

TOWN OF MILTON, DELAWARE
FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2013

TOWN OF MILTON, DELAWARE

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 8
BASIC FINANCIAL STATEMENTS:	
Government-wide financial statements	
Statement of net position	9
Statement of activities	10
Fund Financial Statements	
Governmental fund	
Balance sheet	11
Reconciliation of the governmental fund balance sheet to the statement of net position	12
Statement of revenues, expenditures, and changes in fund balance	13
Reconciliation of the statement of revenues, expenditures, and changes in fund balance of the governmental fund to the statement of activities	14
Proprietary fund	
Statement of net position	15
Statement of revenues, expenses, and changes in net position	16
Statement of cash flows	17
NOTES TO BASIC FINANCIAL STATEMENTS	18 - 30
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary comparison schedule - general fund	31

SUPPLEMENTARY INFORMATION

Independent auditors' report on supplementary information 32

General fund

Schedule of revenues and expenditures – budget and actual 33

Schedule of revenues – budget and actual 34

Schedule of expenditures – budget and actual 35

Utilities fund

Schedule of revenues and expenses 36

GOVERNMENT AUDITING STANDARDS REPORT

Independent auditors' 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* 37 - 38

Schedule of findings and responses 39



PKS & Company, P.A.

Pigg, Krahl & Stern

*Certified Public Accountants
& Advisors to Business*

ANDREW M. HAYNIE, CPA
SUSAN P. KEEN, CPA
MICHAEL C. KLEGER, CPA
JEFFREY A. MICHALIK, CPA
DANIEL M. O'CONNELL II, CPA
JEFFERY D. PRUITT, CPA
JOHN M. STERN, JR., CPA

INDEPENDENT AUDITORS' REPORT

To the Mayor and Council
Town of Milton, Delaware

Report on the Financial Statements

www.pkscpa.com

Salisbury
1801 SWEETBAY DRIVE
P.O. BOX 72
SALISBURY, MD 21803
TEL: 410.546.5600
FAX: 410.548.9576

Ocean City
12308 OCEAN GATEWAY, UNIT #5
OCEAN CITY, MD 21842
TEL: 410.213.7185
FAX: 410.213.7638

Lewes
1143 SAVANNAH ROAD, SUITE 1
LEWES, DE 19958
TEL: 302.645.5757
FAX: 302.645.1757

MEMBERS OF:

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MARYLAND ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

DELAWARE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

PKF INTERNATIONAL

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Town of Milton, Delaware as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Milton, Delaware's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Town of Milton, Delaware, as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and page 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2014, on our consideration of the Town of Milton, Delaware's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Milton, Delaware's internal control over financial reporting and compliance.

PKS + Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
January 25, 2014

TOWN OF MILTON, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013

This section of the Town of Milton's (the Town) annual report presents our discussion and analysis of the Town's financial performance during the fiscal year that ended on September 30, 2013. Please read it in conjunction with the Town's financial statements, which begin on page 9.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Financial Statements

The *Statement of Activities* presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other 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 Town include general government, public safety, public works, code enforcement, parks and recreation, and activities from grants. The business-type activities of the Town include water and trash services.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town 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 *near term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the Governmental Fund Balance Sheet and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

TOWN OF MILTON, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2013

Governmental Funds (Continued)

The Town maintains one major governmental fund, the General Fund. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances.

The Town adopts an annual appropriated budget for its General Fund. The basic governmental fund financial statements can be found on pages 11 through 14. Included in required supplementary information is a budgetary comparison statement for the General Fund to demonstrate compliance with this budget. The budgetary comparison can be found on page 31.

Proprietary Funds

The Town maintains one proprietary-type fund: an enterprise fund. *Enterprise* funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its water and trash activities. The basic proprietary fund financial statements can be found on pages 15 through 17 of this report.

Summary of Significant Accounting Policies and Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Notes to the financial statements are part of the basic financial statements and can be found on pages 18 through 30 of this report.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator of a government's overall financial condition and position. In the case of the Town, assets exceeded liabilities by \$4.5 million at the close of the current fiscal year. The Town's net position is divided into three categories – invested in capital assets, net of related debt, restricted, and unrestricted net position.

The largest portion of the Town's net position reflects its investment in capital assets (e.g., land, improvements, buildings, machinery, equipment, vehicles and water system), less accumulated depreciation and any unmatured debt used to acquire those assets. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position on the Statement of Net Position represents impact fees, transfer taxes, municipal street aid, and law enforcement grants received and restricted to certain expenditures.

TOWN OF MILTON, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013

Net Position

As of September 30, 2013, the Town's net position was \$4,530,000. Of this amount, \$2,433,000 was invested in capital assets, net of related debt, \$596,000 was restricted, and \$1,501,000 was unrestricted.

The table below provides key financial information in a condensed format.

Table 1
Town of Milton's Net Position
(in thousands of dollars)

	2013			2012		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Assets						
Current and other assets	\$ 1,166	\$ 1,139	\$ 2,305	\$ 1,203	\$ 1,047	\$ 2,250
Capital assets	1,378	1,469	2,847	1,383	1,488	2,871
Total assets	<u>2,544</u>	<u>2,608</u>	<u>5,152</u>	<u>2,586</u>	<u>2,535</u>	<u>5,121</u>
Liabilities						
Current and other liabilities	164	58	222	175	62	237
Long term liabilities	21	379	400	21	415	436
Total liabilities	<u>185</u>	<u>437</u>	<u>622</u>	<u>196</u>	<u>477</u>	<u>673</u>
Net position						
Invested in capital assets, net of related debt	1,378	1,055	2,433	1,383	1,039	2,422
Restricted	263	333	596	217	281	498
Unrestricted	718	783	1,501	790	738	1,528
Total net position	<u>\$ 2,359</u>	<u>\$ 2,171</u>	<u>\$ 4,530</u>	<u>\$ 2,390</u>	<u>\$ 2,058</u>	<u>\$ 4,448</u>

Change in Net Position

Net position for the period ending September 30, 2013 increased by \$82,000, relative to the stated value in the prior year. This is a consequence of governmental activity assets decreasing by \$31,000 and business-type assets increasing by \$113,000.

Governmental assets decreased from 2012 to 2013 by \$31,000. This decline was offset by an increase in monetary assets in the business-type assets totaling \$116,000, accompanied by a \$3,000 increase in liabilities.

TOWN OF MILTON, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013

The following table indicates the changes in net position for governmental and business-type activities in a condensed format.

Table 2
Town of Milton's Change in Net Position
(in thousands of dollars)

	2013			2012		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenues						
Program revenues						
Charges for services	\$ 402	\$ 825	\$ 1,227	\$ 469	\$ 798	\$ 1,267
Operating grants and contributions	179		179	198	8	206
Capital grants and contributions	29	49	78	25	33	58
General revenues						
Property and transfer taxes	1,035		1,035	1,046		1,046
Miscellaneous revenues	52		52	77		77
Unrestricted investment earnings	3	1	4	3	1	4
Total revenues	<u>\$ 1,700</u>	<u>\$ 875</u>	<u>\$ 2,575</u>	<u>\$ 1,818</u>	<u>\$ 840</u>	<u>\$ 2,658</u>
Expenses						
General government	349		349	396		396
Public safety	881		881	906		906
Public works	206		206	206		206
Code enforcement	209		209	169		169
Parks and recreation	86		86	72		72
Utilities		762	762		760	760
Total expenses	<u>1,731</u>	<u>762</u>	<u>2,493</u>	<u>1,749</u>	<u>760</u>	<u>2,509</u>
Change in net position	<u>\$ (31)</u>	<u>\$ 113</u>	<u>\$ 82</u>	<u>\$ 69</u>	<u>\$ 80</u>	<u>\$ 149</u>

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Governmental Funds

For the fiscal year ending September 30, 2013, the Town had a decrease in its governmental fund balance of \$15,000. Significant variances between budget and actual included increases in taxes and assessments, intergovernmental revenues, licenses and permits, and total expenditures.

TOWN OF MILTON, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2013

Proprietary Funds

The Town's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position totaled \$782,000. Other factors concerning these funds finances are addressed on pages 15 through 17.

BUDGETARY HIGHLIGHTS

A budget and actual comparison schedule is provided in the required supplementary information for the General Fund. The budget and actual comparison schedules show the original adopted budgets, the final revised budget, actual results and variance between the final budget and actual results. Major variances between the final budget and actual results are as follows:

- Total revenues exceeded the final budget by \$145,841.
- Taxes and assessments revenues exceeded the final budget by \$71,164.
- Total expenditures exceeded the final budget by \$134,714.
- Total public works expenditures exceeded the final budget by \$37,904.
- Total code enforcement expenditures exceeded the final budget by \$36,342.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The Town's investment in capital assets for its governmental (government-wide) and business-type activities as of September 30, 2013 was \$2,847,000 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, furniture and fixtures, vehicles and water systems.

This year's major capital asset additions included:

Governmental Activities

1. Paving Shipbuilders Village for \$77,119.
2. Purchase of camera systems for \$16,534.
3. Purchase of computers and equipment for \$15,229.
4. Purchase of new phone system for \$7,000.
5. Purchase of tasers and holders for \$10,274.

Business-type activities

1. Purchase of a pressure washer for \$4,694.
2. Purchase of water meters for \$29,302.
3. Purchase of a water tower alarm system for \$6,136.
4. Purchase of a 2013 Ford F150 truck and light bar for \$21,147.

TOWN OF MILTON, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2013

Table 3
Town of Milton's Net Capital Assets
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 38	\$ 38	\$	\$	\$ 38	\$ 38
Buildings	592	620			592	620
Other improvements	447	411	1,261	1,317	1,708	1,728
Machinery and equipment	128	116	187	170	315	286
Streets and sidewalks	151	162			151	162
Vehicles	23	35	21	1	44	36
Total net capital assets	\$ 1,379	\$ 1,382	\$ 1,469	\$ 1,488	\$ 2,848	\$ 2,870

Long-Term Debt

At year end, the Town had \$414,000 in notes payable in the enterprise fund. No new debt was incurred during the year.

Additional information on the Town's debt can be found on pages 27 and 28 of this report.

CURRENTLY KNOWN FACTS, DECISION, OR CONDITIONS

Residential construction continues at a pace of approximately 25 homes per year. Building activities are continuing to increase in 2014. Building permit revenue and other related revenues are expected to exceed the anticipated revenue amounts.

Improvements to the Town's water system are currently under consideration, but there are no definite plans to date.

Subsequent to September 30, 2013, the Town purchased property in the historic district for \$153,000.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Milton's finances for all those with an interest in the Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Mayor, Town of Milton, 115 Federal Street, Milton, Delaware 19968.

TOWN OF MILTON, DELAWARE

STATEMENT OF NET POSITION

SEPTEMBER 30, 2013

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash	\$ 819,590	\$ 478,498	\$ 1,298,088
Taxes receivable	30,552		30,552
Accounts receivable, net of allowance	6,111	248,200	254,311
Internal balances	24,606	(24,606)	
Inventory		92,551	92,551
Prepaid expenses	2,829	10,867	13,696
Restricted cash	282,392	333,482	615,874
Total current assets	<u>1,166,080</u>	<u>1,138,992</u>	<u>2,305,072</u>
Capital assets			
Capital assets, at cost	3,064,929	2,791,411	5,856,340
Accumulated depreciation	(1,686,412)	(1,322,410)	(3,008,822)
Net capital assets	<u>1,378,517</u>	<u>1,469,001</u>	<u>2,847,518</u>
Total assets	<u>2,544,597</u>	<u>2,607,993</u>	<u>5,152,590</u>
LIABILITIES			
Current liabilities			
Current portion of long-term debt		35,811	35,811
Accounts payable	66,306	7,340	73,646
Accrued wages and payroll taxes	31,374	5,491	36,865
Accrued compensated absences, net of long term	27,495	6,250	33,745
Accrued interest payable		3,083	3,083
Deferred revenue	38,719		38,719
Total current liabilities	<u>163,894</u>	<u>57,975</u>	<u>221,869</u>
Noncurrent liabilities			
Notes payable		378,241	378,241
Accrued compensated absences	20,970	832	21,802
Total noncurrent liabilities	<u>20,970</u>	<u>379,073</u>	<u>400,043</u>
Total liabilities	<u>184,864</u>	<u>437,048</u>	<u>621,912</u>
NET POSITION			
Invested in capital assets, net of related debt	1,378,517	1,054,949	2,433,466
Restricted	262,646	333,482	596,128
Unrestricted	718,570	782,514	1,501,084
Total net position	<u>\$ 2,359,733</u>	<u>\$ 2,170,945</u>	<u>\$ 4,530,678</u>

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

TOWN OF MILTON, DELAWARE
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2013

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs							
Governmental activities							
General government	\$ 348,765	\$ 70,449	\$ 66,466	\$ 29,554	\$ (211,850)	\$	\$ (211,850)
Public safety	881,362	41,188	91,775		(718,845)		(718,845)
Public works	205,608	56,192	19,778		(129,638)		(129,638)
Code enforcement	209,432	230,655			21,223		21,223
Parks and recreation	85,659	3,370	1,186		(81,103)		(81,103)
Total governmental activities	<u>1,730,826</u>	<u>401,854</u>	<u>179,205</u>	<u>29,554</u>	<u>(1,120,213)</u>		<u>(1,120,213)</u>
Business-type activities							
Utilities	761,970	825,331		49,300		112,661	112,661
Total business-type activities	<u>761,970</u>	<u>825,331</u>		<u>49,300</u>		<u>112,661</u>	<u>112,661</u>
Total	<u>\$ 2,492,796</u>	<u>\$ 1,227,185</u>	<u>\$ 179,205</u>	<u>\$ 78,854</u>	<u>(1,120,213)</u>		<u>(1,007,552)</u>
		General revenues					
		Property taxes			821,599		821,599
		Transfer taxes			213,246		213,246
		Franchise fees			34,884		34,884
		Unrestricted investment earnings			2,710	448	3,158
		Miscellaneous			17,119		17,119
		Total general revenues			1,089,558	448	1,090,006
		Change in net position			(30,655)	113,109	82,454
		Net position, beginning of year			2,390,388	2,057,836	4,448,224
		Net position, end of year			<u>\$ 2,359,733</u>	<u>\$ 2,170,945</u>	<u>\$ 4,530,678</u>

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

TOWN OF MILTON, DELAWARE

BALANCE SHEET
GOVERNMENTAL FUND

SEPTEMBER 30, 2013

	General Fund
ASSETS	
Cash	\$ 819,590
Taxes receivable	30,552
Accounts receivable, net of allowance	6,111
Prepaid assets	2,829
Due from other funds	24,606
Restricted cash	282,392
	<hr/>
Total assets	\$ 1,166,080
	<hr/> <hr/>
LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts payable	\$ 66,306
Accrued wages and payroll taxes	31,374
Accrued compensated absences	27,495
Deferred revenue	67,583
	<hr/>
Total liabilities	192,758
	<hr/> <hr/>
Fund balances	
Non-spendable	2,829
Restricted	262,646
Unassigned	707,847
	<hr/>
Total fund balances	973,322
	<hr/> <hr/>
Total liabilities and fund balances	\$ 1,166,080
	<hr/> <hr/>

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

TOWN OF MILTON, DELAWARE

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION

SEPTEMBER 30, 2013

Total fund balance, governmental fund		\$	973,322
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in governmental activities are not financial resources and are therefore not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.			
Capital assets	3,064,929		
Accumulated depreciation	<u>(1,686,412)</u>		
			1,378,517
Some liabilities 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.			
Accrued compensated absences			(20,970)
Certain revenues that do not provide current financial resources are reported as deferred income in the fund financial statements, but are reported as revenue in the governmental activities of the Statement of Net Position.			
Deferred taxes			<u>28,864</u>
Net assets of governmental activities in the Statement of Net Position		\$	<u><u>2,359,733</u></u>

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

TOWN OF MILTON, DELAWARE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND

YEAR ENDED SEPTEMBER 30, 2013

	General Fund
Revenues	
Taxes and assessments	\$ 1,046,264
Licenses and permits	200,063
Intergovernmental revenues	208,758
Charges for services	187,844
Fines and forfeitures	48,863
Earnings on investments	2,710
Miscellaneous	17,084
Total revenues	<u>1,711,586</u>
Expenditures	
Current	
General government	323,411
Public safety	851,363
Public works	162,638
Parks and recreation	54,619
Code enforcement	208,592
Capital outlay	126,156
Total expenditures	<u>1,726,779</u>
Net change in fund balance	(15,193)
Fund balance, beginning of year	<u>988,515</u>
Fund balance, end of year	<u><u>\$ 973,322</u></u>

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

TOWN OF MILTON, DELAWARE

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2013

Net change in fund balances, governmental funds	\$	(15,193)
---	----	----------

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

Governmental funds report outlays for capital assets as expenditures
because such outlays use current financial resources. However, in the
Statement of Activities, the cost of these assets is allocated over their
estimated lives and reported as depreciation expense.

Capital outlay	126,156	
Depreciation expense	<u>(130,304)</u>	(4,148)

Some expenses reported in the Statement of Activities do not require the
use of current financial resources and these are not reported as
expenditures in governmental funds:

Change in long-term compensated absences	105
--	-----

Governmental funds do not present revenues that are not available to pay
current obligations. In contrast, such revenues are reported in the
Statement of Activities when earned:

Change in deferred taxes	<u>(11,419)</u>
--------------------------	-----------------

Change in net position of governmental activities	<u>\$</u>	<u>(30,655)</u>
---	-----------	-----------------

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

TOWN OF MILTON, DELAWARE

STATEMENT OF NET POSITION
 PROPRIETARY FUND

SEPTEMBER 30, 2013

	<u>Utilities Fund</u>
ASSETS	
Current assets	
Cash	\$ 478,498
Accounts receivable, net of allowance	248,200
Inventory	92,551
Prepaid maintenance	10,867
Restricted cash	333,482
Total current assets	<u>1,163,598</u>
Capital assets	
Capital assets, at cost	2,791,411
Accumulated depreciation	<u>(1,322,410)</u>
Net capital assets	<u>1,469,001</u>
Total assets	<u>2,632,599</u>
LIABILITIES	
Current liabilities	
Accounts payable	7,340
Accrued wages and payroll taxes	5,491
Accrued interest payable	3,083
Accrued compensated absences, net of long term	6,250
Due to other funds	24,606
Current portion of long-term debt	35,811
Total current liabilities	<u>82,581</u>
Non-current liabilities	
Accrued compensated absences	832
Notes payable	378,241
Total non-current liabilities	<u>379,073</u>
Total liabilities	<u>461,654</u>
NET POSITION	
Invested in capital assets, net of related debt	1,054,949
Restricted	333,482
Unrestricted	782,514
Net position	<u>\$ 2,170,945</u>

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

TOWN OF MILTON, DELAWARE

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 PROPRIETARY FUND

YEAR ENDED SEPTEMBER 30, 2013

	<u>Utilities Fund</u>
Operating revenues	
Water service charges	\$ 478,827
Trash service charges	289,446
Tapping fees	14,500
Sales of meters	19,532
Operating grants	2,192
Penalties	7,090
Other	13,744
Total operating revenues	<u>825,331</u>
Operating expenses	
Salaries and labor	149,572
Payroll taxes	10,463
Pension	8,787
Employee benefits	16,375
Uniforms	6,374
Utilities	25,647
Trash removal services	270,196
Telephone	3,803
Gas and oil	13,724
Repairs and maintenance	73,870
Operating supplies	29,448
Professional fees	44,263
Insurance	12,273
Miscellaneous	3,654
Depreciation	79,871
Total operating expenses	<u>748,320</u>
Operating income	<u>77,011</u>
Non-operating revenues (expenses)	
Interest income	448
Interest expense	(13,650)
Net non-operating revenues (expenses)	<u>(13,202)</u>
Income before contributions	63,809
Capital contributions - impact fees	<u>49,300</u>
Change in net position	113,109
Net position, beginning of year	<u>2,057,836</u>
Net position, end of year	<u>\$ 2,170,945</u>

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

TOWN OF MILTON, DELAWARE

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND

YEAR ENDED SEPTEMBER 30, 2013

	<u>Utilities Fund</u>
Cash flows from operating activities	
Receipts from customers	\$ 777,094
Other receipts	15,936
Payments to suppliers	(537,339)
Payments to employees	(151,224)
Net cash provided by operating activities	<u>104,467</u>
Cash flows from non-capital financing activities	
Interfund borrowings	<u>71,348</u>
Cash flows from investing activities	
Interest income	<u>448</u>
Cash flows from capital and related financing activities	
Purchases of capital assets	(61,278)
Principal paid on long-term debt	(34,707)
Interest paid on long-term debt	(13,908)
Capital contributions	49,300
Net cash used by capital and related financing activities	<u>(60,593)</u>
Net increase in cash	115,670
Cash, beginning of year	<u>696,310</u>
Cash, end of year	<u><u>\$ 811,980</u></u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 77,011
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	79,871
(Increase) decrease in assets	
Accounts receivable	(32,301)
Inventory	(8,944)
Prepaid expenses	(6,267)
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	<u>(4,903)</u>
Net cash provided by operating activities	<u><u>\$ 104,467</u></u>

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

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Milton, Delaware (the "Town"), was incorporated in 1807. The Town operates under a Town Council form of government and provides the following services as authorized by its charter: public safety (police), public works (streets and highways), trash removal, water, recreation, code enforcement, and general administrative services.

The Town's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Town are discussed below.

Reporting Entity

The basic criteria for including component units in the Town's financial statements are the exercise of oversight responsibility over such units by the Town's elected officials. In evaluating how to define the Town for financial purposes, management has considered all potential component units. Based on criteria set forth by the GASB, the Town of Milton has no component units.

Basis of Presentation

Government-wide statements: The statement of net position and the statement of activities display information about the Town. These statements include the financial activities of the overall government. These statements distinguish between the governmental and business-type activities of the Town. For the most part, the effect on interfund activity has been removed from these statements. Governmental activities are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Fund Financial Statements: The fund financial statements provide information about the Town's funds. Separate statements for each fund category – governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. Any remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as grants and investment earnings, result from non-exchange transactions.

Governmental Funds: The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The Town reports this major governmental fund:

General Fund – This is the main operating fund of the Town. It is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Proprietary Funds: The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The Town has presented the following proprietary fund:

Utilities Fund - This fund is used to account for the provision of water and trash services to the residents of the Town. Activities of the fund include administration, operations and maintenance, and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water debt. Trash services are subcontracted out to a local trash company.

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting

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 applied.

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all the eligibility requirements have been satisfied.

The governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Town considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year end. Property taxes, charges for services, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, claims and judgments, and compensated absences are recorded as expenditures to the extent they have matured. General capital acquisitions are reported as expenditures in the governmental funds.

Budgetary Data

The Town charter established the fiscal year as the twelve-month period beginning October 1st of each year. The Town Council adopts a budget annually. The budget can be revised as deemed necessary by the Council. The budgetary amounts are comprised of the normal operating budget and supplemental budget allocations, if applicable.

The general fund budget is adopted on a basis consistent with generally accepted accounting principles for governmental funds.

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Data (Continued)

The budget for the utilities fund is prepared on a basis (budgetary basis) that differs from generally accepted accounting principles for proprietary funds (GAAP basis). The major differences between the budgetary basis and the GAAP basis are:

- Loans and transfers from other funds are reported as funding sources.
- Principal payments on long-term debt and capital outlay expenses are reported as funding uses.
- No budget is recorded for depreciation expense.

Cash equivalents

Cash equivalents include highly liquid investments with original maturities, when purchased, of less than three months.

Prepaid Items

Prepaid balances are for payments made by the Town in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid items has been recognized to signify that a portion of the fund balance is not available for other subsequent expenditures.

Inventory

Inventory consists of water meters, hydrants, and other supplies used in the water department and are recorded at cost using the first-in, first-out method. Inventory is charged to expense when consumed, rather than when purchased or donated.

Allowance for Uncollectible Accounts

Provision is made for estimated uncollectible water and trash collection charges and other receivables based upon the Town's determination of individual accounts not likely to be collected. The allowance for uncollectible accounts in the general fund and utilities fund as of September 30, 2013 were \$56,548 and \$10,800, respectively.

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue

The Town reports deferred revenue in the governmental funds. Deferred revenue arises when a revenue does not meet both the "measurable" and the "available" criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed and revenue is recognized. Property taxes not collected within sixty days following the end of the year are considered not available to pay liabilities that are owed at the balance sheet date and therefore are reported as deferred revenue. Deferred revenue also includes grant revenues received for which the expenses have not been incurred.

Accounting for Compensated Absences

The Town has accrued a liability for vacation pay which has been earned but not taken by Town employees. The liability for the Water Department is reported in the Proprietary Fund. For departments included in the General Fund, the current liability is reported in the General Fund and the long-term portion, if any, is recorded in General Long-Term Debt.

Property Taxes

Property taxes are levied on January 15th and are due and payable at that time. Taxes unpaid by March 31 of the same year become delinquent. Property taxes attach as an enforceable lien on property as of March 31 after being two years delinquent.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. Capital assets are defined by the Town as assets with an initial, individual cost of \$5,000 or more and an estimated useful life exceeding one year. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance that do not add to the value of the asset or materially extend the asset's life are not capitalized.

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	10 – 40 years
Other improvements	10 – 25 years
Streets and sidewalks	10 – 25 years
Machinery and equipment	3 – 10 years
Vehicles	3 – 5 years

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Town to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

Government-Wide and Proprietary Fund Net Position

Government-wide and proprietary fund net position are divided into three components:

Invested in capital assets, net of related debt - consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.

Restricted net position – consist of assets that are restricted by the Town’s creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.

Unrestricted - all other net position is reported in this category.

When an expense is incurred that can be paid using either restricted or unrestricted net position, the Town’s policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Fund Balances

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

Nonspendable fund balance - amounts that cannot be spent either because they are in a nonspendable form (such as inventories and prepaid amounts) or they are legally or contractually required to be maintained intact.

Restricted fund balance - amounts that can be spent only for specific purposes because of the Town charter, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed fund balance - amounts that can be spent only for specific purposes determined by a formal action of the Mayor and Council through ordinance or resolution.

Assigned fund balance – amounts that are designated by the Mayor and Council for a particular purpose but are not spendable until a budget ordinance is passed or a majority vote approval by the Town Council.

Unassigned fund balance – all amounts not included in other spendable classifications.

In governmental funds, the Town's policy is to first apply the expenditure toward restricted fund balances and then to other, less restrictive classifications (committed and then assigned fund balances) before using unassigned fund balances.

Change in Accounting Principles

During 2013, the Town adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and American Institute of Certified Public Accountants (AICPA) Pronouncements*. There was no material effect on the financial statements due to this change.

In addition, the Town adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. Adoption of this statement changed the terms and classifications of items in the statement of financial position in the government-wide activities and enterprise funds.

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

CASH AND INVESTMENTS

Cash

The Town is permitted to invest funds in U.S. treasury bills, short-term obligations of the United States Government or its agencies or instrumentalities, obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the State of Delaware or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision, certificates of deposit, secured purchase agreements, authorized investment trust companies, and time or share accounts of institutions insured or secured by the FDIC to the extent such certificates are insured by a proper bond or collateral.

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town's deposits were not exposed to custodial credit risk at September 30, 2013, as \$1,851,508 was covered by FDIC insurance and the remaining was secured by acceptable collateral.

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Town was not exposed to foreign currency risk for the fiscal year.

Restricted cash

Restricted cash in the general fund consists of:

- Cash collected for transfer taxes which by state law must be segregated from the Town's general cash and can be expended solely for the capital and operating costs of public safety services, economic development programs, public works services, infrastructure projects and improvements, and debt reduction
- Cash received from the State of Delaware restricted for municipal street improvements
- Cash received from the State of Delaware restricted for local law enforcement activities.

Restricted cash in the utilities fund consists of cash accumulated from water impact fees which are restricted for future capital improvements.

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

CAPITAL ASSETS

The changes in the Town's capital assets are as follows:

Governmental activities:	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i>Capital assets not being depreciated</i>				
Land	\$ 38,380	\$	\$	\$ 38,380
<i>Capital assets being depreciated</i>				
Buildings	818,691			818,691
Other improvements	1,036,433	77,119		1,113,552
Machinery and equipment	518,999	49,037		568,036
Streets and sidewalks	218,502			218,502
Vehicles	321,268		13,500	307,768
Total capital assets being depreciated	<u>2,913,893</u>	<u>126,156</u>	<u>13,500</u>	<u>3,026,549</u>
less accumulated depreciation for:				
Buildings	198,845	27,667		226,512
Other improvements	625,367	41,208		666,575
Machinery and equipment	403,434	36,839		440,273
Streets and sidewalks	56,939	11,059		67,998
Vehicles	285,023	13,531	13,500	285,054
Total accumulated depreciation	<u>1,569,608</u>	<u>130,304</u>	<u>13,500</u>	<u>1,686,412</u>
Total capital assets being depreciated, net	<u>1,344,285</u>	<u>(4,148)</u>		<u>1,340,137</u>
Governmental activities				
Capital assets, net	<u>\$ 1,382,665</u>	<u>\$ (4,148)</u>	<u>\$</u>	<u>\$ 1,378,517</u>

Depreciation expense for governmental activities was charged to functions as follows:

Governmental activities:	
General government	\$ 25,352
Public safety	30,102
Public works	42,970
Parks and recreation	<u>31,880</u>
Total governmental activities	<u>\$ 130,304</u>

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

CAPITAL ASSETS (Continued)

Business-type activities:	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets being depreciated</i>				
Improvements	\$ 2,116,735	\$	\$	\$ 2,116,735
Machinery and equipment	443,480	40,131		483,611
Vehicles	169,918	21,147		191,065
Total capital assets being depreciated	<u>2,730,133</u>	<u>61,278</u>		<u>2,791,411</u>
less accumulated depreciation for:				
Improvements	799,748	55,989		855,737
Machinery and equipment	273,318	23,085		296,403
Vehicles	169,473	797		170,270
Total accumulated depreciation	<u>1,242,539</u>	<u>79,871</u>		<u>1,322,410</u>
Total capital assets being depreciated, net	<u>1,487,594</u>	<u>(18,593)</u>		<u>1,469,001</u>
Business-type activities				
Capital assets, net	<u>\$ 1,487,594</u>	<u>\$ (18,593)</u>	<u>\$</u>	<u>\$ 1,469,001</u>

LONG-TERM DEBT

Business-Type activities

State Revolving Fund Loan Monies (SRF). On June 8, 2001, the Town entered into a loan agreement with the Delaware Drinking Water State Revolving Fund, offered through the Delaware Department of Health & Social Services, Division of Public Health, to fund upgrades to the Town's drinking water treatment and delivery system. The original obligation was \$635,621. The loan is payable in thirty-four semi-annual payments of \$24,307 including interest at 3.16% and matures July 6, 2023.

Changes in long-term obligations for the year ended September 30, 2013 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Notes payable	<u>\$ 448,759</u>	<u>\$</u>	<u>\$ 34,707</u>	<u>\$ 414,052</u>

TOWN OF MILTON, DELAWARE
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2013

LONG-TERM DEBT (Continued)

Business-Type activities (Continued)

Principal and interest requirements to amortize all Business-type Activities debt outstanding as of September 30, 2013 are as follows:

Year Ending	Business-Type Activities		Totals
	Principal	Interest	
2014	\$ 35,811	\$ 12,804	\$ 48,615
2015	36,952	11,663	48,615
2016	38,129	10,486	48,615
2017	39,343	9,272	48,615
2018	40,597	8,018	48,615
2019-2023	223,220	19,853	243,073
	\$ 414,052	\$ 72,096	\$ 486,148

INTEREST COST – UTILITIES FUND

Where applicable, the Town follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use. During the year ended September 30, 2013, total interest incurred and paid in the Utilities fund was \$13,650. The full amount was charged to operations.

INTERNAL BALANCES

Balances due to/from other funds at September 30, 2013 consist of the following:

	Beginning of year	Increase	End of year
Due from the utilities fund to the general fund	\$ 46,742	\$ (71,348)	\$ (24,606)

TOWN OF MILTON DELAWARE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

FUND BALANCES – GOVERNMENTAL FUNDS

Non-spendable fund balance consists of prepaid insurance premiums.

Restricted fund balances consist of transfer taxes and grants (net of deferred revenue) that are restricted to specific uses by the State of Delaware.

IMPACT FEES – WASTEWATER TREATMENT PLANT

On July 1, 2007, the Town sold the wastewater treatment plant and sewer infrastructure to Tidewater Environment Services, Inc. (TESI). As new customers pay impact fees to TESI, the Town will receive \$2,400,000 in additional money for franchise fees, prior engineering costs, and repayment of the state revolving fund debt. This amount will be received in installments of \$1,500 per customer from the impact fees collected by TESI.

The Town is likely to collect the \$2,400,000, but it has not been recorded as a receivable as of September 30, 2013. This income will be recorded as received, or when it becomes absolutely certain that the money will be received. Impact fees collected during the year were \$33,000 and were deposited in the general fund.

EMPLOYEE PENSION PLAN

Effective October 1, 2003, the Town became a member of the State of Delaware County and Municipal Police Pension Plan, a cost-sharing multiple-employer defined benefit plan administered by the Board of Pension Trustees of the State of Delaware. The Town's cost of participating in this plan is set by the State's Legislative body annually. Municipal employees and municipal police officers must contribute 3% and 7%, respectively. The three year contribution information for the Town is as follows:

Fiscal year ended	Annual Pension Costs (APC)	Presentation of APC Contribution	Net Pension Obligation
September 30, 2013	\$87,612	100%	0
September 30, 2012	\$85,949	100%	0
September 30, 2011	\$77,857	100%	0

The Police Department receives grant monies from the State of Delaware through a special tax on gross premiums for the benefit of police. During the fiscal year, the Town received \$47,740.

TOWN OF MILTON DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

RISK MANAGEMENT

Due to the nature of activities in which Town employees are involved, from time to time, legal matters may arise. The Town maintains insurance coverage for such potential liabilities. Insurance deductibles are \$2,500 for general liabilities and \$10,000 for police liabilities. Management believes such coverage is sufficient to preclude any uninsured losses to the Town.

CONTINGENT LIABILITIES

The Town is the recipient of various federal and state grants. The Town may be under obligation to repay these grant funds if, upon final review by the respective granting agencies, the funds expended did not meet the established program objectives. The Town is not aware of any repayment request.

NEW PRONOUNCEMENT

GASB approved Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which will require certain items that were previously reported as assets and liabilities be reported as deferred outflows of resources or deferred inflows of resources. In addition, GASB Statement No. 65 will also require the Town to write-off any remaining unamortized bond costs. The Town will be required to implement GASB Statement No. 65 for the year ending September 30, 2014.

GASB has also approved Statement No. 68 which will require the Town to provide additional information in the financial statements related to cost sharing pension plans such as the Delaware County and Municipal Police Pension Plan. The Town will be required to implement GASB Statement No. 68 for the year ended September 30, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF MILTON, DELAWARE
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND

YEAR ENDED SEPTEMBER 30, 2013

	Budget		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Taxes and assessments	\$ 972,600	\$ 975,100	\$ 1,046,264	\$ 71,164
Licenses and permits	178,143	178,143	200,063	21,920
Intergovernmental revenues	235,506	198,567	208,758	10,191
Charges for services	150,670	150,670	187,844	37,174
Fines and forfeitures	42,500	42,500	48,863	6,363
Earnings on investments	4,500	4,500	2,710	(1,790)
Miscellaneous	16,265	16,265	17,084	819
Total revenues	<u>1,600,184</u>	<u>1,565,745</u>	<u>1,711,586</u>	<u>145,841</u>
Expenditures				
Current				
General government	290,924	293,424	323,411	(29,987)
Public safety	906,489	872,938	851,363	21,575
Public works	124,734	124,734	162,638	(37,904)
Parks and recreation	44,471	44,471	54,619	(10,148)
Code enforcement	172,250	172,250	208,592	(36,342)
Capital outlay	84,248	84,248	126,156	(41,908)
Total expenditures	<u>1,623,116</u>	<u>1,592,065</u>	<u>1,726,779</u>	<u>(134,714)</u>
Net change in fund balance	<u>\$ (22,932)</u>	<u>\$ (26,320)</u>	<u>\$ (15,193)</u>	<u>\$ 11,127</u>

SUPPLEMENTARY INFORMATION



PKS & Company, P.A.

Pigg, Krahl & Stern

*Certified Public Accountants
& Advisors to Business*

ANDREW M. HAYNIE, CPA
SUSAN P. KEEN, CPA
MICHAEL C. KLEGER, CPA
JEFFREY A. MICHALIK, CPA
DANIEL M. O'CONNELL II, CPA
JEFFERY D. PRUITT, CPA
JOHN M. STERN, JR., CPA

**INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY INFORMATION**

To the Mayor and Council
Town of Milton, Delaware

www.pkscpa.com

Report on Supplementary Information

Salisbury

1801 SWEETBAY DRIVE
P.O. BOX 72
SALISBURY, MD 21803
TEL: 410.546.5600
FAX: 410.548.9576

Our report on our audit of the financial statements that collectively comprise the Town of Milton, Delaware's basic financial statements appears on pages one and two. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Milton, Delaware's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Ocean City

12308 OCEAN GATEWAY, UNIT #5
OCEAN CITY, MD 21842
TEL: 410.213.7185
FAX: 410.213.7638

The supplementary information 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, except for the portion marked "unaudited," 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The information marked "unaudited" 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.

Lewes

1143 SAVANNAH ROAD, SUITE 1
LEWES, DE 19958
TEL: 302.645.5757
FAX: 302.645.1757

MEMBERS OF:

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MARYLAND ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

DELAWARE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

PKF INTERNATIONAL

Other Matter

The prior year summarized comparative information has been derived from the Town's 2012 financial statements and, in our report dated January 17, 2013, we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities and each major fund.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
January 25, 2014

TOWN OF MILTON, DELAWARE
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED SEPTEMBER 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013		2012
	Final Budget (Unaudited)	Actual	Actual
Revenues			
Taxes and assessments	\$ 975,100	\$ 1,046,264	\$ 1,042,899
Licenses and permits	178,143	200,063	274,734
Intergovernmental revenues	198,567	208,758	223,292
Charges for services	150,670	187,844	174,583
Fines and forfeitures	42,500	48,863	52,368
Earnings on investments	4,500	2,710	1,997
Miscellaneous	16,265	17,084	43,990
Total revenues	<u>1,565,745</u>	<u>1,711,586</u>	<u>1,813,863</u>
Expenditures			
Current			
General government	293,424	323,411	368,512
Public safety	872,938	851,363	854,734
Public works	124,734	162,638	164,977
Parks and recreation	44,471	54,619	39,380
Code enforcement	172,250	208,592	165,958
Capital outlay	84,248	126,156	29,983
Total expenditures	<u>1,592,065</u>	<u>1,726,779</u>	<u>1,623,544</u>
Net change in fund balance	<u>\$ (26,320)</u>	<u>\$ (15,193)</u>	<u>\$ 190,319</u>

TOWN OF MILTON, DELAWARE

SCHEDULE OF REVENUES—BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED SEPTEMBER 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013		2012
	Final Budget (Unaudited)	Actual	Actual
Revenues			
Taxes and assessments			
Real estate	\$ 810,000	\$ 820,635	\$ 788,573
Transfer	157,500	213,246	243,957
Penalties	7,600	12,383	10,369
Total taxes	<u>975,100</u>	<u>1,046,264</u>	<u>1,042,899</u>
Licenses and permits			
Business licenses	145,000	165,179	241,590
Franchise fees	33,143	34,884	33,144
Total licenses and permits	<u>178,143</u>	<u>200,063</u>	<u>274,734</u>
Intergovernmental revenues			
Federal Government	4,061	4,061	
State of Delaware	169,506	179,697	198,292
Sussex County	25,000	25,000	25,000
Total intergovernmental revenues	<u>198,567</u>	<u>208,758</u>	<u>223,292</u>
Charges for services			
Professional fees	30,800	47,595	62,559
Other service charges	119,870	140,249	112,024
Total service charges	<u>150,670</u>	<u>187,844</u>	<u>174,583</u>
Fines and forfeitures	<u>42,500</u>	<u>48,863</u>	<u>52,368</u>
Earnings on investments	<u>4,500</u>	<u>2,710</u>	<u>1,997</u>
Miscellaneous			
Donations	11,000	16,470	12,114
Other	5,265	614	31,876
Total miscellaneous	<u>16,265</u>	<u>17,084</u>	<u>43,990</u>
Total revenues	<u>\$ 1,565,745</u>	<u>\$ 1,711,586</u>	<u>\$ 1,813,863</u>

TOWN OF MILTON, DELAWARE

SCHEDULE OF EXPENDITURES—BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED SEPTEMBER 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013		2012
	Final Budget (Unaudited)	Actual	Actual
Expenditures			
General government			
Administration	\$ 270,424	\$ 286,775	\$ 329,558
Law	23,000	36,636	38,954
Total general government	<u>293,424</u>	<u>323,411</u>	<u>368,512</u>
Public safety			
Police department	870,438	848,863	852,234
Fire department	2,500	2,500	2,500
Total public safety	<u>872,938</u>	<u>851,363</u>	<u>854,734</u>
Public Works			
Streets	108,734	78,956	149,663
Sanitation	16,000	83,682	15,314
Total public works	<u>124,734</u>	<u>162,638</u>	<u>164,977</u>
Parks and recreation	<u>44,471</u>	<u>54,619</u>	<u>39,380</u>
Code enforcement	<u>172,250</u>	<u>208,592</u>	<u>165,958</u>
Capital outlay	<u>84,248</u>	<u>126,156</u>	<u>29,983</u>
Total expenditures	<u>\$ 1,592,065</u>	<u>\$ 1,726,779</u>	<u>\$ 1,623,544</u>

TOWN OF MILTON, DELAWARE

SCHEDULE OF REVENUES AND EXPENSES
UTILITIES FUND

YEAR ENDED SEPTEMBER 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	<u>2013</u>	<u>2012</u>
Operating revenues		
Water service charges	\$ 478,827	\$ 472,498
Trash service charges	289,446	292,061
Tapping fees	14,500	3,500
Sales of meters	19,532	19,838
Operating grants	2,192	7,415
Penalties	7,090	4,346
Other	13,744	6,052
Total operating revenues	<u>825,331</u>	<u>805,710</u>
Operating expenses		
Salaries and labor	149,572	137,573
Payroll taxes	10,463	9,439
Pension	8,787	11,778
Employee benefits	16,375	23,590
Uniforms	6,374	8,095
Utilities	25,647	24,010
Trash removal	270,196	256,602
Telephone	3,803	3,760
Gas and oil	13,724	15,345
Repairs and maintenance	73,870	54,472
Operating supplies	29,448	36,845
Professional fees	44,263	62,384
Insurance	12,273	10,479
Miscellaneous	3,654	6,315
Depreciation	79,871	84,486
Total operating expenses	<u>748,320</u>	<u>745,173</u>
Operating income	<u>77,011</u>	<u>60,537</u>
Non-operating revenues (expenses)		
Interest income	448	458
Interest expense	(13,650)	(14,759)
Net non-operating expenses	<u>(13,202)</u>	<u>(14,301)</u>
Income before contributions	63,809	46,236
Capital contributions - impact fees	<u>49,300</u>	<u>33,350</u>
Change in net position	<u>\$ 113,109</u>	<u>\$ 79,586</u>

GOVERNMENT AUDITING STANDARDS REPORT



PKS & Company, P.A.

Pigg, Krahl & Stern

*Certified Public Accountants
& Advisors to Business*

ANDREW M. HAYNIE, CPA
SUSAN P. KEEN, CPA
MICHAEL C. KLEGER, CPA
JEFFREY A. MICHALIK, CPA
DANIEL M. O'CONNELL II, CPA
JEFFERY D. PRUITT, CPA
JOHN M. STERN, JR., CPA

INDEPENDENT AUDITORS' 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*

www.pkscpa.com

Salisbury

1801 SWEETBAY DRIVE
P.O. Box 72
SALISBURY, MD 21803
TEL: 410.546.5600
FAX: 410.548.9576

To the Mayor and Council
Town of Milton, Delaware

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the Town of Milton, Delaware as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated January 25, 2014.

Ocean City

12308 OCEAN GATEWAY, UNIT #5
OCEAN CITY, MD 21842
TEL: 410.213.7185
FAX: 410.213.7638

Internal Control Over Financial Reporting

Lewes

1143 SAVANNAH ROAD, SUITE 1
LEWES, DE 19958
TEL: 302.645.5757
FAX: 302.645.1757

In planning and performing our audit of the financial statements, we considered the Town'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

MEMBERS OF:

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MARYLAND ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

DELAWARE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

PKF INTERNATIONAL

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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we considered to be significant deficiencies. 13-01 and 13-02.

Compliance and Other Matters

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

Town of Milton, Delaware's Response to Findings

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town'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.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
January 25, 2014

TOWN OF MILTON, DELAWARE
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2013

SIGNIFICANT DEFICIENCIES

13-01 Criteria - A good system of internal control provides for a proper segregation of the accounting functions.

Condition - The Town does not have the proper segregation of duties over cash receipts and disbursements, accounts receivable, and accounts payable.

Effect - There is a danger that intentional fraud or unintentional errors or misappropriation could occur and go undetected.

Cause - The Town has a limited number of personnel in their accounting department.

Recommendation - Management should implement procedures to improve existing internal control.

Auditee's response and planned corrective action - During the fiscal year, the Town's management has implemented additional controls and reassigned job responsibilities in order to provide additional oversight and strengthen controls over cash receipts, disbursements, accounts receivable, and accounts payable. Management is satisfied with the controls in place and is willing to accept any risks associated with this deficiency.

13-02 Criteria - Controls should be in place to detect, prevent, or correct misstatements in the Town's drafted financial statements.

Condition - Management relies on the auditor to prepare the financial statements in accordance with generally accepted accounting principles (GAAP). The financial statements are reviewed and approved by management prior to their issuance. In addition, management relies on the auditor to perform certain tasks such as the calculation of accrued liabilities, update of depreciation schedules, and the posting of approved adjusting entries to the trial balance prior to the preparation of the financial statements.

Effect - There is a danger that intentional fraud or unintentional errors could be made and not detected.

Cause - Management does not have sufficient knowledge of required generally accepted accounting principles to prepare the financial statements and determine whether the disclosures are complete.

Recommendation - None.

Auditee's response and planned corrective action - Management has evaluated the cost vs. benefit of establishing internal controls over the preparation of the financial statements and has