

CITY OF MILFORD, NEBRASKA

FINANCIAL STATEMENTS

Year Ended September 30, 2019

CITY OF MILFORD, NEBRASKA

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MARVIN E. JEWELL & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Milford, Nebraska

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund and aggregate remaining fund information of the City of Milford, Nebraska (the City), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City, as of September 30, 2019, and the respective changes in modified cash basis financial position for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Other 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 statements of proprietary funds are presented in the supplementary information for purposes of additional analysis as required by Nebraska Revised Statute 19-2903 and are not a required part of the basic financial statements. The budgetary comparison schedule is presented in the supplementary information for purposes of additional analysis and is also not a required part of the basic financial statements.

The statements of proprietary funds in the supplementary information are the responsibility of management and were derived from and relate 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 statements of proprietary funds presented in the supplementary information are fairly stated in all material respects in relation to the basic financial statements as a whole, on the basis of accounting described in notes to statements of proprietary funds, Note A.

The budgetary comparison schedule, which is the responsibility of management, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 the City's 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.

Marvin E. Jewell & Co., P.C.

Lincoln, Nebraska
February 24, 2020

CITY OF MILFORD, NEBRASKA

Statement of Net Position – Modified Cash Basis

September 30, 2019

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	\$ 1,778,940	1,421,196	3,200,136
Restricted cash	1,210,259	36,311	1,246,570
Cash held by County Treasurer	18,902	-	18,902
Restricted cash held by County Treasurer	2,412	-	2,412
Cafeteria plan receivable	1,076	-	1,076
Investments	740,214	600,000	1,340,214
 Total assets	 <u>3,751,803</u>	 <u>2,057,507</u>	 <u>5,809,310</u>
LIABILITIES			
Payroll withholdings	982	-	982
 Total liabilities	 <u>982</u>	 <u>-</u>	 <u>982</u>
NET POSITION			
Net investment in capital assets	-	-	-
Restricted for:			
General government	612,043	-	612,043
Public safety	5,829	-	5,829
Public welfare	121,819	-	121,819
Culture and recreation	282,297	-	282,297
Debt service	190,683	-	190,683
Business activities	-	36,311	36,311
Unrestricted	2,538,150	2,021,196	4,559,346
Total net position	<u>\$ 3,750,821</u>	<u>2,057,507</u>	<u>5,808,328</u>

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

CITY OF MILFORD, NEBRASKA

Statement of Activities – Modified Cash Basis

For the Year Ended September 30, 2019

	Program Receipts				Net Receipts (Disbursements) and Changes in Net Position	
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities
Functions/Programs						
Governmental Activities						
General Government	\$ (952,385)	31,551	-	52,013	(868,821)	-
Public Safety	(410,481)	13,850	1,119	-	(395,512)	-
Streets	(312,245)	412	244,005	-	(67,828)	-
Public Welfare	(110,030)	24,684	15,227	-	(70,119)	-
Culture and Recreation	(301,107)	69,302	3,410	-	(228,395)	-
Principal, Interest and Charges on Debt	(69,398)	-	-	-	(69,398)	-
Total Governmental Activities	(2,155,646)	139,799	263,761	52,013	(1,700,073)	-
Business-Type Activities						
Water	(765,393)	300,373	-	91,298	-	(373,722)
Sewer	(170,582)	191,214	-	-	-	20,632
Total Business-Type Activities	(935,975)	491,587	-	91,298	-	(353,090)
Total Primary Government	\$ (3,091,621)	631,386	263,761	143,311	(1,700,073)	(353,090)
General Receipts:						
Property Tax					496,959	-
Property Tax Credit					25,204	-
Motor Vehicle Tax					44,943	-
Sales and Use Tax					199,761	-
In Lieu Tax					30,756	-
Occupation Tax					21,487	-
Other Tax					259	-
State Aid and Equalization					118,252	-
NPPD Payments					250,724	-
Unrestricted Investment Earnings					16,568	5,334
Restricted Investment Earnings					22,692	-
Insurance Proceeds					4,976	-
Total General Receipts					1,232,581	5,334
Bond and Note Proceeds, net					204,678	365,192
Total General Receipts and Net Bond Proceeds					1,437,259	370,526
Change in Net Position					(262,814)	17,436
Net Position - Beginning					4,013,635	2,040,071
Net Position - Ending					\$ 3,750,821	2,057,507

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

CITY OF MILFORD, NEBRASKA

Balance Sheet – Modified Cash Basis Governmental Funds

September 30, 2019

	General Fund	Debt Service	Street	Fire	Other Governmental Funds	Total
ASSETS						
CURRENT ASSETS						
Cash	\$ 1,052,920	-	312,009	209,974	204,037	1,778,940
Restricted cash	900,169	188,271	-	-	121,819	1,210,259
Cash held by County Treasurer	18,902	-	-	-	-	18,902
Restricted cash held by County Treasurer	-	2,412	-	-	-	2,412
Cafeteria plan receivable	1,076	-	-	-	-	1,076
TOTAL CURRENT ASSETS	<u>1,973,067</u>	<u>190,683</u>	<u>312,009</u>	<u>209,974</u>	<u>325,856</u>	<u>3,011,589</u>
OTHER ASSETS						
Investments	590,440	-	100,000	30,534	19,240	740,214
TOTAL ASSETS	<u>\$ 2,563,507</u>	<u>190,683</u>	<u>412,009</u>	<u>240,508</u>	<u>345,096</u>	<u>3,751,803</u>
LIABILITIES AND FUND BALANCES						
CURRENT LIABILITIES						
Payroll withholdings	\$ 982	-	-	-	-	982
TOTAL CURRENT LIABILITIES	<u>982</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>982</u>
FUND BALANCES						
Nonspendable	-	-	-	-	-	-
Restricted	900,169	190,683	-	-	121,819	1,212,671
Committed	-	-	-	-	161,405	161,405
Assigned	811,880	-	412,009	240,508	61,872	1,526,269
Unassigned	850,476	-	-	-	-	850,476
TOTAL FUND BALANCES	<u>2,562,525</u>	<u>190,683</u>	<u>412,009</u>	<u>240,508</u>	<u>345,096</u>	<u>3,750,821</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,563,507</u>	<u>190,683</u>	<u>412,009</u>	<u>240,508</u>	<u>345,096</u>	<u>3,751,803</u>

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

CITY OF MILFORD, NEBRASKA

Statement of Receipts, Disbursements and Changes in Fund Balances – Modified Cash Basis Governmental Funds

For the Year Ended September 30, 2019

	General Fund	Debt Service	Street	Fire	Other Governmental Funds	Total
RECEIPTS						
Taxes	\$ 691,596	73,391	38,229	-	16,153	819,369
Intergovernmental	368,976	-	244,005	-	-	612,981
Charges for services	116,313	-	412	890	22,184	139,799
Investment income	34,632	-	1,999	222	2,407	39,260
Insurance proceeds	4,976	-	-	-	-	4,976
Grants and donations	56,542	-	-	-	15,227	71,769
TOTAL RECEIPTS	<u>1,273,035</u>	<u>73,391</u>	<u>284,645</u>	<u>1,112</u>	<u>55,971</u>	<u>1,688,154</u>
DISBURSEMENTS						
Current:						
General Government	210,466	-	-	-	-	210,466
Public Safety	315,375	-	-	56,452	-	371,827
Streets	-	-	285,020	-	-	285,020
Public Welfare	7,251	-	-	-	99,208	106,459
Culture and Recreation	269,269	-	-	-	-	269,269
Debt Service	420	68,978	-	-	-	69,398
Capital Outlay:						
General Government	5,928	-	-	-	-	5,928
Public Safety	25,551	-	-	-	-	25,551
Streets	-	-	27,225	-	-	27,225
Public Welfare	-	-	-	-	3,571	3,571
Culture and Recreation	31,838	-	-	-	-	31,838
Capital Projects:						
General Government	735,991	-	-	-	-	735,991
Public Safety	13,103	-	-	-	-	13,103
TOTAL DISBURSEMENTS	<u>1,615,192</u>	<u>68,978</u>	<u>312,245</u>	<u>56,452</u>	<u>102,779</u>	<u>2,155,646</u>
EXCESS RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(342,157)</u>	<u>4,413</u>	<u>(27,600)</u>	<u>(55,340)</u>	<u>(46,808)</u>	<u>(467,492)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	57,000	42,000	60,000	159,000
Transfers out	(159,000)	-	-	-	-	(159,000)
Issuance of debt	204,678	-	-	-	-	204,678
TOTAL OTHER FINANCING SOURCES (USES)	<u>45,678</u>	<u>-</u>	<u>57,000</u>	<u>42,000</u>	<u>60,000</u>	<u>204,678</u>
NET CHANGE IN FUND BALANCES	<u>(296,479)</u>	<u>4,413</u>	<u>29,400</u>	<u>(13,340)</u>	<u>13,192</u>	<u>(262,814)</u>
FUND BALANCES - BEGINNING	<u>2,859,004</u>	<u>186,270</u>	<u>382,609</u>	<u>253,848</u>	<u>331,904</u>	<u>4,013,635</u>
FUND BALANCES - ENDING	<u>\$ 2,562,525</u>	<u>190,683</u>	<u>412,009</u>	<u>240,508</u>	<u>345,096</u>	<u>3,750,821</u>

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

CITY OF MILFORD, NEBRASKA

Statement of Net Position – Modified Cash Basis Proprietary Funds

September 30, 2019

	<u>Business-Type Activities – Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash	\$ 741,680	679,516	1,421,196
Restricted cash	<u>28,411</u>	<u>7,900</u>	<u>36,311</u>
TOTAL CURRENT ASSETS	<u>770,091</u>	<u>687,416</u>	<u>1,457,507</u>
OTHER ASSETS			
Investments	<u>300,000</u>	<u>300,000</u>	<u>600,000</u>
TOTAL ASSETS	<u>1,070,091</u>	<u>987,416</u>	<u>2,057,507</u>
NET POSITION			
Net investment in capital assets	-	-	-
Restricted	28,411	7,900	36,311
Unrestricted	<u>1,041,680</u>	<u>979,516</u>	<u>2,021,196</u>
TOTAL NET POSITION	<u>\$ 1,070,091</u>	<u>987,416</u>	<u>2,057,507</u>

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

CITY OF MILFORD, NEBRASKA

Statement of Receipts, Disbursements, and Changes in Net Position – Modified Cash Basis Proprietary Funds

For the Year Ended September 30, 2019

	Business-Type Activities – Enterprise Funds		
	Water	Sewer	Total
OPERATING RECEIPTS			
User fees	\$ 289,489	190,914	480,403
Miscellaneous income	10,884	300	11,184
TOTAL OPERATING RECEIPTS	<u>300,373</u>	<u>191,214</u>	<u>491,587</u>
OPERATING DISBURSEMENTS			
Salaries	49,880	74,457	124,337
Payroll taxes	3,813	5,347	9,160
Employee benefits	-	13,416	13,416
Retirement	787	3,003	3,790
Meetings and training	2,418	2,044	4,462
Repairs and maintenance	135,112	23,512	158,624
Utilities	22,908	7,839	30,747
Telephone	1,628	722	2,350
Insurance	11,549	8,153	19,702
Operating supplies	6,289	13,431	19,720
Office supplies	3,324	3,481	6,805
Gas and oil	2,422	2,155	4,577
Legal and professional	5,420	3,876	9,296
Miscellaneous	951	468	1,419
TOTAL OPERATING DISBURSEMENTS	<u>246,501</u>	<u>161,904</u>	<u>408,405</u>
OPERATING INCOME (LOSS)	<u>53,872</u>	<u>29,310</u>	<u>83,182</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS)			
Investment income	1,698	3,636	5,334
Proceeds from NDEQ loan	365,192	-	365,192
Capital grant	91,298	-	91,298
Capital outlay	(479,292)	(8,678)	(487,970)
Loan payments, principal, interest and fees	(39,600)	-	(39,600)
TOTAL NON-OPERATING RECEIPTS (DISBURSEMENTS)	<u>(60,704)</u>	<u>(5,042)</u>	<u>(65,746)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	<u>(6,832)</u>	<u>24,268</u>	<u>17,436</u>
CAPITAL CONTRIBUTIONS	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	<u>(6,832)</u>	<u>24,268</u>	<u>17,436</u>
NET POSITION - BEGINNING	<u>1,076,923</u>	<u>963,148</u>	<u>2,040,071</u>
NET POSITION - ENDING	<u>\$ 1,070,091</u>	<u>987,416</u>	<u>2,057,507</u>

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

CITY OF MILFORD, NEBRASKA

Notes to Financial Statements

September 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – The City of Milford, Nebraska (the City) is a governmental entity established under and governed by the laws of the State of Nebraska. As a political subdivision of the State, the City is exempt from State and Federal income taxes. The City has considered all potential component units for which it is financially accountable and other organizations which are fiscally dependent on the City or the significance of their relationship with the City is such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City. No component units were identified. The accompanying financial statements present the financial position and the changes in net position of the City only. The City is not includable as a component unit within another reporting entity.

Basis of Presentation – The accompanying basic financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by GASB. These modified cash basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole within the limitations of the modified cash basis of accounting. They include all funds of the reporting entity except for fiduciary funds and component units that are fiduciary in nature, if applicable. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed, in whole or part, by fees charged to external parties for goods or services.

FUND FINANCIAL STATEMENTS

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, net position or fund balance, receipts and expenditures. The City's funds are organized into two major categories: governmental and proprietary. The City presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City, is determined by the Board to be major, or meets the following criteria:

- (a) Total assets, liabilities, receipts or expenditures of that individual governmental or enterprise fund are at least ten percent (10%) of the corresponding total for all funds of that category or type.

CITY OF MILFORD, NEBRASKA

Notes to Financial Statements

September 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (b) Total assets, liabilities, receipts or expenditures of the individual governmental fund or enterprise fund are at least five percent (5%) of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The term "proceeds of specific revenue sources" establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. The reporting entity includes the following special revenue funds:

<i>Fund</i>	<i>Brief Description</i>
<i>Major Funds</i>	
Street	Accounts for motor vehicle fees and state allocations received and expenditures paid for street maintenance, construction and improvements.
Fire	Accounts for receipts from rural fire department payments, rents and donations and the expenditures paid for related costs.
<i>Non-major Funds</i>	
Economic Development	Accounts for the city sales tax committed to finance the economic development of the City and related expenditures paid for economic development of the City.
Senior Center	Accounts for the receipt of revenues committed to providing meals and services to the elderly citizens of the City and related expenditures.
Special Gifts	Accounts for donations or memorials restricted to the Senior Center.

CITY OF MILFORD, NEBRASKA

Notes to Financial Statements

September 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Service Fund

The debt service fund is used to account for financial resources that are restricted, committed, or assigned to expenditures for the payment of general long-term principal, interest, and related costs. The debt service fund is reported as a major fund.

Proprietary Funds

Enterprise Funds

Enterprise funds are used to account for business-type activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise funds that are reported as major funds:

<i>Fund</i>	<i>Brief Description</i>
<i>Major Funds</i>	
Water	Accounts for the activities of the City's water distribution operations.
Sewer	Accounts for the activities of the City's sewer system operations.

Basis of Accounting, Measurement Focus – Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions are recorded regardless of the measurement focus applied.

MEASUREMENT FOCUS

In the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined in item (b) below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- (a) All governmental funds utilize a "current financial resources" measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

CITY OF MILFORD, NEBRASKA

Notes to Financial Statements

September 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (b) The proprietary funds utilize an “economic resources” measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), and net financial position. Proprietary fund equity is classified as net position.

BASIS OF ACCOUNTING

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting recognizes assets, liabilities, net position/fund balance, receipts and expenditures when they result from cash transactions. This modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances arising from cash transactions:

- Cash-based interfund receivables and payables
- Investments
- Cash-based payroll liabilities and assets

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) *are not recorded* in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the City utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

ASSETS, LIABILITIES AND EQUITY

Cash and Cash Equivalents – For purposes of financial reporting, cash and cash equivalents includes all demand and savings accounts and certificates of deposits or short-term investments with an original maturity of three months or less.

Investments – Investments classified in the financial statements consist entirely of certificates of deposit acquired with cash whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

Inventories – Inventory purchases are accounted for as operating supply expenditures of the proprietary fund upon disbursement of funds.

CITY OF MILFORD, NEBRASKA

Notes to Financial Statements

September 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets – Capital assets resulting from cash transactions are accounted for as capital outlay or capital project disbursements of the respective fund upon acquisition. Maintenance and repairs are expended as incurred and are reported as program operating disbursements in the governmental funds and as a separate expense in the proprietary funds.

Long-term Debt – Long-term debt of governmental and proprietary funds are not reported as liabilities in the financial statements. In the governmental funds, the issuance of debt is reported net of premiums or discounts, as other financing sources. Payments of principal and interest are reported as debt service disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current debt service disbursements. In the proprietary funds, the issuance of debt is reported net of premiums or discounts, as non-operating receipts. Payments of principal, interest, fees, and issuance costs are reported as current non-operating disbursements.

Equity Classification – In the government-wide statements, equity is classified as net position and displayed in three components:

- (a) Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt. As the City utilizes the modified cash basis of accounting, there is no resulting net investment in capital assets.
- (b) Restricted – Consists of restricted assets with constraints placed on the use either by: (1) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- (c) Unrestricted – Net amount of assets that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the City's policy to first use restricted net resources prior to the use of unrestricted net resources when an expenditure is incurred for purposes for which both restricted and unrestricted net resources are available.

Governmental fund equity is reported as a fund balance and classified as nonspendable, restricted, committed, assigned and unassigned based on the respective level of constraint. These classifications are defined as follows:

- (a) Nonspendable – Amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.
- (b) Restricted – Amounts constrained regarding use from restrictions externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or by restrictions imposed by law through constitutional provisions or enabling legislation.
- (c) Committed – Amounts constrained regarding use for specific purposes pursuant to requirements imposed by formal action of the City's highest level of decision-making authority. The City's highest level of decision-making authority is made by ordinance or resolution.

CITY OF MILFORD, NEBRASKA

Notes to Financial Statements

September 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (d) Assigned – Amounts constrained by the City's intent to be used for specific purposes but that are neither restricted nor committed. Assignments of fund balance may be made by city council action or management decision when the city council has delegated that authority.
- (e) Unassigned – The residual classification of the general fund for spendable amounts that have not been restricted, committed, or assigned to specific purposes.

It is the City's policy to first use restricted funds prior to the use of unrestricted fund balances when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. It is also City policy to use committed fund balances before assigned fund balances and assigned fund balances before unassigned amounts when an expenditure is incurred for purposes for which amounts in those classifications are available to be used.

Proprietary fund equity is reported as net position and classified in the same manner as the government-wide statements, as previously described.

Receipts and Disbursements –

PROGRAM RECEIPTS

In the Statement of Activities, modified cash basis receipts that are derived directly from each governmental activity or from parties outside the City's taxpayers are reported as program receipts. The City has the following program receipts in each activity:

General Government	Fees, rents, permits and licenses
Public Safety	Police and Fire service calls and other charges, Rural Fire District payments, grants and donations
Streets	Highway allocation and incentive payments, reimbursements and labor and materials sold
Public Welfare	Lot sales, economic development loan repayments and specific donations and memorials
Culture and Recreation	Park and pool admission, lesson and registration fees; library fines and fees, grants and donations

The City recognizes receipts under a net lease of the electric distribution system in the General Fund. Rental receipts are equal to twelve percent of the adjusted gross revenues received by Nebraska Public Power District during the preceding month from sales to City customers purchasing electricity from the distribution system. A new 25-year lease was adopted January 1, 2019, replacing the prior fifteen-year lease dated March 1, 2003.

All other governmental receipts are reported as general. All taxes are classified as general receipts even if restricted for a specific purpose. Property taxes attach as an enforceable lien on property as of January 1st. Taxes are payable in two installments on May 1st and September 1st. The County bills and collects property taxes and remits to the City monthly. City property tax receipts are recognized when received by the County Treasurer.

CITY OF MILFORD, NEBRASKA

Notes to Financial Statements

September 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

OPERATING RECEIPTS AND DISBURSEMENTS

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods and/or services in connection with the proprietary funds' principle ongoing operations. The principle operating receipts are user fees. The principle operating expenses include the cost of sales and services, administrative expenses and overhead charges. Operating receipts and disbursements also include other transactions not related to capital and related financing, non-capital financing or investing activities. Capital outlays are reported as non-operating expenses.

Internal and Interfund Balances and Activities – In the process of aggregating the financial information for the government-wide Statement of Net Position and Statement of Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

FUND FINANCIAL STATEMENTS

Interfund activity resulting from cash transactions or events, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

- (a) Interfund loans – Amounts provided with a requirement for repayment are reported as interfund receivables and payables.
- (b) Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
- (c) Interfund reimbursements – Repayments from funds responsible for certain expenditures to the funds that initially paid for them are not reported as reimbursements, but as adjustments to disbursements in the respective funds.
- (d) Interfund transfers – Flow of assets from one fund to another when repayment is not expected are reported as transfers in and out.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Interfund activity and balances resulting from cash transactions or events, if any, are eliminated or reclassified in the government-wide financial statements as follows:

- (a) Internal balances – Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the Statement of Net Position, except for the net residual amounts due between governmental and business-type activities, which are reported as Internal Balances.
- (b) Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Contributions – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities.

CITY OF MILFORD, NEBRASKA

Notes to Financial Statements

September 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates – The preparation of financial statements in conformity with the modified cash basis of accounting used by the City requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as commitments and contingencies disclosures). Accordingly, actual results could differ from those estimates.

Accounting Changes – In May 2019, the GASB issued Statement 91, *Conduit Debt Obligations*. The requirements of this Statement are effective for fiscal years beginning after December 15, 2020. This Statement is not expected to have a material effect on the City's statement of net position or activities.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a local government unit, the City is subject to various federal, state and local laws and contractual regulations. No instances of noncompliance considered material to the financial statements were noted.

NOTE 3 – CASH AND INVESTMENTS

The statutes of the State of Nebraska authorize the City to invest in certificates of deposit and time deposits of banks or capital stock financial institutions, obligations of the United States government and agencies thereof any securities as provided in the Public Funds Deposit Security Act. The City's funds were invested in demand checking accounts, Negotiable Order of Withdrawal (NOW) accounts, Short-Term Federal Investment Trust (STFIT) accounts and certificates of deposits. Investments at year end consisted solely of certificates of deposit. The fair market value of these investments is the same as cost.

At September 30, 2019, the City held the following deposits and investments:

	Carrying Value	Maturities in Year		Credit Rating
		Less than 1	1-5	
Petty cash	\$ 125	125	-	n/a
Demand deposits	3,422,796	3,422,796	-	n/a
Time deposits - certificates of deposit	1,340,214	832,357	507,857	n/a
STFIT accounts	<u>1,023,785</u>	<u>1,023,785</u>	-	unrated
Total deposits and investments	<u>\$ 5,786,920</u>	<u>5,279,063</u>	<u>507,857</u>	

Reconciliation to Statement of Net Position

Cash	\$ 3,200,136
Restricted cash	1,246,570
Investments	<u>1,340,214</u>
	<u>\$ 5,786,920</u>

CITY OF MILFORD, NEBRASKA

Notes to Financial Statements

September 30, 2019

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The City's deposit policy for custodial credit risk requires compliance with the provisions of state law. No deposits in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC) shall be allowed to accumulate in the bank unless 1) the bank gives a surety bond; 2) the bank can give the City securities as collateral on the excess funds; 3) the bank can issue a joint custody receipt to the benefit of the City where a third party bank actually holds the security.

As of September 30, 2019, the City's funds were not entirely insured or collateralized by the depository banks. The City had unsecured deposits at September 30, 2019 of \$84,183 at Farmers & Merchants Bank. According to State legislation, the City is required to secure 102% of the deposits over the FDIC coverage. During the fiscal year ending September 30, 2019 the City was not in compliance with the provisions of its enabling State legislation and the City's cash management and investment policy due to these amounts.

Investment Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City has no investment policy that limits investments based on maturity. The City discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments, where applicable. At September 30, 2019, the City's investments with maturity dates were limited to time deposits that were not exposed to interest rate risk.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. \$1,023,785 is held in STFIT accounts which are unrated. STFIT invests in only the highest quality securities, including U.S. government, rated U.S. sponsored agencies, and guaranteed student loans.

Concentration of Investment Credit Risk – Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investment in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. At September 30, 2019, all the City's investments are comprised of certificate of deposits held at Jones National Bank and Farmers & Merchants Bank.

NOTE 4 – RESTRICTED ASSETS

Restricted assets of \$1,248,982 are comprised of the following amounts:

- a) \$52,013 held by the general fund for special gifts received during the year for the Community Center and other specific projects.
- b) \$560,030 held by the general sinking fund for special projects to enhance and make better, the City of Milford. The funds are subject to donor restrictions and are to be paid out under the direction of a specially formed committee.
- c) \$282,297 held by the Milford Webermeier Library sinking fund to enhance the operation of the library. The funds are subject to donor restrictions and are to be paid out under the direction of the Library Board. The funds were not intended to replace present financing or pay administration costs, but can be used to provide additional personnel whose job and purpose is to add programs and benefits to the library.

CITY OF MILFORD, NEBRASKA

Notes to Financial Statements

September 30, 2019

NOTE 4 – RESTRICTED ASSETS (CONTINUED)

- d) \$121,819 held by the special gifts fund to enhance the operation of the senior center. The funds are subject to donor restrictions and are to be paid out under the direction of the Senior Center Board. The funds were not intended to replace present financing or pay administration costs, but can be used to provide additional personnel whose job and purpose is to add programs and benefits to the center.
- e) \$190,683 held by the debt service fund for the payment of general long-term principal, interest and related costs,
- f) \$5,829 held by the police fund for law enforcement purposes,
- g) \$7,900 held by the sewer fund for the payment of customer deposits.
- h) \$28,411 held by the water fund, \$7,964 for the payment of customer deposits and \$20,447 for the payment of principal, interest, and fees on long-term loan.

NOTE 5 – INTERFUND BALANCES AND ACTIVITY

Transfers between funds of the primary government for the year ended September 30, 2019 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds		
General fund	\$ -	159,000
Street	57,000	-
Fire	42,000	-
Non-major Funds		
Senior Center	<u>60,000</u>	<u>-</u>
Total	<u>\$ 159,000</u>	<u>159,000</u>

The flow of assets from one fund to another where repayment is not expected is reported as transfers. Transfers are used to (1) move receipts from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. General fund internal transfers have been eliminated.

CITY OF MILFORD, NEBRASKA

Notes to Financial Statements

September 30, 2019

NOTE 6 – FUND BALANCE (GOVERNMENTAL FUNDS)

	Special Revenue Funds					
	General Fund	Debt Service Fund	Other Governmental			Total
			Street	Fire	Funds	
Fund balances:						
Nonspendable	\$ -	-	-	-	-	-
Restricted						
General government	612,043	-	-	-	-	612,043
Public safety	5,829	-	-	-	-	5,829
Public welfare	-	-	-	-	121,819	121,819
Culture and recreation	282,297	-	-	-	-	282,297
Debt service	-	190,683	-	-	-	190,683
Committed						
Economic development	-	-	-	-	161,405	161,405
Assigned						
Public Safety	259,395	-	-	240,508	-	499,903
Street	-	-	412,009	-	-	412,009
Public Welfare	58,358	-	-	-	61,872	120,230
Culture and Recreation	494,127	-	-	-	-	494,127
Unassigned	850,476	-	-	-	-	850,476
Total fund balances	<u>\$ 2,562,525</u>	<u>190,683</u>	<u>412,009</u>	<u>240,508</u>	<u>345,096</u>	<u>3,750,821</u>

NOTE 7 – RETIREMENT PLANS

The Retirement Plan of the City of Milford is a money purchase pension plan, which is a defined contribution plan covering substantially all of the City's employees. Enrollment in the plan is mandatory. The plan, administered by Ameritas Life Insurance Corporation, was established and is amended by Board resolution. The plan requires that the employee contribute at least 5% and the City contribute 5% of the employee's base salary each month. Benefits vest 100% after 3 years of service. Any forfeiture during the year is used to reduce any employer contributions or pay plan expenses. The City's required contribution amounted to \$17,971 and the employee contributions totaled \$26,040 for the year ended September 30, 2019. Forfeitures of \$1,905 occurred during the fiscal year. All required employer and employee contributions have been transferred to the plan's trustee for the year ended September 30, 2019.

The City adopted the City of Milford, Nebraska 457 Plan, a nonqualified, deferred compensation plan, with an effective date of April 15, 2016. Enrollment in the plan is not mandatory. The plan, administered by Ameritas Life Insurance Corporation, was established and is amended by Board resolution. The City does not match the employee contributions. Benefits vest 100% immediately with no substantial risk of forfeiture. The employee contributions totaled \$532 for the year ended September 30, 2019. All employee contributions have been transferred to the plan's trustee for the year ended September 30, 2019.

CITY OF MILFORD, NEBRASKA

Notes to Financial Statements

September 30, 2019

NOTE 8 – RISK MANAGEMENT

The City is exposed to various risks of loss from torts; theft of; damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. The City manages these various risks of loss as follows:

<i>Type of Loss</i>	<i>Method Managed</i>	<i>Risk of Loss Retained</i>
(a) Torts, errors and omissions	Purchased commercial insurance	None
(b) Workers compensation, health and life	Purchased commercial insurance	None
(c) Physical property loss, natural disasters and earthquakes	Purchased commercial insurance	None

Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three years. Due to an increase in workers compensation claims, the City anticipates a significant increase in the workers compensation premiums for the fiscal year ended September 30, 2020.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Long Term Liabilities - As of September 30, 2019, the long-term debt payable from governmental fund resources consisted of the following:

	Balance Sept 30, 2018	Bonds Issued	Bonds Redeemed	Balance Sept 30, 2019	Amount Due Within One Year
General Obligation Water Refunding Bonds: Dated May 2014, interest 0.25% to 2.35%. Final payment due September 2021.	195,000	-	(65,000)	130,000	(65,000)
	<u>\$ 195,000</u>	<u>-</u>	<u>(65,000)</u>	<u>130,000</u>	<u>(65,000)</u>

The aggregate schedule of maturities of long-term liabilities, including principal and interest, for the years subsequent to September 30, 2019 is as follows:

Year ending	Governmental Activities		
September 30	Principal	Interest	Total
2020	65,000	2,860	67,860
2021	65,000	1,528	66,528
	<u>\$ 130,000</u>	<u>4,388</u>	<u>134,388</u>

CITY OF MILFORD, NEBRASKA

Notes to Financial Statements

September 30, 2019

NOTE 9 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Loan Contracts - As of September 30, 2019, the long-term liabilities from proprietary resources consisted of the following:

	Balance	Loans	Loans	Balance	Amount Due
	Sept 30, 2018	Issued	Redeemed	Sept 30, 2019	Within One Year
Nebraska Department of Environmental Quality (NDEQ) loan: Dated January 2018, interest 2.00%. Final payment due December 2038.	738,162	253,362	(20,484)	971,040	(41,179)
	<u>\$ 738,162</u>	<u>253,362</u>	<u>(20,484)</u>	<u>971,040</u>	<u>(41,179)</u>

The City pledges all the Water Fund revenues as the dedicated source of revenue for the payment of the above promissory note.

The aggregate schedule of maturities of long-term liabilities for the business-type funds, including principal and interest, for the years subsequent to September 30, 2019 is as follows:

Year ending	Business-Type Activities			
September 30	Principal	Interest	Fees	Total
2020	\$ 41,179	19,216	9,608	70,003
2021	42,007	18,388	9,194	69,589
2022	42,851	17,544	8,772	69,167
2023	43,712	16,683	8,341	68,736
2024	44,591	15,804	7,902	68,297
2025-2029	236,765	65,210	32,605	334,580
2030-2034	261,536	40,439	20,220	322,195
2035-2039	258,399	13,079	6,539	278,017
	<u>\$ 971,040</u>	<u>206,363</u>	<u>103,181</u>	<u>1,280,584</u>

New City Building – In September 2018, the City adopted Ordinance 932, authorizing the issuance of General Obligation Municipal Building Bonds not to exceed \$800,000 towards the construction of a new City building. Total project costs are estimated to be \$1,350,000. As of September 30, 2019, the City has spent \$834,800 towards the project. \$250,000 was contributed by the City's Community Betterment fund and \$584,800 from unrestricted funds and a short-term construction loan. The loan will cover construction costs until the project is finalized and the bonds are issued. The balance of this loan as of September 30, 2019 was \$204,678 with an interest rate of 2.1%.

Interest of \$420, \$3,933, and \$15,325 was paid by the general, debt service, and water fund, respectively, during the year.

Operating Lease – On August 27, 2018, the City entered into a copier lease with Canon Financial America, Inc. The lease agreement requires 60 monthly payments of \$165 beginning September of 2018. Lease expense was \$1,980 for the year ended September 30, 2019.

CITY OF MILFORD, NEBRASKA

Notes to Financial Statements

September 30, 2019

NOTE 9 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Minimum future obligations required by the above operating lease are summarized below:

<u>Year Ending</u> <u>September 30</u>	<u>Total</u>
2020	\$ 1,980
2021	1,980
2022	1,980
2023	1,815
	<u>\$ 7,755</u>

Concentration of Credit Risk – The City provides water and sewer services to residents of the City of Milford, Nebraska. In the course of providing these services, the City extends credit to its customers, which is uncollateralized.

The Milford Economic Development Committee accepts applications for grants and loans to encourage economic development in the City. Upon approval from the Milford Economic Development Committee, the grant and/or loan applications are presented to the City Council. Upon City Council approval, grants and/or loans are distributed. Based on the loan agreement, the loan is either:

- 1) To be repaid over time, or
- 2) The principal amount is to be forgiven over time as certain criteria are met.

The loans are not collateralized. Grants are not expected to be repaid. To date, no grants have been awarded.

Compliance Audits – In the normal course of operations, the City receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Litigation – The City is subject to claims and other actions arising in the ordinary course of business. Some of these claims and actions have resulted in lawsuits where the City is a defendant. Management believes that the ultimate obligations, if any, which may result from unfavorable outcomes of such lawsuits, will not have a material adverse effect on the financial position, results of operations or cash flows of the City and such obligations, if any, would be adequately covered by insurance.

CITY OF MILFORD, NEBRASKA

Notes to Financial Statements

September 30, 2019

NOTE 10 - RELATED ORGANIZATION

The City Council appoints the governing Board of Commissioners for the Housing Authority of the City of Milford (Housing Authority). The Housing Authority then submits their minutes to the City's Council. While the City Council appoints a voting majority of the Housing Authority's governing body, the City does not retain the ability to impose its will on the Housing Authority nor does the Housing Authority provide specific financial benefits to or burdens on the City. The City has determined that due to the insignificance of financial accountability between the two entities, the Housing Authority does not meet the criteria of a component unit.

CITY OF MILFORD, NEBRASKA

**Statement of Net Position
Proprietary Funds
(Supplementary Information)**

September 30, 2019

	Business-Type Activities -- Enterprise Funds		
	Water	Sewer	Total
ASSETS			
CURRENT ASSETS			
Cash	\$ 741,680	679,516	1,421,196
Restricted cash	28,411	7,900	36,311
Accounts receivable, less allowance for doubtful accounts	33,270	21,704	54,974
Prepaid expense	2,023	2,023	4,046
Inventory	16,345	-	16,345
TOTAL CURRENT ASSETS	821,729	711,143	1,532,872
NET PROPERTY AND EQUIPMENT	1,476,594	904,056	2,380,650
OTHER ASSETS			
Investments	300,000	300,000	600,000
TOTAL ASSETS	2,598,323	1,915,199	4,513,522
LIABILITIES			
CURRENT LIABILITIES			
Current portion of long-term debt	41,179	-	41,179
Accounts payable	7,540	8,505	16,045
Accrued expenses	6,122	4,693	10,815
Unearned revenue	1,500	-	1,500
Customer deposits (payable from restricted assets)	7,964	7,900	15,864
TOTAL CURRENT LIABILITIES	64,305	21,098	85,403
LONG-TERM LIABILITIES	929,861	-	929,861
TOTAL LIABILITIES	994,166	21,098	1,015,264
NET POSITION			
Net investment in capital assets	505,554	904,056	1,409,610
Restricted	20,447	-	20,447
Unrestricted	1,078,156	990,045	2,068,201
TOTAL NET POSITION	\$ 1,604,157	1,894,101	3,498,258

CITY OF MILFORD, NEBRASKA

Statement of Revenues, Expenses, and Changes in Net Position Proprietary Funds (Supplementary Information)

For the Year Ended September 30, 2019

	<u>Business-Type Activities – Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES			
User fees	\$ 283,291	190,364	473,655
Miscellaneous income	9,322	300	9,622
TOTAL OPERATING REVENUES	<u>292,613</u>	<u>190,664</u>	<u>483,277</u>
OPERATING EXPENSES			
Salaries	48,809	71,818	120,627
Payroll taxes	3,731	5,143	8,874
Employee benefits	-	13,475	13,475
Retirement	772	2,900	3,672
Meetings and training	2,418	1,892	4,310
Repairs and maintenance	135,149	29,730	164,879
Utilities	22,463	7,823	30,286
Telephone	1,702	721	2,423
Insurance	11,549	8,153	19,702
Operating supplies	6,289	13,514	19,803
Office supplies	3,439	3,563	7,002
Legal and professional	3,946	1,853	5,799
Gas and oil	2,160	2,353	4,513
Depreciation	101,936	51,951	153,887
Miscellaneous	951	468	1,419
TOTAL OPERATING EXPENSES	<u>345,314</u>	<u>215,357</u>	<u>560,671</u>
OPERATING INCOME (LOSS)	<u>(52,701)</u>	<u>(24,693)</u>	<u>(77,394)</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment income	1,698	3,636	5,334
Capital grant	63,341	-	63,341
Disposition of equipment	(4,521)	-	(4,521)
Interest expense	(15,369)	-	(15,369)
Loan fees	(3,790)	-	(3,790)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>41,359</u>	<u>3,636</u>	<u>44,995</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	<u>(11,342)</u>	<u>(21,057)</u>	<u>(32,399)</u>
CAPITAL CONTRIBUTIONS	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	<u>(11,342)</u>	<u>(21,057)</u>	<u>(32,399)</u>
NET POSITION - BEGINNING	<u>1,615,499</u>	<u>1,915,158</u>	<u>3,530,657</u>
NET POSITION - ENDING	<u>\$ 1,604,157</u>	<u>1,894,101</u>	<u>3,498,258</u>

CITY OF MILFORD, NEBRASKA

Notes to Statements of Proprietary Funds (Supplementary Information)

September 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The Statements of Proprietary Funds (Supplementary Information) have been included and prepared in conformity with generally accepted accounting principles to satisfy Nebraska Revised Statute 19-2903.

Measurement Focus – The statements of proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), and net financial position. All assets, deferred outflows, liabilities and deferred inflows (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported.

Basis of Accounting – Revenues from user fees and sale of labor, material and water are reported as operating revenues. Transactions which are capital, financing or investing related are reported as non-operating revenues. All expenses related to operating the proprietary funds are reported as operating expenses. Interest expense and financing costs are reported as non-operating expenses.

Use of Estimates – In preparing the statements of proprietary funds in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that will affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ASSETS, LIABILITIES AND EQUITY

Cash, Cash Equivalents, and Investments - These items are presented in the same manner as in the modified cash basis financial statements.

Allowance for Doubtful Accounts – Estimated allowances for uncollectible amounts are determined based upon past collection experience and current economic conditions.

Inventories – Inventories are valued at cost using the first-in/first-out (FIFO) method.

Accrued Expenses – Accrued expenses represent the liability for accrued interest on long-term debt obligations as well as the liability for accrued salaries, vacation and sick leave. The City pays wages every two weeks. The cost of unused employee vacation time payable in the event of employee termination is also accrued. No accrual is made for sick pay since it does not vest. No liability is recorded for non-vesting accumulating rights to receive vacation and sick leave benefits.

Long-Term Debt – Long-term debts are reported as liabilities. Bond premiums and discounts, as well as issuance costs are reported as current expenses or revenues.

Deferred Outflows/Inflows of Resources – In addition to assets, the Statement of Net Position-Proprietary Funds will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. At this time, the City has no transactions that meet the definition of deferred outflows of resources.

CITY OF MILFORD, NEBRASKA

Notes to Statements of Proprietary Funds (Supplementary Information)

September 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition to liabilities, the statement of net position-proprietary funds will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. At this time, the City has no transactions that meet the definition of deferred inflows of resources.

Equity Classification -- Equity is classified as net position and displayed in three components as in the government-wide statements: net investment in capital assets, restricted and unrestricted.

NOTE B – RECEIVABLES

Management considers all business-type funds accounts receivable to be collectible, accordingly, no allowance for doubtful accounts has been deemed necessary.

NOTE C – PROPERTY AND EQUIPMENT

Capital Assets – Capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Contributed capital assets are valued at their estimated fair market value on the date received. Support received from federal and state grants and from the municipality and others to pay for a portion of the utility plant are considered contributions in aid of construction and are classified in the income statement as contributions and recognized when earned.

Maintenance and repairs are expended as incurred. When properties are disposed of, the related costs and accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is credited to a revenue or charged to an expense.

Depreciation of capital assets is computed using the straight-line method over the estimated useful lives of the respective classes of assets as follows:

Buildings and improvements.....	10-40 years
Equipment.....	3-10 years

CITY OF MILFORD, NEBRASKA

Notes to Statements of Proprietary Funds (Supplementary Information)

September 30, 2019

NOTE C – PROPERTY AND EQUIPMENT (CONTINUED)

Major classes of property and equipment in the proprietary funds at September 30, 2019 consist of the following:

	CAPITAL ASSETS, NOT		CAPITAL ASSETS,		
		Construction			
	Land	in Progress	Equipment	Systems	Totals
Business-type activities					
Water					
Balance September 30, 2018	\$ 1,200	939,509	199,462	1,187,723	2,327,894
Increases	-	328,433	-	1,254,523	1,582,956
Decreases	-	1,254,523	13,422	9,527	1,277,472
Balance September 30, 2019	1,200	13,419	186,040	2,432,719	2,633,378
Accumulated Depreciation					
Balance September 30, 2018	-	-	136,061	937,214	1,073,275
Increases	-	-	18,155	83,781	101,936
Decreases	-	-	8,900	9,527	18,427
Balance September 30, 2019	-	-	145,316	1,011,468	1,156,784
Capital assets, net	1,200	13,419	40,724	1,421,251	1,476,594
Sewer					
Balance September 30, 2018	144,416	-	238,051	1,833,673	2,216,140
Increases	-	-	-	-	-
Decreases	-	-	36,661	195,192	231,853
Balance September 30, 2019	144,416	-	201,390	1,638,481	1,984,287
Accumulated Depreciation					
Balance September 30, 2018	-	-	177,794	1,082,339	1,260,133
Increases	-	-	14,722	37,229	51,951
Decreases	-	-	36,661	195,192	231,853
Balance September 30, 2019	-	-	155,855	924,376	1,080,231
Capital assets, net	144,416	-	45,535	714,105	904,056
Business-type Activities					
Capital assets, net	\$ 145,616	13,419	86,259	2,135,356	2,380,650

Depreciation expense charged to the business-type activities is as follows:

Water	\$ 101,936
Sewer	51,951
Total depreciation expense	<u>\$ 153,887</u>

CITY OF MILFORD, NEBRASKA

Budgetary Comparison Schedule – Budget and Actual – Cash Basis (Supplementary Information)

For the Year Ended September 30, 2019

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Positive (Negative)</u>
Receipts				
General			1,477,713	
Governmental fund internal transfers			667,500	
Debt Service			73,391	
Street			341,645	
Fire			43,112	
Economic Development			22,993	
Senior Center			89,871	
Special Gifts			3,107	
Water			758,561	
Sewer			194,850	
	<u>\$ 6,948,227</u>	<u>6,948,227</u>	<u>3,672,743</u>	<u>(3,275,484)</u>
Disbursements				
General			1,774,192	
Governmental fund internal transfers			667,500	
Debt Service			68,978	
Street			312,245	
Fire			56,452	
Economic Development			18,552	
Senior Center			80,556	
Special Gifts			3,671	
Water			765,393	
Sewer			170,582	
	<u>11,096,724</u>	<u>11,096,724</u>	<u>3,918,121</u>	<u>7,178,603</u>
	<u>\$ (4,148,497)</u>	<u>(4,148,497)</u>	<u>(245,378)</u>	<u>3,903,119</u>

CITY OF MILFORD, NEBRASKA

Notes to Budgetary Comparison Schedule (Supplementary Information)

For the Year Ended September 30, 2019

BUDGETARY COMPARISON SCHEDULE

Basis of Accounting

The budget is prepared on the cash basis of accounting. Revenues and expenditures are reported when they result from cash transactions. Because state law requires that a municipality's annual budget be prepared on the cash basis of accounting, the budget adopted by the City Council is inconsistent with generally accepted accounting principles.

Budget Law

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

- (a) The City Council shall prepare a proposed all-purpose operating budget statement in writing and file with the secretary or clerk.
- (b) Public hearings are conducted to obtain taxpayer comments.
- (c) A copy of the adopted budget must be filed with the levying board and the State Auditor's office. Proof of publication shall be attached.
- (d) Budgets are adopted on a cash basis. Amendments that alter the total expenditures require that an additional public hearing be held.

Revenues are budgeted in the year receipt is expected and expenditures are budgeted in the year expenses are expected to be paid. Appropriations for budgeted funds lapse at fiscal year-end.

MARVIN E. JEWELL & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

The Honorable Mayor and City Council
City of Milford, Nebraska

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 modified cash basis financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Milford, Nebraska (the City), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 24, 2020. Our report discloses that the City prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Authorization or approval of transactions, recording of transactions, and custody of the assets should normally be segregated activities. Adequate personnel are not available to assign responsibilities in such a way that different employees handle different parts of the same transaction. Authorization or approval of transactions, recording of transactions, and custody of the assets should normally be segregated activities.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The City will segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Milford, Nebraska's Response to Findings

The City's response to the findings identified in our audit is described above. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Marvin E. Jewell & Co., P.C.

Lincoln, Nebraska
February 24, 2020