRS) and additions to/deductions from the City's Fiduciary Net Position are determined on the same basis as they are reported by DEMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when the contribution is legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Information regarding the City's Total Pension Liability is obtained from DEMRS through a report prepared for the City by DEMRS consulting actuary in compliance with Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions.

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City only has one item that qualifies for reporting in this category. It is the deferred charges on refundings reported in the government-wide statement of net position. This deferred charge results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding bond.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents and acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City did not have any items that qualified for reporting in this category.

Government-wide and Proprietary Fund Net Position

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

Governmental Fund Balances:

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

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

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016.

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	\$15,981,948
Building and Improvements	4,352,426
Equipment and Furniture	6,133,785
Construction in Progress	199,136
Less: Accumulated Depreciation	<u>(11,633,361)</u>
Net Capital Asset Difference	<u>\$15,033,934</u>

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

**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 Position (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	\$ 630,860
Current Portion of Bonds Payable	14,873
Long-Term Portion of Bonds Payable	64,177
Total Current and Long-Term Liability Differences	<u>\$ 709,910</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	\$ 733,008
Depreciation	<u>(650,812)</u>
Net Difference	<u>\$ 82,196</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>\$ 14,664</u>
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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, 2016, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet and statement of net assets.

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 - REAL ESTATE TAXES

The tax on real estate in the City area for the fiscal year 2016 was [46 mills (\$1,000 of assessed valuation)] as levied by the City Council. The City bills and collects its own real estate taxes. Delinquent taxes are liened by the City. The schedules of real estate taxes levied for the fiscal year 2016 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 5 - IMPACT FEES

All new water, sewage, and electric services within the City of Milford are required to pay a one-time "impact fee." The purpose of the fee is to compensate for the impact of new users to the existing water and sewage systems, in order to provide for future expansion. All impact fees collected are restricted for capital improvements, as specified and approved by City Council that will be required as the result of population growth. The cost of the impact fee for water, sewage, and electric for the year ended June 30, 2016 was \$2,525 (\$2,428 in fiscal year 2015), \$1,334 (\$1,283 in fiscal year 2015), and \$600 per Estimated Discharge Usage (EDU)(\$600 in fiscal year 2015), respectively.

The City has recorded as revenue in the proprietary funds Statement of Revenues, Expenses and Changes in Net Assets and in the government-wide Statement of Activities the impact fee monies, as required by GASB No. 33. Resulting restricted net assets at June 30, 2016 from impact fees is \$2,269,148.

NOTE 6 - INTERFUND TRANSACTIONS

During the course of normal operations, the City has numerous transactions between funds including expenses or expenditures and transfers of resources primarily to provide services. The financial statements of the governmental and proprietary fund types generally reflect such transactions as transfers. Transfers that are not considered operating or residual equity transfers give rise to individual fund, interfund receivables and payables. As of June 30, 2016, there are no outstanding interfund balances.

NOTE 7 - INTERGOVERNMENTAL RECEIVABLES

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

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 8 - CASH AND INVESTMENTS

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk. Deposits are classified as *Category 1* if they are fully insured, registered or held by the City's agent in the City's name. Deposits would be classified as *Category 2* for those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent(s) in the City's name, or *Category 3* for those deposits which are not collateralized, including bank balances that are collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name. As of June 30, 2016, all of the City's bank balances were Category 1 deposits, and the financial institution balances were the same as the carrying amounts.

The City's investments are categorized according to the level of credit risk assumed as of the balance sheet date. *Category 1* includes investments that are insured, registered or are held by the City's agent in the City's name. *Category 2* includes uninsured and unregistered investments held by the counterparty's trust department or agent in the city's name. *Category 3* includes uninsured and unregistered investments held by the counterparty, its trust department or its agent but not in the City's name. As of June 30, 2016, the City's investments consist of the following:

<u>Description</u>	<u>Category</u>	<u>Amount</u>	
		<u>Market</u>	<u>Carrying</u>
Money Market Funds	1		
PFM Asset Management LLC - City Reserves		\$19,299,731	\$19,299,731
Certificates of Deposit	1		
Delaware Federal Credit Union		<u>500,000</u>	<u>500,000</u>
Total		<u>\$19,799,731</u>	<u>\$19,799,731</u>

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 9 - FIXED ASSETS

The following schedule presents the capital activity of the governmental activities for the year ended June 30, 2016:

Description	Year Ended June 30, 2016				
	Balances 07/01/15	Additions	Deletions	Adjustments & Transfers	Balances 06/30/16
City Department:					
Land	\$ 7,871,610	\$ 191,881	\$ -	\$ -	\$ 8,063,491
Buildings and Improvements	4,163,457	-	3,948	-	4,159,509
Vehicles and Equipment	4,537,481	226,996	73,305	118,198	4,809,370
Construction in Progress	-	199,136	-	-	199,136
Total City Depreciation	16,572,548	618,013	77,253	118,198	17,231,506
Accumulated Depreciation	(5,648,596)	(354,288)	(77,253)	(70,471)	(5,996,102)
Total City Department, Net	<u>\$10,923,952</u>	<u>\$ 263,725</u>	<u>\$ -</u>	<u>\$ 47,727</u>	<u>\$11,235,404</u>
Street Department:					
Land Improvements	\$ 7,918,457	\$ -	\$ -	\$ -	\$ 7,918,457
Buildings and Improvements	192,916	-	-	-	192,916
Vehicles and Equipment	1,331,857	114,996	4,240	-	1,442,613
Total City Department	9,443,230	114,996	4,240	-	9,553,986
Accumulated Depreciation	(5,415,446)	(296,525)	(4,240)	-	(5,707,731)
Total Street Department, Net	<u>\$ 4,027,784</u>	<u>\$(181,528)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,846,256</u>

Description	Year Ended June 30, 2016				
	Balances 07/01/15	Additions	Deletions	Adjustments & Transfers	Balances 06/30/16
Total Government					
Capital Assets:					
Land	\$15,790,067	\$ 191,881	\$ -	\$ -	\$15,981,948
Buildings and Improvements	4,356,373	-	3,947	-	4,352,426
Vehicles and Equipment	5,869,338	341,992	77,545	118,198	6,251,983
Construction in Progress	-	199,136	-	-	199,136
Total Governmental Capital Assets	26,015,778	733,009	81,492	118,198	26,785,493
Accumulated Depreciation	(11,064,042)	(650,812)	(81,492)	(70,471)	(11,703,833)
Total Governmental Capital Assets, Net	<u>\$14,951,736</u>	<u>\$ 82,197</u>	<u>\$ -</u>	<u>\$ 47,727</u>	<u>\$15,081,660</u>

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 9 - FIXED ASSETS (CONTINUED)

The following schedule presents the capital activity of the business-type activities for the year ended June 30, 2016:

Description	Year Ended June 30, 2016				
	Balances 07/01/15	Additions	Deletions	Adjustments & Transfers	Balances 06/30/16
Electric Fund:					
Land	\$ 1,404,437	\$ -	\$ -	\$ -	\$ 1,404,437
Buildings and Improvements	6,981,196	-	-	-	6,981,196
Electric System	17,831,269	207,163	173,972	-	17,864,460
Vehicles and Equipment	3,266,618	92,335	31,297	-	3,327,656
Total Fixed Assets	29,483,520	299,498	205,269	-	29,577,749
Accumulated Depreciation	(13,389,082)	(888,794)	(205,269)	-	(14,072,607)
Net Book Value	\$16,094,438	\$ (589,296)	\$ -	\$ -	\$15,505,142
Water Fund:					
Land	\$ 27,369	\$ -	\$ -	\$ -	\$ 27,369
Buildings and Improvements	17,248	-	6,395	-	10,853
Water System	17,378,920	3,020,106	106,983	25,221	20,317,264
Vehicles and Equipment	1,439,720	127,988	-	-	1,567,708
Total Fixed Assets	18,863,257	3,148,094	113,378	25,221	21,923,194
Accumulated Depreciation	(7,441,090)	(349,833)	(113,378)	-	(7,677,545)
Net Book Value	\$11,422,167	\$2,798,261	\$ -	\$ 25,221	\$14,245,649
Waste Water Fund:					
Land	\$ 28,638	\$ -	\$ -	\$ -	\$ 28,638
Buildings and Improvements	50,691	-	-	-	50,691
Waste Water System	18,211,237	451,079	48,496	-	18,613,820
Vehicles and Equipment	710,236	43,127	3,633	-	749,730
Total Fixed Assets	19,000,802	494,206	52,129	-	19,442,879
Accumulated Depreciation	(7,860,917)	(399,155)	(52,532)	-	(8,207,540)
Net Book Value	\$11,139,885	\$ 95,051	\$ (403)	\$ -	\$11,235,339
Trash Fund:					
Buildings and Improvements	\$ 5,650	\$ -	\$ -	\$ -	\$ 5,650
Vehicles and Equipment	1,037,634	-	38,175	-	999,459
Total Fixed Assets	1,043,284	-	38,175	-	1,005,109
Accumulated Depreciation	(811,545)	(34,540)	(38,175)	-	(807,910)
Net Book Value	\$ 231,739	\$ (34,540)	\$ -	\$ -	\$ 197,199
Total Enterprise Funds					
Land	\$ 1,460,444	\$ -	\$ -	\$ -	\$ 1,460,444
Buildings and Improvements	7,054,785	-	6,395	-	7,048,390
Electric System	17,831,269	207,163	173,972	-	17,864,460
Water System	17,378,920	3,020,106	106,983	25,221	20,317,265
Waste Water System	18,211,237	451,079	48,496	-	18,613,820
Vehicles and Equipment	6,454,208	263,450	73,105	-	6,644,553
Total Fixed Assets	68,390,863	3,941,798	408,952	25,221	71,948,932
Accumulated Depreciation	(29,502,634)	(1,672,323)	(409,354)	-	(30,765,603)
Net Book Value	\$ 38,888,229	\$2,269,475	\$ (403)	\$ 25,221	\$41,183,329

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 10 - LONG-TERM DEBT OBLIGATIONS

Long-Term liability activity for the year ended June 30, 2016 is summarized as follows:

Governmental Activities:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Within One Year
Bonds Payable: Series B of 2011 General Obligation Bonds	\$ 92,261	\$ -	(\$ 14,664)	\$ 77,597	\$ 14,359
Bond Premium	2,056	-	(603)	1,453	514
Other Liabilities: Compensated Absences	843,153	1,727	-	844,880	168,976
Governmental Activities Long-Term Liabilities	<u>\$ 937,470</u>	<u>\$ 1,727</u>	<u>(\$ 15,267)</u>	<u>\$ 923,930</u>	<u>\$183,849</u>

Business Activities:

Bonds Payable: Series 1992A Capital Appreciation Bond	\$ 1,250,000	\$ -	(\$ 465,000)	\$ 785,000	\$395,000
Series A of 2011 General Obligation Bonds	8,145,000	-	(295,000)	7,850,000	300,000
Series B of 2011 General Obligation Bonds	1,417,739	-	(225,336)	1,192,403	220,641
	10,812,739	-	(985,336)	9,827,403	915,641
Add: Bond Premium	112,419	-	(11,729)	100,690	2,312
Less: Bond Discounts	(199,789)	-	74,186	(125,603)	(3,837)
Total Bonds Payable	10,725,369	-	(922,879)	9,802,490	914,116
Revolving Funds Loans -					
State of Delaware	712,881	-	(92,972)	619,909	95,782
State of Delaware 2010	847,816	-	(48,990)	798,826	49,975
State of Delaware 2011	798,970	1,781,117	-	2,580,087	-
Note Payable - Kent County	1,243,186	-	(23,164)	1,220,022	23,689
Note Payable - USDA	1,773,786	2,873,978	(108,499)	4,539,265	95,748
Total Bonds and Notes Payable	16,102,008	4,655,095	(1,196,504)	19,560,599	1,179,310
Other Liabilities: Compensated Absences	196,389	18,968	-	215,357	43,072
Business-Type Activities Long-Term Liabilities	<u>\$16,298,397</u>	<u>\$ 4,674,063</u>	<u>(\$1,196,504)</u>	<u>\$19,775,956</u>	<u>\$1,222,382</u>

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (CONTINUED)

Bonds payable at June 30, 2016 are comprised of the following individual issues:

	Interest Rate %	Issue Date	Maturity Date	Amount Outstanding				Total
				General Fund	Electric Fund	Sewer Fund	Water Fund	
General Obligation Bonds								
Series 1992A Capital Appreciation	0.00	4/1/1992	4/1/2018	\$ -	\$ -	\$ -	\$ 785,000	\$ 785,000
Series A 2011	2.00-4.40	6/30/2011	11/1/2037	-	4,890,000	2,960,000	-	7,850,000
Series B 2011 Refunding	2.00-3.00	6/30/2011	11/1/2021	77,597	-	358,648	833,755	1,270,000
Total Amounts Outstanding				\$ 77,597	\$ 4,890,000	\$ 3,318,648	\$ 1,618,755	\$ 9,905,000

The annual aggregate maturities for all of the general obligation bonds as of June 30, 2016 are as follows:

Year Ending June 30,	General Obligation Bonds		
	Principal	Interest	Total
2017	\$ 930,000	\$ 326,582	\$ 1,256,582
2018	950,000	311,657	1,261,657
2019	575,000	294,632	869,632
2020	590,000	277,157	867,157
2021	610,000	259,157	869,157
2022-2026	1,885,000	1,087,858	2,972,858
2027-2031	2,270,000	689,183	2,959,183
2032-2036	1,750,000	253,029	2,003,029
2037-2041	345,000	7,592	352,592
Total	\$ 9,905,000	\$ 3,506,847	\$ 13,411,847

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The City is required to compute, at the time taxes are levied, the rate of tax required to provide a fund to pay interest and principal at maturity. The City is in compliance with this requirement.

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 10 - LONG-TERM DEBT OBLIGATIONS (CONTINUED)

General Obligation Bonds (continued)

The 1992 General Obligation Enterprise Bonds, Series A, 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.

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. On September 2, 2014, the City bought back it's 2005 Bond Issue in the amount of \$2,600,000, plus accrued interest of \$49,937.

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 commenced 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, 2016.

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 also commenced January 1, 2012. The current refunding reduced total debt service payments over the 10 year term by \$276,000. This resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$259,000.

Note Payable - USDA

In June 2013, the City issued bonds in the amount of \$5 million in connection with its Southeast Water Expansion project. The funding for the project is being provided by the United States Department of Agriculture (USDA) under the federal direct loan for water and waste disposal systems program. Under the program, the City receives proceeds from the loan only after incurring project expenditures. The balance of the loan as of June 30, 2016 is \$4,539,265, which represents total expenditures incurred on the project to date less principal payments made. Under the terms of the note, the City is making quarterly payments in the amount of \$46,500, which include interest calculated at a rate of 2% on the balance outstanding. The agreement with the USDA also calls for the City to utilize the remaining unliquidated funds for the project by September 30, 2016.

Note Payable - Kent County

In connection with previous sewer problems, Kent County was forced to construct a new sewer line, a significant portion of which runs through the City of Milford. The county issued bonds to cover the cost, and it was agreed that the City would pay for the portion of the line that runs through its jurisdiction. Under the agreement, the City is paying the County in quarterly installments of \$12,735, which include interest at a rate of 2.25% per annum. The balance of the obligation as of June 30, 2016 is \$1,220,022 and is scheduled to mature November 10, 2050. The total cost to the City for the line was \$1,298,871, and was recorded as a period expense in the fiscal year ended June 30, 2013, as the City does not have title to the asset.

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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 balance on this related note as of June 30, 2016 is \$619,909. The note is secured by the full faith and credit of the City.

The City 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 this related note as of June 30, 2016 is \$798,826. Semi-annual payments commenced January 1, 2013 which include interest calculated at an annual rate of 2.0%. The note is scheduled to mature July 1, 2030.

Aggregate maturities of these two notes are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$145,757	\$33,613	\$179,370
2018	149,656	29,714	179,370
2019	153,665	25,705	179,370
2020	157,781	21,589	179,370
2021	162,013	17,357	179,370
2022-2026	398,495	43,687	442,182
2027-2031	<u>251,368</u>	<u>11,444</u>	<u>262,812</u>
	<u>\$1,418,735</u>	<u>\$183,109</u>	<u>\$1,601,844</u>

The City has also received funds from the State of Delaware in connection with its Washington Street Water Treatment Facility Replacement Project. The funds are being provided by the DE Drinking Water State Revolving Fund only as expenditures are incurred by the City and approved by the State. Interest only payments commenced September 1, 2012 and are due semi-annually at 1% per annum. Upon completion of the project, if the City has complied with all of the requirements of the State, thirty-five percent of the amounts advanced will be forgiven, and the remaining balance will be amortized over a twenty-year period with interest at 1% per annum. The balance outstanding as of June 30, 2016 is \$2,580,087, which represents the total amount of advances received on the project, net of \$45,000 received which was forgiven during fiscal 2014.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

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

Government Grant/Award Programs

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

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 - DEFERRED COMPENSATION PLAN

The City has a deferred compensation plan under Internal Revenue Code (IRC) 457(b) which is available to substantially all City full-time employees. Participants may make salary deferral contributions from their base salaries to the Plan during a calendar year of up to 100% of their net compensation up to the allowable maximum under IRC 457(b)(2). The City will match 100% of the participant's salary deferral contributions up to a maximum of 6% of the participant's base salary. Total contributions to the Plan by the City for the year ended June 30, 2016 was \$225,911.

NOTE 13 - PENSION PLANS

Defined Contribution Plan

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

State of Delaware's County and Municipal Pension Plans

Effective January 1, 2005, City Council elected, under provisions of the Delaware Code, to participate in the County and Municipal Police/Firefighter and the General Employees Retirement Funds. In connection with this election, the City agreed to fund prior service cost up to a maximum of fifteen (15) years for all eligible employees. Such funding was provided for from the City's reserves in its Water and Sewer Funds, as well as from assets of its existing retirement fund. Below is a description of each of these plans:

Police and Firefighters' Pension Plan

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

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

CITY OF MILFORD, DELAWARE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 13 - PENSION PLANS (CONTINUED)

Police and Firefighters' Pension Plan (continued)

Employer contributions to the plan are determined annually by the Board of Pension Trustees. The employer contribution policy is set by State law and required contributions by active members and by participating employers. The contributions required by participating employers are based on an actuarial valuation and are expressed as a percentage of annual covered payrolls during the period for which the amount is determined. The employer contribution rate in fiscal year 2016 was 13.77% of payroll. In addition, employees are required to contribute 7% of compensation.

Other Employees' Pension Plan

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

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

Employer contributions to the plan are determined annually by the Board of Pension Trustees. The employer contribution policy is set by State law and required contributions by active members and by participating employers. The contributions required by participating employers are based on an actuarial valuation and are expressed as a percentage of annual covered payrolls during the period for which the amount is determined. The employer contribution rate in fiscal year 2016 was 6.76% of payroll. In addition, employees are required to contribute 3% of compensation in excess of \$6,000.

Recent Accounting Pronouncement

The GASB has issued Statement No. 68, "Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27", which became effective in fiscal 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. Management has determined that there was not a material impact of this Standard on its financial statements.

NOTE 13 - SUBSEQUENT EVENTS

Subsequent events were evaluated through October 28, 2016, which is the date the financial statements were available to be issued. Management of the City has determined that there were no other such events that warranted adjustment to or disclosure in these financial statements.

**CITY OF MILFORD, DE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program Program Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture, Rural Utilities Service Direct Loan for Water and Waste Disposal Systems	10.760	N/A	\$ 4,539,285
Environmental Protection Agency Passed through State of DE Department of Health and Social Services Capitalization Grants for Drinking Water State Revolving Funds	66.458	51-6000177	<u>1,023,267</u>
Total Expenditures of Federal Awards			<u>\$ 5,562,552</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF MILFORD, DELAWARE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Milford, DE Schedule of Expenditures of Federal Awards (Schedule) includes the activity of all federal award programs administered by the City.

Basis of Presentation

The Schedule presents total federal awards expended for each individual federal program in accordance with OMB Circular A-133. Federal award program titles are reported in the Catalog of Federal Domestic Assistance (CFDA). Federal award programs included expenditures, pass-throughs to non-state agencies (i.e. payments to subrecipients), non-monetary assistance, and loan programs.

Basis of Accounting

The expenditures for each of the federal assistance programs are presented in the Schedule on the accounting basis as presented on the fund financial statements. For the governmental funds, expenditures are presented on the modified accrual basis. For expenditure in proprietary funds, expenditures are presented on the accrual basis. Both the modified accrual and accrual basis of accounting incorporate an estimation approach to determine the amount of expenditures incurred if not yet billed by a vendor.

NOTE 2 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule which is prepared on the basis explained in Note 1 to this Schedule.

NOTE 3 - INDIRECT COST RATE

The City of Milford has elected to use the 10% de minimis indirect cost rate allowed by the Uniform Guidance.

NOTE 4 - FEDERALLY FUNDED LOAN PROGRAMS

Water and Waste Disposal Systems for Rural Communities (CFDA 10.760)

In June 2013, the City issued bonds in the amount of \$5 million in connection with its Southeast Water Expansion project. The funding for the project is being provided by the United States Department of Agriculture (USDA) under the federal direct loan for water and waste disposal systems program. Under the program, the City receives proceeds from the loan only after incurring project expenditures. The balance of the loan as of June 30, 2016 is \$4,539,285, which represents total expenditures incurred on the project to date, less principal payments made. Under the terms of the note, the City is making quarterly payments of \$46,500, which include interest calculated at a rate of 2% on the balance outstanding. The agreement with the USDA also calls for the City to utilize the remaining unliquidated funds for the project by October 31, 2016.

Clean Water State Revolving Funds (CFDA 66.458)

The City receives loans from the State of Delaware by way of capitalization grants awarded to the state to create and maintain Clean Water State Revolving Funds (CWSRF) programs. The state uses the funds to provide long-term sources of financing for construction of wastewater treatment facilities and implementation of water management activities. CWSRF outstanding loans for which the related project is completed do not have continuing compliance requirements.



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Robert K. Griffin, CPA

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Milford, Delaware, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Milford, Delaware's basic financial statements and have issued our report thereon dated October 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Milford, Delaware's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of, but not for the purpose of expressing an opinion on the effectiveness of the City of Milford, Delaware's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency.

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*.

City of Milford, Delaware's Response to Finding

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

Purpose of this Report

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

Beck Villada + Co PC

Voorhees, New Jersey
October 28, 2016



Certified Public Accountants

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the City Council
City of Milford, Delaware

Report on Compliance for Each Major Federal Program

We have audited City of Milford, Delaware's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Milford, Delaware's major federal programs for the year ended June 30, 2016. City of Milford, Delaware's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Milford, Delaware's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Milford, Delaware'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 on compliance for each major federal program. However, our audit does not provide a legal determination of City of Milford, Delaware's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Milford, Delaware, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of City of Milford, Delaware, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Milford, Delaware's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Milford, Delaware'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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Beck Villatoro & Co PC

Voorhees, NJ
October 28, 2016

CITY OF MILFORD, DELAWARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of City of Milford, DE were prepared in accordance with GAAP.
2. One significant deficiency disclosed during the audit of the financial statements is reported in this schedule of findings and questioned costs. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of City of Milford, DE, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses in internal control over major federal award programs for the City of Milford, DE are reported.
5. The auditor's report on compliance for the major federal award programs for City of Milford, DE expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule.
7. The program tested as a major program was:
 - U.S. Department of Agriculture, Rural Utilities Services, *Direct Loan for Water and Waste Disposal Systems*, CFDA No. 10.760.
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. City of Milford, DE was determined to be a low-risk auditee.

CITY OF MILFORD, DELAWARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FOR THE YEAR ENDED JUNE 30, 2016

SIGNIFICANT DEFICIENCY

Financial Statement Preparation

Condition: The City of Milford, like many governmental units, has historically relied on its auditors to assist in drafting 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.

PAYMENT SCHEDULE

6/27/2016 9:21:31 AM

Loan Schedule as on 6/27/2016

Borrower: City of Milford	Cost: \$0.00
Tax ID: 51-6000177	Report Generated By: Paquette, Frank
Loan Number: 12000015	Loan Officer: Motyl, Brian
Loan Type: Municipal Loan	Origination: 1/31/2001
Status: New Loan	Maturity: 7/1/2022
Loan Amount: \$1,700,000.00	Payment: 56833.26
Actual Loan Amount: 1,700,000.00	
Annual Rate: 3.00%	
Period: Semi-Annually	
# Payments: 40	

#	Due Date	Amount(\$)	Interest (\$)	Principal(\$)	Principal Balance(\$)	Loan Balance(\$)
					666,741.28	738,832.38
28	07/01/2016	56,833.26	10,001.11	46,832.15	619,909.13	681,999.12
29	01/01/2017	56,833.26	9,298.63	47,534.63	<u>572,374.50</u>	625,165.86
30	07/01/2017	56,833.26	8,585.61	48,247.65	524,126.85	568,332.60
31	01/01/2018	56,833.26	7,861.90	48,971.36	475,155.49	511,499.34
32	07/01/2018	56,833.26	7,127.33	49,705.93	425,449.56	454,666.08
33	01/01/2019	56,833.26	6,381.74	50,451.52	374,998.04	397,832.82
34	07/01/2019	56,833.26	5,624.97	51,208.29	323,789.75	340,999.56
35	01/01/2020	56,833.26	4,856.84	51,976.42	271,813.33	284,166.30
36	07/01/2020	56,833.26	4,077.20	52,756.06	219,057.27	227,333.04
37	01/01/2021	56,833.26	3,285.85	53,547.41	165,509.86	170,499.78
38	07/01/2021	56,833.26	2,482.64	54,350.62	111,159.24	113,666.52
39	01/01/2022	56,833.26	1,667.38	55,165.88	55,993.36	56,833.26
40	07/01/2022	56,833.26	839.90	55,993.36	0.00	0.00
		Total:	72,091.10	666,741.28		

\$ 52,791.36

CAND SAVE WITH EARLY PAY-OFF

CITY OF MILFORD (DELAWARE)
SERIES B OF 2011
REFUNDS THE SERIES OF 2002

SETTLE 8/30/2011
 DATED 8/30/2011

	1	2	3	4	5	6	7	8	9	10	11
Date	Principal	Coupon	Yield to Call	Yield to Maturity	Interest	Semi-Annual Debt Service	Annual Debt Service	Existing Debt Service	Savings	PV Savings	
1/1/2012	545,000	2.000	0.550		43,791.94	588,791.94	588,791.94	692,590.00	103,798.06	102,891.80	
7/1/2012					38,100.00	38,100.00					
1/1/2013	685,000	2.000	0.750		38,100.00	723,100.00	761,200.00	774,100.00	12,900.00	12,770.62	
7/1/2013					31,250.00	31,250.00					
1/1/2014	690,000	2.000	0.900		31,250.00	721,250.00	762,500.00	766,025.00	13,525.00	13,108.81	
7/1/2014					24,350.00	24,350.00	75,600				
1/1/2015	290,000	2.000	1.200		24,350.00	944,950.00	338,700.00	351,420.00	12,720.00	12,080.36	
7/1/2015					21,450.00	21,450.00	335,800				
1/1/2016	240,000	2.000	1.400		21,450.00	261,450.00	282,900.00	300,832.50	17,932.50	16,670.89	
7/1/2016					19,050.00	19,050.00	280,500				
1/1/2017	235,000	3.000	1.700		19,050.00	254,050.00	273,400.00	296,432.50	23,332.50	21,270.16	
7/1/2017					15,525.00	15,525.00	269,575				
1/1/2018	250,000	3.000	2.000	2.141	15,525.00	265,525.00	284,050.00	301,712.50	20,662.50	18,608.24	
7/1/2018					11,775.00	11,775.00	277,300				
1/1/2019	265,000	3.000	2.400	2.547	11,775.00	266,775.00	278,650.00	301,130.00	22,580.00	19,858.68	
7/1/2019					7,950.00	7,950.00	274,725				
1/1/2020	260,000	3.000	2.600	2.730	7,950.00	267,950.00	276,900.00	299,867.50	23,967.50	20,697.94	
7/1/2020					4,050.00	4,050.00	272,000				
1/1/2021	270,000	3.000	2.750	2.847	4,050.00	274,050.00	278,100.00	302,905.00	24,805.00	21,034.20	
							274,050				
TOTALS	3,720,000				390,791.94	4,110,791.94	4,110,791.94	4,387,015.00	276,223.06	258,891.68	

F116
 F117

3.000
 3.000
 3.000
 3.000

15,525.00
 15,525.00
 11,775.00
 7,950.00
 7,950.00
 4,050.00

78,560
 /

COULD SAVE WITH
 EARLY PAY-OFF

Savings as a % of Refunded Par	7.33%	6.87%
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