



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

## CITY COUNCIL AGENDA June 10, 2024

*This meeting is also available for viewing by the public by accessing the following link:*

<https://zoom.us/j/92231361250>

*or*

<http://www.cityofmilford.com/553/Watch-Public-Meetings>

*Members of the public may also dial in by phone using the following number:*

*Call 301 715 8592 Webinar ID: 922 3136 1250*

**5:00 P.M.**

### **15-Minute Public Comment Period\***

Virtual attendees must register prior to start time of meeting by calling 302-422-1111 Extension 1142 or 1303, or by sending an email to [cityclerk@milford-de.gov](mailto:cityclerk@milford-de.gov) and providing your name, address, phone number, and item name and/or description you wish to comment on. Persons in attendance wishing to speak must sign up prior to the start of the Council Meeting.

## **FINANCE & AUDIT COMMITTEE**

Call to Order – Chair Jason James Sr.

FY22 Audit Review

Adjournment

All items on the Meeting Agenda are subject to a potential vote.

**ALL SUPPORTING DOCUMENTS MUST BE SUBMITTED TO THE CITY CLERK IN ELECTRONIC FORMAT NO LATER THAN ONE WEEK PRIOR TO MEETING. NO ADDITIONAL DOCUMENTS WILL BE ACCEPTED, DISTRIBUTED, OR PRESENTED AT MEETING ONCE PACKET HAS BEEN POSTED ON THE CITY OF MILFORD WEBSITE. ANY MATERIALS UTILIZED DURING THE MEETING MUST BE INCLUDED IN THE COUNCIL PACKET AND ACCESSIBLE BY AUDIO AND VISUAL MEANS PURSUANT TO 29 Del. Code, Chapter 100, §10006A(c)(5).**



# *Zelenkofske Axlerod LLC*

**CERTIFIED PUBLIC ACCOUNTANTS**

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May 20, 2024

City Council  
City of Milford, Delaware

We have audited the financial statements of the City of Milford (the "City"), as of and for the year ended June 30, 2022, and have issued our report thereon dated May 20, 2024. Professional standards require that we advise you of the following matters relating to our audit.

## **Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated December 8, 2023, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding significant control deficiencies, material weaknesses, and other matters noted during our audit in a separate letter to you dated May 20, 2024.

## **Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

## **Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

In order to eliminate the identified threats to independence associated with our assistance with the preparation of the financial statements and data collection form, we have ensured a member of firm management, independent of the associated activity, performed a review of the financial statements and data collection form.

## **Significant Risks Identified**

We have identified the following significant risks: management override of controls and improper revenue recognition due to error or fraud. Although these significant risks were identified, we designed our audit procedures to mitigate the risks.

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3800 McKnight East Drive, Suite 3805, Pittsburgh, PA 15237  
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# *Zelenkofske Axelrod LLC*

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## **Qualitative Aspects of the Entity's Significant Accounting Practices**

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note 1 to the financial statements. The District adopted the provisions of Governmental Accounting Standards Board's Statements No. 89, "*Accounting for Interest Cost Incurred before the End of a Construction Period*", Statement No. 92, "*Omnibus 2020*", and part of Statement No. 99 "*Omnibus 2022*". The adoption of these statements had no effect on previously reported amounts. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. The City also adopted the provisions of Governmental Accounting Standards Board Statement No. 87, "*Leases*", which resulted in the recognition of lease receivables, deferred inflows and additional disclosures.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

Management's estimate of the useful lives of capital assets used to calculate depreciation expense was based on the historical lives of similar assets.

Management's use of an actuary to estimate the net pension liability, deferred outflows of resources for pensions, and deferred inflows of resources for pensions.

We evaluated the key factors and assumptions used to develop the estimates and determined that they are reasonable in relation to the financial statements taken as a whole.

### *Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the City's financial statements relate to:

The disclosure of the Pension Plans in Note 15 to the financial statements is based upon information provided by an actuary.

## **Significant Unusual Transactions**

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. We encountered no significant unusual transactions during our audit.



# *Zelenkofske Axelrod LLC*

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## **Significant Difficulties Encountered during the Audit**

Although we received cooperation of management and believe that we were given direct and unrestricted access to the City's officials and management, we experienced significant difficulties in the performance of the audit due to extensive delays by management in the overall audit process.

These delays, such as delayed trial balances, supporting schedules, financial statements and multiple revised versions of documents, significantly increased the hours required to complete the audit.

## **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. Attached is a schedule of all adjustments that were recorded.

## **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

## **Circumstances that Affect the Form and Content of the Auditor's Report**

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. No circumstances affect the auditor's report.

## **Representations Requested from Management**

We have requested certain written representations from management, which are included in the management representation letter dated May 20, 2024.

## **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

## **Other Significant Matters, Findings or Issues**

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.



# *Zelenkofske Axelrod LLC*

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## **Restriction on Use**

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

Very truly yours,

*Zelenkofske Axelrod LLC*

Zelenkofske Axelrod LLC  
Harrisburg, Pennsylvania

**City of Milford**  
**Audit Adjustments Schedule**  
**Year Ended June 30, 2022**

**Note: This sheet provides a listing of all adjustments made from the original trial balance provided at the start of the audit to the final financial statements**

	Fund	Description	Debit	Credit
1). To adjust deferred revenue based on 2022 ARPA revenue loss and reclassify amounts released from restriction				
	Special Revenue	Cash	445,868.00	
	Special Revenue	Restricted Cash		445,868.00
	Special Revenue	Deferred Revenue	614,091.00	
	Special Revenue	Grant Revenue		614,091.00
2). To adjust interfund receivable for ARPA transfer				
	General Fund	Due from Special Revenue Fund		9,788.68
	General Fund	Operating Support	9,788.68	
3). To reconcile interfund transfers				
	Special Revenue Fund	CFFR Bond Bill Rev Earned		113,000.00
	Special Revenue Fund	GF Res - Council Apprvd	113,000.00	
	Non-Major Funds	Grant Fund		113,000.00
	Non-Major Funds	Capital Expense	113,000.00	
4). To reconcile interfund accounts and adjusted deferred revenue originally mapped to incorrect fund				
	Special Revenue Fund	Due to Other Funds		179,467.02
	Special Revenue Fund	Deferred Revenue	176,820.83	
	Special Revenue Fund	Municipal Street Aid		176,820.83
	Special Revenue Fund	Transfers to General Fund	179,467.02	
	General Fund	Due From Other Funds	179,467.02	
	General Fund	Transfers from Muni Aid		179,467.02
5). To reconcile interfund accounts and clear negative cash				
	Special Revenue Fund	Cash - RE Transfer		93,787.86
	Special Revenue Fund	Transfers to General Fund	93,787.86	
	Special Revenue Fund	Cash - Sidewalk	93,787.86	
	Special Revenue Fund	Transfer In		93,787.86
6). To adjust for transfer of assets				
	Electric Fund	Fund Balance	548,184.24	
	Electric Fund	Miscellaneous		505,157.24
	Electric Fund	O&M Distribution Lines		43,027.00
7). To reconcile interfund accounts				
	General Fund	Cash		132,703.00
	General Fund	General Government Expense	132,703.00	
	General Fund	Cash	132,703.00	
	General Fund	Due From		132,703.00

**City of Milford**

**Audit Adjustments Schedule Page 2**

	Fund	Description	Debit	Credit
8). To reclassify restricted cash to agree to restricted deferred revenue				
	Special Revenue Fund	Cash		168,223.00
	Special Revenue Fund	Restricted Cash	168,223.00	
9). To correct adjustments and roll prior year fund balance				
	Special Revenue Fund	Due From Other Funds		273,288.00
	Special Revenue Fund	General Government Expense	420,707.00	
	Special Revenue Fund	Beginning Fund Balance		104,901.00
	Special Revenue Fund	Beginning Fund Balance		42,518.00
10). To reclassify land transfer				
	General Fund	Capital Outlay	505,000.00	
	General Fund	General Government Expense		505,000.00
11). To correct opening fund balance for items incorrectly recorded at fund level				
	General Fund	Comp Abs LT	997,715.00	
	General Fund	Contingent Liabilities	203,516.00	
	General Fund	General Government Expense		11,236.00
	General Fund	Capital Outlay		287,562.00
	General Fund	Beginning Fund Balance		902,433.00
12). To correct entry posted to fund balance				
	General Fund	Capital Outlay	62,152.00	
	General Fund	Beginning Fund Balance		62,152.00
13). To correct entry posted to fund balance				
	General Fund	Proceeds Sale of Assets		100,000.00
	General Fund	Beginning Fund Balance	100,000.00	
14). To reconcile interfund accounts				
	General Fund	Due From Other Funds	42,348.00	
	General Fund	Due to Other Funds	19,906.90	
	General Fund	Capital Outlay		62,254.90
15). To reclassify interfund loan				
	General Fund	Other Payables	555,426.00	
	General Fund	Due to Other Funds		555,426.00
16). To reclassify debt proceeds				
	General Fund	Capital Outlay	41,445.00	
	General Fund	Bond Anticipation Note		41,445.00
17). To correct beginning fund balance				
	Electric Fund	Beginning Fund Balance	7,242.00	
	Electric Fund	Miscellaneous Revenue		7,242.00

**City of Milford**

**Audit Adjustments Schedule Page 3**

	<u>Fund</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
18). To reclassify negative expense presented on financial statements				
	Water Fund	Bad Debt Expense	2,010.00	
	Water Fund	Miscellaneous Revenue		2,010.00
19). To reclassify negative expense presented on financial statements				
	Solid Waste	Bad Debt Expense	2,092.00	
	Solid Waste	Miscellaneous Revenue		2,092.00
20). One-sided entry - fund was out of balance				
	Sewer	Miscellaneous Expense	169.00	
21). To reclassify negative expense presented on financial statements				
	Sewer	Bad Debt Expense	955.00	
	Sewer	Miscellaneous Revenue		955.00
22). To reconcile interfund accounts				
	Sewer	Due From Other Funds	26,900.00	
	Sewer	Miscellaneous Revenue		26,900.00
23). To correct opening fund balance				
	Non-Major Funds	Culture and Recreation Expense	43,674.00	
	Non-Major Funds	Beginning Fund Balance		43,674.00



# The City of Milford, Delaware

## Annual Financial Statements

Including Independent Auditor's Report

As of and for the Year Ended June 30, 2022

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# The City of Milford, Delaware

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# The City of Milford, Delaware

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## TRANSMITTAL LETTER

May 20, 2024

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

The Finance Department and City Manager's Office are pleased to submit the Annual Financial Report for the City of Milford, Delaware, for the fiscal year ended June 30, 2022.

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

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

### REPORT STRUCTURE

The accompanying financial section includes a Management's Discussion and Analysis (MD&A), basic financial statements and combining and individual fund statements, required supplementary information and schedules, and addition information and reports, as well as the independent auditor's report on the basic financial statements. Zelenkofske Axelrod LLC has issued an unmodified opinion on the City's financial statements for the year ended June 30, 2022. The independent auditor's report is located at the front of the financial section of this report.

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

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

## CITY PROFILE

### Location & Demographics

The City of Milford is the sixth largest city in population in the State of Delaware, serving more than 12,000 residents within a rapidly growing corridor along U.S. Route 113/DE Route 1 in Kent and Sussex Counties. Located on the Mispillion River, within both Kent and Sussex Counties, the City is approximately 95 miles from Philadelphia, Pennsylvania, 85 miles from Baltimore, Maryland, and 100 miles from Washington, D.C. Locally, the City is 19 miles south of Dover, the State Capital.

### Form of Government

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

## OPERATIONS AND FINANCIAL MANAGEMENT

### Services Provided

The City of Milford provides critical public services and utilities in the most efficient and cost-effective manner possible for the benefit of its citizens, the business community and non-resident utility customers. Major services provided under general government and enterprise functions include police protection, water and sewer services, electric services, sanitation services, park and recreational facilities, street improvements and general administrative services.

### Accounting System and Budgetary Control

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

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

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

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

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

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

## OTHER INFORMATION

### Independent Audit

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

### Acknowledgements

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

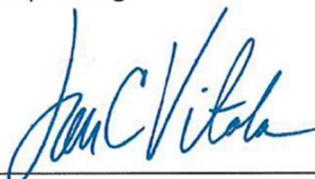
We sincerely thank the Mayor, Milford City Council and the Finance & Audit Committee for their responsible oversight of the City's independent audit process. Further, we appreciate the active interest and enthusiastic support of our continued pursuit of improvements to the transparency, relevance and timeliness of the City's financial planning and reporting processes.

Respectfully submitted,



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Mark A. Whitfield  
City Manager



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Louis C. Vitola  
Finance Director



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## INDEPENDENT AUDITOR'S REPORT

City Council  
City of Milford, Delaware

### **Report on the Audit of the Financial Statements**

#### ***Opinions***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milford (the "City"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2022, and the respective changes in financial position, and, where applicable, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (GAS)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Responsibilities of Management for the Financial Statements***

The City's 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, and for 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.

In preparing the financial statements, management is required to evaluate where there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for one year after the date that the financial statements are issued.

#### ***Auditor's Responsibility for the Audit of Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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City of Milford, Delaware  
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Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatements of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtaining an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by managements, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate to those charged with governance regarding, amount other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we have identified during the audit.

### ***Adoption of New Governmental Accounting Standards Board Pronouncements***

As described in Note 1 to the financial statements, in 2022 the City adopted the provisions of Governmental Accounting Standards Board's Statements No. 87, "*Leases*", Statement No. 89, "*Accounting for Interest Cost Incurred before the End of a Construction Period*", Statement No. 92, "*Omnibus 2020*", and part of Statement No. 99 "*Omnibus 2022*". Our opinion is not modified with respect to these matters.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of revenues, expenditures, and changes in fund balance budget and actual – General Fund, schedule of the city's proportionate share of the net pension liability, and the schedule of city contributions – pension plan on pages 4 through 14 and pages 57 through 59 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 inquires 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.



# *Zelenkofske Axlerod LLC*

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City of Milford, Delaware  
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## ***Supplementary Information***

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

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

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

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2024, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Zelenkofske Axlerod LLC*

ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania  
May 20, 2024

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Administrative and Financial Management of the City of Milford, Delaware are pleased to offer readers of the City's financial statements this narrative overview and analysis of the financial activities and financial position of the City for the fiscal year ended June 30, 2022. In the broadest context, the financial well-being of a government lies in the underlying means and willingness of its citizens and property owners to fund their pro rata allocation of taxes to support the vision of the government's elected and appointed leadership to deploy tax receipts strategically to ensure the City's tax base, service levels, City assets and the City's desirability will be maintained not just for the current year but well into the future. Financial reporting is limited in its ability to provide this "big picture" but rather focuses on financial position and the net changes in financial position from year to year. In other words, are revenues and expenses higher or lower than the previous year? Has net position (containing both short- and long-term assets and liabilities) or fund balances (the current "spendable" assets less current liabilities) of the City been maintained? We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal (pages i-iii of this report) as well as information contained in the City's annual budget and other community information that can be found by visiting the City's website at [www.cityofmilford.com](http://www.cityofmilford.com). It should be noted that small differences across different financial statements and tables may differ due to rounding. In addition, the Independent Auditor's Report describes the auditor's association with the various sections of this report and that all additional information from the website and other City sources is unaudited and has not been updated for events that may have occurred following the issuance of the respective report.

### IN BRIEF

The assets (and deferred outflows of resources) of the City on a "government wide" or consolidated basis exceeded its liabilities (and deferred inflows of resources) at the close of the most recent fiscal year by approximately \$107.7 million (net position). This number must be viewed in the context that a significant portion of the City's net position (\$57.7 million, or 53.5%) is invested in capital assets, net of related debt, and that most capital assets in government do not directly generate revenue nor can they be sold to generate liquid capital. Additionally, net position restricted for specific purposes total \$13.9 million (12.9%). The remaining \$36.1 million represents unrestricted net position and may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies. Unrestricted net position decreased by \$3.9 million (9.9%) during fiscal year 2022 (FY22).

As of the close of the past fiscal year, the City's governmental activities (a subset of the government-wide information reported in the preceding paragraph) reported \$30.8 million combined ending net position. Within this total, \$18.3 million (59.4%) is invested in capital assets, net of related debt, \$5.2 million is restricted by specific legal requirements and \$7.3 million represents unrestricted fund balance.

The City's business-type activities include water, sewer, electric and solid waste operations and, combined with the governmental activities, constitute the balance of the activity measured on a government-wide basis. Business-type activities closed the year with a \$2.8 million increase in

net position to \$76.9 million, \$39.4 million of which is invested in capital assets, net of related debt and \$8.7 million of which is restricted by specific legal requirements. The remaining \$28.8 million is unrestricted.

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

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves to introduce the City's basic financial statements, which are composed of four components: 1) government wide financial statements, 2) fund financial statements, 3) notes to the financial statements, and 4) required supplementary information, which includes this discussion and analysis. This report also contains other supplementary information as listed in the Table of Contents.

**Government Wide Financial Statements** – The government wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. The Statement of Net Position presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between them reported as net position (similar to a private sector balance sheet). Net position can be divided into restricted and unrestricted net position, with the former representing balances that are legally or contractually reserved for a particular purpose. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Activities presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused compensated absences). When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to apply restricted net position first.

The government-wide financial statements distinguish between functions of the City that are principally supported by (1) taxes and intergovernmental revenues (governmental activities) versus (2) functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government and administration, public safety, public works, and culture and recreation. The business-type activities of the City include water, sewer, electric and solid operations. The government-wide financial statements can be found on pages 15 and 16 of this report.

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

CITY OF MILFORD, DELAWARE  
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022 (UNAUDITED)

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Governmental fund balance can be divided into nonspendable, restricted, committed, assigned, and unassigned fund balance categories. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended by fund balance class follows: restricted, followed by committed, assigned and lastly unassigned. Non-financial assets such as governmental buildings, roads, drainage ways, park land and long-term liabilities such as bonds payable or long-term liabilities that will not be paid with current assets are excluded. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The governmental financial statements can be found on pages 17 and 19 of this report.

Proprietary Funds – The City maintains two types of proprietary funds. Enterprise funds are presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, electric and solid waste operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses its internal service funds to account for its fleet services, billing services and City Hall building maintenance cost allocation programs.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sewer, electric, and solid waste funds, because all are 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.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government wide and fund financial statements. The notes to the financial statements can be found on pages 24 through 54.

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

CITY OF MILFORD, DELAWARE  
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022 (UNAUDITED)

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following table ("MDA Schedule 1") summarizes the City's net position resulting from both the governmental activities and business-type activities reported in Milford's government-wide financial statements as of June 30, 2022, including comparative totals as of June 30, 2021.

MDA Schedule 1

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

	Governmental Activities		Business-Type Activities		Total	
	2021	2022	2021	2022	2021	2022
Current and other assets	\$ 15,872	\$ 18,417	\$ 48,529	\$ 42,923	\$ 64,401	\$ 61,340
Long-term assets	17,438	23,548	46,176	54,424	63,614	77,972
Total Assets	33,310	41,965	94,705	97,347	128,015	139,312
Deferred outflows of resources	1,593	1,432	289	266	1,882	1,698
Long term liabilities	1,799	1,399	15,474	14,729	17,273	16,128
Other liabilities	4,297	5,491	5,366	5,959	9,663	11,450
Total Liabilities	6,096	6,890	20,840	20,688	26,936	27,578
Deferred inflows of resources	829	5,726	-	-	829	5,726
Net Position						
Net investment in capital assets	17,438	18,283	29,958	39,369	47,396	57,652
Restricted	5,868	5,173	8,688	8,683	14,556	13,856
Unrestricted	4,672	7,325	35,508	28,873	40,180	36,199
Total Net Position	\$ 27,978	\$ 30,781	\$ 74,154	\$ 76,925	\$ 102,132	\$ 107,707

Over time, a government's net position (especially changes in net position by category) may serve as a useful indicator of the organization's financial condition. The City of Milford is no different; the \$5.6 million (5.5%) improvement in Milford's total net position from \$102.1 million as of June 30, 2021, to \$107.7 million as of June 30, 2022, reflects positive financial performance (See MDA Schedule 1). The City's net position in FY22 was influenced by an improvement in the composition of the City's pension assets and liabilities, causing a \$1.4 million credit to pension expense recognized in fiscal year 2022. This positive improvement was partially offset by the implementation of GASB Statement No. 87, Leases, which reduced the recognition of lease revenue by \$0.2 million in FY22 as compared to what would have been reported prior to the implementation of the new lease standard.

The largest portion of the City's net position, \$57.7 million (53.5%) reflects investments in capital assets (e.g., land, building, equipment, improvements and infrastructure), less any outstanding debt used to acquire those assets. The City uses its capital assets and equipment to provide services to citizens; consequently, these assets are not available for future spending, and with the exception of business type assets, do not generate direct revenue for the City. They do, however, represent an obligation on the part of the City to maintain these assets into the future.

CITY OF MILFORD, DELAWARE  
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022 (UNAUDITED)

Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources required to repay this debt must be provided from other sources, as the capital assets themselves cannot be used to liquidate these liabilities. In addition to the capital assets, another \$13.9 million (12.9%) of the City's net position is subject to legal and local restrictions; the majority of the restricted funds are intended for investment in the repair, maintenance and replacement of the capital assets. The remaining balance of unrestricted net position may be used to meet the City's ongoing obligations to citizens, employees and creditors.

The following table ("MDA Schedule 2") provides a summary of the City's operations for the fiscal years ended June 30, 2022 and 2021.

MDA Schedule 2

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

	Governmental Activities		Business-Type Activities		Total	
	2021	2022	2021	2022	2021	2022
<b>Revenues</b>						
Program Revenues:						
Fees, fines and charges for services	\$ 154	\$ 157	\$ 34,242	\$ 35,651	\$ 34,396	\$ 35,807
Operating grants and contributions	1,507	4,169	-	-	1,507	4,169
Capital grant	177	-	1,405	53	1,582	53
General Revenues:						
Property taxes	4,340	4,750	-	-	4,340	4,750
Real estate transfer taxes	1,243	1,413	-	-	1,243	1,413
Franchise taxes	1,647	1,160	-	-	1,647	1,160
Impact fees	-	-	2,555	362	2,555	362
Gain on sale of property	138	410	-	-	138	410
Investment earnings	43	54	284	50	327	104
Miscellaneous, net	234	416	25	(341)	259	75
Total revenues	<u>\$ 9,483</u>	<u>\$ 12,528</u>	<u>\$ 38,511</u>	<u>\$ 35,774</u>	<u>\$ 47,995</u>	<u>\$ 48,302</u>
<b>Expenses</b>						
General government	2,640	1,860	-	-	2,640	1,860
Public safety	5,790	6,411	-	-	5,790	6,411
Public works	750	1,001	-	-	750	1,001
Culture and recreation	956	1,760	-	-	956	1,760
Interest on long-term debt	-	-	340	325	340	325
Electric	-	-	21,275	22,854	21,275	22,854
Water	-	-	2,130	2,525	2,130	2,525
Sewer	-	-	4,828	4,601	4,828	4,601
Trash	-	-	1,284	1,392	1,284	1,392
Total expenses	<u>\$ 10,135</u>	<u>\$ 11,032</u>	<u>\$ 29,856</u>	<u>\$ 31,696</u>	<u>\$ 39,991</u>	<u>\$ 42,728</u>
Increase (decrease) in net assets before transfers and special items	(652)	1,496	8,656	4,078	8,004	5,574
Transfers	2,500	1,307	(2,500)	(1,307)	-	-
Change in net position	1,848	2,803	6,156	2,771	8,004	5,574
Net position, July 1	26,130	27,978	67,999	74,154	94,129	102,132
Net position, June 30	<u>\$ 27,978</u>	<u>\$ 30,781</u>	<u>\$ 74,154</u>	<u>\$ 76,926</u>	<u>\$ 102,132</u>	<u>\$ 107,706</u>

CITY OF MILFORD, DELAWARE  
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022 (UNAUDITED)

Total net position increased by \$5.6 million (5.5%) during fiscal year 2022 (See MDA Schedule 2), which compares well to the City's 5.4% 10-year compound annual growth rate in total net position. This year's improvement could not top the robust pace of improvement (\$8 million, or 8.5%) set in FY21, but nonetheless demonstrates a successful year amid a string of increasingly positive performances year over year for the City's government-wide net position over the last decade. The overall increase in net position consists of a \$2.8 million increase in governmental activities net position (+10.0%) and a \$2.8 million increase in business-type activities net position (+3.7%), the former of which is boosted by higher one-time and potentially unsustainable revenue sources, such as realty transfer taxes, grant revenue, and gains on property sales. Most notable among such revenue sources is ARPA grant revenue, which drove the \$2.6 million increase in grant revenue across governmental activities during FY22. The improvement in business-type activities is attributable to utility revenue growth through a combination of organic growth in volume/consumption as well as rate adjustments prescribed by multi-year utility rate studies. Additional detail is provided for the governmental and business-type activities in the next two sections.

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

Revenues generated by governmental activities increased 32% versus the prior year, excluding transfers from business-type activities and special items. While revenue increases are nearly always positive, the governmental revenue increase in FY22 must be couched with the reality that the increases were driven primarily by operating grants, gains on property sales, and realty transfer taxes, neither of which are guaranteed sources of recurring revenue. While franchise fees and other lease revenues are more reliable and stable income sources, they are also subject to long- and mid-term market pressures, regulatory risk and technological obsolescence, and are not guaranteed to recur at the level of previous years. Property tax revenue, perhaps the City's most reliable and sustainable revenue source, increased in FY22 by \$0.4 million (9%). The increase in property tax revenue expanded on smaller year over year increases of approximately 3% from fiscal year 2019 to 2020 and from 2020 to 2021. This year's increase was driven by a three-part combination of a modest rate increase, parcel growth (count) and growth in assessed value (new construction, not reassessment-driven). The City's property tax rate did not change from 2007-2021, so property tax growth through fiscal year 2021 had been driven entirely by organic growth. The City increased the property tax rate from \$0.46 to \$0.48275 per \$100 of assessed value effective for the fiscal year 2022 property tax levy, establishing an important step in a series of strategic efforts aimed at improving structural balance and revenue diversity. Additionally, increases in the property tax rate of \$0.01 per \$100 of assessed value effective in fiscal years 2023 and 2024 will improve structural balance by diverting nonrecurring and less reliable revenue sources from the operating budget to capital reserves. Management expects these initiatives coupled with property tax revenue growth will further stabilize revenue in the event we face volatility in other revenue sources.

CITY OF MILFORD, DELAWARE  
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022 (UNAUDITED)

Governmental expenditures increased by \$0.9 million (9%) in FY22, representing somewhat of a rebound toward operational stability following the \$0.7 million reduction in governmental expenditures from FY20 to FY21. The increase was mixed, as recreation, public works, and public safety expenditures increased by nearly \$0.8 million, \$0.1 million, and \$0.6 million, respectively, were offset by reductions in general governmental decreases totaling \$0.8 million, or about 3% for each operating department.

Business-Type Activities – Net position from business-type activities increased by \$2.8 million, or 3.7% from \$74.2 million to \$76.9 million during fiscal year 2022 (See MDA Schedule 2). For the second year in a row, all four major utilities contributed to the positive change in net position across business activities, with the water fund's \$1.25 million (5.0%) increase in net position pacing the sewer and electric funds' increases of \$0.4 million (2.6%) and \$0.9 million (2.8%), respectively, followed by the solid waste fund's increase of \$0.2 million. The positive changes started with top-line revenue as all four utilities posted revenue increases over FY21. The City's revenue growth was balanced and healthy, comprised of steady, organic growth in rate base and controlled, phased increases in usage rates determined through cost-of-service studies conducted for all business-type activities. Further, aside from the water fund's 18.5% increase in operating expenses, the utilities otherwise controlled operating expenses well, posting a year-over-year increase of \$1.5 million, or 5.3% (excluding water) and \$1.8 million, or 6.2% overall. \$1.3 million of the operating expense increase is related to personnel and contractual services, as the recovery toward a normal operating environment resulted in fewer vacancies and accelerated resurrection of field activity, both of which drove costs higher. As a result, business-type activities combined to close the year with positive operating income of \$4.1 million. In FY21, operating income totaled \$4.7million across the four major utilities, representing an operating margin of 13.8% versus the 12.0% operating margin posted in FY22, reflecting the degree to which operating expense growth exceeded top-line revenue growth. The sewer fund, which individually posted an operating loss in FY21 resulting from infiltration and inflow (I&I) costs far in excess of historical observations, rebounded to post operating income of \$0.2 million. The improvement is attributable almost entirely to a return to normal I&I experience, which validates management's expectations that the prior year activity was a one-time anomaly that would not recur. Finally, adjusted for non-operating items, all four utilities, including the sewer fund, generated positive income before transfers.

Investment Policies – The City's accumulated cash surplus and reserves attributable to governmental and business-type activities are combined and invested pursuant to the City's investment policies, as amended. During the year, the City completed the initiative started in fiscal year 2021 to reallocate investment balances from 1-5 year government and corporate securities to more heavily weight money market funds in response to changes in the market to capture additional yield without being exposed to incremental risk. By the end of fiscal year 2022, 100% of the City's investable cash was consolidated into money market funds, which are combined with bank deposits and reported as cash and cash equivalents. Additional information about the City's cash and investments can be found in Note 8 on page 36.

## FUND FINANCIAL STATEMENT ANALYSIS

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending in the next fiscal year. At the end of the fiscal year 2022, the City's combined governmental funds reported ending balances of \$12.1 million (See Governmental Funds Balance Sheet on page 17). Within this total, \$0.1 million is categorized as "nonspendable" (prepaid expenses), \$6.6 million is restricted by specific legal requirements, primarily for (a) capital investments in infrastructure and other eligible expenditures pursuant to the US Treasury's Final Rule governing the use of \$3.1 million in funding advanced through the American Rescue Plan Act of 2021 ("ARPA") and (b) street improvements, and \$0.2 million has been assigned to specific types of expenditures. The remaining \$5.2 million represents unassigned fund balance in the general fund and can be used for any lawful purpose.

Proprietary Funds – The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail (See pages 21-23). Unrestricted net position in the enterprise funds totaled \$22.3 million, made up of the electric fund (\$14.1 million), water fund (\$2.2 million), sewer fund (\$5.6 million) and solid waste fund (\$0.4 million). The total net position across all enterprise funds at the end of the fiscal year was \$76.9 million, representing an increase of \$2.8 million versus fiscal year 2021 as a result of positive increases in net position in the electric, water, sewer, and solid waste funds of \$0.9 million, \$1.3 million, \$0.4 million, and \$0.2 million, respectively, versus the prior period.

General Fund Budgetary Highlights – City Council made revisions to the original appropriations approved by the Council before the start of the fiscal year. Overall, these changes resulted in an increase in budgeted operating expenditures of \$5.4 million, net of offsetting increases in anticipated revenues of \$0.1 million. The changes were primarily driven by grant-funded projects, and general administration and public safety expenditures that are added to budget controls when grant revenue is received and spent through the ordinary requisition, purchase order and accounts payable processes.

In the general fund, the City budgeted a fund balance decrease in the current year of \$4.4 million prior to the use of cash and reserves, although the actual general fund activity exceeded budget expectations to the extent that the use of reserves was limited to \$0.1 million. Actual general fund expenditures were significantly below total budgeted expenses due to cost control measures and project timing, while revenue exceeded budget expectations by 8.5%.

DEBT ADMINISTRATION

As of June 30, 2022, the City's bonded indebtedness and outstanding note obligations (See MDA Schedule 3) totaled \$15.3 million, all of which is backed by the full faith and credit of the City of Milford taxing authority.

MDA Schedule 3

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

	<u>Government Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>
General Obligation Bonds	\$ -	\$ 41	\$ 6,710	\$ 6,260	\$ 6,710	\$ 6,301
DE Revolving Fund Loans	-	-	2,667	2,426	2,667	2,426
USDA Loans	-	-	5,674	5,543	5,674	5,543
Kent County Note	-	-	1,096	1,070	1,096	1,070
<b>Total</b>	<u>\$ -</u>	<u>\$ 41</u>	<u>\$ 16,147</u>	<u>\$ 15,299</u>	<u>\$ 16,147</u>	<u>\$ 15,341</u>

During fiscal year 2022, the City's outstanding debt decreased by \$0.80 million as a result of scheduled payments of debt obligations totaling \$0.82 million, which was partially offset by the \$0.04 million bond anticipation note (BAN) issued during the fiscal year to finance the construction of the City's new police headquarters facility.

The City's General Obligation Bond Rating is AA- as rated by S&P Global Credit. Additional information about the City's long-term debt obligations and a detailed roll-forward of long-term liabilities can be found in Note 10 on pages 40 to 44 of this report.

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2022, amounts to \$72.7 million (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements, and infrastructure assets. The total change in the City's investment in capital assets, net of accumulated depreciation, for the current fiscal year was \$9.1 million representing an increase of 14.4% versus fiscal year 2021. Additional information on the City's capital assets can be found in Note 9 on pages 37 to 39 of this report.

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Major capital asset purchases and projects completed or initiated during fiscal year 2022 included the following:

General Fund

- \$556 thousand in additions to parkland and open space improvements
- \$394 thousand in building and street improvements, technology, vehicles and equipment

Internal Service Funds

- \$17 thousand for HVAC improvements to the public works facility
- \$139 thousand to complete building improvements at City Hall

Electric Fund

- \$193 thousand for a trencher, a vehicle replacement and other equipment
- \$175 thousand in electric distribution infrastructure
- \$166 thousand for physical security and data security upgrades
- \$133 thousand for ongoing LED streetlight replacement and ERP software projects

Water Fund

- \$6.4 million in land targeted for the Milford Corporate Center development
- \$2.6 million in ongoing water line upgrades and system improvement projects
- \$748 thousand in other water system infrastructure
- \$122 thousand in equipment, physical security and data security upgrades

Sewer Fund

- \$164 thousand in sewer pump station improvements and related equipment
- \$26 thousand in physical security and data security upgrades

Solid Waste Fund

- \$109 thousand for a leaf vacuum attachment
- \$14 thousand in physical security and data security upgrades

## ECONOMIC FACTORS AND FUTURE BUDGETS

The fiscal year 2023 and 2024 budgets for general fund activity are 0.4% and 18.7% higher, respectively, than fiscal year 2022. The balance between cost control and the delivery of broad services demanded by Milford residents was struck well during the 2023 and 2024 budget processes. Personnel costs in support of our diverse mix of valued employees represent the largest contribution to general fund costs, particularly in 2024 as scheduled contractual rate increases, personnel additions and expectations to return to full staffing levels add pressure to the operating budget. In addition to personnel costs, capital expenditures and nonrecurring expenditures, such as strategic planning initiatives and utility rate studies, contributed to the budget increases in FY24. The higher general fund costs will be offset with proceeds received through the American Rescue Plan Act of 2021 (ARPA), economic development initiatives, organic

growth in the City's tax base, years one and two of a five-year plan to offset \$0.1 million realty transfer tax reductions from O&M support for police operations with property taxes, and the FY24 initiation of a sewer fund transfer to the general fund. Staff remain steadfast in their dedication to service excellence, fiscal responsibility and efficiency. Moreover, City leadership and staff are aligned in efforts to uphold and improve the quality of life in Milford through citywide accessibility to high-quality services, infrastructure, public safety, parks and recreation, backed by strategic investments in property, capital projects and infrastructure to support the City's growing population and thriving business community.

#### TIMING OF FY22 FINANCIAL STATEMENTS AND INDEPENDENT AUDIT REPORT

Staffing shortages in the City's Finance Department, exacerbated by a 42% reduction in third-party contract support, contributed to delayed financial statement production and audit processes in FY21, which in turn protracted the FY22 process. Internal staffing rebounded during FY22, coinciding with the implementation of the City's new enterprise resource management (ERP) software upgrade. Further, staff was augmented with an additional accounting position, putting the department in position to return to the City's normal reporting cycle beginning with FY24. The City's FY23 and FY24 budgets include provisions to maintain current and increased staffing levels, while increasing contractual services to augment financial reporting and audit requirements. The lessons learned during the 'great resignation' combined with the meaningful changes instituted by City leadership will significantly reduce the risk of delayed reporting going forward. The City's financial and operating results were strong in FY22, as increases in revenue outpaced well-managed costs in an inflationary environment to improve the City's balance sheet for at least the tenth consecutive year. The City's financial position remained healthy throughout FY23 and into FY24. Monthly, unaudited financial reports, the City's audits, budgets, capital improvement plans and other documents are reported regularly on the City's website for the benefit of Milford citizens and City stakeholders.

#### REQUEST FOR INFORMATION

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

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## BASIC FINANCIAL STATEMENTS

**CITY OF MILFORD, DE**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2022**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current Assets			
Cash and Equivalents	\$ 12,097,922	\$ 28,232,974	\$ 40,330,896
Restricted Cash	5,341,389	8,683,234	14,024,623
Tax & Utility Receivables, net of allowances	227,638	3,052,236	3,279,874
Leases Receivable	640,346	-	640,346
Other Receivables	588,261	870,116	1,458,377
Internal Balances, net	(649,085)	649,085	-
Inventories	48,654	1,434,906	1,483,560
Prepaid Expenses	121,882	-	121,882
<b>Total Current Assets</b>	<u>18,417,007</u>	<u>42,922,551</u>	<u>61,339,558</u>
Non-Current Assets			
Capital Assets			
Land and Land Improvements	8,601,885	8,961,039	17,562,924
Construction in Progress	1,245,785	2,623,096	3,868,881
Utility System & Infrastructure	11,148,458	67,450,490	78,598,948
Buildings and Improvements	5,742,973	7,348,800	13,091,773
Equipment and Vehicles	6,845,267	9,579,062	16,424,329
Less: Accumulated Depreciation	(15,259,627)	(41,538,048)	(56,797,675)
<b>Net Capital Assets</b>	<u>18,324,741</u>	<u>54,424,439</u>	<u>72,749,180</u>
Net Pension Asset	5,223,047	-	5,223,047
<b>Total Assets</b>	<u>41,964,795</u>	<u>97,346,990</u>	<u>139,311,785</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>1,431,908</u>	<u>266,425</u>	<u>1,698,333</u>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts Payable and Accrued Expenses	1,096,211	4,351,886	5,448,097
Customer Deposits	125,916	749,235	875,151
Unearned Revenue	4,106,951	-	4,106,951
Bonds and Notes Payable	-	811,214	811,214
Compensated Absences	161,699	46,827	208,526
<b>Total Current Liabilities</b>	<u>5,490,777</u>	<u>5,959,162</u>	<u>11,449,939</u>
Noncurrent Liabilities			
Bonds and Notes Payable	41,445	14,511,136	14,552,581
Contingent Liabilities	203,516	-	203,516
Compensated Absences	1,153,994	218,186	1,372,180
<b>Total Noncurrent Liabilities</b>	<u>1,398,955</u>	<u>14,729,322</u>	<u>16,128,277</u>
<b>Total Liabilities</b>	<u>6,889,732</u>	<u>20,688,484</u>	<u>27,578,216</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>5,725,622</u>	<u>-</u>	<u>5,725,622</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	18,283,296	39,368,514	57,651,810
Restricted	5,173,166	8,683,234	13,856,400
Unrestricted:			
Assigned by City Council	204,855	6,606,631	6,811,486
Unassigned	7,120,032	22,266,552	29,386,584
<b>Total Net Position</b>	<u>\$ 30,781,349</u>	<u>\$ 76,924,931</u>	<u>\$ 107,706,280</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, 2022**

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		Total
					Governmental Activities	Business-Type Activities	
<b>Primary Government</b>							
Governmental Activities							
General Government	\$ 1,860,452	\$ 89,635	\$ -	\$ -	\$ (1,770,817)		\$ (1,770,817)
Public Safety	6,410,860	-	-	-	(6,410,860)		(6,410,860)
Public Works	1,001,000	-	-	-	(1,001,000)		(1,001,000)
Culture and Recreation	1,759,663	67,015	4,168,918	-	2,476,270		2,476,270
Total Governmental Activities	11,031,975	156,650	4,168,918	-	(6,706,407)		(6,706,407)
Business-Type Activities							
Electric Fund	22,956,104	26,226,951	-	-		3,270,847	3,270,847
Water Fund	2,631,823	3,136,913	-	-		505,090	505,090
Sewer Fund	4,716,384	4,817,499	-	52,963		154,078	154,078
Trash Fund	1,391,562	1,469,242	-	-		77,680	77,680
Total Business-Type Activities	31,695,873	35,650,605	-	52,963		4,007,695	4,007,695
Total Primary Government	\$ 42,727,848	\$ 35,807,255	\$ 4,168,918	\$ 52,963	(6,706,407)	4,007,695	(2,698,712)
<b>General Revenues:</b>							
Taxes:							
Property Taxes, Levied for General Purposes					4,749,699	-	4,749,699
Real Estate Transfer Taxes					1,413,301	-	1,413,301
Franchise Taxes & Fees					1,159,571	-	1,159,571
Gain on Disposal of Capital Assets					410,095	-	410,095
Impact Fees					-	362,051	362,051
Unrestricted Investment Earnings					54,130	49,636	103,766
Miscellaneous					415,669	(341,154)	74,515
Transfers, net					1,307,299	(1,307,299)	-
Total General Revenues, Special Items, and Transfers					9,509,764	(1,236,766)	8,272,998
Change in Net Position					2,803,357	2,770,929	5,574,286
Net Position- Beginning of Year					27,977,992	74,154,002	102,131,994
Net Position - End of Year					\$ 30,781,349	\$ 76,924,931	\$ 107,706,280

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

**CITY OF MILFORD, DE  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2022**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Non-Major Governmental Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 6,460,717	\$ -	\$ -	\$ 6,460,717
Restricted Cash	12,529	9,854,061	730,446	10,597,036
Taxes Receivable, net of allowance for doubtful accounts	54,304	173,333	-	227,637
Due From Other Funds	179,467	-	-	179,467
Lease Receivable	640,346	-	-	640,346
Other Receivables	278,350	266,573	1,275	546,198
Prepaid Expenses	121,882	-	-	121,882
<b>Total Assets</b>	<u>\$ 7,747,595</u>	<u>\$ 10,293,967</u>	<u>\$ 731,721</u>	<u>\$ 18,773,283</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts Payable	\$ 350,244	\$ 50,979	\$ 3,737	\$ 404,960
Salaries and Wages Payable	241,608	1,659	-	243,267
Due To Other Funds	555,426	273,126	-	828,552
Other Accrued Liabilities	157,692	-	-	157,692
Unearned Revenue	-	4,098,551	8,400	4,106,951
Other Payables	297,610	-	2,890	300,500
<b>Total Liabilities</b>	<u>1,602,580</u>	<u>4,424,315</u>	<u>15,027</u>	<u>6,041,922</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	640,346	-	-	640,346
<b>Fund Balances:</b>				
Restricted	12,529	5,869,652	716,694	6,598,875
Nonspendable	121,882	-	-	121,882
Assigned	204,855	-	-	204,855
Unassigned	5,165,403	-	-	5,165,403
<b>Total Fund Balances</b>	<u>5,504,669</u>	<u>5,869,652</u>	<u>716,694</u>	<u>12,091,015</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<u>\$ 7,747,595</u>	<u>\$ 10,293,967</u>	<u>\$ 731,721</u>	<u>\$ 18,773,283</u>

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

**CITY OF MILFORD, DE**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS**  
**BALANCE SHEET TO THE STATEMENT OF NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2022**

Total Fund Balance, Governmental Funds	\$	12,091,015
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.		18,210,305
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Internal service funds are used by management to charge the costs of centrally managed services to the funds and departments that consume the services. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position. The increase is equal to the Internal Service Net Position, including Capital Assets net of accumulated depreciation.		153,027
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Governmental funds report proceeds from bond issuance as a financing source. In contrast, the Statement of Activities treats such proceeds as an increase in long-term liabilities.		(41,445)
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Some liabilities and other items are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position. These items include deferred outflows and inflows of resources related to its state pension plan, its net pension asset, and its long-term compensated absences and contingent liabilities.		368,447
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Net Position of Governmental Activities	\$	30,781,349
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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, 2022**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Non-Major Governmental Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Property Taxes	\$ 4,749,699	\$ -	\$ -	\$ 4,749,699
Real Estate Transfer Taxes	-	1,413,301	-	1,413,301
Fees and Fines	165,276	41,164	-	206,440
Licenses and Permits	565,203	-	150	565,353
Franchise and Lease Revenue	387,777	-	-	387,777
Intergovernmental	357,531	3,811,388	-	4,168,919
Charges for Services	89,635	-	67,015	156,650
Investment Earnings	44,842	9,289	-	54,131
Miscellaneous	421,612	23,898	-	445,510
<b>Total Revenues</b>	<u>6,781,575</u>	<u>5,299,040</u>	<u>67,165</u>	<u>12,147,780</u>
<b>EXPENDITURES</b>				
Current:				
General Government	1,649,372	441,812	-	2,091,184
Public Safety	6,047,992	249,718	113,150	6,410,860
Public Works	763,705	237,295	-	1,001,000
Culture and Recreation	1,651,779	-	107,884	1,759,663
Capital Outlay	2,245,975	22,376	-	2,268,351
<b>Total Expenditures</b>	<u>12,358,823</u>	<u>951,201</u>	<u>221,034</u>	<u>13,531,058</u>
(Deficiency) Excess of Revenues Over Expenditures	<u>(5,577,248)</u>	<u>4,347,839</u>	<u>(153,869)</u>	<u>(1,383,278)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	5,566,197	93,788	113,000	5,772,985
Transfers Out	(646,602)	(3,819,084)	-	(4,465,686)
Bond Anticipation Note	41,445	-	-	41,445
Proceeds from Asset Sales	661,517	-	-	661,517
<b>Total Other Financing Sources (Uses)</b>	<u>5,622,557</u>	<u>(3,725,296)</u>	<u>113,000</u>	<u>2,010,261</u>
<b>Net Change in Fund Balances</b>	45,309	622,543	(40,869)	626,983
<b>Fund Balances - Beginning</b>	<u>5,459,360</u>	<u>5,247,109</u>	<u>757,563</u>	<u>11,464,032</u>
<b>Fund Balances - Ending</b>	<u>\$ 5,504,669</u>	<u>\$ 5,869,652</u>	<u>\$ 716,694</u>	<u>\$ 12,091,015</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, 2022**

Net change in fund balances - total governmental funds:	\$	626,983
<p>Amounts reported for Governmental Activities in the Statement of Activities are different because:</p>		
Some items reported in the statement of activities, including changes in deferred outflows and inflows of resources, pension liability, compensated absences and other differences in noncurrent items do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		1,289,906
Internal Service funds are used by management to charge the costs of centrally managed services to using funds and departments. The increase is equal to the change in the Internal Service Net Position		(57,197)
Governmental funds report proceeds from bond issuance as a financing source. In contrast, the Statement of Activities treats such proceeds as an increase in long-term liabilities.		(41,445)
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 in the Statement of Activities. This is the amount by which capital outlays of \$2,268,351 exceeded depreciation expense of \$1,031,819 in the current period.		1,236,532
Government funds report the proceeds from the sale of assets as revenue. In contrast, the Statement of Activities reports the difference between the amount of the proceeds and the net book value of the related assets as a gain or loss including asset transfers.		(251,422)
		(251,422)
Change in net position of governmental activities	\$	2,803,357

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

**CITY OF MILFORD, DE**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2022**

	<b>Business Type Activities - Enterprise Funds</b>					<i>Governmental Activities -Internal Service Fund</i>
	<b>Electric</b>	<b>Water</b>	<b>Sewer</b>	<b>Solid Waste</b>	<b>Total</b>	
<b>ASSETS</b>						
Current Assets						
Cash and Cash Equivalents	\$18,760,816	\$ 3,876,098	\$ 4,805,194	\$ 790,866	\$ 28,232,974	\$ 381,559
Restricted Cash	1,100,210	4,778,939	2,804,085	-	8,683,234	-
Accounts Receivable, net of allowance for doubtful accounts	2,201,974	287,201	453,896	109,165	3,052,236	42,063
Due From Other Funds	555,426	66,759	26,900	-	649,085	-
Other Receivables	63,270	-	795,852	10,994	870,116	-
Inventories	1,428,821	6,085	-	-	1,434,906	48,654
<b>Total Current Assets</b>	<b>24,110,517</b>	<b>9,015,082</b>	<b>8,885,927</b>	<b>911,025</b>	<b>42,922,551</b>	<b>472,276</b>
Non-Current Assets						
Capital Assets						
Land and Improvements	2,460,507	6,471,894	28,638	-	8,961,039	-
Construction in Progress	34,609	2,521,747	57,564	9,176	2,623,096	-
Utility System	20,227,895	23,678,752	23,543,843	-	67,450,490	-
Buildings and Improvements	7,056,015	123,078	164,057	5,650	7,348,800	38,032
Vehicles and Equipment	4,463,840	2,015,792	1,650,927	1,448,503	9,579,062	239,928
Less Accumulated Depreciation	(19,487,438)	(10,069,314)	(11,074,114)	(907,182)	(41,538,048)	(163,524)
<b>Net Capital Assets</b>	<b>14,755,428</b>	<b>24,741,949</b>	<b>14,370,915</b>	<b>556,147</b>	<b>54,424,439</b>	<b>114,436</b>
<b>Total Non-Current Assets</b>	<b>14,755,428</b>	<b>24,741,949</b>	<b>14,370,915</b>	<b>556,147</b>	<b>54,424,439</b>	<b>114,436</b>
<b>Total Assets</b>	<b>\$ 38,865,945</b>	<b>\$ 33,757,031</b>	<b>\$ 23,256,842</b>	<b>\$ 1,467,172</b>	<b>\$ 97,346,990</b>	<b>\$ 586,712</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred Charges On Refundings	\$ 156,122	\$ -	\$ 110,303	\$ -	\$ 266,425	\$ -
<b>LIABILITIES</b>						
Current Liabilities:						
Accounts Payable	1,657,243	1,528,201	336,329	41,026	3,562,799	96,823
Salaries and Wages Payable	47,878	11,279	11,101	7,017	77,275	50,660
Other Accrued Expenses	596,972	4,759	109,211	870	711,812	-
Customer and Other Deposits	691,585	-	-	57,650	749,235	125,916
Compensated Absences	40,678	2,500	2,500	1,149	46,827	4,007
Bonds and Notes Payable	235,000	262,060	314,154	-	811,214	-
<b>Total Current Liabilities</b>	<b>3,269,356</b>	<b>1,808,799</b>	<b>773,295</b>	<b>107,712</b>	<b>5,959,162</b>	<b>277,406</b>
Non-Current Liabilities:						
Compensated Absences	122,035	47,501	47,501	1,149	218,186	156,279
Bonds and Notes Payable	3,840,355	5,680,161	4,990,620	-	14,511,136	-
<b>Total Non-Current Liabilities</b>	<b>3,962,390</b>	<b>5,727,662</b>	<b>5,038,121</b>	<b>1,149</b>	<b>14,729,322</b>	<b>156,279</b>
<b>Total Liabilities</b>	<b>7,231,746</b>	<b>7,536,461</b>	<b>5,811,416</b>	<b>108,861</b>	<b>20,688,484</b>	<b>433,685</b>
<b>NET POSITION</b>						
Net Investment in Capital Assets	10,836,195	18,799,728	9,176,444	556,147	39,368,514	114,436
Restricted for Capital Improvements	1,100,210	4,778,939	2,804,085	-	8,683,234	-
Unrestricted:						
Assigned by City Council	5,708,440	427,469	19,284	451,438	6,606,631	-
Unassigned	14,145,476	2,214,434	5,555,916	350,726	22,266,552	38,591
<b>Total Net Position</b>	<b>\$ 31,790,321</b>	<b>\$ 26,220,570</b>	<b>\$ 17,555,729</b>	<b>\$ 1,358,311</b>	<b>\$ 76,924,931</b>	<b>\$ 153,027</b>

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, 2022**

	<b>Business Type Activities - Enterprise Funds</b>					<i>Governmental Activities - Internal Service Fund</i>
	<b>Electric</b>	<b>Water</b>	<b>Sewer</b>	<b>Solid Waste</b>	<b>Total</b>	
<b>REVENUES</b>						
Charges for Services	\$25,491,618	\$ 3,106,330	\$ 4,817,212	\$ 1,465,353	\$34,880,513	\$ 3,150,761
Miscellaneous	735,333	30,583	287	3,889	770,092	-
Total Operating Revenues	<u>26,226,951</u>	<u>3,136,913</u>	<u>4,817,499</u>	<u>1,469,242</u>	<u>35,650,605</u>	<u>3,150,761</u>
<b>OPERATING EXPENSES</b>						
Personnel Services	2,985,517	372,663	600,702	371,044	4,329,926	1,838,365
Contractual Services	17,889,002	55,644	2,699,518	380,324	21,024,488	291,302
Utilities	4,874	213,712	262	-	218,848	11,624
Repairs and Maintenance	385,791	103,859	17,117	176,747	683,514	874,516
Other Supplies and Expenses	199,922	1,145,100	652,895	308,990	2,306,907	203,128
Insurance Claims and Expenses	119,628	27,380	13,253	11,574	171,835	9,194
Bad Debt Expense	31,867	-	-	-	31,867	-
Depreciation	1,237,458	606,531	617,066	142,883	2,603,938	27,355
Total Operating Expenses	<u>22,854,059</u>	<u>2,524,889</u>	<u>4,600,813</u>	<u>1,391,562</u>	<u>31,371,323</u>	<u>3,255,484</u>
Operating Income (Loss)	<u>3,372,892</u>	<u>612,024</u>	<u>216,686</u>	<u>77,680</u>	<u>4,279,282</u>	<u>(104,723)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>						
Interest and Investment Revenue	25,025	17,669	6,073	869	49,636	-
Impact Fees	51,350	204,357	106,344	-	362,051	-
Capital Grant	-	-	52,963	-	52,963	45,707
Miscellaneous	18,630	(406,228)	31,288	15,156	(341,154)	1,819
Interest Expense	(102,045)	(106,934)	(115,571)	-	(324,550)	-
Total Non-Operating Revenues (Expenses)	<u>(7,040)</u>	<u>(291,136)</u>	<u>81,097</u>	<u>16,025</u>	<u>(201,054)</u>	<u>47,526</u>
Income Before Transfers	3,365,852	320,888	297,783	93,705	4,078,228	(57,197)
Transfers In	1,716	1,229,911	146,401	114,673	1,492,701	-
Transfers Out	(2,500,000)	(300,000)	-	-	(2,800,000)	-
Change in Net Position	867,568	1,250,799	444,184	208,378	2,770,929	(57,197)
<b>Net Position - Beginning of Year</b>	<u>30,922,753</u>	<u>24,969,771</u>	<u>17,111,545</u>	<u>1,149,933</u>	<u>74,154,002</u>	<u>210,224</u>
<b>Net Position - End of Year</b>	<u>\$31,790,321</u>	<u>\$26,220,570</u>	<u>\$17,555,729</u>	<u>\$ 1,358,311</u>	<u>\$76,924,931</u>	<u>\$ 153,027</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, 2022**

	<b>ENTERPRISE FUNDS</b>					<i>Governmental Activities - Internal Service Fund</i>
	<b>Electric</b>	<b>Water</b>	<b>Sewer</b>	<b>Solid Waste</b>	<b>Total</b>	
<b>Cash Flows from Operations:</b>						
Receipts from Customers	\$ 25,284,110	\$ 3,086,407	\$ 4,795,400	\$ 1,453,698	\$ 34,619,616	\$ 3,097,137
Other Operating Receipts	693,971	206,039	171,618	(4,640)	1,066,989	-
Payments to Suppliers	(18,593,132)	(212,613)	(4,146,781)	(861,461)	(23,813,988)	(1,403,517)
Payments to Employees	(2,888,539)	(345,435)	(573,382)	(378,461)	(4,185,817)	(1,765,355)
Insurance Premiums Paid	(119,628)	(27,380)	(13,253)	(11,574)	(171,835)	(9,194)
<b>Net Cash Provided by Operating Activities</b>	<b>4,376,782</b>	<b>2,707,019</b>	<b>233,602</b>	<b>197,561</b>	<b>7,514,964</b>	<b>(80,929)</b>
<b>Cash Flows from Non-Capital Financing Activities</b>						
Operating Transfers In (Out)	(2,498,284)	929,911	146,401	114,673	(1,307,299)	-
<b>Net Cash Flows Provided by (Used in) Non-Capital Financing Activities</b>	<b>(2,498,284)</b>	<b>929,911</b>	<b>146,401</b>	<b>114,673</b>	<b>(1,307,299)</b>	<b>-</b>
<b>Cash Flows Provided by (Used in) Capital and Related Financing Activities:</b>						
Net cash for additions to Capital Assets	(631,127)	(9,743,495)	(355,367)	(122,308)	(10,852,298)	71,220
Debt Borrowings	-	-	-	-	-	-
Principal Paid on Debt	(231,024)	(258,339)	(335,034)	-	(824,397)	-
Interest Paid on Debt	(102,045)	(106,934)	(115,571)	-	(324,550)	-
Other Nonoperating Items	(536,799)	(472,987)	4,388	15,156	(990,242)	1,819
Capital Grant	-	-	52,963	-	52,963	45,707
Impact Fees and Other Development Fees	51,350	204,357	106,344	-	362,051	-
<b>Net Cash Flows Provided by (Used in) Capital and Related Financing Activities</b>	<b>(1,449,645)</b>	<b>(10,377,398)</b>	<b>(642,277)</b>	<b>(107,152)</b>	<b>(12,576,473)</b>	<b>118,746</b>
<b>Cash Flows from Investing Activities</b>						
Net Proceeds/(Purchases) from Sales and Maturities of Short-Term Investments	14,220,312	9,357,413	3,953,792	71,430	27,602,946	-
Income on Investments	25,025	17,669	6,073	869	49,636	-
<b>Net Cash Flows Provided by (Used in) Investing Activities</b>	<b>14,245,337</b>	<b>9,375,082</b>	<b>3,959,865</b>	<b>72,299</b>	<b>27,652,582</b>	<b>-</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>14,674,191</b>	<b>2,634,613</b>	<b>3,697,590</b>	<b>277,381</b>	<b>21,283,775</b>	<b>37,817</b>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>5,186,835</b>	<b>6,020,424</b>	<b>3,911,689</b>	<b>513,485</b>	<b>15,632,433</b>	<b>343,742</b>
<b>Cash and Cash Equivalents - End of Year</b>						
Cash and Cash Equivalents	18,760,816	3,876,098	4,805,194	790,866	28,232,974	381,559
Restricted Cash	1,100,210	4,778,939	2,804,085	-	8,683,234	-
<b>Total Cash</b>	<b>\$ 19,861,026</b>	<b>\$ 8,655,037</b>	<b>\$ 7,609,279</b>	<b>\$ 790,866</b>	<b>\$ 36,916,208</b>	<b>\$ 381,559</b>
<b>Reconciliation of Operating Income to Net Cash</b>						
<b>Cash Flows from Operating Activities</b>						
Operating Income (Loss)	\$ 3,372,892	\$ 612,024	\$ 216,686	\$ 77,680	\$ 4,279,282	\$ (104,723)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Deferred Charges On Refundings	10,758	-	11,611	-	22,369	-
Depreciation and Amortization	1,237,458	606,531	617,066	142,883	2,603,938	27,355
Effect of Changes in Operating Assets & Liabilities:						
Accounts Receivable, net	(251,302)	155,534	137,908	(22,884)	19,256	71,239
Inventory	(95,735)	12,792	-	-	(82,944)	(15,625)
Accounts Payable & Accrued Expenses	(17,808)	1,292,911	(776,987)	4,600	502,715	(7,323)
Salaries Payable	27,092	1,982	2,071	1,225	32,370	27,522
Customer Deposits	23,542	-	-	2,700	26,242	(124,863)
Liability for Compensated Absences	69,886	25,247	25,247	(8,642)	111,737	45,489
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 4,376,782</b>	<b>\$ 2,707,019</b>	<b>\$ 233,602</b>	<b>\$ 197,561</b>	<b>\$ 7,514,965</b>	<b>\$ (80,929)</b>

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

## NOTES TO THE BASIC FINANCIAL STATEMENTS

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Introduction

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

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

The accounting and reporting framework and the more significant accounting policies and practices are discussed in subsequent sections of this Note. The remainder of the notes are organized to provide explanations, including required disclosures, of the City's financial activities for the year ended June 30, 2022. Please note that slight differences may exist due to rounding.

### Financial Reporting Entity

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

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

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

### Use of Estimates

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in governmental funds. Encumbrances as of the end of the fiscal year are reported as reservations of fund balance because they do not constitute expenditures or liabilities, but rather serve as authorization for expenditures in the following year. As of June 30, 2022, the City had no such encumbrances.

Government-Wide and Fund Financial Statements

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

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

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

The City reports the following governmental funds:

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

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

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

CITY OF MILFORD, DELAWARE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Government-Wide and Fund Financial Statements (continued)

The City reports the following proprietary funds:

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter (within 60 days) to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. Similarly, accrued compensated absences are recorded as expenditures only when paid.

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

#### Budgets and Budgetary Accounting

##### Budgetary Process

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Cash and Cash Equivalents

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

Receivables

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

Interfund Receivables/Payables

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

Inventories

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

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

Capital Assets

Capital assets which include land, buildings, improvements, equipment, vehicles and infrastructure assets, consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage and lighting systems, are reported on the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements. Capital assets are recorded at historical cost if purchased, and at fair market value if donated. The capitalization threshold for all capital assets is \$5,000. No dollar threshold is set for land. Capital asset depreciation is recognized using the straight-line method over the estimated lives as follows: street improvements 15 years, buildings and improvements 15-40 years, vehicles and equipment 3-7 years, and utility systems 30-40 years.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Compensated Absences

A maximum of 30 days of vacation and 130 days of sick leave may be accumulated by each employee except for those hired before 1992, for whom carry-over is unlimited. The City accrues a liability for compensated absences which meet the following criteria:

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

In accordance with the above criteria, the City has accrued a liability for vacation and sick pay which has been earned but not taken by City employees. For governmental activities, the liability for compensated absences is split between current and non-current liabilities in the government-wide financial statements. Only the current portion of compensated absences is reported on the governmental funds balance sheet. The liability for compensated absences is recorded in proprietary fund types as an accrued liability in accordance with GASBS No. 16 (GASB Cod. Sec. C60), Accounting for Compensated Absences.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Delaware Public Employees' Retirement System (DPERS) and additions to/deductions from DPERS fiduciary net position have been determined on the same basis as they are reported by DPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Long-Term Liabilities

In the government-wide financial statements, and in the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business type activities, or proprietary fund type statements of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are recorded net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and are amortized over the life of the related debt. In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Subsequent Events

Subsequent events were evaluated through the opinion date, which is the date the financial statements were available to be issued. Management of the City have disclosed the formal commitment to apply for permanent financing through the United States Department of Agriculture (USDA) Community Facilities Program for the construction of the new Police Headquarters Facility. Please see Note 19: Subsequent Events for additional detail. Management of the City have determined that no events, including the disclosed events, resulted in any adjustment to the accounts reported in these financial statements.

Deferred Outflows of Resources

Decreases in net position that relate to future periods are recorded as deferred outflows of resources in a separate section of the City's government-wide statement of net position. Deferred outflows of resources generally include pension contributions made subsequent to the measurement date but may also include differences in pension plan actuarial data between measurement dates, such as differences between expected and actual plan experience, the effect of actuarial assumption changes, actual investment earnings below expected earnings on plan assets, and changes in the City's proportion of the broader plan. Deferred outflows of resources also include the difference in the carrying value of refunded debt and its reacquisition price, which is then amortized over the shorter of the life of the refunded or refunding bond.

Deferred Inflows of Resources

Increases in net position that apply to future periods are recorded as deferred inflows of resources in a separate section of the City's government-wide statement of net position. Deferred inflows of resources may include differences in pension plan actuarial data between measurement dates, such as differences between expected and actual plan experience, the effect of actuarial assumption changes, actual pension plan investment earnings in excess of projected amounts, and changes in the City's proportion of the broader plan. The amount presented as deferred inflows of resources related to pension as of June 30, 2022, was \$5,085,276. Following the adoption of GASB Statement No. 87, Leases, effective June 30, 2022, the City, as lessor, reported the value of future lease payments receivable in deferred inflows of resources in an amount of \$640,346.

Deferred outflows and inflows of resources related to pensions, excluding employer-specific amounts, will be recognized as pension expense over five years, including the current year. As of June 30, 2022, the City reported deferred outflows of resources related to pension of \$1,431,908.

Government-Wide and Proprietary Fund Net Positions

Net position represents the extent to which the sum of assets and deferred outflows of resources differ from the sum of liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets net of accumulated depreciation and the outstanding balances of

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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. When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to apply restricted net position first.

Governmental Fund Balances

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

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

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

Interfund Transactions

The City records transactions between funds to support operations in certain funds, to return a risk premium to certain funds, to allocate administrative and overhead costs among funds, to construct assets, to distribute grant proceeds and to coordinate other activities that impact more than one fund. These transactions are generally reflected as operating transfers, which are transfers from a fund authorized to receive certain revenues to the fund through which the resources are expended.

Interest Capitalization

The City adopted GASB Statement No. 89, Accounting for Interest Costs Incurred before the End of a Construction Period effective for the fiscal year ended June 30, 2022. No capitalizable interest was incurred prior to or during the current fiscal year. As such, the adoption of this Statement had no effect on previously reported amounts.

CITY OF MILFORD, DELAWARE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

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

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

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

Capital Asset Differences

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

	All Governmental	Internal Service Funds	Governmental, excluding Internal Service Funds
Land	\$ 8,601,885	\$ -	\$ 8,601,885
Construction in Progress	1,245,785	-	1,245,785
Street Improvements	11,148,458	-	11,148,458
Buildings and Improvements	5,742,973	38,032	5,704,941
Equipment and Vehicles	6,845,267	239,928	6,605,339
Less: Accumulated Depreciation	<u>(15,259,627)</u>	<u>(163,524)</u>	<u>(15,096,103)</u>
Net Difference in Capital Assets	<u>\$ 18,324,741</u>	<u>\$ 114,436</u>	<u>\$ 18,210,305</u>

Noncurrent Liability Differences

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

Noncurrent portion of compensated absences	\$ (997,716)
Deferred Outflow of Resources - Pension	1,431,908
Deferred Inflow of Resources - Pension	(5,085,276)
Net Pension Liability/Asset	5,223,047
Contingent Liabilities	<u>(203,516)</u>
Total Current and Long-Term Liabilities Differences	<u>\$ 368,447</u>

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

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

CITY OF MILFORD, DELAWARE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

NOTE 2: RECONCILIATION OF GOV'T-WIDE AND FUND FINANCIAL STATEMENTS, CONTINUED

Capital Outlay Differences

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

	All Governmental	Internal Service Funds	Governmental, excluding Internal Service Funds
Capital Outlay	\$ 2,423,708	\$ 155,357	\$ 2,268,351
Depreciation	(1,059,174)	(27,355)	(1,031,819)
Net Difference	<u>\$ 1,364,534</u>	<u>\$ 128,002</u>	<u>\$ 1,236,532</u>

Other Differences

Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds as expenditures. These items include the net changes during the year in the following accounts:

Net Change in Pension Liability and Pension Deferred Inflows/Outflows	\$ 1,414,032
Net Change in Internal Service Fund Net Position	(57,197)
Net Retirements (Advancements) of Bond Anticipation Notes	(41,445)
Net Change in Compensated Absences	(124,126)
Difference in Asset Sale Proceeds and Gain on Asset Transfers	(251,422)
Total Current and Long-Term Liability Differences	<u>\$ 939,842</u>

NOTE 3: FINANCIAL INSTRUMENTS

The City invests its eligible reserves in a variety of financial instruments pursuant to its investment policy and records investments at adjusted cost. The City estimates that the fair value of all financial instruments as of June 30, 2022, does not differ materially from the aggregate carrying values of its financial instruments as reported in the accompanying balance sheet and statement of net position.

NOTE 4: REAL ESTATE TAXES

The millage rate levied by City Council on all non-exempt real estate in the City of Milford for the fiscal year ended June 30, 2022, was 4.8275 mills (\$4.8275 per \$1,000 of assessed valuation, or "AV"), and is commonly expressed as \$0.48275 per \$100 of AV. The City executes the annual tax billing, periodic supplemental billing and all real estate tax payment collection internally, though property assessment is conducted by a professional firm through a contractual arrangement. Delinquent taxes are subject to lien by the City. The schedules of real estate taxes levied for the fiscal year 2022 follow:

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

CITY OF MILFORD, DELAWARE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

NOTE 5: IMPACT FEES

All applications for new service connections to water, sewage, and electric systems within the City of Milford’s utility service territories are required to contribute a one-time impact fee. The purpose of the fee is to compensate for the impact of new users to the existing water and sewage systems, in order to provide for future expansion. All impact fees collected are restricted for the construction, maintenance and expansion of the City’s utility infrastructure systems resulting from the growth demands of new development. The commercial impact fees for the year ended June 30, 2022, were \$3,195 and \$1,688 per Equivalent Dwelling Unit (EDU) for water and sewage, respectively, and \$600 and \$1,200 for electric connections of 200 amps and 400 amps, respectively.

The City has recorded as revenue in the proprietary funds Statement of Revenues, Expenses and Changes in Net Position and in the government-wide Statement of Activities the impact fee monies, as required by GASB No. 33. Restricted net position as of June 30, 2022, attributable to cumulative impact fee collections is \$8,683,234.

NOTE 6: INTERFUND TRANSACTIONS

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources primarily to provide services. The financial statements of the governmental and proprietary fund types generally reflect such transactions as transfers. Transfers that are not considered operating or residual equity transfers give rise to interfund receivables and payables within individual funds. As of June 30, 2022, interfund activity is presented as follows:

	Due From	Due To	Transfer In	Transfer Out
General Fund	\$ 179,467	\$ 555,426	\$ 5,566,196	\$ 646,602
Special Revenue Fund	-	273,126	93,788	3,819,084
Other Governmental Funds	-	-	113,000	-
ElectricFund	555,426	-	1,716	2,500,000
Water Fund	66,759	-	1,229,911	300,000
Sewer Fund	26,900	-	146,401	-
Solid Waste Fund	-	-	114,673	-
	<u>\$ 828,552</u>	<u>\$ 828,552</u>	<u>\$ 7,265,685</u>	<u>\$ 7,265,686</u>

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 THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2022

NOTE 8: CASH AND EQUIVALENTS

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

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

Custodial Credit Risk

Custodial credit risk is the risk of loss of City deposits in the event of financial institution failure. The City maintains a formal deposit policy within its broader Investment Policy Statement to manage custodial credit risk. As of June 30, 2022, the City of Milford's bank balances, including deposits and money market funds, totaled \$55,056,816. FDIC insurance applied to \$251,513 of the deposits, while the remainder of \$54,805,303 was hedged against custodial credit risk because it was collateralized with securities pledged by the City's financial institution and held by its custodian in the name of the City of Milford. Deposits are classified as Category 1 if fully insured, registered or held by the agent in the City's name. The carrying amount of the deposits as of June 30, 2022, was \$54,355,519 and is reported in the financial statements as follows:

Government-wide Statement of Net Position

Governmental Activities	\$17,439,311
Business-type Activities	<u>36,916,208</u>
Total carrying amount of deposits	<u><u>\$54,355,519</u></u>

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CITY OF MILFORD, DELAWARE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

NOTE 9: CAPITAL ASSETS

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

FOR THE YEAR ENDED JUNE 30, 2022					
Asset Categories by Function	Balances 6/30/2021	Additions	Reductions	Adjustments & Transfers	Balances 6/30/2022
<u>Total Governmental</u>					
Capital Assets:					
Land	\$ 8,145,959	\$ -	\$ (100,000)	\$ 555,926	\$ 8,601,885
Street Improvements	10,467,446	106,888	-	574,124	11,148,458
Buildings and Improvements	5,263,295	92,518	-	387,160	5,742,973
Vehicles and Equipment	6,781,340	211,749	(147,822)	-	6,845,267
Construction in Progress	986,118	1,388,417	-	(1,128,750)	1,245,785
<hr/>					
Total Governmental Capital Assets	31,644,158	1,799,573	(247,822)	388,459	33,584,368
Accumulated Depreciation	(14,205,952)	(1,059,174)	147,822	(142,322)	(15,259,627)
<hr/>					
Total Governmental Capital Assets, Net	\$ 17,438,206	\$ 740,399	\$ (100,000)	\$ 246,137	\$ 18,324,742

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

FOR THE YEAR ENDED JUNE 30, 2022					
Asset Categories by Function	Balances 6/30/2021	Additions	Reductions	Adjustments & Transfers	Balances 6/30/2022
<u>Governmental, excluding Internal Service Funds</u>					
Capital Assets:					
Land	\$ 8,145,959	\$ -	\$ (100,000)	\$ 555,926	\$ 8,601,885
Street Improvements	10,467,446	106,888	-	574,124	11,148,458
Buildings and Improvements	5,241,955	75,826	-	387,160	5,704,941
Vehicles and Equipment	6,527,936	211,749	(134,346)	-	6,605,339
Construction in Progress	898,206	1,249,753	-	(902,174)	1,245,785
<hr/>					
Total Governmental Capital Assets	31,281,502	1,644,216	(234,346)	615,036	33,306,408
Accumulated Depreciation	(14,056,308)	(1,031,819)	134,346	(142,322)	(15,096,103)
<hr/>					
Total Governmental Capital Assets, Net	\$ 17,225,194	\$ 612,398	\$ (100,000)	\$ 472,713	\$ 18,210,305

CITY OF MILFORD, DELAWARE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

NOTE 9: CAPITAL ASSETS, CONTINUED

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

	FOR THE YEAR ENDED JUNE 30, 2022				
Asset Categories by Function	Balances 6/30/2021	Additions	Reductions	Adjustments & Transfers	Balances 6/30/2022
<u>Electric Fund:</u>					
Land	\$ 2,460,507	\$ -	\$ -	\$ -	2,460,507
Construction in Progress	100,008	-	-	(100,008)	-
Buildings and Improvements	7,056,015	-	-	-	7,056,015
Electric System	19,952,164	210,332	-	100,008	20,262,504
Vehicles and Equipment	4,043,045	491,943	(64,518)	(6,630)	4,463,840
Total Capital Assets	33,611,738	702,275	(64,518)	(6,630)	34,242,865
Accumulated Depreciation	(18,249,980)	(1,237,458)	-	-	(19,487,438)
Net Book Value	<u>\$ 15,361,758</u>	<u>\$ (535,183)</u>	<u>\$ (64,518)</u>	<u>\$ (6,630)</u>	<u>\$ 14,755,427</u>
<u>Water Fund:</u>					
Land	\$ 33,254	\$ 6,438,640	\$ -	\$ -	6,471,894
Construction in Progress	175,456	2,559,631	-	(175,456)	2,559,631
Buildings and Improvements	123,078	-	-	-	123,078
Water System	22,842,223	748,428	(125,240)	175,456	23,640,867
Vehicles and Equipment	1,893,756	122,036	-	-	2,015,792
Total Capital Assets	25,067,767	9,868,735	(125,240)	-	34,811,262
Accumulated Depreciation	(9,462,783)	(606,531)	-	-	(10,069,314)
Net Book Value	<u>\$ 15,604,984</u>	<u>\$ 9,262,204</u>	<u>\$ (125,240)</u>	<u>\$ -</u>	<u>\$ 24,741,948</u>
<u>Sewer Fund:</u>					
Land	\$ 28,638	\$ -	\$ -	\$ -	28,638
Construction in Progress	8,429	494	-	(8,923)	-
Buildings and Improvements	164,057	-	-	-	164,057
Waste Water System	23,428,144	164,340	-	8,923	23,601,407
Vehicles and Equipment	1,443,371	190,533	-	17,023	1,650,927
Total Capital Assets	25,072,639	355,367	-	17,023	25,445,029
Accumulated Depreciation	(10,440,025)	(617,066)	-	(17,023)	(11,074,114)
Net Book Value	<u>\$ 14,632,614</u>	<u>\$ (261,699)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,370,915</u>
<u>Solid Waste Fund:</u>					
Construction in Progress	\$ -	\$ 9,176	\$ -	\$ -	9,176
Buildings and Improvements	5,650	-	-	-	5,650
Vehicles and Equipment	1,335,371	113,132	-	-	1,448,503
Total Capital Assets	1,341,021	122,308	-	-	1,463,329
Accumulated Depreciation	(764,299)	(142,883)	-	-	(907,182)
Net Book Value	<u>\$ 576,723</u>	<u>\$ (20,575)</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 556,148</u>

CITY OF MILFORD, DELAWARE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

NOTE 9: CAPITAL ASSETS, CONTINUED

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

FOR THE YEAR ENDED JUNE 30, 2022					
Asset Categories by Function	Balances 6/30/2021	Additions	Reductions	Adjustments & Transfers	Balances 6/30/2022
<u>Total Enterprise Funds</u>					
Land	\$ 2,522,399	\$ 6,438,640	\$ -	\$ -	\$ 8,961,039
Construction in Progress	283,893	2,661,474	-	(322,272)	2,623,095
Buildings and Improvements	7,348,800	-	-	-	7,348,800
Electric System	19,952,164	175,723	-	100,008	20,227,895
Water System	22,842,223	748,428	(125,240)	213,341	23,678,752
Waste Water System	23,428,144	106,776	-	8,923	23,543,843
Vehicles and Equipment	8,715,542	917,644	(64,518)	10,393	9,579,061
<b>Total Fixed Assets</b>	<b>85,093,164</b>	<b>11,048,685</b>	<b>(189,758)</b>	<b>10,393</b>	<b>95,962,484</b>
Accumulated Depreciation	(38,917,088)	(2,603,938)	-	(17,023)	(41,538,049)
<b>Net Book Value</b>	<b>\$ 46,176,076</b>	<b>\$ 8,444,747</b>	<b>\$ (189,758)</b>	<b>\$ (6,630)</b>	<b>\$ 54,424,436</b>

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

FOR THE YEAR ENDED JUNE 30, 2022					
Asset Categories by Function	Balances 6/30/2021	Additions	Reductions	Adjustments & Transfers	Balances 6/30/2022
<u>Internal Service Funds:</u>					
Land	\$ -	\$ -	\$ -	\$ -	\$ -
Buildings and Improvements	21,340	16,692	-	-	38,032
Vehicles and Equipment	253,404	-	(13,476)	-	239,928
Construction in Progress	87,912	138,665	-	(226,577)	-
<b>Total Internal Service Funds</b>	<b>362,656</b>	<b>155,357</b>	<b>(13,476)</b>	<b>(226,577)</b>	<b>277,960</b>
Accumulated Depreciation	(149,644)	(27,355)	13,476	-	(163,523)
<b>Total Internal Service Funds, Net</b>	<b>\$ 213,012</b>	<b>\$ 128,001</b>	<b>\$ -</b>	<b>\$ (226,577)</b>	<b>\$ 114,437</b>

Depreciation expense for governmental activities, which amounted to \$1,059,174 for the year ended June 30, 2022, was charged to the general government function of the primary government. Depreciation expense of \$2,603,660 for the business-type activities was charged to the funds as noted above.

CITY OF MILFORD, DELAWARE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

NOTE 10: LONG-TERM DEBT OBLIGATIONS

Long-Term liability activity for the year ended June 30, 2022, is summarized as follows:

	FOR THE YEAR ENDED JUNE 30, 2022				
	Balances 06/30/21	Additions	Reductions	Balances 06/30/22	Current Portion
<b>Governmental Activities:</b>					
Bond Anticipation Note	\$ -	\$ 41,445	\$ -	\$ 41,445	\$ -
Net Pension Liability (Asset)	608,858	-	(5,831,908)	(5,223,050)	-
Compensated Absences	1,094,885	441,175	(220,367)	1,315,693	161,699
<b>Governmental Activities</b>					
<b>Total Debt Obligations:</b>	<b>\$ 1,703,743</b>	<b>\$ 482,620</b>	<b>\$ (6,052,275)</b>	<b>\$ (3,865,912)</b>	<b>\$ 161,699</b>
<b>Business-Type Activities:</b>					
<b>General Obligation Bonds</b>					
Series 2016	\$ 6,685,000	\$ -	\$ (425,000)	\$ 6,260,000	\$ 435,000
Bond Premium	24,706	-	(1,856)	22,850	1,856
<b>Total General Obligation Bonds</b>	<b>6,709,706</b>	<b>-</b>	<b>(426,856)</b>	<b>6,282,850</b>	<b>436,856</b>
<b>State of Delaware</b>					
DNREC WPC RF, 2010	565,896	-	(82,394)	483,502	56,313
Water SRF, 2012A	2,101,592	-	(158,653)	1,942,939	160,244
Note Payable, Kent County	1,096,077	-	(26,502)	1,069,575	27,103
<b>USDA Notes Payable</b>					
Water Facilities, 2013	4,098,968	-	(99,686)	3,999,282	101,816
Sewer Facilities, 2019	585,070	-	(10,750)	574,320	10,940
Sewer Facilities, 2020	989,436	-	(19,553)	969,883	19,798
<b>Total Bonds and Notes Payable</b>	<b>16,146,745</b>	<b>-</b>	<b>(824,394)</b>	<b>15,322,351</b>	<b>813,070</b>
<b>Other Liabilities</b>					
Compensated Absences	153,276	111,737	-	265,013	46,827
<b>Business-Type Activities</b>					
<b>Total Debt Obligations:</b>	<b>\$ 16,300,021</b>	<b>\$ 111,737</b>	<b>\$ (824,394)</b>	<b>\$ 15,587,364</b>	<b>\$ 859,897</b>

General Obligation Bonds

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

NOTE 10: LONG-TERM DEBT OBLIGATIONS, CONTINUED

General Obligation Bonds, Series 2016

On December 6, 2016, the City issued General Obligation Bonds, Series 2016 in the aggregate principal amount of \$8,065,000, with interest rates ranging from 2.0% to 2.55%. The proceeds of the 2016 bond issuance were utilized to currently refund the outstanding principal balance of \$7,850,000 related to the General Obligation Bonds, Series 2011 A. The 2016 bonds are scheduled to mature January 1, 2037. Semi-annual interest payments commenced July 1, 2017, while annual principal payments commenced January 1, 2018. The bonds had an original issue premium of \$37,171, the unamortized portion of which is included in the balance reflected in the financial statements as of June 30, 2022. The current refunding resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$1.3 million.

General Obligation Bond Anticipation Notes, Series 2021

The City closed on a general obligation bond anticipation note (BAN), series 2021 with PNC Bank, N.A. in an amount not to exceed \$20 million on November 30, 2021, as authorized by Council on December 14, 2020, and approved by referendum on January 26, 2021. The temporary, construction-period loan bears a variable rate of interest calculated daily based on the tax-exempt equivalent of the Bloomberg Short Term Bank Yield Index or "BSBY" plus a fixed margin, subject to a floor of 1.08%, billed monthly as applied only to outstanding principal balances drawn. The loan matures on November 30, 2024, at which point the entire principal balance is due and payable in full. The City anticipates satisfying the BAN in full on or before the maturity date with a permanent issuance of long-term, tax-exempt general obligation bonds at a fixed rate of interest. As of June 30, 2022, \$41,445 was drawn on the BAN, all of which is reported in noncurrent liabilities in the government-wide statement of net position.

United States Department of Agriculture (USDA)

Water Facility Loan

In June 2013, the City issued bonds in an amount not to exceed \$5 million in connection with its Southeast Water Expansion project. The funding for the project was provided by the USDA under the federal direct loan for rural water and waste disposal systems program. Pursuant to program terms, the City was eligible for distributions of loan proceeds only after incurring project expenditures. The project was completed, and the City expended a cumulative total of \$5 million through fiscal year 2017. The balance of the loan as of June 30, 2022, is \$3,999,282, which represents total project expenditures under the program less principal payments made. Under the terms of the note, the City is required to make quarterly payments in the amount of \$46,500, which include interest calculated at the fixed annual rate of 2.125% on the outstanding balance, with the remainder of each payment applied to the principal balance. The note is scheduled to mature June 28, 2053.

NOTE 10: LONG-TERM DEBT OBLIGATIONS, CONTINUED

Sewer Facility Loans

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

The balance of the 2019 facilities loan as of June 30, 2022, is \$574,320, representing the balance attributable to phase one project financing. The balance of the 2020 facilities loan as of June 30, 2022, is \$969,883, representing the balance attributable to phase two project financing. Under terms of the notes, the City is required to make quarterly payments in the amount of \$5,226 and \$7,960, which include interest calculated at the fixed annual rate of 1.75% and 1.25% on the outstanding balance of the phase one and two loans, respectively, with the remainder of each payment applied to the corresponding principal balance. The notes underlying loans phase one and two are scheduled to mature on December 31, 2059 and 2060, respectively.

State of Delaware Revolving Funds

Water Pollution Control Revolving Fund (WPC RF)

The City received funds in connection with its Wastewater Collection System Expansion project through financing agreements with the Delaware Water Pollution Control Revolving Fund. Funds received for the first part of the project were repaid in full during the fiscal year ended June 30, 2017. Additional funds were received for the second part of the project under a separate financing agreement. The balance of this obligation as of June 30, 2022 is \$483,502. Semi-annual payments of \$32,852 include interest calculated at an annual rate of 2.0%. The note is scheduled to mature of July 1, 2030.

Drinking Water State Revolving Fund (SRF)

The City has also received funds from the State of Delaware in connection with its Washington Street Water Treatment Facility Replacement Project. The funds were provided by the Delaware Drinking Water State Revolving Funding only as expenditures were incurred by the City and approved by the State, subject to a maximum funding commitment of \$4 million. Interest only payments commenced September 1, 2012, and were due semi-annually at 1% per annum on the balancing outstanding as the project progressed. The project was completed during the fiscal year ended June 30, 2018, at a total cost of \$3,832,876. In accordance with the agreement, upon

CITY OF MILFORD, DELAWARE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

NOTE 10: LONG-TERM DEBT OBLIGATIONS, CONTINUED

completion of the project, thirty-five percent of the amounts advanced were forgiven, resulting in forgiveness of debt in the amount of \$1,341,507 in fiscal year 2018. The remaining balance of \$2,491,369 is being amortized over a twenty-year period from the original advance date with interest at 1% per annum. The balance of this obligation as of June 30, 2022, is \$1,942,939. The note is scheduled to mature September 1, 2033.

Kent County Levy Court

Sewer Infrastructure Improvement Loan

Kent County constructed a new southern transmission bypass sewer line and related facilities (the "bypass") to remediate failing components of its sewer infrastructure. The County issued bonds to finance the cost of the improvements, a significant portion of which run through the City of Milford and benefit the users of Milford's sewer system. Pursuant to the Agreement for Services, as amended, between the City and Kent County, the City is responsible for the pro rata portion of the debt service attributable to the costs of the bypass installed in the City's sewer service territory. The City is required to remit payments in quarterly installments of \$12,735, which include interest at the fixed rate of 2.25% per annum. The balance of the obligation as of June 30, 2022, is \$1,069,575 and is scheduled to mature November 10, 2050.

The annual requirements to amortize all debt outstanding as of June 30, 2022, follow:

Year Ending June 30	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2023	\$0	\$1,738	\$1,738	\$811,214	\$1,099,707	\$1,910,921
2024	-	2,122	2,122	821,363	1,095,163	1,916,526
2025	41,445	884	42,329	837,686	1,096,472	1,934,158
2026	-	-	-	853,864	1,097,360	1,951,224
2027	-	-	-	870,150	1,098,046	1,968,196
2028-2032	-	-	-	4,445,781	5,340,856	9,786,637
2033-2037	-	-	-	2,812,745	3,344,244	6,156,989
2038-2042	-	-	-	1,124,560	1,448,161	2,572,721
2043-2047	-	-	-	1,244,374	1,447,869	2,692,243
2048-2052	-	-	-	1,076,874	1,151,174	2,228,048
2053-2057	-	-	-	243,260	263,720	506,980
2058-2062	-	-	-	157,630	162,199	319,829
<b>Total</b>	<b>\$41,445</b>	<b>\$4,744</b>	<b>\$46,189</b>	<b>\$15,299,501</b>	<b>\$18,644,971</b>	<b>\$33,944,472</b>

CITY OF MILFORD, DELAWARE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

NOTE 10: LONG-TERM DEBT OBLIGATIONS, CONTINUED

Long-Term Debt outstanding as of June 30, 2022, is summarized as follows:

Obligation	Interest Rate (%)	Issue Date	Maturity Date	Amounts Outstanding as of June 30, 2022 (in thousands)				Total
				Governmental Activities	Electric Fund	Water Fund	Sewer Fund	
General Obligation Bonds								
Series of 2016	2.00-2.55	12/6/16	1/1/37	-	\$ 4,060	\$ -	\$ 2,200	\$ 6,260
Series of 2021	1.80-5.00	11/30/21	11/30/24	41	-	-	-	41
USDA								
Note Payable, 2013	2.125	6/28/13	6/28/53	-	-	3,999	-	3,999
Note Payable, 2019	1.750	12/31/19	12/31/59	-	-	-	574	574
Note Payable, 2020	1.250	12/31/20	12/31/60	-	-	-	970	970
State of Delaware								
DNREC WPC RF, 2010	2.00	12/22/09	7/1/30	-	-	-	484	484
Drinking Water SRF, 2012A	1.00	3/15/12	9/1/33	-	-	1,943	-	1,943
Kent County, 2012	2.25	11/12/12	11/10/50	-	-	-	1,070	1,070
Total Long-Term Debt Obligations				\$ 41	\$ 4,060	\$ 5,942	\$ 5,297	\$ 15,341

NOTE 11: COMMITMENTS AND CONTINGENCIES

In the ordinary course of the City's municipal and public utility operations, various commitments and contingent liabilities arise in addition to routine purchases of goods and services.

Commitments

City Council awarded a contract to Richard Y. Johnson & Son, Inc. ("RYJ") for the project management, construction and inspection activities for the City of Milford's new Police Headquarters Facility totaling \$0.6 million, all of which remained outstanding as of June 30, 2022. The firm executed a construction bid process on behalf of the City pursuant to USDA and City of Milford procurement requirements, resulting in City Council approval of contracts with 16 individual vendors totaling \$13.7 million for the construction of the Facility, net of construction management costs. As of June 30, 2022, \$0.1 million was incurred pursuant to the contracts, which is reported as construction in process and recognized in current liabilities in Governmental Activities on the Government Wide Statement of Net Position. \$13.6 million of the contract commitment remained outstanding as of June 30, 2022.

Contingencies

The City does not anticipate material losses as a result of any claims arising in the ordinary course of municipal operations over and above the amounts reported in the statement of activities, which includes a provision for claims incurred.

NOTE 11: COMMITMENTS AND CONTINGENCIES

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 of expenditures not already disclosed, if any, which may be disallowed by the granting agencies, cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

NOTE 12: DEFERRED COMPENSATION PLAN

The City's employee benefits program includes a deferred compensation plan under Internal Revenue Code (IRC) 457(b) which is available to substantially all full-time City employees. Participants may elect contributions through base salary deferral to the Plan not to exceed the lesser of the allowable calendar year maximum under IRC 457(b)(2) and 100% of net compensation. The City matches 100% of employee contributions up to a maximum of 6.0% of the base salary. The City made contributions into the Plan totaling \$292,268 for the year ended June 30, 2022.

NOTE 13: ADOPTION OF GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS

The City adopted the provisions of GASB Statement No. 87, Leases, which is further described in Note 16.

The City also adopted GASB Statement No. 93, Replacement of Interbank Offered Rates, GASB Statement No. 89, Accounting for Interest Costs Incurred before the End of a Construction Period, GASB Statement No. 92, Omnibus 2020, and components of the provisions of GASB Statement No. 99, Omnibus 2022. The adoption of these Statements had no effect on previously reported amounts.

NOTE 14: PENDING CHANGES IN ACCOUNTING PRINCIPLES

The GASB has approved the following:

- Statement No. 91, Conduit Debt Obligations (effective for 2023)
- Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements (effective for 2023)
- Statement No. 96, Subscription-Based Information Technology Arrangements (effective for 2023)
- Statement No. 99, Omnibus 2022 (effective for 2023 and 2024)
- Statement No. 100, Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62 (effective for 2024)
- Statement No. 101, Compensated Absences (effective for 2025)
- Statement No. 102, Certain Risk Disclosures (effective for 2025)

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

## NOTE 15: POST-RETIREMENT BENEFITS

### Defined Contribution Plan

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

### State of Delaware County and Municipal Pension Plans

Effective January 1, 2005, City Council elected, under provisions of the Delaware Code, to participate in the County and Municipal Police and Firefighter and the General Employees Retirement Funds. In connection with this election, the City agreed to fund prior service costs up to the maximum of 15 years of service for all eligible employees. Funding was provided from the City's Water and Sewer reserves and from assets of its existing retirement funds. Descriptions of the State of Delaware Plans, important disclosures and information follow.

### Police and Firefighters' Pension Plan

The City contributes to a governmental cost-sharing multiple-employer defined benefit pension plan administered by the Delaware Public Employees' Retirement System (DPERS) and managed by the State Board of Pension Trustees. The plan, which is the State of Delaware County and Municipal Police and Firefighter Pension Plan, covers the City of Milford's sworn police officers.

The State of Delaware General Assembly is responsible for setting benefits and amending plan provisions. The State Board of Pension Trustees determines the contributions required. The board is composed of five members appointed by the Governor and confirmed by the State Senate, plus two ex-officio members. Service benefits under the plan include 2.5% of final average monthly compensation multiplied by years of credited service up to 20 years, plus 3.5% of final average monthly compensation multiplied by years of service in excess of 20 years. The final monthly compensation is the monthly average of the highest three consecutive years of compensation. There are also disability benefits as well as survivor benefits provided by the plan. An employee is vested upon five years of credited service.

Employer contributions to the plan are determined annually by the State Board of Pension Trustees. The employer contribution policy is set by State law and required contributions by active members and by participating employers. The contributions required by participating employers are based on an actuarial valuation and are expressed as a percentage of annual covered payrolls during the period for which the amount is determined. The employer contribution rate in fiscal year 2022 was 16.03% of payroll. In addition, employees are required to contribute 7% of compensation.

CITY OF MILFORD, DELAWARE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

NOTE 15: POST-RETIREMENT BENEFITS, CONTINUED

Other Employees' Pension Plan

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

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

Employer contributions to the plan are determined annually by the State Board of Pension Trustees. The employer contribution policy is set by State law and required contribution by active members and by participating employers. The contributions required by participating employers are based on actuarial valuation and are expressed as a percentage of annual covered payrolls during the period for which the amount is determined. The employer contribution rate in fiscal year 2022 was 6.78% of pension-creditable payroll. In addition, employees are required to contribute 3.0% of compensation in excess of \$6,000.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The components of the total net pension liability (asset) of each plan as of the June 30, 2021, measurement date were as follows:

	Police & Firefighters	Other Employees
Total pension liability	<u>\$ 488,188,000</u>	<u>\$ 75,987,000</u>
Plan fiduciary net position	<u>625,792,000</u>	<u>96,932,000</u>
Employer net pension liability (asset)	<u>(137,604,000)</u>	<u>(20,945,000)</u>
Plan fiduciary net position as percentage of total pension liability (asset)	<u>128.19%</u>	<u>127.56%</u>
Proportionate share of net pension liability (asset)	<u>\$ (3,388,803)</u>	<u>\$ (1,834,244)</u>

CITY OF MILFORD, DELAWARE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

NOTE 15: POST-RETIREMENT BENEFITS, CONTINUED

The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate net pension liability was determined by rolling forward the DPERs total pension liability as of June 30, 2020, to June 30, 2021. The City's proportionate share of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it related to the total one-year reported covered payroll. As of June 30, 2021 and 2020, the City's proportion for each plan is as follows:

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>Increase (Decrease)</u>
Police & Firefighters	2.4627%	2.6455%	-0.1828%
Other Employees	8.7574%	9.5271%	-0.7696%

For the year ended June 30, 2022, the City recognized pension expenses (credits) for the plans as follows:

Police & Firefighters	\$ (480,538)
Other Employees	(173,153)
Total	<u>\$ (653,691)</u>

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

	<u>Police &amp; Fire</u>		<u>Other Employees</u>	
	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Difference between expected and actual experience	\$ 320,649	\$ 132,027	\$ 102,545	\$ 129,237
Change of assumptions	116,450	246,796	85,658	55,280
Net difference between projected and actual investment earnings	-	2,879,507	-	1,567,970
Change in proportion	29,165	33,529	1,097	40,930
Contributions subsequent to the measurement date	404,641	-	371,703	-
Total	<u>\$ 870,905</u>	<u>\$ 3,291,859</u>	<u>\$ 561,003</u>	<u>\$ 1,793,417</u>

CITY OF MILFORD, DELAWARE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

NOTE 15: POST-RETIREMENT BENEFITS, CONTINUED

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

Year	Police & Fire	Other Employees	Total
2022	\$ (736,569)	\$ (399,602)	\$ (1,136,171)
2023	(681,946)	(364,659)	(1,046,606)
2024	(722,113)	(385,415)	(1,107,527)
2025	(665,791)	(383,663)	(1,049,454)
2026	29,676	(9,546)	20,130
Thereafter	(48,851)	(61,233)	(110,084)
Total	<u>\$ (2,825,595)</u>	<u>\$ (1,604,117)</u>	<u>\$ (4,429,712)</u>

Actuarial Assumptions

The total pension liability (asset) was determined by an actuarial valuation as of June 30, 2020, and update procedures were used to roll forward the total pension liability to June 30, 2021. The following actuarial assumptions were used and applied to all periods included in the measurement:

- Investment return – 7.0%, includes inflation at 2.50%
- Salary increases – Effective average of 2.50%, which reflects an allowance for inflation of 2.50%, plus merit.

The discount rate assumption of 7.0% is unchanged from the prior year. Mortality rates were based on the RP-2014 tables with gender adjustments for healthy annuitants and disabled retirees and an adjusted version on MP-2015 mortality improvement scale on a fully generational basis.

The total pension liabilities are measured based on assumptions pertaining to interest rates, inflation rates and employee demographics in future years. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates the larger the impact on the future financial statements.

Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by an asset allocation percentage which is based on the nature and mix of current and expected plan investments, and by adding expected inflation.

CITY OF MILFORD, DELAWARE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

NOTE 15: POST-RETIREMENT BENEFITS, CONTINUED

Best estimates of geometric real rates of return for each major asset class as of June 30, 2021, are summarized in the following table:

Asset Class	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	32.3%	5.7%
International Equity	18.1%	5.7%
Fixed Income	20.6%	2.0%
Alternative Investments	24.2%	7.8%
Cash & Equivalents	4.8%	0.0%

Discount Rate

The discount rate used to measure the total pension liability (asset) was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at rates determined by the Board of Pension Trustees, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability (Asset)

The following presents the City's net pension liability, calculated using the discount rate of 7.0% as well as what the resulting net pension liability if calculated using a discount rate one percentage point lower (6.0%) or higher (8.0%) than the current rate:

	1% Decrease <u>6.00%</u>	Current Discount Rate <u>7.00%</u>	1% Increase <u>8.00%</u>
Police and Firefighters	\$ (1,564,479)	\$ (3,388,803)	\$ (4,877,328)
Other Employees	\$ (793,336)	\$ (1,834,244)	\$ (2,875,327)

Pension Plan Fiduciary Net Position

Detailed information about DPERS' fiduciary net position is available in DPERS Comprehensive Annual Financial Report which can be found on the System's website at <https://open.omb.delaware.gov>.

NOTE 16: LEASES

The City implemented GASB Statement No. 87, Leases, for the period ended June 30, 2022. Under this Statement, the City, when engaged in a long-term lease agreement as a lessee granted the right to use an asset owned by a third party, will recognize a lease liability and an intangible right-to-use asset. When engaged in a long-term lease agreement as a lessor granting a counterparty the right to use a City-owned asset, the City recognizes a lease receivable and a deferred inflow of resources in the Government-wide Statement of Net Position pursuant to the Statement. The adoption of this Standard enhances the City's financial reporting transparency and improves both the relevance and consistency of information the City reports with respect to its leasing activities. Financial summaries, disclosures, details and other terms associated with Milford's leasing activities are described below in accordance with GASB Statement No. 87.

Water Towers

The City of Milford, as the lessor, has entered into lease agreements permitting access to City property and the use of water tower space with Cellco Partnership (three individual agreements), New Cingular Wireless PCS, AT&T, and Sprint Spectrum Realty Company. An initial lease receivable was recorded in the amount of \$500,344. No additional revenue was recorded for variable and other payments not included in the measurement of the lease receivable. As of June 30, 2022, the value of the lease receivable is \$379,343 and the related deferred inflow for future payments expected to be collected on the lease is \$379,343. The lessees are required to make monthly expiring fixed payments of \$10,961 to \$2,000 through September 2026. The leases have no interest rate; therefore, the City uses its incremental borrowing rate of approximately 6.0% to discount future payments. The City of Milford recognized lease revenue and interest of \$121,001 and \$25,423, respectively, for the fiscal year.

Fiber-Optic Cable Network

The City of Milford, as the lessor, has entered into three lease agreements extending the availability of capacity on the City's fiber optic network to lessees Dentsply Sirona, Bayhealth Imaging MMH-DI, and Bayhealth Dickinson. An initial lease receivable was recorded in the amount of \$230,185. No additional revenue was recorded for variable and other payments not included in the measurement of the lease receivable. As of June 30, 2022, the value of the lease receivable is \$204,350 and the related deferred inflow for future payments expected to be collected on the lease is \$204,350. The lessees are required to make monthly expiring fixed payments of \$3,215 to \$2,487 through April 2029. The leases have no interest rate; therefore, the City uses its incremental borrowing rate of approximately 6.0% to discount future payments. The City of Milford recognized lease revenue and interest of \$25,835 and \$11,567, respectively, for the fiscal year.

NOTE 16: LEASES, CONTINUED

Land & Agricultural

The City of Milford, as the lessor, has entered into a lease agreement for the agricultural use of City-owned land with Fry Farms, Inc. An initial lease receivable was recorded in the amount of \$77,446. No additional revenue was recorded for variable and other payments not included in the measurement of the lease receivable. As of June 30, 2022, the value of the lease receivable is \$56,652 and the related deferred inflow for future payments expected to be collected on the lease is \$56,652. While the lease is subject to annual renewals, the lessee is expected to make annual payments equal to the maximum of \$24,000 in fiscal year 2023 to an estimate of \$12,000 by fiscal year 2025. The lease has no interest rate; therefore, the City uses its incremental borrowing rate of approximately 6.0% to discount future payments. The City of Milford recognized lease revenue and interest of \$20,793 and \$3,207, respectively, for the fiscal year.

Disclosure of Agreements for which GASB Statement No. 87 does not Apply

City of Milford as Lessor

The City of Milford has entered into a fiber optic agreement with an external party to provide capacity on the City's fiber optic network. This agreement does not meet the criteria of a lease under GASB Statement No. 87 as the terms and conditions specify the agreement expires within one year. Due to the short-term nature of the agreement, the City of Milford has not recorded a receivable in the financial statements for this agreement in accordance with GASB Statement No. 87.

The City of Milford has entered into three agreements permitting counterparties to access and attach equipment to City-owned utility infrastructure, such as utility poles, buildings and other fixtures. These agreements do not meet the criteria of a lease under GASB Statement No. 87 as the terms and conditions specify each agreement will expire within one year. Due to the short-term nature of the agreement, the City of Milford has not recorded a receivable in the financial statements for this agreement in accordance with GASB Statement No. 87.

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NOTE 17: THE DELAWARE MUNICIPAL ELECTRIC CORPORATION:

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

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

The World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The aftereffects of the pandemic continue to affect global markets, supply chains, labor, and communities, including the City of Milford. Specific to the City of Milford, COVID-19 may impact various 2023 operations and financial results, including but not limited to the City's utility and real estate tax collections, utility revenue, lodging tax revenue due to travel restrictions, Parks and Recreation activity due to safety and distancing requirements, and other events, as well as increases in expenditures for emergency preparedness. City Management has taken every appropriate action to mitigate any negative impact, including the delay or deferral of non-critical spending and the solicitation of federal and state grant proceeds to offset emergency preparedness costs and employee safety initiatives. The full impact of COVID-19 on the City's financial condition is unknown, as events continue to develop into 2024. However, no events occurring during the reporting period and no events occurring during the period from July 1, 2022 through the opinion date resulted in the need to recognize any additional expense or record any additional liabilities. Management's expectation is that the impact of the COVID-19 pandemic on the City's financial position will not reach the level of significant materiality, though Management and Council remain diligent in efforts to operate efficiently, avoid unnecessary spending, work safely, and maximize services to the community during the pandemic. Further, the City of Milford was a recipient of funding through the American Rescue Plan Act of 2021

CITY OF MILFORD, DELAWARE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

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

("ARPA"), which provided a significant level of support to defray any emergency expenditures, meet infrastructure needs and replace revenue shortfalls. Specifically, the City of Milford is categorized as a Non-entitlement Unit of Local Government in the US Department of the Treasury Final Rule governing Coronavirus State and Local Fiscal Recovery Funds. As such, the City's ARPA funding allocation of \$6,333,892, paid in two equal, annual tranches, was population-driven. The first tranche in the amount of \$3,166,946 was received in June 2021 and utilized for revenue replacement by June 30, 2022. The second tranche payment of \$3,166,946 was received on June 26, 2022. The second tranche balance of \$3,166,946 is reported as restricted cash and unearned revenue in the special revenue fund in the governmental funds balance sheet on page 17.

NOTE 19: SUBSEQUENT EVENTS:

Police Facility Contract Awards, Financing and Construction Activity

United States Department of Agriculture (USDA) Community Facilities Loan, Series 2024 A&B

The City anticipates satisfying the general obligation BAN in full on or before the maturity date with a permanent issuance of long-term, tax-exempt general obligation bonds at a fixed rate of interest placed directly with the USDA in connection with its Community Facilities Loan Program. The City expects to close on USDA loans in successive bond series 2024 A in the amount of \$8.5 million and series 2024 B in the amount of \$8.0 million. City Council awarded architectural contracts totaling \$1.0 million during the planning phases of the project, a construction management contract for \$0.6 million in advance of the construction procurement process, and construction contracts totaling \$13.7 million in April 2022 to build the Facility. Along with technology equipment, furniture, fixtures and other equipment, contingencies, and related roadwork and other improvements, the entire project is expected to cost \$17.5 million, \$16.5 million of which will be financed through USDA programs. As of June 30, 2022, the City had drawn \$41,445 on the BAN. As of the issue date, the City incurred design, construction management and construction expenses totaling \$16,203,583 on the project, of which \$380,527 was withheld as retainage, \$748,751 is payable, \$775,546 was met through the City reserve funds targeted for the project, and \$14,298,759 was satisfied through draws against the BAN.

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# The City of Milford

## Required Supplementary Information

As of and for the Year Ended June 30, 2022

**CITY OF MILFORD, DE**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2022**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts,</u> <u>Budgetary</u> <u>Basis</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
<b>REVENUES</b>				
Property Taxes	\$4,770,043	\$ 4,770,043	\$4,749,699	\$ (20,344)
Fees and Fines	74,000	74,000	165,276	91,276
Licenses and Permits	543,500	631,236	565,203	(66,033)
Franchise & Lease Revenue	397,612	397,612	387,777	(9,835)
Charges for Services	28,500	3,500	89,635	86,135
Intergovernmental	350,000	352,850	357,531	4,681
Investment Earnings	6,520	6,520	44,842	38,322
Miscellaneous	12,000	14,815	421,612	406,797
<b>Total Revenues</b>	<u>6,182,175</u>	<u>6,250,576</u>	<u>6,781,575</u>	<u>530,998</u>
<b>EXPENDITURES</b>				
Current:				
General Government	4,503,778	4,663,715	1,649,370	3,014,345
Public Safety	6,103,711	6,247,653	6,047,992	199,661
Public Works	891,519	904,547	763,705	140,842
Culture and Recreation	1,293,595	1,625,486	1,651,779	(26,293)
Capital Outlay	1,470,500	6,347,277	2,245,975	4,101,302
<b>Total Expenditures</b>	<u>14,263,103</u>	<u>19,788,678</u>	<u>12,358,821</u>	<u>7,429,857</u>
<b>Deficiency of Revenues Over Expenditures</b>	<u>(8,080,928)</u>	<u>(13,538,102)</u>	<u>(5,577,246)</u>	<u>7,960,855</u>
<b>OTHER FINANCING SOURCES</b>				
Real Estate Transfer Tax (from Special Revenue Fund)	400,000	400,000	400,000	-
Transfers In From Utilities	2,800,000	2,800,000	2,800,000	-
Proceeds from Sale of Assets	2,000	2,000	661,517	659,517
Proceeds from Bond Anticipation Note	-	-	41,445	41,445
Other Transfers In	463,471	1,071,546	2,366,197	1,294,651
Transfers Out	-	-	(646,602)	(646,602)
<b>Net Change in Fund Balance</b>	<u>(4,415,457)</u>	<u>(9,264,556)</u>	<u>45,311</u>	<u>9,268,421</u>
<b>DEFICIENCY FUNDED BY (SURPLUS DIRECTED TO)</b>				
General Fund Balance and Reserves	4,415,457	9,264,556	(45,311)	(9,268,421)
<b>Net Revenues, Other Financing Sources, Prior</b>				
<b>Fund Balances and Expenditures</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

<b><u>County &amp; Municipal Police and Firefighters' Pension Plan</u></b>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Proportion of the net pension liability (asset)	2.4627%	2.6455%	2.4289%	2.2946%	2.3779%	2.3824%	2.4964%
Proportionate share of the net pension liability (asset)	\$ (3,389)	\$ 407	\$ 698	\$ 528	\$ 240	\$ 379	\$ (132)
Covered-employee payroll	\$ 2,485	\$ 2,412	\$ 2,147	\$ 1,906	\$ 1,944	\$ 1,736	N/A
Proportionate share of the net pension liability (asset) as a percentage of covered-employee payroll	136.4%	16.9%	32.5%	24.6%	12.6%	21.8%	N/A
Plan's fiduciary net position	\$ 625,792	\$ 446,384	\$ 396,829	\$ 367,470	\$ 325,867	\$ 284,298	\$ 273,109
Plan fiduciary net position as a percentage of the total pension liability (asset)	128.2%	96.7%	93.3%	94.1%	97.0%	94.7%	102.0%
<b><u>County &amp; Municipal Other Employees' Pension Plan</u></b>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Proportion of the net pension liability (asset)	8.7574%	9.5271%	9.4728%	10.0609%	10.3165%	10.8530%	12.1628%
Proportionate share of the net pension liability (asset)	\$ (1,834)	\$ 202	\$ 434	\$ 317	\$ 668	\$ 672	\$ 5
50 Covered-employee payroll	\$ 4,687	\$ 4,107	\$ 4,206	\$ 3,476	\$ 3,628	\$ 3,631	N/A
Proportionate share of the net pension liability (asset) as a percentage of covered-employee payroll	39.1%	4.9%	10.3%	9.1%	18.4%	18.5%	N/A
Plan's fiduciary net position	\$ 96,932	\$ 67,470	\$ 58,536	\$ 53,122	\$ 45,874	\$ 39,292	\$ 37,840
Plan fiduciary net position as a percentage of the total pension liability	127.6%	96.9%	92.7%	94.4%	87.6%	86.4%	99.9%

The accompanying notes are an integral part of this schedule.

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b><u>County &amp; Municipal Police and Firefighters' Pension Plan</u></b>							
Contractually required contribution	\$ 405	\$ 406	\$ 358	\$ 218	\$ 269	\$ 240	\$ 251
Contributions in relation to the contractually determined contribution	<u>405</u>	<u>406</u>	<u>358</u>	<u>218</u>	<u>269</u>	<u>240</u>	<u>251</u>
Contribution (excess) deficiency	<u>\$ -0-</u>						
Covered-employee payroll	<u>\$ 2,524</u>	<u>\$ 2,485</u>	<u>\$ 2,412</u>	<u>\$ 2,147</u>	<u>\$ 1,906</u>	<u>\$ 1,944</u>	<u>\$ 1,736</u>
Contributions as a percentage of covered-employee payroll	<u>16.03%</u>	<u>16.35%</u>	<u>14.85%</u>	<u>10.14%</u>	<u>14.12%</u>	<u>12.37%</u>	<u>14.48%</u>
<b><u>County &amp; Municipal Other Employees' Pension Plan</u></b>							
Contractually required contribution	\$ 372	\$ 340	\$ 307	\$ 284	\$ 259	\$ 225	\$ 235
Contributions in relation to the contractually determined contribution	<u>372</u>	<u>340</u>	<u>307</u>	<u>284</u>	<u>259</u>	<u>225</u>	<u>235</u>
Contribution (excess) deficiency	<u>\$ -0-</u>						
Covered-employee payroll	<u>\$ 5,485</u>	<u>\$ 4,687</u>	<u>\$ 4,107</u>	<u>\$ 4,206</u>	<u>\$ 3,476</u>	<u>\$ 3,628</u>	<u>\$ 3,631</u>
Contributions as a percentage of covered-employee payroll	<u>6.78%</u>	<u>7.25%</u>	<u>7.47%</u>	<u>6.76%</u>	<u>7.46%</u>	<u>6.21%</u>	<u>6.49%</u>

The accompanying notes are an integral part of this schedule.

CITY OF MILFORD, DELAWARE  
NOTES TO THE REQUIRED SUPPLEMENTARY SCHEDULES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

NOTE 1 – GENERAL

Required supplementary information includes financial information and disclosures that are required by the Governmental Accounting Standards Board but are not considered part of the basic financial statements.

NOTE 2 – BUDGETARY BASIS

The budgetary comparison schedule is prepared on a basis that is consistent with generally accepted accounting principles (GAAP).

NOTE 3 – PENSION PLANS

The following notes pertain to both the County and Municipal Police and Firefighters Pension Plan and the County and Municipal Other Employees' Pension Plan.

Changes in Benefit Terms

None

Changes in Assumptions

The changes in assumptions used to determine total pension liability are described in Note 15 to the basic financial statements.

Method and Assumptions used in calculations of actuarially determined contributions

The actuarially determined contribution rates in the Schedule of Employers' Contributions are calculated as of June 30 two years prior to the end of the fiscal year in which the contributions are reported. Complete descriptions of the methods and assumptions used to determine the contribution rates for Fiscal Year 2022 can be found in the June 30, 2021, actuarial valuation reports. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

- Actuarial Cost Method – Entry Age Normal
- Amortization Method – Open 10 Year Level Percent of Payroll
- Remaining Amortization Period – 10 Years
- Asset Valuation Method: 5 Year Smoothed Market
- Actuarial Assumptions
  - Discount Rate – 7.0%
  - Amortization Growth Rate 2.5%
  - Price Inflation – 2.5%

10-year Reporting Requirements

The preceding required supplementary schedules, as related to pensions, are intended to show information for 10 years. Additional years will be displayed as they become available.

# The City of Milford

## Additional Information

As of and for the Year Ended June 30, 2022

CITY OF MILFORD, DELAWARE  
 ADDITIONAL INFORMATION  
 JUNE 30, 2022

Taxation

The City annually adopts an assessment listing based on its own assessments of real property, with the option to adopt the assessed values as determined by either or both Kent or Sussex Counties. Real Property was last reassessed in the City of Milford in 2012. The assessment reflected actual property sale data available in 2012. Assessments are based on a level of 100% of the 2012 values as appraised by the City of Milford. Appraisals for all classifications of property are equal to estimated replacement cost less depreciation.

Tax Assessments

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

Tax Appeals

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

<b>Ratable Classification</b>	<b>2022 Assessed Value (AV)</b>	<b>2022 Market Value (MV)*</b>	<b>AV ÷ MV</b>
Public Utilities	\$5,401,952	\$9,003,253	
Agriculture	878,100	\$1,463,500	
Residential	633,608,900	\$1,056,014,833	
Multi-Family	43,996,300	\$73,327,167	
Commercial	330,290,400	\$550,484,000	
Industrial	11,315,900	\$18,859,833	
Exempt	345,095,600	\$575,159,333	
<b>TOTAL</b>	<b>\$1,370,587,152</b>	<b>\$2,284,311,920</b>	<b>60%</b>

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

CITY OF MILFORD, DELAWARE  
 ADDITIONAL INFORMATION  
 JUNE 30, 2022

Top 20 Taxpayers

2022 Assessed Value	Land Use	Parcel Owner	2022 Tax Levy
\$ 33,585,000	COMMERCIAL	CLARK AVENUE REALTY	\$ 162,132
18,827,600	COMMERCIAL	MILFORD PLAZA	90,890
16,426,800	COMMERCIAL	WAL-MART STORES	79,300
11,053,600	MULTI-FAMILY	WINDWARD ON THE RIVER	53,361
10,548,700	MULTI-FAMILY	WATERGATE AT MILFORD	50,924
9,447,900	MULTI-FAMILY	RESERVE AT SAW MILL	45,610
11,600,200	MULTI-FAMILY	KEY PROPERTIES GROUP	41,954
8,252,800	COMMERCIAL	MILFORD CENTER	39,840
6,869,500	COMMERCIAL	CYPRESS CAPITAL	33,163
6,780,100	COMMERCIAL	HELMICK MILFORD	32,731
6,734,300	MULTI-FAMILY	CASCADES	32,510
6,558,100	COMMERCIAL	BALTIMORE AIRCOIL COMPANY	31,659
6,547,100	COMMERCIAL	US COLD STORAGE	31,606
5,302,800	MULTI-FAMILY	CASE EDWARDS MANAGEMENT	25,599
5,158,300	INDUSTRIAL	PURDUE RE HOLDINGS	24,902
4,899,500	MULTI-FAMILY	TRAN CON BUILDERS	23,652
4,799,800	COMMERCIAL	SW ACQUISITIONS	23,171
4,763,300	COMMERCIAL	RIVERWALK CENTER AT MILFORD	22,995
4,702,200	MULTI-FAMILY	MISPILLION REALTY	22,700
4,698,800	COMMERCIAL	MILFORD MICROTTEL	22,683

Tax Collections and Delinquent Taxes

Year Ended June 30	Tax Collections			Past Due
	Taxes Budgeted	Cash Collections	Collections as % of Budget	Outstanding as of June 30
2022	\$ 4,741,043	\$ 4,745,519	101%	\$ 184,552
2021	4,296,000	4,322,838	101%	180,783
2020	4,126,385	4,074,644	99%	241,673
2019	3,902,716	3,943,184	105%	210,077
2018	3,820,560	4,038,010	106%	178,337
2017	3,732,970	3,817,534	102%	344,177
2016	3,701,000	3,720,159	101%	307,883
2015	3,746,000	3,660,900	98%	359,772
2014	3,556,965	3,518,917	99%	358,545
2013	3,483,380	3,433,254	99%	281,371

CITY OF MILFORD, DELAWARE  
 ADDITIONAL INFORMATION  
 JUNE 30, 2022

Selected Demographic Data and Corresponding Debt Ratios

	Direct Debt <sup>1</sup>	Population <sup>2</sup>	Assessed Valuation (AV) <sup>1</sup>
	\$ 6,260,000	12,272	\$ 1,370,587,152
Direct Debt per Capita		\$ 510	
Direct Debt as % of AV			0.46%

<sup>1</sup> Debt and AV measured as of and for the period ended June 30, 2022, respectively

<sup>2</sup> Based on most current US Census Bureau Population Estimate as of July 1, 2021

Largest Employers

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

Employer	Description	Employee Count
Perdue Farms	Poultry Processing	1,485
Bayhealth - Sussex Campus	Healthcare	900
Milford School District	Education	558
Dentsply Sirona	Dental Equipment	525
Walmart Stores	Retail	349
Sea Watch International	Seafood Processing	210
City of Milford	Municipal Government	133
Burriss Logistics	Supply Chain Logistics	110
Kent-Sussex Industries	Vocational Services	85
First State Manufacturing	Industrial Sewing	50

Employee counts based on employer-reported data and City of Milford survey data

# The City of Milford

## Other Supplemental Information Single Audit

For Year Ended June 30, 2022



# Zelenkofske Axlerod LLC

CERTIFIED PUBLIC ACCOUNTANTS

EXPERIENCE | EXPERTISE | ACCOUNTABILITY

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

INDEPENDENT AUDITOR'S REPORT

City Council  
City of Milford, Delaware

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milford (the "City"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 20, 2024.

### Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a material weaknesses.

### Report on Compliance and Other Matters

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



# *Zelenkofske Axlerod LLC*

CERTIFIED PUBLIC ACCOUNTANTS

EXPERIENCE | EXPERTISE | ACCOUNTABILITY

City Council  
City of Milford, Delaware

## **City's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

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

Harrisburg, Pennsylvania  
May 20, 2024

*Zelenkofske Axlerod LLC*

Zelenkofske Axlerod LLC



# *Zelenkofske Axlerod LLC*

**CERTIFIED PUBLIC ACCOUNTANTS**

EXPERIENCE | EXPERTISE | ACCOUNTABILITY

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

### INDEPENDENT AUDITOR'S REPORT

City Council  
City of Milford, Delaware

#### **Report on Compliance for Each Major Federal Program**

##### ***Opinion on Major Federal Program***

We have audited the City of Milford's ("City") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2022. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2022.

##### ***Basis for Opinion on Major Federal Program***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards, and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the City's compliance with compliance requirements referred to above.

##### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

##### **Auditor's Responsibilities for the Audit of Compliance**

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit.



# *Zelenkofske Axerrod LLC*

**CERTIFIED PUBLIC ACCOUNTANTS**

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City Council  
City of Milford, Delaware

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## **Report on Internal Control Over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance.



# *Zelenkofske Axlerod LLC*

**CERTIFIED PUBLIC ACCOUNTANTS**

EXPERIENCE | EXPERTISE | ACCOUNTABILITY

Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

*Zelenkofske Axlerod LLC*

ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania  
May 20, 2024

CITY OF MILFORD, DELAWARE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2022

Federal Grantor/Pass-through Grantor/Program	Federal AL Number	Pass Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
US Department of Agriculture Community Facilities Loans and Grants RUS Grant	10.766	n/a	\$ -	\$ 116,532
US Department of the Treasury American Rescue Plan Act	21.027	n/a	-	2,942,196 *
US Department of Justice Bulletproof Vest Partnership	16.607	n/a	-	3,180
Edward Byrne Memorial Justice Assistance	16.738	n/a	-	29,548
Total US Department of Justice			<u>-</u>	<u>32,728</u>
Total expenditures of federal awards			<u>\$ -</u>	<u>\$ 3,091,456</u>

\*Denotes tested as a Major Program.

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

CITY OF MILFORD, DELAWARE  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 1 – BASIS OF PRESENTATION

The City of Milford, Delaware is the reporting entity for financial reporting purpose as defined in Note 1 to the City’s basic financial statements. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Milford, Delaware under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 – INDIRECT COST RATE

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

NOTE 4 – USDA COMMUNITY FACILITIES LOANS AND GRANTS

The objective of the USDA Community Facilities Program is to provide loans or grant funds for the development of essential community facilities. The City received funds in the form of both loan draws and grants for its ongoing sewer improvements project. Federal expenditures presented in the Schedule were incurred pursuant to grant 10 in the amounts of \$116,532.

NOTE 5 – RISK-BASED AUDIT APPROACH

The 2022 threshold for determining Type A and Type B programs is \$750,000. The following program was audited as major:

<u>ALN</u>	<u>Name of Federal Program or Cluster</u>
21.027	American Rescue Plan Act

The amounts expended under the program audited as a major federal program for the year ended June 30, 2022, totaled \$2,942,196 or 95.2% of total federal awards expended.

CITY OF MILFORD, DELAWARE  
SCHEDULE OF FINDINGS AND QUESTIONS COSTS  
FOR THE YEAR ENDED JUNE 30, 2022

Section I – Summary of Auditor’s Results:

*Financial Statements*

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  yes  no

*Federal Awards*

Internal control over major programs:

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

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

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

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

Identification of major programs:

<u>AL Number(s)</u>	<u>Name of Program or Cluster</u>
21.027	American Rescue Plan Act

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

Auditee qualified as low-risk auditee?  yes  no

CITY OF MILFORD, DELAWARE  
SCHEDULE OF FINDINGS AND QUESTIONS COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2022

Section II – Financial Statement Findings and Questioned Costs

Finding 2022-001      Accounting Records/Financial Statement Close Process

Criteria:                      The accounts of the City should be reconciled to ensure transactions are being presented in the period of benefit and the year-end closing should be performed in a timely manner.

Condition:                    During the audit, it was noted the information in the general ledger did not agree to support documents for several balance sheet accounts, which required material audit adjustments to present financial transactions in the period of benefit. There were several adjusting journal entries that were posted to the general ledger incorrectly. In addition, final closing and the preparation of trial balances were not completed until several months after the City's year-end. The lack of adequate closing procedures creates a condition that may adversely affect the City's ability to initiate, record, and process financial data reliably and could result in a misstatement in the financial statements that will not be prevented or detected.

Cause:                         The finance department experienced staffing issues which resulted in a delay in the closing process. This issue along with the process of training new staff resulted in oversight in the procedures to reconcile and review accounts at year-end.

Effect:                        Internal controls were not operating effectively and the financial records did not reflect the correct financial activity of the period resulting in material misstatements to the financial statements that required adjustments.

Questioned Costs:         No known questioned costs.

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

Management's Response:                      The City is following the recommendation of its independent auditors to review accounting and reporting procedures with all staff to ensure account reconciliation is completed with timeliness and accuracy, which will promote efficient periodic closing and a more timely financial statement production process. The City recently expanded full-time staffing in the Finance Department to enable the department to carry out the process review and implement the required changes.

Section III – Federal Award Findings and Questioned Costs

None noted.

CITY OF MILFORD, DELAWARE  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2022

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

<u>Program</u>	<u>Prior Year Finding</u>	<u>Brief Description of Finding</u>	<u>Current Year Status</u>
Financial Statement	2021-001	Accounting Records/Financial Statement Close Process	Unresolved – See 2022-001



# *Zelenkofske Axlerod LLC*

**CERTIFIED PUBLIC ACCOUNTANTS**

EXPERIENCE | EXPERTISE | ACCOUNTABILITY

May 20, 2024

Honorable Mayor and Members of the City Council  
City of Milford

In planning and performing the audit of the financial statement of the City of Milford (the "City of Milford") as of and for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in the City's internal control to be material weaknesses:

#### Timely and Accurate Financial Reports

During our audit process, we noted obtaining complete and accurate financial statements was problematic, as was also the case for supporting schedules and documents for balances in the general ledger. The financial information for the year-ended June 30, 2022, included errors in certain balance sheet accounts that were the result of ineffective closing processes during the year. In addition, several adjusting journal entries posted throughout the year were incorrect. These errors caused misstatements on both the balance sheet and income statement, and in certain circumstances resulted in audit adjustments.

Because these errors were not detected prior to the information being provided for audit and the same type of errors were noted during the previous year's audit, there is an indication that the closing procedures, specifically the monitoring and review of financial information by management, is not being effectively performed. All of the above factors contributed to the significant delays in the ability to finalize the year-end financial statements.

We strongly recommend that a closing process be implemented that requires all of the balance sheet accounts to be reconciled to supporting statements and subsidiary ledgers. In addition, we strongly recommend that financial reporting functions be allocated across the finance department staff. This allocation of duties will allow for the production of more timely financial information as well as providing a level of secondary review over information in the financial statements to ensure accurate financial reporting.

In addition, during our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated May 20, 2024 on the financial statements of the City. Our comments and recommendations are intended to improve the internal control or result in other operations efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations.

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2370 York Road, Suite A-5, Jamison, PA 18929  
420 Chinquapin Round Road, Suite 2-i, Annapolis, MD 21401  
210 Tollgate Hill Road, Greensburg, PA 15601



# *Zelenkofske Axlerod LLC*

**CERTIFIED PUBLIC ACCOUNTANTS**

EXPERIENCE | EXPERTISE | ACCOUNTABILITY

Our comments are summarized as follows:

#### Chart of Accounts and Fund Structure

We noted the City has a significant number of accounts and funds for an entity of its size. Simplifying the complexity of the structure of the general ledger would increase the finance departments' ability to review financial information efficiently and effectively. It would also allow for the production of complete and accurate financial information on a timelier basis and eliminate the potential for errors due to the manual consolidation required for financial reporting purposes.

#### Capital Assets

During the audit, we noted there was a lack of reconciliation between the detailed capital asset ledger, the general ledger, and the individual categories of capital assets presented in the financial statements. The reconciliation process is further complicated by the fact that there are significant transfers of assets between the funds. In addition, we noted the capitalization of construction in progress is not consistently being applied resulting in projects being depreciated at different points in time. We strongly recommend that management review the detailed capital asset ledger on a periodic basis and reconcile the subsidiary ledger to the general ledger at year-end to ensure the classification of asset categories, additions, reductions, and adjustments are appropriately presented in the financial statements.

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

*Zelenkofske Axlerod LLC*

Zelenkofske Axlerod LLC  
Harrisburg, Pennsylvania

To: Finance and Audit Committee; Mayor & City Council  
From: Louis C. Vitola, Finance Director  
Date: June 10, 2023  
Re: Agreement with FY22 Audit Comments

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City Management and Finance staff are in agreement with the recommendations put forth by the City's independent auditors, Zelenkofske Axelrod, LLC (ZA), in the management letter comments (MLC) prepared in connection with the FY22 Audit.

- Most important among them is the timeliness and accuracy of the financial statements.
  - First, our priority in the finance office now is to get through the FY23 financial statement production and audit processes as quickly and efficiently as possible while using the cumulative advice from ZA in the last two audits to ensure accuracy before submitting the trial balance and supporting schedules. A timeline will be developed and shared once it is available. We believe we have the right combination of staffing, systems, and funding for third-party resources in place to execute the FY23 and FY24 processes and to return to a normal reporting schedule thereafter.
  - Second, we are currently working on adjustments and additions to the closing processes to improve accuracy in the annual financial reporting by (1) working in semi-annual and quarterly components to general ledger reconciliations, (2) expanding the scope of the internal review of general ledger account reconciliation to include audit groupings, and (3) developing a monthly balance sheet to promote transparency and increase the frequency of review of balance sheet accounts.
- Fund and Account Combinations
  - This issue has been addressed and should clear with the FY24 Audit
  - We took advantage of the ERP conversion as we approached FY24 to consolidate the number of funds from 43 to 18, which agrees with the auditors' recommendations. Further, we've reduced the number of accounts from over 5,900 to about 1,400. This likewise agrees with the auditors' recommendations to improve the timeliness and accuracy of financial statement reporting. The general ledger account structure continues to evolve as additional modules are brought on; refinements in the chart are ongoing to further improve internal and external reporting requirements, standardization across reporting units, and interoperability between finance and all integrating modules. We have overcome this issue for the FY24 financial reporting process and going forward, but FY22 and FY23 are being reported out of the legacy system, so this comment may be reflected in the management letter once more with the FY23 audit.
- Capital Asset Reconciliation
  - This issue has been addressed and should clear with the FY23 Audit
  - Capital Assets were well-reconciled in FY21 and FY22. However, it was the nature of the adjusting process that allowed the reconciliation in FY21 to reemerge in FY22. The errors in the balance sheet accounts noted by the auditors refer primarily to errors in the adjustments to the capital asset accounts. This issue was somewhat isolated and will not recur. Improvements were made to the fixed asset reconciliation process in FY22 that will carry to the FY23 reporting process to overcome the issues with asset reporting.

City of Milford  
Ledger Structure

Total Number of Funds	<b>43</b>
Total Number of Accounts	<b>1,506</b>

Governmental Funds		
General Fund	Special Revenue Fund	Nonmajor Funds
101 General Fund	120 ARPA	201 Parks and Recreation
121 Police Fund	122 General Government	343 Building Permit Fire Co. Fee
125 Grasscutting Fund	123 Municipal Street Aid	345 P&R Developer Fees
127 Sidewalk Fees	124 Real Estate Transfer Tax	
130 Police & GF Enhancement		
131 Stormwater Maintenance		
133 Bayhealth Project		
136 Lodging Tax		
137 Can Do Playground		
138 Fullman-Learning to Swim		
139 Economic Development		
140 General Fund Reserves		
341 Flex Benefits		

Government-Wide Accounts
700 CIP Project
800 Pooled Equity
900 General Fixed Assets
931 Stormwater Assets

Proprietary Funds				
Electric	Water	Sewer	Solid Waste	Internal Service
132 Electric Impact Fees	128 Water Impact Fees	126 SE Sewer Pumping Station	204 Solid Waste Fund	221 Garage Interservice
135 Developer Fees	202 Water Fund	129 Sewer Impact Fees	214 Solid Waste Capital Reserves	222 Interservice
205 Electric Fund	212 Water Capital Reserves	203 Sewer Fund		223 Meter Department
215 Electric Capital Reserves		213 Sewer Capital Reserves		224 Billing Department
				225 City Hall Cost Allocation

GOVERNMENTAL  
ACTIVITIES

BUSINESS-TYPE  
ACTIVITIES

Key Terminology:

- Fund: a group of related accounts used to segregate specific sources of funding or spending for a particular purpose
- General Fund: accounts for all resources not reported in another fund. This is the primary fund of a government and presents the results of day-to-day operations.
- Special Revenue Fund: accounts for specific revenue sources that are restricted or committed for expenditure for specific purposes other than debt service or capital projects. The limitations for specific purpose are imposed by external parties (grantors, contributors, or other governments) or by enabling legislation. A limitation on how the funds may be spent is not enough by itself to justify to the use of a special revenue fund.
- Capital Project Fund: used to account for and report resources that are restricted, committed or assigned to expenditures for capital outlay.
- Enterprise Fund: report activity for which a fee is charged to external users for goods or services.
- Internal Service Fund: report activity that provides goods or services to other funds, departments or agencies of the primary government or to other governments on a cost-reimbursement basis.