



The City of Milford, Delaware

Annual Financial Statements

As of and for the Year Ended June 30, 2023

The City of Milford, Delaware

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The City of Milford, Delaware

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TRANSMITTAL LETTER

November 25, 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, 2023.

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 including 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 upon completion of the audit. We expect Zelenkofske Axelrod LLC to issue an unmodified opinion on the City's financial statements for the year ended June 30, 2023. The independent auditor's report will be located at the front of the financial section of this report upon finalization of the audit process.

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 fifth largest city in population in the State of Delaware, serving more than 13,000 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 context of the 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. We especially appreciate the active interest and open support of our continued pursuit of improvements to the transparency, relevance and timeliness of the City's financial planning and reporting processes.

Respectfully submitted,



Mark A. Whitfield
City Manager



Louis C. Vitola
Finance Director



Zelenkofske Axlerod LLC

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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, 2023, 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, 2023, 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 twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt thereafter.

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.

830 Sir Thomas Court, Suite 100, Harrisburg, PA 17109
3800 McKnight East Drive, Suite 3805, Pittsburgh, PA 15237
34745 Burbage Road, Frankford, DE 19945

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



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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. 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, among 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 2023 the City adopted the provisions of Governmental Accounting Standards Board's Statements No. 91 "*Conduit Debt Obligations*", Statement No. 94 "*Public-Private and Public-Public Partnerships and Availability Payment Arrangements*", Statement No. 96 "*Subscription-Based Information Technology Arrangements*", 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, budgetary comparison schedule – 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 16 and pages 60 through 63 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.



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City of Milford, Delaware
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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.

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) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is 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.

Other Information

Management is responsible for the other information included in the report. The other information comprises the transmittal letter and the additional information but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 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
November 25, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

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, 2023. In the broadest context, the financial well-being of a government lies in the underlying means and willingness of its citizens and property owners to fund their pro rata allocation of taxes to support the vision of the government's elected and appointed leadership to deploy tax receipts strategically to ensure the City's tax base, service levels, City assets and the City's desirability will be maintained not just for the current year but well into the future. Financial reporting is limited in its ability to provide this "big picture" but rather focuses on financial position and the net changes in financial position from year to year. In other words, are revenues and expenses higher or lower than the previous year? Has net position (containing both short- and long-term assets and liabilities) or fund balances (the current "spendable" assets less current liabilities) of the City been maintained? We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal (pages i-iii of this report) as well as information contained in the City's annual budget and other community information that can be found by visiting the City's website at www.cityofmilford.com. It should be noted that small differences across different financial statements and tables may differ due to rounding. In addition, the Independent Auditor's Report describes the auditor's association with the various sections of this report and that all additional information from the website and other City sources is unaudited and has not been updated for events that may have occurred following the issuance of the respective report.

IN BRIEF

The assets (and deferred outflows of resources) of the City on a "government-wide" or consolidated basis exceeded its liabilities (and deferred inflows of resources) at the close of the most recent fiscal year by approximately \$115.0 million (net position). This amount, while representing an increase in excess of \$7.4 million (6.9%), must be viewed in the context that a significant portion of the City's net position (\$66.5 million, or almost 57.8%) is invested in capital assets, net of related debt, and that most capital assets procured for governmental purposes do not directly generate revenue nor can they be sold to generate liquid capital. Net position totaling \$16.7 million, or 14.5% of total net position, is restricted for capital improvements. The remaining \$31.6 million represents unrestricted net position that 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. This unrestricted portion of net position decreased by \$4.2 million (11.6%) during fiscal year 2023 (FY23).

As of the close of FY23, the City's governmental activities (a subset of the government-wide information reported in the preceding paragraph) reported \$34.1 million in total net position. Within this total, \$27.2 million (79.5%) is invested in capital assets, net of related debt, and \$7.4 million is restricted by specific legal requirements. This leaves a residual deficit of \$0.5 million in unrestricted net position, which should not be interpreted as budgetary or operational inflexibility in terms of the governmental funds outlook. Rather, it is a function of interfund activity supporting large capital projects under construction at the close of FY23.

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 \$4.0 million (5.2%) increase in net position to \$81.0 million, \$39.5 million (48.8%) of which is invested in capital assets, net of related debt. Another \$9.3 million (11.5%) is restricted by specific legal requirements. The remaining net position of \$32.1 million (39.7%) is unrestricted at fiscal year-end.

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 is presented by City management to introduce the City's basic financial statements, which include four major components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, and 4) required supplementary information, including this MD&A narrative. This report also contains other important information, such as the report on internal controls governing federal grant awards.

Government-Wide Financial Statements – The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. The Statement of Net Position presents information on all of the City's assets (and 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. tax revenue that has yet to be collected, or "compensated absences" – employee time off earned but unused this fiscal year). When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to apply restricted net position first.

The government-wide financial statements distinguish between functions of the City that are principally supported by (1) taxes and intergovernmental revenues (governmental activities) versus (2) functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government and administration, public safety, public works, and culture and recreation. The business-type activities of the City include water, sewer, electric and solid waste operations. The government-wide financial statements can be found on pages 18 and 19 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 internal assignments, approved funding commitments, and legal requirements. All City funds can be divided into two categories – governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Governmental fund balance can be divided into restricted, committed, assigned, and unassigned fund balance categories. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended by fund balance class follows: restricted, followed by committed, assigned, and lastly unassigned. Non-financial “fixed” assets such as governmental buildings, roads, drainage ways, and park land that do not generate revenue or provide liquidity in the short term are excluded from the fund financial statements. Similarly, long-term liabilities such as bonds payable in ten years or pension liabilities with a multi-decade liability table will not be paid with current assets and are therefore excluded from the fund financial statements. Such long-lead future events are not as 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 near-term, current information presented for governmental funds with the similar, but more comprehensive, long-term information presented for the governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City'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 (short-term “fund” statements) and governmental activities (long-term “government-wide” statements). The governmental financial statements can be found on pages 20 and 22 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 management, billing services, shared technical services, public works, 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 classified as 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 24 through 26.

CITY OF MILFORD, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2023 (UNAUDITED)

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 27 through 58.

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

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, 2023, including comparative tools as of June 30, 2022.

MDA Schedule 1

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

	Governmental Activities		Business-Type Activities		Total	
	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>
Current and other assets	\$ 18,325	\$ 10,343	\$ 42,923	\$ 46,637	\$ 61,248	\$ 56,981
Capital assets, net	23,640	30,740	54,424	54,311	78,064	85,050
Total Assets	<u>41,965</u>	<u>41,083</u>	<u>97,347</u>	<u>100,948</u>	<u>139,312</u>	<u>142,031</u>
Deferred outflows of resources	1,432	2,185	266	256	1,698	2,441
Long term liabilities	1,399	3,376	14,729	13,825	16,128	17,201
Other liabilities	5,491	4,847	5,959	6,422	11,450	11,269
Total Liabilities	<u>6,890</u>	<u>8,223</u>	<u>20,688</u>	<u>20,246</u>	<u>27,578</u>	<u>28,469</u>
Deferred inflows of resources	5,726	976	-	-	5,726	976
Net Position						
Net investment in capital assets	18,283	27,178	39,369	39,533	57,652	66,711
Restricted	5,173	7,382	8,683	9,303	13,856	16,685
Unrestricted	7,325	(490)	28,873	32,121	36,198	31,631
Total Net Position	<u>\$ 30,781</u>	<u>\$ 34,069</u>	<u>\$ 76,925</u>	<u>\$ 80,957</u>	<u>\$ 107,706</u>	<u>\$ 115,027</u>

Over time, a government’s net position (especially changes in net position by category) may serve as a useful indicator of the organization’s financial condition. The City of Milford is no different; the \$7.4 million (6.9%) improvement in Milford’s total net position from \$107.7 million as of June 30, 2022 to \$115.1 million as of June 30, 2023 reflects positive financial performance (See MDA Schedule 1). The City’s net position in FY23 was influenced by strong investment in ongoing capital projects, many of which were funded through the application of federal and state grants. US Treasury American Rescue Plan Act (“ARPA”) funding and Delaware Community Reinvestment Fund (“CRF”) grants collected before and during FY23 were consumed in the pursuit of investments in the City’s parks & recreation system, utility infrastructure, and capital equipment. Net position increased in total and within the governmental and business-type activities alike. However, the consumption of current resources in favor of investment in fixed assets contributed to an overall reduction in unrestricted net position. Though the change in the composition of the City’s net position infers reduced flexibility in the short term, the reality is that unrestricted net position grew across all enterprise funds and internal service funds during FY23. Further, the

decrease in unrestricted funds across governmental activities (general funds) is neither a function of eroding assets – liquid or otherwise – nor a function of expanding liabilities. Rather, it is an effort by the City's elected officials and administrative leadership to ensure that existing funding remains available into the future for critical operations, capacity-driven capital improvements, and citizen-demanded facilities. By committing funding to traffic improvements, bike and walking trails, parkland and recreation, public safety initiatives like modern facilities and assigned vehicles, and even operational funding assignments, Milford is outwardly demonstrating its ongoing commitment to the community's wants and needs as manifested through professional, periodic citizen survey updates and strategic planning. In total, governmental net position increased in FY23 – and the shift in its composition away from unrestricted net position is evidence of the City's continued support for initiatives that have come to fruition in the form of new amenities, facilities and infrastructure – not an indication of financial inflexibility.

The largest portion of the City's net position, \$66.7 million (57.8%) 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.

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 \$16.7 million (14.5%) 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 capital assets. The remaining balance of unrestricted net position may be used to meet the City's ongoing obligations to citizens, employees and creditors.

MDA Schedule 2 on the opposite page summarizes the City's operating results for the fiscal years ended June 30, 2023 and 2022. Total net position increased by \$7.4 million (6.9%) during fiscal year 2023, which compares well to the City's 10-year compound annual growth rate of 6.2% in total net position. This year's improvement ranks the second and third highest in terms of absolute and percentage growth, respectively, in the last ten years. Milford's FY23 financial performance is the latest example of the City's ability to recognize and respond to economic and operational challenges to maintain strong, consistent results year after year. The overall increase in net position consists of a \$3.4 million (11%) jump in governmental net position and a \$4 million (5.2%) increase in net position across business-type activities. The governmental funds benefited from a combination of operating and capital grant revenue, which is made up of a diverse grant funding mix that is neither a sustainable certainty nor a significant risk of erosion or volatility. Property tax revenue increased on a mix of AV growth and the incremental annual rate increase of \$0.01 per \$100 of AV. The improvement in business-type activities is attributable to utility revenue growth through a combination of organic growth in volume and 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.

CITY OF MILFORD, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2023 (UNAUDITED)

The following table ("MDA Schedule 2") provides a summary of the City's operations for the fiscal years ended June 30, 2023 and 2022.

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

	Governmental Activities		Business-Type Activities		Total	
	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>
Revenues						
Program Revenues:						
Fees, fines and charges for services	\$ 157	\$ 103	\$ 35,651	\$ 38,433	\$ 35,808	\$ 38,536
Operating grants and contributions	4,169	3,570	-	-	4,169	3,570
Capital grant	-	1,089	53	-	53	1,089
General Revenues:						
Property taxes	4,750	5,020	-	-	4,750	5,020
Real estate transfer taxes	1,413	1,295	-	-	1,413	1,295
Franchise taxes	1,160	1,852	-	-	1,160	1,852
Impact fees	-	-	362	693	362	693
Gain on sale of property	410	135	-	-	410	135
Investment earnings	54	292	50	758	104	1,050
Miscellaneous	416	250	(341)	(49)	75	201
Total revenues	<u>\$ 12,528</u>	<u>\$ 13,606</u>	<u>\$ 35,775</u>	<u>\$ 39,835</u>	<u>\$ 48,304</u>	<u>\$ 53,441</u>
Expenses						
General government	1,860	3,073	-	-	1,860	3,073
Public safety	6,411	6,291	-	-	6,411	6,291
Public works	1,001	1,124	-	-	1,001	1,124
Culture and recreation	1,760	1,325	-	-	1,760	1,325
Interest on long-term debt	-	-	325	298	325	298
Electric	-	-	22,854	25,678	22,854	25,678
Water	-	-	2,525	2,305	2,525	2,305
Sewer	-	-	4,601	4,451	4,601	4,451
Trash	-	-	1,392	1,576	1,392	1,576
Total expenses	<u>\$ 11,032</u>	<u>\$ 11,813</u>	<u>\$ 31,697</u>	<u>\$ 34,308</u>	<u>\$ 42,729</u>	<u>\$ 46,121</u>
Increase (decrease) in net assets before transfers and special items	1,496	1,793	4,078	5,528	5,574	7,320
Transfers	1,307	1,495	(1,307)	(1,495)	-	-
Change in net position	2,803	3,288	2,771	4,032	5,574	7,321
Net position, July 1	27,978	30,781	74,154	76,925	102,132	107,706
Net position, June 30	<u>\$ 30,781</u>	<u>\$ 34,070</u>	<u>\$ 76,925</u>	<u>\$ 80,957</u>	<u>\$ 107,706</u>	<u>\$ 115,027</u>

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 8.6% 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 FY23 must be couched with the reality that the increases were driven in part by operating and capital grants, investment earnings, and franchise fees, 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

CITY OF MILFORD, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2023 (UNAUDITED)

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 FY23 by \$0.3 million (5.7%). The 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 new development in Milford. The City increased the property tax rate from \$0.48275 to \$0.49275 per \$100 of AV effective for the FY23 property tax levy, continuing an important step in a series of strategic efforts aimed at improving structural balance and revenue diversity. Other efforts include additional increases in the property tax rate of \$0.01 per \$100 of AV effective in fiscal years 2024 and 2025 as approved by City Council, diversion of nonrecurring and less reliable revenue sources from the operating budget to capital reserves, investments in tax base growth, and intergovernmental coordination to reduce duplicative services. Management expects these initiatives coupled with property tax revenue growth will further stabilize revenue in the event we face volatility in other revenue sources.

Governmental expenditures increased by \$0.7 million (6.1%) in FY23, representing the second consecutive year of inflationary cost pressure. The increase was mixed; recreation and public safety expenditures decreased by a combined \$0.5 million but were more than offset by general governmental and public works expense increases exceeding \$1.1 million to drive the net increase versus fiscal year 2022 (FY22). The general governmental cost areas most responsible for the increase over FY22 include salary and benefits lines, in part due to wage inflation and in part due to increased staff retention, the latter of which is viewed as a positive result based on Milford's strategic retention efforts in the face of the former, which was one symptom among several labor challenges experienced throughout the national economy. Further, part of the personnel cost increase was attributable to the non-cash pension expense reported in the government-wide financial statements resulting from the City's participation in the State of Delaware pension plans; last year's pension credit exacerbated this year's negative variance.

Business-Type Activities – Net position from business-type activities increased by \$4.0 million, or 5.2% from \$77 million to \$81 million during fiscal year 2023 (See MDA Schedule 2). For the third year in a row, all four major utilities contributed to the positive change in net position across business activities, with the water fund's \$2.9 million (11%) increase in net position pacing the sewer and electric funds' increases of \$0.9 million (5.4%) and \$0.1 million (0.4%), respectively, followed by the solid waste fund's increase of \$0.04 million (3%). The positive changes started with top-line revenue as all four utilities posted revenue increases over FY22. 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, the utilities controlled operating expenses extremely well, posting a year-over-year increase of just \$0.2 million, or 0.7% across all four utility funds after adjusting for the \$2.4 million year-over-year increase in wholesale power costs. The proprietary funds do not report on gross margin, but the wholesale power cost represents the City's electric fund "cost of services provided" and is instead reported as contractual services within operating expenses. Wholesale power costs were driven higher in FY23 by increased demand across global markets for natural gas (and in turn, power) as well as regulatory costs arising out of regulators' conflicting goals of coal plant retirement and grid reliability. The City

CITY OF MILFORD, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2023 (UNAUDITED)

overcame the spikes in power costs through automatic purchased power cost adjustments (PPCAs) designed to pass unexpected changes in the wholesale costs of power through the existing rate structure across all rate classes, thereby mitigating the potential for market fluctuations that would otherwise negatively impact electric revenue, margin and rate requirements. Aside from personnel and contractual cost increases in the solid waste fund and incremental / inflationary operating cost increases in the electric fund, operating costs in the utility funds were reduced from FY22, particularly in the water and sewer funds, which saw 9% and 3% decreases in operating expenses, respectively, versus FY22. Once again, all four utilities, including the solid waste fund, generated positive income before transfers and positive changes in net position during FY23.

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. Last year, the City completed an initiative started in fiscal year 2021 to reallocate investment balances to more heavily weight money market funds in response to changes in the market to capture additional yield without being exposed to incremental interest rate risk. By the end of FY22, 100% of the City's investable cash was consolidated into money market funds, which were combined with bank deposits and reported as cash and cash equivalents. That interest rate environment prevailed throughout FY23, promoting the consistent reporting from FY22 into FY23. Additional information about the City's cash and investments can be found in Note 7 on page 39. In response to changing market conditions early in FY24, the City procured investment advisory services through PFM Asset Management to implement the City's investment program pursuant to its investment policy statement.

CITY OF MILFORD, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2023 (UNAUDITED)

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 2023, the City's combined governmental funds reported ending balances of \$4.8 million (See Governmental Funds Balance Sheet on page 20). Within this total, \$7.4 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 funding advanced through the American Rescue Plan Act of 2021 ("ARPA") and (b) street improvement funding advanced through the Realty Transfer Tax (RTT) and Municipal Street Aid (MSA) funds. Another \$0.1 million representing prepaid expenses is classified as "nonspendable", leaving the residual deficit of \$2.6 million in unassigned fund balance in the general fund. The unassigned deficit balance is a function of the narrowed scope of the fund financial statements, which feature a critically important caveat unique to the FY23 statements. That is, interfund receivables and payables – regardless of the stated term – are reported on the fund financial statements. Therefore, the \$7.5 million in long-term interfund commitments are reported in the current liabilities of the governmental fund financial statements, while the corresponding \$7.5 million in assets constructed using the interfund balances are not reported in the fund financial statements, causing an artificial deficit in the general fund section of the governmental funds balance sheet. The treatment is partially mitigated by the same treatment of the special revenue fund receivable in the current asset section of the general fund balance sheet. This phenomenon is captured in the MDA Schedule 2A, which restates excerpts from the Governmental Funds Balance Sheet excluding the \$7.5 million in long-term interfund activity. Figures italicized in bold exhibit the changes, for illustration and discussion purposes only, as compared to the audited Governmental Funds Balance Sheet:

MDA Schedule 2A

CITY OF MILFORD, DE - BALANCE SHEET - AS OF JUNE 30, 2023
GOVERNMENTAL FUNDS AS ADJUSTED, UNAUDITED

	General Fund	Special Revenue Fund	Non-Major Governmental Fund	Total Governmental Funds
ASSETS				
Total Assets, as stated	\$ 7,159,900	\$ 9,715,623	\$ 899,399	\$ 17,774,922
Exclude long-term interfund receivables	-	<i>(5,000,000)</i>	-	<i>(5,000,000)</i>
Total Assets, as adjusted	<i>\$ 7,159,900</i>	<i>\$ 4,715,623</i>	<i>\$ 899,399</i>	<i>\$ 12,774,922</i>
LIABILITIES AND FUND BALANCES				
Total Liabilities, as stated	10,028,497	2,464,903	6,613	12,500,013
Exclude long-term interfund payables	<i>(7,500,000)</i>	-	-	<i>(7,500,000)</i>
Total Liabilities, as adjusted	<i>\$ 2,528,497</i>	<i>\$ 2,464,903</i>	<i>\$ 6,613</i>	<i>\$ 5,000,013</i>
DEFERRED INFLOWS OF RESOURCES	449,075	-	-	449,075
Fund Balances, as adjusted:				
<i>Nonspendable</i>	<i>50,702</i>	-	-	<i>50,702</i>
<i>Restricted</i>	<i>436,060</i>	<i>2,250,720</i>	892,786	<i>3,579,566</i>
<i>Unassigned</i>	<i>3,695,566</i>	-	-	<i>3,695,566</i>
Total Fund Balances, as adjusted:	<i>4,182,328</i>	<i>2,250,720</i>	892,786	<i>7,325,834</i>
Total Liabilities and Fund Balances	<i>\$ 7,159,900</i>	<i>\$ 4,715,623</i>	<i>\$ 899,399</i>	<i>\$ 12,774,922</i>
Total Fund Balances, as stated	(3,317,672)	7,250,720	892,786	4,825,834
Difference, Total Fund Balance, adjusted	<i>7,500,000</i>	<i>(5,000,000)</i>	-	<i>2,500,000</i>

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 24-26). Unrestricted net position in the enterprise funds totaled \$32.1 million, made up of the electric fund (\$20.2 million), water fund (\$4.9 million), sewer fund (\$6.5 million) and solid waste fund (\$0.5 million). The total net position across all enterprise funds at the end of the fiscal year was \$81.0 million, representing an increase of \$4.0 million versus FY22. The increases in net position in the electric, water, sewer, and solid waste funds of \$0.1 million, \$2.9 million, \$1.0 million, and \$0.04 million, respectively, versus the prior period resulted primarily from stable top-line revenue growth while utility operations teams contained expense growth through budget austerity measures and cost controls.

General Fund Budgetary Highlights – The City's operational budget contemplated a deficit of \$8.2 million before principal debt service, capital outlay and other financing sources on \$6.5 million in revenue and \$14.6 million in operating expenditures. Actual results on a budgetary basis were \$7.6 million in revenue and \$11.0 million in operating expenditures, which represented a positive budget variance of \$1.1 million and \$3.7 million, respectively. Aside from franchise and lease revenue, all revenue lines exceeded anticipated revenue, most notably the licenses and permits, taxes, investment income and miscellaneous revenue. Including principal debt service, capital outlay and other financing sources, the City's comprehensive general fund budget expected a fund balance decrease in the current year of \$7.5 million prior to the use of cash and reserves. The actual decrease in fund balance was \$8.8 million, driven primarily by lower-than-expected capital outlays and the Council-approved swap in external financing sources (the bond anticipation note, or "BAN") for internal funding sources (the interfund transfers, which resulted in a principal prepayment on the BAN). Actual general fund expenditures were significantly below total budgeted expenses due to cost control measures and project timing. During the FY23, City Council made revisions to the original appropriations approved by the Council prior to the start of the fiscal year. Overall, these changes resulted in an increase in budgeted operating expenditures of \$1.8 million, net of offsetting increases in anticipated revenues. The changes were primarily driven by grant-funded projects and related expenditures in general administration or public safety that are included in budget controls when grant revenue is anticipated and grant-funded expenditures are incurred through the ordinary requisition, purchase order and accounts payable processes.

DEBT ADMINISTRATION

As of June 30, 2023, the City's bonded indebtedness and outstanding note obligations (See MDA Schedule 3) totaled \$16.2 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 Fiscal Year End
Bonds and Notes Payable**

	Government Activities		Business-Type Activities		Total	
	2022	2023	2022	2023	2022	2023
General Obligation Bonds	\$ 41	\$ 1,669	\$ 6,260	\$ 5,825	\$ 6,301	\$ 7,494
DE Revolving Fund Loans	-	-	2,426	2,210	2,426	2,210
USDA Loans	-	-	5,543	5,410	5,543	5,410
Kent County Note	-	-	1,070	1,042	1,070	1,042
Total	\$ 41	\$ 1,669	\$ 15,300	\$ 14,487	\$ 15,341	\$ 16,156

During fiscal year 2023, the City's outstanding debt increased by \$0.82 million as a result of scheduled payments of debt obligations totaling \$0.81 million and additional bond anticipation note (BAN) \$1.63 million 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 9 on pages 43 to 47 of this report.

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2023 amounts to \$85.1 million (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements, and infrastructure assets. The total increase in the City's investment in capital assets, net of accumulated depreciation, for the current fiscal year was \$11.6 million for governmental activities, representing an increase of 16.0% versus fiscal year 2022. The business-type activities had an increase in capital assets net of accumulated depreciation of \$2.9. Additional information on the City's capital assets can be found in Note 8 on pages 40 to 42 of this report.

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Major capital asset purchases and projects completed or in process during fiscal year 2023 included the following:

General Fund

- \$10.1 million toward the construction of the City's new Police Headquarters Facility
- \$ 1.2 million in building and street improvements, technology, vehicles and equipment
- \$ 1.1 million in additions to parkland and open space improvements

Electric Fund

- \$ 0.2 million for physical security and data security upgrades
- \$ 0.2 million for traffic light improvements and LED streetlight upgrades
- \$ 0.2 million for electric vehicle (EV) charging stations, machinery & equipment

Water Fund

- \$ 0.6 million in ongoing water line upgrades and system improvement projects
- \$ 0.4 million in engineering and design costs related to the Milford Corporate Center
- \$ 0.1 million in other water system infrastructure
- \$ 0.1 million in equipment and data security upgrades

Sewer Fund

- \$ 0.2 million in improvements to sewer mains, laterals and other infrastructure
- \$ 0.1 million for sewer line camera with video inspection equipment
- \$ 0.1 million in equipment and data security upgrades

Internal Service Funds

- \$ 0.1 million in building improvements & equipment

ECONOMIC FACTORS AND FUTURE BUDGETS

The fiscal year 2024 and 2025 O&M budgets for general fund activity are 4.8% lower and 8.0% higher, respectively, than fiscal year 2023. Excluding the impact of the first full year of debt service on the Police Headquarters Facility project, the FY25 budget is only 3.6% higher than the FY23 operating budget. The balance between cost control and the delivery of broad services demanded by Milford residents was struck well during the 2024 and 2025 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 full staffing levels added pressure to the operating budget. Most recently, health insurance premium growth further fueled personnel cost increases in the FY25 budget. The higher general fund costs will be offset with economic development initiatives, organic growth in the City's tax base, years three and four 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 enhancements to utility transfers to the general fund. In addition, a greater mix of governmental capital expenditures are expected to be funded through grants and existing reserves. 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 RECENT 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 and FY23 audit processes. Internal staffing rebounded during FY22, while additional staff and resources were allocated in FY23, putting the department in position to return to the City's normal reporting cycle beginning with FY24. The City's FY24 and FY25 budgets include provisions to maintain staffing and contractual services levels to augment financial reporting and audit requirements. The City's financial and operating results remained strong throughout the last several fiscal years, as increases in revenue outpaced well-managed costs in an inflationary environment to improve the City's balance sheet for at least the eleventh consecutive year. The City's financial position remained healthy throughout FY24 and into FY25. 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.

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BASIC FINANCIAL STATEMENTS

CITY OF MILFORD, DE
STATEMENT OF NET POSITION
JUNE 30, 2023

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and Equivalents	\$ 10,295,572	\$ 28,964,735	\$ 39,260,307
Restricted Cash	1,426,220	9,303,453	10,729,673
Tax & Utility Receivables, net of allowances	241,175	3,049,871	3,291,046
Leases Receivable	449,075	-	449,075
Other Receivables	576,907	125,940	702,847
Internal Balances, net	(3,054,926)	3,054,926	-
Inventories	42,525	2,138,407	2,180,932
Prepaid Expenses	50,702	-	50,702
Total Current Assets	<u>10,027,250</u>	<u>46,637,333</u>	<u>56,664,582</u>
Non-Current Assets			
Capital Assets			
Assets Not Depreciated or Amortized			
Land	8,577,885	8,961,039	17,538,924
Construction in Process	12,279,717	703,628	12,983,345
Right-to-Use Software in Progress	902,775	-	902,775
Utility System & Infrastructure	11,282,401	71,000,445	82,282,846
Buildings and Improvements	5,663,852	7,348,799	13,012,651
Equipment and Vehicles	7,970,399	10,369,262	18,339,661
Lease Assets	89,725	-	89,725
Right-to-Use Software	129,041	-	129,041
Less: Accumulated Depreciation & Amortization	<u>(16,156,202)</u>	<u>(44,072,567)</u>	<u>(60,228,769)</u>
Net Capital Assets	30,739,593	54,310,606	85,050,199
Net Pension Asset	<u>316,194</u>	<u>-</u>	<u>316,194</u>
Total Assets	<u>41,083,037</u>	<u>100,947,939</u>	<u>142,030,975</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	2,185,143	-	2,185,143
Deferred Loss on Refunding	-	255,667	255,667
Total Deferred Outflows of Resources	<u>2,185,143</u>	<u>255,667</u>	<u>2,440,810</u>
LIABILITIES			
Current Liabilities			
Accounts Payable and Accrued Expenses	2,163,790	4,776,304	6,940,094
Customer Deposits	179,158	801,890	981,048
Unearned Revenue	2,199,781	-	2,199,781
SBITA Payable	157,830	-	157,830
Leases Payable	19,683	-	19,683
Bonds and Notes Payable	-	821,362	821,362
Compensated Absences	126,732	22,011	148,743
Total Current Liabilities	<u>4,846,974</u>	<u>6,421,567</u>	<u>11,268,541</u>
Noncurrent Liabilities			
SBITA Payable	465,495	-	465,495
Leases Payable	44,290	-	44,290
Bonds and Notes Payable	1,669,226	13,687,685	15,356,911
Compensated Absences	<u>1,197,036</u>	<u>137,203</u>	<u>1,334,239</u>
Total Noncurrent Liabilities	<u>3,376,047</u>	<u>13,824,888</u>	<u>17,200,935</u>
Total Liabilities	8,223,021	20,246,455	28,469,476
DEFERRED INFLOWS OF RESOURCES			
Pensions	526,623	-	526,623
Leases	449,075	-	449,075
Total Deferred Inflows of Resources	<u>975,698</u>	<u>-</u>	<u>975,698</u>
NET POSITION			
Net Investment in Capital Assets	27,178,152	39,532,882	66,711,034
Restricted for Capital Improvements:	7,381,572	9,303,453	16,685,025
Unrestricted:			
Assigned by City Council	-	6,366,919	6,366,919
Unassigned	<u>(490,263)</u>	<u>25,753,896</u>	<u>25,263,633</u>
Total Net Position	<u>\$ 34,069,461</u>	<u>\$ 80,957,150</u>	<u>\$ 115,026,611</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, 2023**

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental Activities							
General Government	\$ 3,073,111	\$ 20,880	\$ 82,500	\$ -	\$ (2,969,731)		\$ (2,969,731)
Public Safety	6,290,591	-	1,071,173	199,092	(5,020,326)		(5,020,326)
Public Works	1,124,093	-	2,329,430	881,149	2,086,486		2,086,486
Culture and Recreation	1,325,282	82,139	86,543	8,400	(1,148,200)		(1,148,200)
Total Governmental Activities	11,813,077	103,019	3,569,646	1,088,641	(7,051,771)		(7,051,771)
Business-Type Activities							
Electric Fund	25,775,055	28,120,115	-	-		2,345,060	2,345,060
Water Fund	2,407,703	3,491,998	-	-		1,084,295	1,084,295
Sewer Fund	4,549,080	5,181,252	-	-		632,172	632,172
Solid Waste Fund	1,575,740	1,639,794	-	-		64,054	64,054
Total Business-Type Activities	34,307,578	38,433,159	-	-		4,125,581	4,125,581
Total Primary Government	\$ 46,120,655	\$ 38,536,178	\$ 3,569,646	\$ 1,088,641	(7,051,771)	4,125,581	(2,926,190)
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes					5,020,216	-	5,020,216
Real Estate Transfer Taxes					1,295,111	-	1,295,111
Franchise Taxes & Fees					1,851,679	-	1,851,679
Gain on Disposal of Capital Assets					135,208	-	135,208
Impact Fees					-	693,087	693,087
Unrestricted Investment Earnings					292,116	758,183	1,050,299
Miscellaneous					250,315	(49,394)	200,921
Transfers					1,495,238	(1,495,238)	-
Total General Revenues, Special Items, and Transfers					10,339,883	(93,362)	10,246,521
Change in Net Position					3,288,112	4,032,219	7,320,331
Net Position- Beginning of Year					30,781,349	76,924,931	107,706,280
Net Position - End of Year					\$ 34,069,461	\$ 80,957,150	\$ 115,026,611

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

**CITY OF MILFORD, DE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2023**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Non-Major Governmental Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and Cash Equivalents	\$ 5,661,216	\$ 3,271,451	\$ 899,399	\$ 9,832,066
Restricted Cash	436,060	990,160	-	1,426,220
Taxes Receivable, net of allowance for doubtful accounts	88,550	152,625	-	241,175
Lease Receivable	449,075	-	-	449,075
Other Receivables	256,062	301,387	-	557,449
Due From Other Funds	218,235	5,000,000	-	5,218,235
Prepaid Expenses	50,702	-	-	50,702
Total Assets	<u>\$ 7,159,900</u>	<u>\$ 9,715,623</u>	<u>\$ 899,399</u>	<u>\$ 17,774,922</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 1,345,509	\$ -	\$ 1,429	\$ 1,346,938
Salaries and Wages Payable	279,945	356	-	280,301
Unearned Revenue	13,469	2,186,312	-	2,199,781
Due to Other Funds	7,994,926	278,235	-	8,273,161
Other Payables	394,648	-	5,184	399,832
Total Liabilities	<u>10,028,497</u>	<u>2,464,903</u>	<u>6,613</u>	<u>12,500,013</u>
DEFERRED INFLOWS OF RESOURCES	449,075	-	-	449,075
Fund Balances:				
Nonspendable	50,702	-	-	50,702
Restricted	-	6,488,786	892,786	7,381,572
Unassigned	(3,368,374)	761,934	-	(2,606,440)
Total Fund Balances	<u>(3,317,672)</u>	<u>7,250,720</u>	<u>892,786</u>	<u>4,825,834</u>
Total Liabilities and Fund Balances	<u>\$ 7,159,900</u>	<u>\$ 9,715,623</u>	<u>\$ 899,399</u>	<u>\$ 17,774,922</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, 2023**

Total Fund Balance, Governmental Funds	\$	4,825,834
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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.		30,604,619
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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.		203,061
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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.

Compensated absences		(1,182,243)
Deferred financing inflows - retirement		(526,623)
Deferred financing outflows - retirement		2,185,143
Net Pension Asset		316,194
Bond Payable		(1,669,226)
Lease Liability		(63,973)
SBITA liability		(623,325)

Net Position of Governmental Activities	\$	34,069,461
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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, 2023

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Non-Major Governmental Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Property Taxes	\$ 5,020,216	\$ -	\$ -	\$ 5,020,216
Real Estate Transfer Taxes	-	1,295,111	-	1,295,111
Fees and Fines	177,804	13,450	-	191,254
Licenses and Permits	1,242,042	-	207,492	1,449,534
Franchise and Lease Revenue	418,383	-	-	418,383
Intergovernmental	405,002	4,045,793	-	4,450,795
Charges for Services	20,880	-	82,139	103,019
Investment Earnings	112,904	179,212	-	292,116
Miscellaneous	211,320	38,995	-	250,315
	<u>7,608,551</u>	<u>5,572,561</u>	<u>289,631</u>	<u>13,470,743</u>
EXPENDITURES				
Current:				
General Government	2,384,966	-	55,000	2,439,966
Public Safety	6,154,327	136,264	-	6,290,591
Public Works	1,122,875	1,218	-	1,124,093
Culture and Recreation	1,266,743	-	58,539	1,325,282
Debt Service:				
Principal	7,125,395	-	-	7,125,395
Interest	47,545	-	-	47,545
Capital Outlay	12,627,105	8,230	-	12,635,335
	<u>30,728,956</u>	<u>145,712</u>	<u>113,539</u>	<u>30,988,207</u>
(Deficiency) Excess of Revenues Over Expenditures	<u>(23,120,405)</u>	<u>5,426,849</u>	<u>176,092</u>	<u>(17,517,464)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	5,528,655	-	-	5,528,655
Transfers Out	(339,071)	(4,045,781)	-	(4,384,852)
Bond Anticipation Note	8,627,781	-	-	8,627,781
SBITA and Lease Proceeds	202,051	-	-	202,051
Proceeds from Asset Sales	278,648	-	-	278,648
	<u>14,298,064</u>	<u>(4,045,781)</u>	<u>-</u>	<u>10,252,283</u>
Net Change in Fund Balances	(8,822,341)	1,381,068	176,092	(7,265,181)
Fund Balances - Beginning	<u>5,504,669</u>	<u>5,869,652</u>	<u>716,694</u>	<u>12,091,015</u>
Fund Balances - Ending	<u>\$ (3,317,672)</u>	<u>\$ 7,250,720</u>	<u>\$ 892,786</u>	<u>\$ 4,825,834</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, 2023

Net change in fund balances - total governmental funds: \$ (7,265,181)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences expense	(184,527)
Pension expense	405,035
Change in contingent liabilities	203,516

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

50,034

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. Repayment consumes current financial resources of governmental funds.

Bond Proceeds	(8,627,781)
Bond Principal Payments	7,000,000
Lease and SBITA Proceeds	(202,051)
Lease and SBITA Principal	125,395

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 \$12,844,359 exceeded depreciation/amortization expense of \$917,245 in the current period.

11,927,112

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.

(143,440)

Change in net position of governmental activities

\$ 3,288,112

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

**CITY OF MILFORD, DE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2023**

	Business Type Activities - Enterprise Funds					<i>Governmental Activities - Internal Service Fund</i>
	Electric	Water	Sewer	Solid Waste	Total	
ASSETS						
Current Assets						
Cash and Cash Equivalents	\$17,180,662	\$ 4,777,412	\$ 6,632,315	\$ 374,346	\$ 28,964,735	\$ 463,506
Restricted Cash	1,210,498	5,156,169	2,936,759	27	9,303,453	-
Accounts Receivable, net of allowance for doubtful accounts	2,213,075	291,341	441,380	104,075	3,049,871	14,608
Due from Other Funds	3,054,926	-	-	-	3,054,926	-
Other Receivables	7,477	-	-	118,463	125,940	4,850
Inventories	2,132,119	6,288	-	-	2,138,407	42,525
Total Current Assets	25,798,757	10,231,210	10,010,454	596,911	46,637,332	525,489
Non-Current Assets						
Capital Assets						
Land and Improvements	2,460,507	6,471,894	28,638	-	8,961,039	-
Construction in Process	268,257	435,371	-	-	703,628	-
Utility System	20,559,591	26,839,447	23,601,407	-	71,000,445	-
Buildings and Improvements	7,056,015	123,078	164,056	5,650	7,348,799	58,466
Vehicles and Equipment	4,653,917	1,997,904	1,883,158	1,834,283	10,369,262	269,480
Less Accumulated Depreciation	(20,743,032)	(10,695,155)	(11,720,096)	(914,284)	(44,072,567)	(192,972)
Net Capital Assets	14,255,255	25,172,539	13,957,163	925,649	54,310,606	134,974
Total Non-Current Assets	14,255,255	25,172,539	13,957,163	925,649	54,310,606	134,974
Total Assets	40,054,012	35,403,749	23,967,617	1,522,560	100,947,938	660,463
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Charges On Refundings	145,364	-	110,303	-	255,667	-
LIABILITIES						
Current Liabilities:						
Accounts Payable	1,815,776	551,053	259,930	46,646	2,673,405	66,081
Salaries and Wages Payable	42,535	13,287	13,219	11,751	80,792	70,638
Other Accrued Expenses	1,736,557	-	285,550	-	2,022,107	-
Customer and Other Deposits	741,390	-	-	60,500	801,890	179,158
Compensated Absences	11,606	3,843	3,843	2,719	22,011	22,378
Bonds and Notes Payable	240,000	265,020	316,342	-	821,362	-
Total Current Liabilities	4,587,864	833,203	878,884	121,616	6,421,567	338,255
Non-Current Liabilities:						
Compensated Absences	82,562	26,094	26,094	2,453	137,203	119,147
Bonds and Notes Payable	3,599,331	5,414,908	4,673,446	-	13,687,685	-
Total Non-Current Liabilities	3,681,893	5,441,002	4,699,540	2,453	13,824,888	119,147
Total Liabilities	8,269,757	6,274,205	5,578,424	124,069	20,246,455	457,402
NET POSITION						
Net Investment in Capital Assets	10,553,617	19,027,389	9,027,272	924,604	39,532,882	134,974
Restricted for Capital Improvements	1,210,498	5,156,169	2,936,759	27	9,303,453	-
Unrestricted:						
Assigned by City Council	5,552,857	495,140	234,084	84,838	6,366,919	-
Unassigned	14,612,647	4,450,846	6,301,381	389,022	25,753,896	68,087
Total Net Position	\$ 31,929,619	\$ 29,129,544	\$ 18,499,496	\$ 1,398,491	\$ 80,957,150	\$ 203,061

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, 2023

	Business Type Activities - Enterprise Funds					<i>Governmental Activities -Internal Service Fund</i>
	Electric	Water	Sewer	Solid Waste	Total	
REVENUES						
Charges for Services	\$ 27,620,356	\$ 3,426,826	\$ 5,173,043	\$ 1,551,828	\$ 37,772,053	\$ 3,141,776
Miscellaneous	499,759	65,172	8,209	87,966	661,106	-
Total Operating Revenues	28,120,115	3,491,998	5,181,252	1,639,794	38,433,159	3,141,776
OPERATING EXPENSES						
Personnel Services	2,769,054	346,481	338,327	323,082	3,776,944	1,956,382
Contractual Services	20,237,546	35,240	2,513,477	387,444	23,173,707	257,324
Utilities	7,046	229,113	986	484	237,629	42,619
Repairs and Maintenance	571,478	124,426	20,553	191,072	907,529	551,252
Other Supplies and Expenses	665,053	912,894	889,218	525,402	2,992,567	309,644
Insurance Claims and Expenses	135,420	29,408	13,865	13,552	192,245	9,741
Bad Debt Expense	36,443	1,318	156	5,770	43,687	-
Depreciation	1,255,595	625,841	674,634	128,934	2,685,004	29,448
Total Operating Expenses	25,677,635	2,304,722	4,451,216	1,575,740	34,009,313	3,156,410
Operating Income (Loss)	2,442,480	1,187,276	730,036	64,054	4,423,847	(14,634)
NON-OPERATING REVENUES (EXPENSES)						
Interest and Investment Revenue	390,508	220,577	135,958	11,140	758,183	-
Impact Fees	110,250	382,477	200,360	-	693,087	-
Capital Grant	-	-	-	-	-	-
Miscellaneous	(54,811)	4,417	-	1,000	(49,394)	3,733
Interest Expense	(97,420)	(102,981)	(97,864)	-	(298,265)	-
Total Non-Operating Revenues (Expenses)	348,527	504,490	238,454	12,140	1,103,611	3,733
Income Before Transfers	2,791,007	1,691,766	968,490	76,194	5,527,457	(10,901)
Transfers In	-	1,600,673	53,492	-	1,654,165	60,935
Transfers Out	(2,651,709)	(383,465)	(78,215)	(36,014)	(3,149,403)	-
Change in Net Position	139,298	2,908,974	943,767	40,180	4,032,219	50,034
Net Position - Beginning of Year	31,790,321	26,220,570	17,555,729	1,358,311	76,924,931	153,027
Net Position - End of Year	\$ 31,929,619	\$ 29,129,544	\$ 18,499,496	\$ 1,398,491	\$ 80,957,150	\$ 203,061

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, 2023

	ENTERPRISE FUNDS					<i>Governmental Activities - Internal Service Fund</i>
	Electric	Water	Sewer	Solid Waste	Total	
Cash Flows from Operations:						
Receipts from Customers	\$ 27,633,375	\$ 3,421,368	\$ 5,185,403	\$ 1,553,998	\$ 37,794,144	\$ 3,222,470
Other Operating Receipts	(1,943,948)	131,931	830,961	(19,503)	(1,000,559)	(4,850)
Payments to Suppliers	(20,859,303)	(2,283,783)	(3,324,294)	(1,099,652)	(27,567,032)	(1,185,449)
Payments to Employees	(2,842,942)	(364,537)	(356,273)	(315,474)	(3,879,226)	(1,955,165)
Insurance Premiums Paid	(135,420)	(29,408)	(13,865)	(13,552)	(192,245)	(9,741)
Net Cash Provided by Operating Activities	<u>1,851,762</u>	<u>875,571</u>	<u>2,321,932</u>	<u>105,817</u>	<u>5,155,082</u>	<u>67,265</u>
Cash Flows from Non-Capital Financing Activities						
Operating Transfers In (Out)	(2,651,709)	1,217,208	(24,723)	(36,014)	(1,495,238)	60,935
Net Cash Flows Provided by (Used in) Non-Capital Financing Activities	<u>(2,651,709)</u>	<u>1,217,208</u>	<u>(24,723)</u>	<u>(36,014)</u>	<u>(1,495,238)</u>	<u>60,935</u>
Cash Flows Provided by (Used in) Capital and Related Financing Activities:						
Net cash for additions to Capital Assets	(782,422)	(1,056,432)	(260,881)	(498,436)	(2,598,171)	(49,986)
Principal Paid on Debt	(236,024)	(262,293)	(314,986)	-	(813,303)	-
Interest Paid on Debt	(97,420)	(102,981)	(97,864)	-	(298,265)	-
Other Nonoperating Items	(54,811)	4,417	-	1,000	(49,394)	3,733
Impact Fees and Other Development Fees	110,250	382,477	200,360	-	693,087	-
Net Cash Flows Provided by (Used in) Capital and Related Financing Activities	<u>(1,060,427)</u>	<u>(1,034,812)</u>	<u>(473,371)</u>	<u>(497,436)</u>	<u>(3,066,046)</u>	<u>(46,253)</u>
Cash Flows from Investing Activities						
Net Proceeds/(Purchases) from Sales Income on Investments	390,508	220,577	135,958	11,140	758,183	-
Net Cash Flows Provided by (Used in) Investing Activities	<u>390,508</u>	<u>220,577</u>	<u>135,958</u>	<u>11,140</u>	<u>758,183</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,469,866)	1,278,544	1,959,796	(416,493)	1,351,980	81,947
Cash and Cash Equivalents - Beginning of Year	<u>19,861,026</u>	<u>8,655,037</u>	<u>7,609,279</u>	<u>790,866</u>	<u>36,916,208</u>	<u>381,559</u>
Cash and Cash Equivalents - End of Year						
Cash and Cash Equivalents	17,180,662	4,777,412	6,632,315	374,346	28,964,735	463,506
Restricted Cash	1,210,498	5,156,169	2,936,759	27	9,303,453	-
Total Cash	<u>\$ 18,391,160</u>	<u>\$ 9,933,581</u>	<u>\$ 9,569,074</u>	<u>\$ 374,373</u>	<u>\$ 38,268,188</u>	<u>\$ 463,506</u>
Reconciliation of Operating Income to Net Cash						
Cash Flows from Operating Activities						
Operating Income (Loss)	\$ 2,442,480	\$ 1,187,276	\$ 730,036	\$ 64,054	\$ 4,423,846	\$ (14,634)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Deferred Charges On Refundings	10,758	-	-	-	10,758	-
Depreciation and Amortization	1,255,595	625,841	674,634	128,934	2,685,004	29,448
Effect of Changes in Operating Assets & Liabilities:						
Accounts Receivable, net	(2,454,808)	62,619	835,268	(102,379)	(1,659,300)	22,605
Inventory	(703,298)	(203)	-	-	(703,501)	6,129
Accounts Payable & Accrued Expenses	1,325,118	(981,906)	99,940	4,750	447,902	(30,742)
Salaries Payable	(5,343)	2,008	2,118	4,734	3,517	19,978
Customer Deposits	49,805	-	-	2,850	52,655	53,242
Liability for Compensated Absences	(68,545)	(20,064)	(20,064)	2,874	(105,799)	(18,761)
Net Cash Provided by Operating Activities	<u>\$ 1,851,762</u>	<u>\$ 875,571</u>	<u>\$ 2,321,932</u>	<u>\$ 105,817</u>	<u>\$ 5,155,082</u>	<u>\$ 67,265</u>

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, 2023. 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, 2023, the City had no such encumbrances.

Government-Wide and Fund Financial Statements

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

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

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

The City reports the following governmental funds:

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Government-Wide and Fund Financial Statements (continued)

The City reports the following proprietary funds:

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

General capital asset acquisitions, including entering into contracts giving the City of Milford the right to use leased assets, are reported as expenditures in governmental funds. Issuance of long-term debt and financing through leases are reported as other financing sources.

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.

Cash and Cash Equivalents

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 (except for intangible right-to-use lease and SBITA assets, the measurement of which is discussed below) 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 and amortization is recognized using the straight-line method over the estimated lives of the respective assets. Estimated useful lives are as follows:

Utility System & Infrastructure	10 - 50 years
Building and Improvements	10 - 20 years
Equipment and Vehicles	3 - 20 years
Lease Assets	2 - 6 years
SBITAs	2 - 5 years

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Subscription-Based IT Arrangements

The City implemented GASB Statement No. 96, Accounting for Subscription-Based IT Arrangements, for the period ended June 30, 2023. Subscription-Based IT Arrangement (SBITA) is an arrangement in which the City of Milford contracts with a third party for the right-to-use their cloud-based solution for the City's information technology needs. The City recognizes a SBITA liability and an SBITA asset in the government-wide financial statements. The City only recognizes SBITA agreements with annual payments greater than \$5,000, noncancelable by both parties, and for longer than one year are recorded.

At the commencement of a SBITA, the City of Milford initially measures the SBITA liability at the present value of payments expected to be made during the SBITA term. Subsequently, the SBITA liability is reduced by the principal portion of SBITA payments made. The SBITA asset is initially measured at the initial amount of the SBITA liability, adjusted for SBITA payments made at or before the commencement date, plus certain initial direct costs. Subsequently, the SBITA asset is amortized on a straight-line basis over its useful life.

Key estimates and judgements related to SBITA include how the City of Milford determines (1) the discount rate it uses to discount the expected SBITA payments to present value, (2) SBITA term, and (3) SBITA payments.

- The City of Milford uses the interest rate charged by the third party as the discount rate. When the interest rate charged by the third party is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The SBITA term includes the noncancellable period of the agreement. SBITA payments included in the measurement of the SBITA liability are composed of fixed payments and purchase option price that the City of Milford is reasonably certain to exercise.

The City of Milford monitors changes in circumstance that would require a remeasurement of its SBITA and will remeasure the SBITA asset and liability if certain changes occur that are expected to significantly affect the amount of the SBITA liability.

SBITA assets are reported with other capital assets and SBITA liabilities are reported with long-term debt on the statement of net position.

Leases

The City of Milford is a lessee for noncancellable leases of equipment. The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. The City recognizes lease liabilities with an initial, individual value of \$5,000 or more.

At the commencement of a lease, the City of Milford initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured at the initial amount of the lease liability, adjusted for lease payments made at or

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

before the commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgements related to leases include how the City of Milford determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The City of Milford uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the City of Milford is reasonably certain to exercise.

The City of Milford monitors changes in circumstance that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

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 approval and submission of application 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 18: 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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

Lease-related amounts are recognized at the inception of the lease. The deferred inflow of resources is recorded in amount equal to the corresponding lease receivable plus certain additional amounts received from the lessee at or before commencement of the lease term that relate to future periods, less any incentives paid to, or on behalf of the lessee at or before commencement of the lease term. The inflow of resources is recognized in a systematic and rational manner over the term of the lease.

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.

Government-Wide and Proprietary Fund Net Positions

Net position represents the extent to which the sum of assets and deferred outflows of resources differ from the sum of liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets net of accumulated depreciation and the outstanding balances of any borrowing spent for the acquisition, construction or improvements of those assets. Net position is reported as restricted when there are limitations imposed on their use either through 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

Interfund Transactions

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

NOTE 2: 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, 2023 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 3: 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, 2023 was 4.9275 mills (\$4.9275 per \$1,000 of assessed valuation, or "AV"), and is commonly expressed as \$0.49275 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 2023 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, 2023

NOTE 4: 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, 2023 were \$3,323 and \$1,756 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, 2023 attributable to cumulative impact fee collections is \$9,302,199.

NOTE 5: 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.

	Due To	Due From	Transfer In	Transfer Out
General Fund	\$ 7,994,926	\$ 218,235	\$ 5,528,655	\$ 339,071
Special Revenue Fund	278,235	5,000,000	-	4,045,782
Internal Service Fund	-	-	60,936	-
Electric Fund	-	3,054,926	-	2,651,709
Water Fund	-	-	1,600,673	383,465
Sewer Fund	-	-	53,492	78,215
Solid Waste Fund	-	-	-	36,014
Total, excluding Capital Assets	<u>\$ 8,273,161</u>	<u>\$ 8,273,161</u>	<u>\$ 7,243,756</u>	<u>\$ 7,534,256</u>
Capital Asset Transfers			290,500	-
Total, including Capital Assets			<u>\$ 7,534,256</u>	<u>\$ 7,534,256</u>
Presentation of Net Transfers - Fund Level vs. Government-wide Statements				
Interfund Transfers, Net (Fund Financial Statements)			\$ 1,204,738	\$ 1,495,238
Capital Asset Transfers			290,500	-
Interfund Transfers, Net (Statement of Activities)			<u>\$ 1,495,238</u>	<u>\$ 1,495,238</u>

The Statement of Revenues, Expenditures, and Changes in Net Position for the proprietary funds reports net transfers out of \$1,495,238, which includes \$290,500 in capital asset transfers. Because the governmental fund financial statements exclude capital assets, the transfers in likewise exclude capital asset transfers, reducing net incoming transfers to \$1,204,738 as reported in the fund financial statements (including internal service funds). The Government-wide Statement of Activities reports transfers out from business-type activities and transfers into governmental activities of (\$1,495,238) and \$1,495,238, respectively.

NOTE 6: INTERGOVERNMENTAL RECEIVABLES

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

NOTE 7: 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, 2023, the City of Milford’s bank balances, including deposits and money market funds, totaled \$50,119,000. FDIC insurance applied to \$501,566 of the deposits, while the remainder of \$49,617,434 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, 2023 was \$49,987,129, the City holds petty cash in the amount of \$2,851, and is reported in the financial statements as follows:

Government-wide Statement of Net Position

Governmental Activities	\$11,721,792
Business-type Activities	<u>38,268,188</u>
Total carrying amount of deposits	<u><u>\$49,989,980</u></u>

Assets whose use is limited to a specific purpose have been classified as “restricted” in the balance sheet and statement of net position. Restricted cash is composed of \$436,060 in the general fund for capital projects, \$990,160 in the special revenue fund for grants, \$9,302,199 in the business-type funds for impact fees and \$1,254 in the business-type funds for street improvements.

CITY OF MILFORD, DELAWARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

NOTE 8: CAPITAL ASSETS

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

Asset Categories by Function	FOR THE YEAR ENDED JUNE 30, 2023				Balances June 30, 2023
	Balances June 30, 2022	Additions	Reductions	Adjustments & Transfers	
<u>Total Governmental</u>					
Capital Assets:					
Land	\$ 8,601,885	\$ -	\$ (24,000)	\$ -	\$ 8,577,885
Street Improvements	11,148,458	-	-	133,943	11,282,401
Buildings and Improvements	5,742,973	40,320	(119,441)	-	5,663,852
Vehicles and Equipment	6,845,267	1,175,251	(50,119)	-	7,970,399
Construction in Progress	1,158,685	11,195,381	-	(74,349)	12,279,717
Right-to-Use Software in Progress	681,027	-	-	221,748	902,775
Right-to-Use Software	16,715	112,326	-	-	129,041
Lease Assets	-	89,725	-	-	89,725
<hr/>					
Total Governmental Capital Assets	33,584,368	12,613,003	(193,560)	281,342	46,895,795
Accumulated Depreciation	(15,259,627)	(946,694)	50,119	-	(16,156,202)
<hr/>					
Total Governmental Capital Assets, Net	<u>\$ 18,324,741</u>	<u>\$ 11,666,310</u>	<u>\$ (143,441)</u>	<u>\$ 281,342</u>	<u>\$ 30,739,594</u>

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

Asset Categories by Function	FOR THE YEAR ENDED JUNE 30, 2023				Balances June 30, 2023
	Balances June 30, 2022	Additions	Reductions	Adjustments & Transfers	
<u>Governmental, excluding Internal Service Funds</u>					
Capital Assets:					
Land	\$ 8,601,885	\$ -	\$ (24,000)	\$ -	\$ 8,577,885
Street Improvements	11,148,458	-	-	133,943	11,282,401
Buildings and Improvements	5,704,941	19,886	(119,441)	-	5,605,386
Vehicles and Equipment	6,605,339	1,145,699	(50,119)	-	7,700,919
Construction in Progress	1,158,685	11,195,381	-	(74,349)	12,279,717
Right-to-Use Software in Progress	681,027	-	-	221,748	902,775
Right-to-Use Software	16,715	112,326	-	-	129,041
Lease Assets	-	89,725	-	-	89,725
<hr/>					
Total Governmental Capital Assets	33,917,050	12,563,017	(193,560)	281,342	46,567,849
Acc. Depreciation & Amortization	(15,096,105)	(917,245)	50,119	-	(15,963,231)
<hr/>					
Total Governmental Capital Assets, Net	<u>\$ 18,820,945</u>	<u>\$ 11,645,772</u>	<u>\$ (143,441)</u>	<u>\$ 281,342</u>	<u>\$ 30,604,618</u>

CITY OF MILFORD, DELAWARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

NOTE 8: CAPITAL ASSETS, CONTINUED

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

Asset Categories by Function	FOR THE YEAR ENDED JUNE 30, 2023				Balances June 30, 2023
	Balances June 30, 2022	Additions	Reductions	Adjustments & Transfers	
<u>Electric Fund:</u>					
Land	\$ 2,460,507	\$ -	\$ -	\$ -	2,460,507
Construction in Progress	-	411,953	(17,588)	(126,108)	268,257
Buildings and Improvements	7,056,015	-	-	-	7,056,015
Electric System	20,262,504	297,087	-	-	20,559,591
Vehicles and Equipment	4,463,840	190,077	-	-	4,653,917
Total Capital Assets	34,242,866	899,117	(17,588)	(126,108)	34,998,287
Accumulated Depreciation	(19,487,437)	(1,255,595)	-	-	(20,743,032)
Net Book Value	14,755,430	(356,478)	(17,588)	(126,108)	14,255,255
<u>Water Fund:</u>					
Land	6,471,894	-	-	-	6,471,894
Construction in Progress	2,559,631	-	(9,505)	(2,114,755)	435,371
Buildings and Improvements	123,078	-	-	-	123,078
Water System	23,640,867	1,130,862	-	2,067,718	26,839,447
Vehicles and Equipment	2,015,792	243	-	(18,131)	1,997,904
Total Capital Assets	34,811,262	1,131,106	(9,505)	(65,168)	35,867,695
Accumulated Depreciation	(10,069,314)	(625,841)	-	-	(10,695,155)
Net Book Value	24,741,948	505,265	(9,505)	(65,168)	25,172,540
<u>Sewer Fund:</u>					
Land	28,638	-	-	-	28,638
Construction in Progress	-	64,415	-	(64,415)	-
Buildings and Improvements	164,056	-	-	-	164,056
Waste Water System	23,601,407	-	-	-	23,601,407
Vehicles and Equipment	1,650,926	261,129	(28,651)	(247)	1,883,158
Total Capital Assets	25,445,027	325,544	(28,651)	(64,662)	25,677,259
Accumulated Depreciation	(11,074,114)	(674,633)	28,651	-	(11,720,096)
Net Book Value	14,370,913	(349,089)	-	(64,662)	13,957,162
<u>Solid Waste Fund:</u>					
Construction in Progress	9,176	19,746	(3,790)	(25,132)	-
Buildings and Improvements	5,650	-	-	-	5,650
Vehicles and Equipment	1,448,503	552,413	(157,203)	(9,430)	1,834,283
Total Capital Assets	1,463,329	572,159	(160,993)	(34,562)	1,839,933
Accumulated Depreciation	(907,182)	(128,934)	121,833	-	(914,284)
Net Book Value	\$ 556,147	\$ 443,225	(39,160)	\$ (34,562)	\$ 925,649

CITY OF MILFORD, DELAWARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

NOTE 8: CAPITAL ASSETS, CONTINUED

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

Asset Categories by Function	FOR THE YEAR ENDED JUNE 30, 2023				Balances June 30, 2023
	Balances June 30, 2022	Additions	Reductions	Adjustments & Transfers	
<u>Total Enterprise Funds</u>					
Land	\$ 8,961,039	\$ -	\$ -	\$ -	\$ 8,961,039
Construction in Progress	2,568,807	496,114	(30,883)	(2,330,410)	703,628
Buildings and Improvements	7,348,799	-	-	-	7,348,799
Electric System	20,262,504	297,087	-	-	20,559,591
Water System	23,640,867	1,130,862	-	2,067,718	26,839,447
Waste Water System	23,601,407	-	-	-	23,601,407
Vehicles and Equipment	9,579,061	1,003,862	(185,854)	(27,808)	10,369,262
Total Fixed Assets	95,962,484	2,927,925	(216,737)	(290,500)	98,383,173
Accumulated Depreciation	(41,538,047)	(2,685,003)	150,484	-	(44,072,566)
Net Book Value	\$ 54,424,437	\$ 242,922	\$ (66,253)	\$ (290,500)	\$ 54,310,606

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

Asset Categories by Function	FOR THE YEAR ENDED JUNE 30, 2023				Balances June 30, 2023
	Balances June 30, 2022	Additions	Reductions	Adjustments & Transfers	
<u>Internal Service Funds:</u>					
Land	\$ -		\$ -	\$ -	\$ -
Buildings and Improvements	38,032	20,434	-	-	58,466
Vehicles and Equipment	239,928	29,552	-	-	269,480
Total Internal Service Funds	277,960	49,986	-	-	327,946
Accumulated Depreciation	(163,523)	(29,449)	-	-	(192,972)
Total Internal Service Funds, Net	\$ 114,437	\$ 20,538	\$ -	\$ -	\$ 134,975

Depreciation and amortization expense for governmental activities, which amounted to \$917,245 for the year ended June 30, 2023, was charged to the general government function of the primary government. Depreciation expense of \$2,685,003 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, 2023

NOTE 9: LONG-TERM DEBT OBLIGATIONS

Long-Term liability activity for the year ended June 30, 2023 is summarized as follows:

	FOR THE YEAR ENDED JUNE 30, 2023				
	Balances 06/30/22	Additions	Reductions	Balances 06/30/23	Current Portion
Governmental Activities:					
General Obligation Bonds	\$ 41,445	\$ 8,627,781	\$ (7,000,000)	\$ 1,669,226	\$ -
Net Pension Liability (Asset)	(5,223,050)	-	4,906,853	(316,197)	-
Compensated Absences	1,315,693	8,075	-	1,323,768	126,732
Leases	-	89,725	(25,752)	63,973	19,683
SBITA ¹	610,642	112,326	(99,643)	623,325	157,830
Governmental Activities					
Total Debt Obligations:	\$ (3,255,270)	\$ 8,837,907	\$ (2,218,542)	\$ 3,364,095	\$ 304,245
Business-Type Activities:					
General Obligation Bonds					
Series 2016	\$ 6,260,000	\$ -	\$ (435,000)	\$ 5,825,000	\$ 440,000
Bond Premium	22,850	-	(1,856)	20,994	-
Total General Obligation Bonds	6,282,850	-	(436,856)	5,845,994	440,000
State of Delaware					
DNREC WPC RF, 2010	483,502	-	(56,313)	427,189	56,876
Water SRF, 2012A	1,942,939	-	(160,244)	1,782,695	161,850
Note Payable, Kent County	1,069,575	-	(27,103)	1,042,472	27,718
USDA Notes Payable					
Water Facilities, 2013	3,999,282	-	(102,049)	3,897,233	103,772
Sewer Facilities, 2019	574,319	-	(10,940)	563,379	11,132
Sewer Facilities, 2020	969,883	-	(19,798)	950,085	20,014
Total Bonds and Notes Payable	15,322,350	-	(813,303)	14,509,047	821,363
Other Liabilities					
Compensated Absences	265,013	-	(105,798)	159,215	22,011
Business-Type Activities					
Total Debt Obligations:	\$ 15,587,363	\$ -	\$ (919,101)	\$ 14,668,262	\$ 843,374

¹Beginning balances were adjusted to reflect the adoption of GASB 96

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 9: 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, 2023. 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. Through June 30, 2023, \$8,669,226 was drawn against the BAN, and the City exercised its option to make principal prepayments, which totaled \$7,000,000. As of June 30, 2023, \$1,669,226 remained outstanding, 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, 2023 is \$3,897,233, 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 9: 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, 2023 is \$563,379, representing the balance attributable to phase one project financing. The balance of the 2020 facilities loan as of June 30, 2023 is \$950,085, 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, 2023 is \$427,189. 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, 2023

NOTE 9: 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, 2023 is \$1,782,695. 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, 2023 is \$1,042,472 and is scheduled to mature November 10, 2050.

The annual requirements to amortize all debt outstanding as of June 30, 2023 follow:

Year(s) Ending June 30	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2024	\$ -	\$ 35,950	\$ 35,950	\$821,363	\$273,801	\$1,095,163
2025	1,669,226	-	1,669,226	837,686	258,787	1,096,472
2026	-	-	-	853,864	243,497	1,097,360
2027	-	-	-	870,150	227,896	1,098,046
2028	-	-	-	881,321	212,064	1,093,385
2029-2033	-	-	-	4,226,726	813,795	5,040,522
2034-2038	-	-	-	2,366,415	474,434	2,840,849
2039-2043	-	-	-	1,147,536	300,619	1,448,155
2044-2047	-	-	-	1,269,803	178,026	1,447,829
2048-2052	-	-	-	859,558	54,517	914,075
2053-2057	-	-	-	246,799	16,921	263,720
2058-2062	-	-	-	106,832	2,623	109,455
Total	\$1,669,226	\$ 35,950	\$1,705,176	\$14,488,053	\$3,056,979	\$17,545,033

CITY OF MILFORD, DELAWARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

NOTE 9: LONG-TERM DEBT OBLIGATIONS, CONTINUED

Long-Term Debt outstanding as of June 30, 2023 is summarized as follows:

Obligation	Interest Rate (%)	Issue Date	Maturity Date	Amounts Outstanding as of June 30, 2023 (in thousands)				Total
				General Fund	Electric Fund	Water Fund	Sewer Fund	
General Obligation Bonds								
Series of 2016	2.00-2.55	12/6/16	1/1/37	\$ -	\$ 3,825	\$ -	\$ 2,000	\$ 5,825
Series of 2021	1.80-5.00	11/30/21	11/30/24	1,669	-	-	-	1,669
USDA								
Note Payable, 2013	2.125	6/28/13	6/28/53	-	-	3,897	-	3,897
Note Payable, 2019	1.750	12/31/19	12/31/59	-	-	-	563	563
Note Payable, 2020	1.250	12/31/20	12/31/60	-	-	-	950	950
State of Delaware								
DNREC WPC RF, 2010	2.00	12/22/09	7/1/30	-	-	-	427	427
Drinking Water SRF, 2012A	1.00	3/15/12	9/1/33	-	-	1,783	-	1,783
Kent County, 2012	2.25	11/12/12	11/10/50	-	-	-	1,042	1,042
Total Long-Term Debt Obligations				\$ 1,669	\$ 3,825	\$ 5,680	\$ 4,983	\$ 16,157

NOTE 10: 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, \$0.2 million of which remained outstanding as of June 30, 2023. 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 additional firms totaling \$13.7 million for the construction of the Facility. As of June 30, 2023, \$9.5 million was incurred pursuant to the contracts, which is reported as construction in process in Governmental Activities on the Government-wide Statement of Net Position. Of the improvements reported as construction in process, amounts incurred and paid with interim financing are reported in notes payable, while amounts incurred but unpaid are recognized in current liabilities, each in Governmental Activities on the Government-wide Statement of Net Position. \$4.8 million of the contract commitment remained outstanding as of June 30, 2023.

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 10: COMMITMENTS AND CONTINGENCIES, CONTINUED

Government Grant/Award Programs

The City participates in a number of federal and state-assisted programs. These programs are subject to program compliance audits by the grantors or their representatives. Accordingly, the City's compliance with applicable program requirements will be established at some future date. The amount 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 11: 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 \$314,309 for the year ended June 30, 2023.

NOTE 12: ADOPTION OF GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS

The City adopted the provisions of GASB Statement No. 96 Subscription-Based Information Technology Arrangements, which resulted in the recognition of right-to-use assets and subscription liabilities as well as additional disclosures (see Note 16). The City also adopted GASB Statement No. 91 Conduit Debt Obligations, GASB Statement No. 94 Public-Private and Public-Public Partnerships and Availability Payment Arrangements, and the required provisions of GASB Statement No. 99 Omnibus 2022. The adoption of these Statements had no effect on previously reported amounts.

NOTE 13: PENDING CHANGES IN ACCOUNTING PRINCIPLES

The GASB has approved the following:

- 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)
- Statement No. 103, Financial Reporting Model Improvements (effective for 2026)
- Statement No. 104, Disclosure of Certain Capital Assets (effective for 2026)

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

NOTE 14: 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 2023 was 11.34% of payroll. In addition, employees are required to contribute 7.00% of compensation.

NOTE 14: POST-RETIREMENT BENEFITS, CONTINUED

Other Employees' Pension Plan

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

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

Employer contributions to the plan are determined annually by the State Board of Pension Trustees. The employer contribution policy is set by State law and required contribution by active members and by participating employers. The contributions required by participating employers are based on actuarial valuation and are expressed as a percentage of annual covered payrolls during the period for which the amount is determined. The employer contribution rate in fiscal year 2023 was 5.55% 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, 2023 measurement date were as follows:

	<u>Police & Firefighters</u>	<u>Other Employees</u>
Total pension liability	\$ 538,482,000	\$ 86,080,000
Plan fiduciary net position	548,996,000	86,758,000
Employer net pension liability (asset)	<u>(10,514,000)</u>	<u>(678,000)</u>
Plan fiduciary net position as percentage of total pension liability	<u>101.95%</u>	<u>100.79%</u>
Proportionate share of net pension liability (asset)	<u>\$ (254,855)</u>	<u>\$ (61,339)</u>

CITY OF MILFORD, DELAWARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

NOTE 14: POST-RETIREMENT BENEFITS, CONTINUED

The net pension liability was measured as of June 30, 2022, 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, 2021 to June 30, 2022. 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, 2023 and 2022, the City's proportion for each plan is as follows:

	June 30, 2022	June 30, 2021	Increase (Decrease)
Police & Firefighters	2.4240%	2.4627%	-0.0387%
Other Employees	9.0386%	8.7574%	0.2812%

For the year ended June 30, 2023, the City recognized pension expenses for the plans as follows:

Police & Firefighters	\$ 72,443
Other Employees	150,204
Total	\$ 222,647

As of June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Police & Fire		Other Employees	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	\$ 433,470	\$ 105,962	\$ 236,152	\$ 98,983
Change of assumptions	91,694	206,920	63,751	48,903
Net difference between projected and actual investment earnings	422,262	-	276,020	-
Change in proportion	32,939	27,129	914	38,726
Contributions subsequent to the measurement date	280,739	-	347,202	
Total	\$ 1,261,104	\$ 340,011	\$ 924,039	\$ 186,612

CITY OF MILFORD, DELAWARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

NOTE 14: 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	<u>Police & Fire</u>	<u>Other Employees</u>	<u>Total</u>
2023	\$ (20,509)	\$ 9,551	\$ (10,959)
2024	(60,021)	(11,961)	(71,982)
2025	(4,608)	(10,244)	(14,852)
2026	679,930	375,975	1,055,905
2027	38,709	8,014	46,723
Thereafter	6,853	18,890	25,743
Total	<u>\$ 640,354</u>	<u>\$ 390,225</u>	<u>\$ 1,030,579</u>

Actuarial Assumptions

The total pension liability (asset) was determined by an actuarial valuation as of June 30, 2021, and update procedures were used to roll forward the total pension liability to June 30, 2022. 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 Pub-2010 tables with gender adjustments for healthy annuitants and disabled retirees and an adjusted version on MP-2020 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, 2023

NOTE 14: POST-RETIREMENT BENEFITS, CONTINUED

Best estimates of geometric real rates of return for each major asset class as of June 30, 2023 are summarized in the following table:

Asset Class	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	31.8%	5.7%
International Equity	15.0%	5.7%
Fixed Income	23.6%	2.0%
Alternative Investments	21.5%	7.8%
Cash & Equivalents	8.1%	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 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Police and Firefighters	\$ 1,695,709	\$ (254,855)	\$ (1,844,179)
Other Employees	\$ 1,158,929	\$ (61,339)	\$ (1,058,510)

Pension Plan Fiduciary Net Position

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

CITY OF MILFORD, DELAWARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

NOTE 15: LEASES

Pertinent information regarding leases is presented below.

Leases Payable

Date of Issue	Initial Liability	Purpose	Outstanding Liability Balance 6/30/2023	Asset Value 6/30/2023	Accumulated Amortization 6/30/2023
Various	\$ 63,099	During 2023, the City of Milford had 2 active lease agreements for acquisition and use of copier machines ending in 2027. The City of Milford is required to make various monthly principal and interest payments between \$274 and \$989. The leases have no specified interest rates.	\$ 55,897	\$ 63,099	\$ 8,890
Various	\$ 26,626	During 2023, the City of Milford had 2 active lease agreements for acquisition and use of postage machines ending in various year between 2024-2025. The City of Milford is required to make various monthly principal and interest payments between \$56 and \$406. The leases have no specified interest rates.	\$ 8,076	\$ 26,626	\$ 9,055
			<u>\$ 63,973</u>	<u>\$ 89,725</u>	<u>\$ 17,945</u>

The future principal and interest lease payments as of June 30, 2023, were as follows:

Year Ending	Principal	Interest	Total
2024	\$19,683	\$ 3,098	\$ 22,781
2025	13,562	2,205	15,767
2026	13,760	1,394	15,154
2027	14,048	558	14,606
2028	2,920	14	2,934
	<u>\$63,973</u>	<u>\$ 7,269</u>	<u>\$ 71,242</u>

NOTE 15: LEASES, CONTINUED

Leases Receivable

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, 2023, the value of the lease receivable is \$236,309 and the related deferred inflow for future payments expected to be collected on the lease is \$236,309. 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 \$143,035 and \$17,623, 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, Bayhealth Dickinson, and DHSS. An initial lease receivable was recorded in the amount of \$235,490. No additional revenue was recorded for variable and other payments not included in the measurement of the lease receivable. As of June 30, 2023, the value of the lease receivable is \$178,154 and the related deferred inflow for future payments expected to be collected on the lease is \$178,154. 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 \$28,505 and \$10,084, respectively, for the fiscal year.

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, 2023, the value of the lease receivable is \$34,612 and the related deferred inflow for future payments expected to be collected on the lease is \$34,612. 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 \$22,041 and \$1,959, respectively, for the fiscal year.

NOTE 15: LEASES, CONTINUED

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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CITY OF MILFORD, DELAWARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

NOTE 16: SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITAs)

Pertinent information regarding SBITAs is presented below.

Date of Issue	Initial Liability	Purpose	Outstanding Liability Balance 6/30/2023	Asset Value 6/30/2023	Accumulated Amortization 6/30/2023
10/8/2021	\$ 593,927	During FY 2023, the City of Milford had an active SBITA agreement with Tyler Technologies ending in FY 2027. The software is still in the implementation stage on 6/30/23 with \$308,848 of implementation cost included in the right-to-use asset value. The city of Milford is required to make various quarterly principal and interest payments between \$30,680 and \$39,054. The City's incremental borrowing rate was 6%.	\$ 494,284	\$ 902,775	\$ -
Various	\$ 129,041	During FY 2023, the City of Milford entered into SBITA agreements with Axon Enterprises ending in various year between FY 2023-2026. The city of Milford is required to make various annual principal and interest payments between \$24,673 and \$35,212. The City's incremental borrowing rate was 6%.	\$ 129,041	\$ 129,041	\$ 25,808
			<u>\$ 623,325</u>	<u>\$ 1,031,816</u>	<u>\$ 25,808</u>

The future principal and interest lease payments as of December 31, 2023, were as follows:

Year Ending	Principal	Interest	Total
2024	\$ 157,830	\$ 29,770	\$ 187,600
2025	172,348	19,965	192,313
2026	168,607	10,421	179,028
2027	99,866	1,966	101,832
2028	24,673	0	24,673
	<u>\$ 623,325</u>	<u>\$ 62,121</u>	<u>\$ 685,446</u>

NOTE 17: THE DELAWARE MUNICIPAL ELECTRIC CORPORATION:

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

NOTE 18: 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, as may be extended, 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, 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, 2023, the City had drawn \$8,669,226 on the ban (\$1,669,226 net of \$7,000,000 in principal prepayments). As of the issue date, the City incurred project expenses totaling \$16,895,888, of which \$43,614 was withheld as retainage, \$362,219 is payable, \$886,693 was met through the City reserve funds targeted for the project, and \$14,517,698 was satisfied through gross draws against the BAN.

The City of Milford

Required Supplementary Information

As of and for the Year Ended June 30, 2023

**CITY OF MILFORD, DE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2023**

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property Taxes	\$ 4,941,100	\$ 4,941,100	\$ 5,020,216	\$ 79,116
Fees and Fines	95,000	95,000	177,804	82,804
Licenses and Permits	477,100	571,300	1,242,042	670,742
Franchise & Lease Revenue	428,351	428,351	418,383	(9,968)
Charges for Services	88,000	5,000	20,880	15,880
Intergovernmental	387,000	387,885	405,002	17,117
Investment Earnings	9,500	9,500	112,904	103,404
Miscellaneous	12,250	16,250	211,320	195,070
	<u>6,438,301</u>	<u>6,454,386</u>	<u>7,608,551</u>	<u>1,154,164</u>
Total Revenues				
EXPENDITURES				
Current:				
General Government	4,822,717	5,318,609	2,384,966	2,933,643
Public Safety	6,185,274	6,211,159	6,154,327	56,832
Public Works	2,298,142	1,678,142	1,122,875	555,267
Culture and Recreation	1,482,240	1,391,197	1,266,743	124,454
Debt Service:				
Principal	-	7,500,000	7,125,395	374,605
Interest and Other Charges	-	47,545	47,545	-
Capital Outlay	12,160,659	14,117,370	12,627,105	1,490,265
	<u>26,949,032</u>	<u>36,264,022</u>	<u>30,728,956</u>	<u>5,535,066</u>
Total Expenditures				
Deficiency of Revenues Over Expenditures	<u>(20,510,731)</u>	<u>(29,809,636)</u>	<u>(23,120,405)</u>	<u>6,689,230</u>
OTHER FINANCING SOURCES				
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	-
Transfers In From Special Revenue Fund	586,411	588,475	1,128,479	540,004
SBITA and Lease Proceeds	-	-	202,051	202,051
Proceeds from Sale of Assets	2,000	5,507	278,648	273,141
Bond Anticipation Note	15,619,379	15,619,379	8,627,781	(6,991,598)
Other Transfers In	1,130,257	3,428,898	1,200,176	(2,228,722)
Transfers Out	(500,000)	(500,000)	(339,071)	160,929
	<u>(472,684)</u>	<u>(7,467,377)</u>	<u>(8,822,341)</u>	<u>(1,354,965)</u>
Net Change in Fund Balance				
DEFICIENCY FUNDED BY (SURPLUS DIRECTED TO)				
General Fund Balance and Reserves	472,684	7,467,377	8,822,341	1,354,965
	<u>472,684</u>	<u>7,467,377</u>	<u>8,822,341</u>	<u>1,354,965</u>
Net Revenues, Other Financing Sources, Prior Fund Balances and Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

<u>County & Municipal Police and Firefighters' Pension Plan</u>	<u>2023</u>	<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)	2.4240%	2.4627%	2.6455%	2.4289%	2.2946%	2.3779%	2.3824%	2.4964%
Proportionate share of the net pension liability (asset)	\$ (255)	\$ (3,389)	\$ 407	\$ 698	\$ 528	\$ 240	\$ 379	\$ (132)
Covered-employee payroll	\$ 2,524	\$ 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	10.1%	136.4%	16.9%	32.5%	24.6%	12.6%	21.8%	N/A
Plan's fiduciary net position	\$ (548,996)	\$ 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)	102.0%	128.2%	96.7%	93.3%	94.1%	97.0%	94.7%	102.0%
<u>County & Municipal Other Employees' Pension Plan</u>	<u>2023</u>	<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)	9.0386%	8.7574%	9.5271%	9.4728%	10.0609%	10.3165%	10.8530%	12.1628%
Proportionate share of the net pension liability (asset)	\$ (61)	\$ (1,834)	\$ 202	\$ 434	\$ 317	\$ 668	\$ 672	\$ 5
Covered-employee payroll	\$ 5,485	\$ 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	1.1%	39.1%	4.9%	10.3%	9.1%	18.4%	\$ 0	N/A
Plan's fiduciary net position	\$ 86,758	\$ 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	100.8%	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 EIGHT FISCAL YEARS (DOLLAR AMOUNTS IN THOUSANDS)

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>County & Municipal Police and Firefighters' Pension Plan</u>								
Contractually required contribution	\$ 281	\$ 405	\$ 396	\$ 406	\$ 358	\$ 269	\$ 240	\$ 251
Contributions in relation to the contractually determined contribution	<u>281</u>	<u>405</u>	<u>396</u>	<u>406</u>	<u>358</u>	<u>269</u>	<u>240</u>	<u>251</u>
Contribution (excess) deficiency	<u>\$ -0-</u>							
Covered-employee payroll	<u>\$ 2,476</u>	<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>11.34%</u>	<u>16.03%</u>	<u>15.95%</u>	<u>16.84%</u>	<u>16.68%</u>	<u>14.12%</u>	<u>12.37%</u>	<u>14.48%</u>
<u>County & Municipal Other Employees' Pension Plan</u>								
Contractually required contribution	\$ 347	\$ 372	\$ 331	\$ 340	\$ 284	\$ 259	\$ 225	\$ 235
Contributions in relation to the contractually determined contribution	<u>347</u>	<u>372</u>	<u>331</u>	<u>340</u>	<u>284</u>	<u>259</u>	<u>225</u>	<u>235</u>
Contribution (excess) deficiency	<u>\$ -0-</u>							
Covered-employee payroll	<u>\$ 6,256</u>	<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>5.55%</u>	<u>6.78%</u>	<u>7.06%</u>	<u>8.28%</u>	<u>6.76%</u>	<u>7.46%</u>	<u>6.21%</u>	<u>6.49%</u>

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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, 2023

NOTE 1 – GENERAL

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

NOTE 2 – BUDGETARY BASIS

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

NOTE 3 – PENSION PLANS

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

Changes in Benefit Terms

None

Changes in Assumptions

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

Method and Assumptions used in calculations of actuarially determined contributions

The actuarially determined contribution rates in the Schedule of Employers' Contributions are calculated as of the June 30 two years prior to the end of the fiscal year in which the contributions are reported. Complete descriptions of the methods and assumptions used to determine the contribution rates for Fiscal Year 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, 2023

CITY OF MILFORD, DELAWARE
 ADDITIONAL INFORMATION, CONTINUED
 JUNE 30, 2023

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 of 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.

Ratable Classification	2023 Assessed Value (AV)	2023 Market Value (MV)*	AV ÷ MV
Public Utilities	\$5,508,755	\$10,393,877	
Agriculture	878,100	\$1,656,792	
Residential	645,791,700	\$1,218,474,906	
Multi-Family	43,996,300	\$83,011,887	
Commercial	336,522,359	\$634,947,847	
Industrial	11,315,900	\$21,350,755	
Exempt	344,779,000	\$650,526,415	
TOTAL	\$1,388,792,114	\$2,620,362,479	53%

*Estimated based on City of Milford market sales data sampling

Tax Assessments

Year	Assessment*	Ratio, Assessed to Market Value	Market Value
2023	\$ 1,388,792,114	53%	\$ 2,620,362,479
2022	1,370,587,152	60%	2,284,311,920
2021	1,322,462,352	69%	1,911,072,763
2020	1,304,217,652	74%	1,762,456,286
2019	1,108,131,359	78%	1,420,681,230
2018	1,076,761,765	75%	1,435,213,740
2017	1,064,336,304	81%	1,319,777,017
2016	1,049,526,712	89%	1,175,823,786
2015	1,038,988,192	91%	1,141,745,266
2014	1,030,515,982	95%	1,084,753,665

*Last Reassessment Completed in September 2012

The City's property tax rate was \$0.49275 per \$100 of assessed value (AV) throughout the FY23 reporting period. City Council approved the rate of \$0.54600 per \$100 of AV for FY24. About 20% of the increase in FY24 reflects an ongoing initiative to promote structural balance in the City's operating budget, while the balance supports the referendum-approved debt service obligation arising from the Police Headquarters Facility financing. Milford also collects a Realty Transfer Tax (RTT) of 1.50% of the consideration of all property transfers in 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.

CITY OF MILFORD, DELAWARE
 ADDITIONAL INFORMATION, CONTINUED
 JUNE 30, 2023

Top 20 Taxpayers

	2023 Assessed Value	Land Use	Parcel Owner	2023 Tax Levy
\$	27,687,259	Commercial	Clark Avenue Realty	\$ 151,172
	19,401,400	Commercial	Milford Plaza	105,932
	17,007,800	Multi-Family	Windward on the River	92,863
	16,426,800	Commercial	Wal-Mart Stores	89,690
	11,628,900	Multi-Family	Watergate At Milford	63,494
	9,447,900	Multi-Family	Reserve at Saw Mill	51,586
	8,514,300	Multi-Family	Key Properties Group	46,488
	8,369,100	Commercial	Milford Center	45,695
	6,869,500	Commercial	Cypress Capital	37,507
	6,780,100	Commercial	Helmick Milford	37,019
	6,734,300	Multi-Family	Cascades	36,769
	6,558,100	Commercial	Baltimore Aircoil Company	35,807
	6,547,100	Commercial	US Cold Storage	35,747
	5,302,800	Multi-Family	Case Edwards Management	28,953
	5,158,300	Industrial	Purdue RE Holdings	28,164
	4,899,500	Multi-Family	Tran Con Builders	26,751
	4,799,800	Commercial	SW Acquisitions	26,207
	4,770,900	Multi-Family	Misphillion Realty	26,049
	4,763,300	Commercial	Riverwalk Center At Milford	26,008
	4,698,800	Commercial	Milford Microtel	25,655

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
2023	\$ 4,912,100	\$ 5,178,348	105%	\$ 154,361
2022	4,741,043	4,745,519	100%	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	101%	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

CITY OF MILFORD, DELAWARE
 ADDITIONAL INFORMATION, CONTINUED
 JUNE 30, 2023

Selected Demographic Data and Corresponding Debt Ratios

	Direct Debt ¹	Population ²	Assessed Valuation (AV) ¹
	\$ 7,494,226	13,289	\$ 1,388,792,114
Direct Debt per Capita		\$ 564	
Direct Debt as % of AV			0.54%

¹ Debt and AV measured as of and for the period ended June 30, 2023, respectively

² Based on most current US Census Bureau Population Estimate as of July 1, 2023

Direct Debt as of June 30, 2022 consisted entirely of the City's General Obligation Bond Series 2016 outstanding balance of \$6.26 million. As of June 30, 2023, Direct Debt increased to \$7.5 million, driven by \$1.67 million in new construction financing related to the City's referendum-approved Police Headquarters Facility Project, net of \$0.44 million in principal repayments against the General Obligation Bond Series 2016. Milford's organic growth in population and assessments serve to maintain stability in the debt ratios, while debt service requirements are scheduled into tax and utility rate structures.

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	578
Dentsply Sirona	Dental Equipment	525
Walmart Stores	Retail	349
Sea Watch International	Seafood Processing	250
City of Milford	Municipal Government	135
Burris 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

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The City of Milford

Other Supplemental Information Single Audit

For Year Ended June 30, 2023



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, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 25, 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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2023-001 and 2023-002 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*.



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City of Milford, Delaware

City's Response to Findings

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

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
November 25, 2024

Zelenkofske Axlerod LLC

Zelenkofske Axlerod LLC



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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, 2023. 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, 2023.

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.



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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.



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City Council
City of Milford, Delaware

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 Axelrod LLC

ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania
November 25, 2024

CITY OF MILFORD, DE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023

Federal Grantor/Pass-through Grantor/Program	Federal AL Number	Pass Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
US Department of the Treasury COVID-19 American Rescue Plan Act	21.027	n/a	-	2,208,432 *
US Department of Justice Bulletproof Vest Partnership	16.607	n/a	-	5,229
US Department of Justice Edward Byrne Memorial Justice Assistance	16.738	n/a	-	<u>17,215</u>
Total expenditures of federal awards			<u>\$ -</u>	<u>\$ 2,230,876</u>

* Denotes testing as major program

See accompanying notes to schedule of expenditures of federal awards.

CITY OF MILFORD, DELAWARE
SCHEDULE OF FINDINGS AND QUESTIONS COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2023

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, 2023. 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 – RISK-BASED AUDIT APPROACH

The 2023 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, 2023, totaled \$2,208,432 or 99.0% of total federal awards expended.

CITY OF MILFORD, DELAWARE
SCHEDULE OF FINDINGS AND QUESTIONS COSTS
FOR THE YEAR ENDED JUNE 30, 2023

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, 2023

Section II – Financial Statement Findings and Questioned Costs

Finding 2023-001

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. 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 staffing challenges experienced in the finance department caused significant delays in the production of financial statements in the prior year, which in turn delayed the closing process in the current year. This issue was exacerbated by the implementation of the City's new accounting and financial reporting software system leading up to and following the July 1, 2023 (FY24) go-live date.

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. This finding was a repeat of finding 2022-001 in the prior year.

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 and engaged with third-party consultants to enable the department to carry out the process review and implement the required changes.

CITY OF MILFORD, DELAWARE
SCHEDULE OF FINDINGS AND QUESTIONS COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2023

Section II – Financial Statement Findings and Questioned Costs (Continued)

Finding 2023-002

Approval of Disbursements

Criteria: Proper internal control dictates that disbursements should be reviewed and approved by management prior to payment.

Condition: During testing it was noted that one of the forty invoices selected for testing did not demonstrate evidence of change order approval prior to payment. The initial purchase order was approved by the requisitioner's department director and the City Manager pursuant to system workflow design; however, fluctuations in unit costs resulted in an invoice that significantly exceeded the dollar value of the initial invoice and the City was unable to demonstrate that the change in cost had been approved.

Cause: Due to staff oversight, the invoice was not compared to the value of the original purchase order and documentation of approval of any change orders was not maintained.

Effect: Internal controls were not operating effectively and may result in a material misstatement to the financial statements.

Questioned Costs: No known questioned costs.

Recommendation: The City should review procedures in place with responsible employees and revise procedures, as necessary, to ensure invoices are reconciled with the original purchase order and any variances are subsequently approved by management prior to payment.

Management's
Response:

As part of the City's new accounting and financial reporting system, which began live production on July 1, 2023 to coincide with the start of fiscal year 2024, the City is following the recommendation of its independent auditors. The purchase order change process is embedded into the system's technology controls to follow the same purchase-to-pay workflow requirements as original requisitions, with the exception of a minor tolerance to account for immaterial changes in unit pricing or shipping. The control was tested and approved by staff and the City's implementation team prior to going live, and has been in place and operating effectively since day one of the following fiscal year.

Further, with respect to the FY23 finding, several compensating controls were in place throughout the year, which mitigated the risk of a material misstatement in the financial statements. First, line-by-line budgetary controls in the system prevent a requisition from entering the workflow on the front end (making it impossible to be transacted against let alone paid) if such requisition, combined with the cumulative sum of paid invoices, unpaid invoices, and approved requisitions would cause a budgetary overage in that individual line. Second, a three-way match is required between the requisition / purchase order quantities and amounts, the receipt quantities, and the invoice amounts before an invoice can be posted and paid. Third, system-level technology controls limit user authority at both function and account levels. And fourth, though the item tested was out of scope, accounts payable disbursements in excess of \$10,000 must be approved by Council-level signers on the City's operating bank account, which sharply reduces the likelihood that a post-approval change to an existing purchase order could lead to a material misstatement in the financial statements.

CITY OF MILFORD, DELAWARE
SCHEDULE OF FINDINGS AND QUESTIONS COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2023

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, 2023

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	2022-001	Accounting Records/Financial Statement Close Process	Unresolved – See 2023-001