

TOWN OF MILTON, DELAWARE
FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2011

TOWN OF MILTON, DELAWARE

TABLE OF CONTENTS

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

SUPPLEMENTARY INFORMATION

Independent auditors' report on supplementary information	32
--	-----------

General fund

Schedules of revenues and expenditures – budget and actual	33
---	-----------

Schedule of revenues – budget and actual	34
---	-----------

Schedule of expenditures- budget and actual	35
--	-----------

Non-major governmental funds

Combining schedule of revenues, expenditures, and changes in fund balances	36
---	-----------

Utilities fund

Schedule of revenues and expenses	37
--	-----------

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 <i>Government Auditing Standards</i>	38 - 39
--	----------------

Schedule of findings and responses	40 - 41
---	----------------

INDEPENDENT AUDITORS' REPORT

To the Mayor and Council
Town of Milton, Delaware

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Milton, Delaware, as of and for the year ended September 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as explained in the following paragraph, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Other auditors were engaged to audit the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Milton, Delaware as of and for the year ended September 30, 2010. Their letter dated July 18, 2012, stated that the scope of their work was not sufficient to express, and they did not express an opinion, on the financial statements.

Because we were unable to satisfy ourselves about the opening balances in the financial statements as of October 1, 2010, or about the consistent application of accounting principles between 2010 and 2011, the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the changes in financial position, and where applicable, cash flows for the year ended September 30, 2011 or on the consistency of application of accounting principles with the preceding year.

In our opinion, the balance sheets and the statements of net assets present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Milton, Delaware, as of September 30, 2011 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2012 on our consideration of the Town'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* and should be considered in assessing the results of our audit.

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.

PKS + Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

October 26, 2012

TOWN OF MILTON, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011

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, 2011. 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 assets changed during the most recent fiscal year. All changes in net assets 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 so doing, 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 Balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

TOWN OF MILTON, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011

Governmental Funds (Continued)

The Town maintains one major governmental fund, the General Fund and several non major funds which account for state and federal grants with specific compliance requirements. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances.

The Town adopts an annual appropriated budget for its General Fund. The basic governmental funds financial statements can be found on pages 11 and 13. 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 – 30 of this report.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

As noted earlier, net assets 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 \$4.3 million at the close of the current fiscal year. The Town's net assets are divided into three categories – invested in capital assets, net of related debt, restricted, and unrestricted net assets

The largest portion of the Town's net assets reflects its investment in capital assets (e.g., land, improvements, buildings, machinery and equipment, streets and sidewalks, vehicles and water system), less accumulated depreciation and any outstanding 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 assets on the Statement of Net Assets represent impact fees and transfer taxes received which are reserved for capital expenditures.

TOWN OF MILTON, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011

Net Assets

As of September 30, 2011, the Town had total net assets of \$4,300,000. Of this amount, \$2,537,000 was invested in capital assets, net of related debt, \$362,000 was restricted, and \$1,401,000 was unrestricted.

The table below provides key financial information in a condensed format. The 2010 amounts have been restated to reflect the prior period adjustment discussed on page 30.

Table 1 Town of Milton's Net Assets (in thousands of dollars)						
	2011			2010		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Assets						
Current and other assets	\$ 949	\$ 963	\$ 1,912	\$ 1,458	\$ 803	\$ 2,261
Capital assets	1,487	1,532	3,019	1,611	1,614	3,225
Total assets	2,436	2,495	4,931	3,069	2,417	5,486
Liabilities						
Current and other liabilities	114	68	182	244	25	269
Long term liabilities		449	449	160	538	698
Total liabilities	114	517	631	404	563	967
Net assets						
Invested in capital assets, net of related debt	1,487	1,050	2,537	1,611	1,099	2,710
Restricted	119	243	362			
Unrestricted	716	685	1,401	1,054	755	1,809
Total net assets	\$ 2,322	\$ 1,978	\$ 4,300	\$ 2,665	\$ 1,854	\$ 4,519

Change in Net Assets

Net assets for the year ending September 30, 2011 decreased by \$219,000, relative to the stated value in the prior year. This is a consequence of governmental activities expenses exceeding revenues by \$343,000. Business-type activities diminished the deficit by \$124,000 through revenues that exceeded expenses.

A \$116,000 or 56% reduction in building permit revenue was the largest contributor to the reduction of government activities revenue. The reduction is primarily attributable the variation in construction activity. The diminished collection of building inspection costs and less building permit fees account for 78% (\$89,935 of \$116,000) of the revenue reduction in this category. Operating grants and contributions in FY 2011 exceeded FY 2010 by \$49,000 as a result of the COPS Hiring Grant.

TOWN OF MILTON, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011

Change in Net Assets (continued)

Expenses in every category of governmental and business-type activities were reduced. The cumulative effect was a \$361,000 reduction in the cost of government during the 2011 fiscal year. This contrasts with the 2010 fiscal year when expenses were \$776,000 more than the prior year. The reduction in expenses has been accompanied by increased revenue from property and realty transfer taxes. Higher collections during the 2011 FY are attributed to a tax penalty amnesty program that year. A 20% property tax rate increase passed in the last days of FY 2011 will serve to balance revenue with expenses and end the consecutive periods with a reported decrease in net assets.

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

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

	2011			2010		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenues						
Program revenues						
Charges for services	\$ 170	\$ 710	\$ 880	\$ 286	\$ 731	\$ 1,017
Operating grants and contributions	187		187	138		138
Capital grants and contributions	96	13	109			-
General revenues						
Property and transfer taxes	904		904	855		855
Miscellaneous revenues	48		48	70		70
Unrestricted investment earnings	7	1	8	66		66
Total revenues	<u>\$ 1,412</u>	<u>\$ 724</u>	<u>\$ 2,136</u>	<u>\$ 1,415</u>	<u>\$ 731</u>	<u>\$ 2,146</u>
Expenses						
General government	577		577	694		694
Public safety	823		823	268		268
Public works	160		160	828		828
Code enforcement	122		122	168		168
Parks and recreation	73		73	87		87
Other expenditures				28		28
Utilities		600	600		643	643
Total expenses	<u>1,755</u>	<u>600</u>	<u>2,355</u>	<u>2,073</u>	<u>643</u>	<u>2,716</u>
Change in net assets	<u>\$ (343)</u>	<u>\$ 124</u>	<u>\$ (219)</u>	<u>\$ (658)</u>	<u>\$ 88</u>	<u>\$ (570)</u>

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Governmental Funds

For the fiscal year ending September 30, 2011, the Town had a decrease in its governmental fund balances of \$319,000. The Town budgeted the use of prior year surplus funds of \$339,000 to fund this decrease. Significant variances included increases in taxes and assessments and intergovernmental revenues, decreases in licenses and permits and earnings on investments, and decreases in total expenditures.

TOWN OF MILTON, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2011

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 assets totaled \$685,000. 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 \$121,697.
- Intergovernmental revenues exceeded the final budget by \$104,098.
- Total expenditures exceeded the final budget by \$34,247.
- Total public safety expenditures exceeded the final budget by \$67,405.
- Total general government expenditures were less than the final budget by \$63,686.

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, 2011 was \$3,019,000 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, furniture and fixtures, vehicles and water systems.

The following table of the Town's capital assets is listed below. Additional information can be found on pages 26 through 27 of this report.

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

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 38	\$ 38	\$	\$	\$ 38	\$ 38
Buildings	648	675			648	
Other improvements	445	484	1,365	1,412	1,810	1,896
Machinery and equipment	154	196	164	196	318	392
Streets and sidewalks	173	184			173	184
Vehicles	29	34	3	6	32	40
Total net capital assets	\$ 1,487	\$ 1,611	\$ 1,532	\$ 1,614	\$ 3,019	\$ 2,550

TOWN OF MILTON, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011

Capital Assets (continued)

This year's major capital asset additions included:

Governmental Activities

1. Purchase of dump truck for \$25,382.
2. Purchase of 7 interceptors and adapters for \$22,400.

Business-type activities

1. Replacement of pump well for \$10,416.

Long-Term Debt

At year end, the Town had \$482,000 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

Regarding governmental activities, the August 2011 tax penalty amnesty program had the effect of increasing property tax collections into the fiscal year 2012 period. The twenty percent property tax rate increase and continued rebound of the construction economy has, additionally, enhanced the revenue outlook.

In Business-type activities, a referendum on the question of borrowing \$3.45 million for water system improvements was defeated in March 2012. The borrowing would have been through the State of Delaware Office of Drinking Water revolving loan program which has financed similar Town of Milton projects. The financing features below-market rates and the forgiveness of up to 35% of the principal. A modified application for the same has been submitted for consideration in the 2013 fiscal year. If approved, the same referendum process would follow. Rates for water service are subject to change so that cost recovery is managed.

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 Town Manager, Town of Milton, 115 Federal Street, Milton, Delaware 19968.

TOWN OF MILTON, DELAWARE

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash	\$ 822,019	\$ 414,729	\$ 1,236,748
Taxes receivable	21,386		21,386
Accounts receivable, net of allowance	20,882	226,399	247,281
Internal balances	(36,766)	36,766	
Inventory		37,296	37,296
Prepaid expenses	2,474	4,600	7,074
Restricted cash	118,920	242,676	361,596
Total current assets	<u>948,915</u>	<u>962,466</u>	<u>1,911,381</u>
Capital assets			
Capital assets, at cost	2,989,193	2,690,484	5,679,677
Accumulated depreciation	(1,502,270)	(1,158,053)	(2,660,323)
Net capital assets	<u>1,486,923</u>	<u>1,532,431</u>	<u>3,019,354</u>
Total assets	<u>2,435,838</u>	<u>2,494,897</u>	<u>4,930,735</u>
LIABILITIES			
Current liabilities			
Current portion of long-term debt		33,635	33,635
Accounts payable	35,882	18,702	54,584
Accrued wages and payroll taxes	26,077	6,055	32,132
Accrued compensated absences	43,172	5,935	49,107
Accrued interest payable		3,562	3,562
Deferred revenue	9,318		9,318
Total current liabilities	<u>114,449</u>	<u>67,889</u>	<u>182,338</u>
Noncurrent liabilities			
Notes payable		448,758	448,758
Total noncurrent liabilities		<u>448,758</u>	<u>448,758</u>
Total liabilities	<u>114,449</u>	<u>516,647</u>	<u>631,096</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,486,923	1,050,038	2,536,961
Restricted	118,920	242,676	361,596
Unrestricted	715,546	685,536	1,401,082
Total net assets	<u>\$ 2,321,389</u>	<u>\$ 1,978,250</u>	<u>\$ 4,299,639</u>

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

TOWN OF MILTON, DELAWARE
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2011

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs	Expenses						
Governmental activities							
General government	\$ 577,433	\$ 10,976	\$	\$	\$ (566,457)	\$	\$ (566,457)
Public safety	822,412	34,457	117,240	42,500	(628,215)		(628,215)
Public works	160,457	7,741	52,089	53,656	(46,971)		(46,971)
Code enforcement	121,698	113,201			(8,497)		(8,497)
Parks and recreation	72,696	4,100	17,464		(51,132)		(51,132)
Total governmental activities	<u>1,754,696</u>	<u>170,475</u>	<u>186,793</u>	<u>96,156</u>	<u>(1,301,272)</u>		<u>(1,301,272)</u>
Business-type activities							
Utilities	599,680	710,095		13,050		123,465	123,465
Total business-type activities	<u>599,680</u>	<u>710,095</u>		<u>13,050</u>		<u>123,465</u>	<u>123,465</u>
Total	<u>\$ 2,354,376</u>	<u>\$ 880,570</u>	<u>\$ 186,793</u>	<u>\$ 109,206</u>	<u>(1,301,272)</u>	<u>123,465</u>	<u>(1,177,807)</u>
General revenues							
Property taxes					690,182		690,182
Transfer taxes					213,573		213,573
Franchise fees					30,334		30,334
Unrestricted investment earnings					6,821	238	7,059
Special item - gain on sale of assets					17,343		17,343
Total general revenues and special items					<u>958,253</u>	<u>238</u>	<u>958,491</u>
Change in net assets					(343,019)	123,703	(219,316)
Net assets at beginning of year, restated					2,664,408	1,854,547	4,518,955
Net assets, end of year					<u>\$ 2,321,389</u>	<u>\$ 1,978,250</u>	<u>\$ 4,299,639</u>

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

TOWN OF MILTON, DELAWARE

**BALANCE SHEET
GOVERNMENTAL FUNDS**

SEPTEMBER 30, 2011

	<u>General Fund</u>
ASSETS	
Cash	\$ 822,019
Taxes receivable	21,386
Accounts receivable	20,882
Prepaid assets	2,474
Restricted cash	<u>118,920</u>
Total assets	<u><u>\$ 985,681</u></u>
LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts payable	\$ 35,882
Accrued wages and payroll taxes	26,077
Accrued compensated absences	43,172
Due to other funds	36,766
Deferred revenue	<u>45,588</u>
Total liabilities	<u>187,485</u>
Fund balances	
Nonspendable	2,474
Restricted	118,920
Unassigned	<u>676,802</u>
Total fund balances	<u>798,196</u>
Total liabilities and fund balances	<u><u>\$ 985,681</u></u>

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

TOWN OF MILTON, DELAWARE

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

SEPTEMBER 30, 2011

Total fund balances, governmental funds	\$	798,196
--	-----------	----------------

**Amounts reported for governmental activities in the statement of net assets
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 Assets.**

Capital assets	2,989,193	
Accumulated depreciation	<u>(1,502,270)</u>	
		1,486,923

**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 Assets.**

Deferred taxes	<u>36,270</u>
-----------------------	----------------------

Net assets of governmental activities in the Statement of Net Assets	<u><u>\$</u></u>	<u>2,321,389</u>
---	-------------------------	-------------------------

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

TOWN OF MILTON, DELAWARE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

YEAR ENDED SEPTEMBER 30, 2011

	General Fund	Non-major Governmental Funds	Total Governmental Funds
Revenues			
Taxes and assessments	\$ 903,347	\$	\$ 903,347
Licenses and permits	140,859		140,859
Intergovernmental revenues	164,098	52,316	216,414
Charges for services	73,157		73,157
Fines and forfeitures	32,956		32,956
Earnings on investments	6,813	8	6,821
Miscellaneous	40,217		40,217
Total revenues	<u>1,361,447</u>	<u>52,324</u>	<u>1,413,771</u>
Expenditures			
Current			
General government	527,004		527,004
Public safety	850,389	10,065	860,454
Public works	75,136	46,756	121,892
Parks and recreation	40,816		40,816
Code enforcement	134,510		134,510
Capital outlay	47,781		47,781
Total expenditures	<u>1,675,636</u>	<u>56,821</u>	<u>1,732,457</u>
Net change in fund balances	(314,189)	(4,497)	(318,686)
Transfers in (out)	118	(118)	
Fund balances, beginning of year, restated	<u>1,112,267</u>	<u>4,615</u>	<u>1,116,882</u>
Fund balances, end of year	<u><u>\$ 798,196</u></u>	<u><u>\$</u></u>	<u><u>\$ 798,196</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
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED SEPTEMBER 30, 2011

Net change in fund balances, governmental funds	\$ (318,686)
---	--------------

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement
of Activities, the cost of those assets is allocated over their estimated useful lives and
reported as depreciation expense.

Capital outlay	47,781	
Depreciation expense	<u>(171,909)</u>	
		(124,128)

Some expenses reported in the statements 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	101,886
--	---------

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 revenue	(2,091)
----------------------------	---------

Change in net assets of governmental activities	<u><u>\$ (343,019)</u></u>
---	----------------------------

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

TOWN OF MILTON, DELAWARE

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

SEPTEMBER 30, 2011

	<u>Utilities Fund</u>
ASSETS	
Current assets	
Cash	\$ 414,729
Accounts receivable, net of allowance	226,399
Inventory	37,296
Prepaid maintenance	4,600
Due from other funds	36,766
Restricted cash	242,676
Total current assets	<u>962,466</u>
Capital assets	
Capital assets, at cost	2,690,484
Accumulated depreciation	(1,158,053)
Net capital assets	<u>1,532,431</u>
Total assets	<u>2,494,897</u>
LIABILITIES	
Current liabilities	
Accounts payable	18,702
Accrued wages and payroll taxes	6,055
Accrued interest payable	3,562
Accrued compensated absences	5,935
Current portion of long-term debt	33,635
Total current liabilities	<u>67,889</u>
Noncurrent liabilities	
Notes payable	448,758
Total noncurrent liabilities	<u>448,758</u>
Total liabilities	<u>516,647</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,050,038
Restricted	242,676
Unrestricted	685,536
Total net assets	<u>\$ 1,978,250</u>

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

TOWN OF MILTON, DELAWARE

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS

YEAR ENDED SEPTEMBER 30, 2011

	<u>Utilities Fund</u>
Operating revenues	
Water service charges	\$ 456,533
Trash service charges	228,665
Tapping fees	5,000
Sales of meters	9,083
Penalties	5,082
Other	5,732
Total revenues	<u>710,095</u>
Operating expenses	
Salaries and labor	83,094
Payroll taxes	7,003
Pension	10,218
Employee benefits	19,841
Uniforms	9,589
Utilities	26,040
Trash removal services	201,290
Telephone	5,252
Gas and oil	13,902
Repairs and maintenance	47,038
Operating supplies	25,262
Professional fees	28,488
Insurance	2,190
Miscellaneous	3,245
Depreciation	101,451
Total expenses	<u>583,903</u>
Operating income	<u>126,192</u>
Nonoperating revenues (expenses)	
Interest income	238
Interest expense	(15,777)
Net nonoperating revenues (expenses)	<u>(15,539)</u>
Income before contributions	110,653
Capital contributions - impact fees	13,050
Change in net assets	123,703
Net assets at beginning of year, restated	<u>1,854,547</u>
Net assets at end of year	<u><u>\$ 1,978,250</u></u>

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

TOWN OF MILTON, DELAWARE

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

YEAR ENDED SEPTEMBER 30, 2011

	<u>Utilities Fund</u>
Cash flows from operating activities	
Receipts from customers	\$ 688,121
Other receipts	5,732
Payments to suppliers	(384,710)
Payments to employees	(106,598)
Net cash provided by operating activities	<u>202,545</u>
Cash flows from noncapital financing activities	
Interfund borrowings	<u>(14,600)</u>
Cash flows from investing activities	
Interest income	<u>238</u>
Cash flows from capital and related financing activities	
Purchases of capital assets	(20,188)
Principal paid on long-term debt	(32,597)
Interest paid on long-term debt	(16,018)
Capital contributions	13,050
Net cash used by capital and related financing activities	<u>(55,753)</u>
Net increase in cash	132,430
Cash, beginning of year	<u>524,975</u>
Cash, end of year	<u><u>\$ 657,405</u></u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 126,192
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	101,451
(Increase) decrease in assets	
Accounts receivable	(16,242)
Inventory	4,492
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	(13,348)
Net cash provided by operating activities	<u><u>\$ 202,545</u></u>

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

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

ORGANIZATION

The Town of Milton (the "Town") was incorporated in 1807 under the provisions of the State of Delaware. 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.

**BASIS OF PRESENTATION AND
SUMMARY OF SIGNIFICANT ACCOUNT POLICIES**

The accounting and reporting policies of the Town relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB). Private sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent they do not conflict or contradict guidance of the GASB.

Financial Reporting Entity

The Town's basic financial statements include the accounts of all Town operations. The criteria for including organizations as component units within the Town's reporting entity, include whether:

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

Based on the aforementioned criteria, the Town of Milton has no component units.

Basis of Presentation

Government-wide financial statements - The statement of net assets and the statement of changes in net assets report information on all of the activities of the Town. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other non-exchange transactions, are reported separately from business-type activities, which are financed in whole or in part by fees charged to external parties.

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

**BASIS OF PRESENTATION AND
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Basis of Presentation (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Fund Financial Statements - The Town segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

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 are those funds through which most governmental functions typically are financed. The Town has presented the following 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.

For the year ended September 30, 2011, the Town reported the following non-major governmental funds: the Municipal Street Aid fund (MSA), State Aid to Local Law Enforcement Fund (SALLE), Emergency Illegal Drug Enforcement Fund (EIDE), and the SWAT fund. These funds account for state and federal grants with specific compliance requirements.

As of September 30, 2011, the Town discontinued the use of the non-major special revenue funds. In subsequent periods, state and federal grants will be reported in the general fund.

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

**BASIS OF PRESENTATION AND
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Presentation (Continued)

The Town has presented the following major proprietary fund:

Utilities Fund - This 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 principle and interest for water debt. Trash services are subcontracted out to a local trash company.

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 statements and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recognized at the time the liability is incurred, regardless of when the related cash flow takes 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 eligibility requirements have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available. "Measurable" means the amount of the transaction that can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Town considers all revenues as available if they are collected within sixty days after year end. Revenues susceptible to accrual are property taxes, franchise fees, charges for services, interest income and intergovernmental revenues. General capital acquisitions are reported as expenditures in governmental funds.

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

**BASIS OF PRESENTATION AND
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Measurement Focus / Basis of Accounting (Continued)

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. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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 and municipal street aid fund budgets are adopted on a basis consistent with generally accepted accounting principles for governmental funds.

The budget for the utility 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.

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

**BASIS OF PRESENTATION AND
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Inventory

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

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.

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. Allowance for uncollectible accounts in the utilities fund as of September 30, 2011 was \$8,800.

Deferred Revenue

Deferred revenue in the general fund arises when a revenue does not meet both the "measurable" and the "available" criteria for recognition in the current period. For the governmental funds statements, 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. Additionally, deferred revenue includes grant proceeds received but not spent.

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, 2011

**BASIS OF PRESENTATION AND
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

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.

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 Assets

Government-wide and proprietary fund net assets are divided into three components as follows:

Invested in capital assets, net of related debt - consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.

Restricted net assets - consists of net assets that are restricted by the Town's creditors, enabling legislation, grantors, or other contributors.

Unrestricted - all other net assets are reported in this category.

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

**BASIS OF PRESENTATION AND
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Government-Wide and Proprietary Fund Net Assets (Continued)

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

Governmental Fund Balances

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

Nonspendable fund balance - amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or 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 balance and then to other, less restrictive classifications (committed and then assigned fund balances) before using unassigned fund balances.

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

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. As of September 30, 2011, \$353,139 of the Town's deposits were exposed to custodial credit risk. These amounts were not covered by the Federal Deposit Insurance Corporation (FDIC) and were not collateralized by the Town's financial institution.

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.

Restricted cash in the utility 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, 2011

CAPITAL ASSETS

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

Governmental activities:	Beginning Balance	Increases	Decreases	Ending Balance
<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	1,030,589			1,030,589
Machinery and equipment	496,599	22,400		518,999
Streets and sidewalks	218,502			218,502
Vehicles	360,004	25,381	21,353	364,032
Total capital assets being depreciated	2,924,385	47,781	21,353	2,950,813
less accumulated depreciation for:				
Buildings	143,511	27,667		171,178
Other improvements	546,583	39,343		585,926
Machinery and equipment	300,625	63,679		364,304
Streets and sidewalks	34,821	11,059		45,880
Vehicles	326,174	30,161	21,353	334,982
Total accumulated depreciation	1,351,714	171,909	21,353	1,502,270
Total capital assets being depreciated, net	1,572,671	(124,128)		1,448,543
Governmental activities				
Capital assets, net	\$ 1,611,051	\$ (124,128)	\$	\$ 1,486,923

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

Governmental activities:	
General government	\$ 52,736
Public safety	47,247
Public works	38,566
Code enforcement	1,480
Parks and recreation	31,880
Total governmental activities	<u>\$ 171,909</u>

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

CAPITAL ASSETS (Continued)

Business-type activities:	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets being depreciated</i>				
Other improvements	\$ 2,098,611	\$ 10,416	\$	\$ 2,109,027
Machinery and equipment	401,767	9,772		411,539
Vehicles	169,918			169,918
Total capital assets being depreciated	2,670,296	20,188	-	2,690,484
less accumulated depreciation for:				
Other improvements	686,553	56,680		743,233
Machinery and equipment	205,915	42,102		248,017
Vehicles	164,134	2,669		166,803
Total accumulated depreciation	1,056,602	101,451	-	1,158,053
Total capital assets being depreciated, net	1,613,694	(81,263)		1,532,431
Business-type activities				
Capital assets, net	<u>\$ 1,613,694</u>	<u>\$ (81,263)</u>	<u>\$</u>	<u>\$ 1,532,431</u>

LONG-TERM DEBT

Business-Type activities

State Revolving Fund Loan Monies (SRF). On June 8, 2001, the Town entered into a loan agreement between 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 September 30, 2011 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Notes payable	<u>\$ 514,990</u>	<u>\$</u>	<u>\$ 32,597</u>	<u>\$ 482,393</u>

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

LONG-TERM DEBT (Continued)

Business-Type activities (Continued)

Principal and interest requirements to amortize all Business-type Activities debt outstanding as of September 30, 2011 are as follows:

Business-Type Activities			
Year Ending	Principal	Interest	Totals
2012	\$ 33,635	\$ 14,980	\$ 48,615
2013	34,706	13,909	48,615
2014	35,811	12,804	48,615
2015	36,952	11,663	48,615
2016	38,129	10,486	48,615
2017-2021	209,653	33,421	243,074
2022-2023	93,507	3,722	97,229
	<u>\$ 482,393</u>	<u>\$ 100,985</u>	<u>\$ 583,378</u>

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, 2011, total interest incurred and paid in the Utility fund was \$15,777. The full amount was charged to operations.

INTERNAL BALANCES

Balances due to/from other funds at September 30, 2011 consist of the following:

	Beginning of year	Increase (Decrease)	End of year
Due to the utility fund from the general fund	<u>\$ 22,166</u>	<u>\$ 14,600</u>	<u>\$ 36,766</u>
Due to the general fund from:			
MSA fund	\$	\$ 3,826	\$ 3,826
SALLE fund	625	64	689
	<u>\$ 625</u>	<u>\$ 3,890</u>	<u>\$ 4,515</u>

TOWN OF MILTON DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

FUND BALANCES – GOVERNMENTAL FUNDS

Non-spendable fund balance consists of prepaid insurance premiums.

Restricted fund balances consist of transfer taxes and grants 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 collection the \$2,400,000, but it has not been recorded as a receivable as of September 30, 2011. 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 \$7,150 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(all years 100% contributed): 2009 \$83,833; 2010 \$87,292; and 2011 \$77,857.

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 \$ 44,229.

COMMITMENTS

In fiscal year ended September 30, 2002, a ten year management agreement with Corrosion Control Corporation was created whereby Corrosion Control will provide maintenance services to the Town's water tower. The Town will be responsible for making one annual payment of \$37,000, two annual payments of \$29,000, and seven annual payments of \$13,800.

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.

TOWN OF MILTON DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

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.

PRIOR PERIOD ADJUSTMENT

The fund balance in the general fund and municipal street aid fund as well as net assets in the utilities fund and the governmental and business-type activities in the government-wide financial statements at the beginning of 2011 were restated to correct the following errors in the prior period: Miscellaneous accounts receivable in the general fund at September 30, 2010 was overstated by \$26,320. Accounts payable as of September 30, 2010 in the general fund, municipal street aid fund, and utilities fund were overstated by a total of \$40,185. The error had no effect on the change in fund balances/net assets for 2011.

	General Fund	MSA Funds	
Fund balances, beginning of year, as previously reported	\$ 1,115,287	\$ (65)	
Adjustments	(3,020)	4,618	
Fund balances, beginning of year, restated	<u>\$ 1,112,267</u>	<u>\$ 4,553</u>	
	Utilities Fund	Governmental Activities	Business-type Activities
Net assets, beginning of year, as previously reported	\$ 1,842,282	\$ 2,662,809	\$ 1,842,281
Adjustments	12,265	1,599	12,266
Net assets, beginning of year, restated	<u>\$ 1,854,547</u>	<u>\$ 2,664,408</u>	<u>\$ 1,854,547</u>

NEW PRONOUNCEMENT

The Government Accounting Standards Board (GASB) approved GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Under GASB 62, proprietary funds that are required to follow GASB standards can choose to follow accounting and financial guidance issued on or after November 30, 1989, which does not conflict with or contradict GASB pronouncements. The Town will be required to implement GASB 62 for the year ended September 30, 2013, however, no material effect on the financial statements is anticipated.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF MILTON, DELAWARE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Favorable
				(Unfavorable)
Revenues				
Taxes and assessments	\$ 829,000	\$ 829,000	\$ 903,347	\$ 74,347
Licenses and permits	192,000	192,000	140,859	(51,141)
Intergovernmental revenues	60,000	60,000	164,098	104,098
Charges for services	96,250	96,250	73,157	(23,093)
Fines and forfeitures	15,500	15,500	32,956	17,456
Earnings on investments	33,000	33,000	6,813	(26,187)
Miscellaneous	14,000	14,000	40,217	26,217
Total revenues	<u>1,239,750</u>	<u>1,239,750</u>	<u>1,361,447</u>	<u>121,697</u>
Expenditures				
Current				
General government	593,815	593,815	527,004	66,811
Public safety	783,280	783,280	850,389	(67,109)
Public works	80,632	80,632	75,136	5,496
Parks and recreation	51,355	51,355	40,816	10,539
Code enforcement	198,301	198,301	134,510	63,791
Capital outlay	2,500	2,500	47,781	(45,281)
Total expenditures	<u>1,709,883</u>	<u>1,709,883</u>	<u>1,675,636</u>	<u>34,247</u>
Excess of revenues over (under)				
expenditures	<u>(470,133)</u>	<u>(470,133)</u>	<u>(314,189)</u>	<u>155,944</u>
Other financing sources				
Prior year surplus	339,259	339,259		(339,259)
Transfers in (out)	130,874	130,874		(130,874)
Total other financing sources	<u>470,133</u>	<u>470,133</u>		<u>(470,133)</u>
Net change in fund balance	<u>\$</u>	<u>\$</u>	<u>\$ (314,189)</u>	<u>\$ (314,189)</u>

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

To the Mayor and Council
Town of Milton, Delaware

We have audited the financial statements that collectively comprise the Town of Milton, Delaware's financial statements as a whole as of and for the year ended September 30, 2011, and our report dated October 26, 2012, which appears on pages 1 and 2, states that the scope of our audit on the financial statements was not sufficient to enable us to express an opinion on the changes in financial positions and, where applicable, cash flows or on the consistency of application of accounting principles with the preceding year. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Because of the significance of the matter discussed above, it is not appropriate to, and we do not, express an opinion on the supplementary information referred to above.

The prior year comparative information has been derived from the Town's 2010 financial statements. Other auditors were engaged to audit the financial statements. Their report dated July 18, 2012, stated that the scope of their work was not sufficient to express, and they did not express an opinion on the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information.

PKS & Company, P. A.

CERTIFIED PUBLIC ACCOUNTANTS

October 26, 2012

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

YEAR ENDED SEPTEMBER 30, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

	2011		2010
	Final Budget	Actual	Actual
Revenues			
Taxes and assessments	\$ 829,000	\$ 903,347	\$ 853,180
Licenses and permits	192,000	140,859	196,886
Intergovernmental revenues	60,000	164,098	130,837
Charges for services	96,250	73,157	98,846
Fines and forfeitures	15,500	32,956	25,322
Earnings on investments	33,000	6,813	70,913
Miscellaneous	14,000	40,217	30,290
Total revenues	<u>1,239,750</u>	<u>1,361,447</u>	<u>1,406,274</u>
Expenditures			
Current			
General government	593,815	527,004	638,781
Public safety	783,280	850,389	797,716
Public works	80,632	75,136	175,887
Parks and recreation	51,355	40,816	52,397
Code enforcement	198,301	134,510	162,247
Capital outlay	2,500	47,781	79,255
Total expenditures	<u>1,709,883</u>	<u>1,675,636</u>	<u>1,906,283</u>
Excess of revenues over (under) expenditures	(470,133)	(314,189)	(500,009)
Other financing sources			
Prior year surplus	339,259		
Transfers in (out)	130,874		
Total other financing sources	<u>470,133</u>		
Net change in fund balance	<u>\$</u>	<u>\$ (314,189)</u>	<u>\$ (500,009)</u>

TOWN OF MILTON, DELAWARE

SCHEDULE OF REVENUES—BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED SEPTEMBER 30, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

	2011		2010
	Final Budget	Actual	Actual
REVENUES			
Taxes and assessments			
Real estate	\$ 700,000	\$ 658,154	\$ 640,517
Transfer	115,000	213,573	184,491
Penalties	14,000	31,620	28,172
Total taxes	<u>829,000</u>	<u>903,347</u>	<u>853,180</u>
Licenses and permits			
Business licenses	165,000	110,525	170,080
Franchise fees	27,000	30,334	26,806
Total licenses and permits	<u>192,000</u>	<u>140,859</u>	<u>196,886</u>
Intergovernmental revenues			
Federal Government		19,065	
State of Delaware	40,000	125,033	110,837
Sussex County	20,000	20,000	20,000
Total intergovernmental revenues	<u>60,000</u>	<u>164,098</u>	<u>130,837</u>
Charges for services			
Professional fees	36,000	1,276	34,817
Other service charges	60,250	71,881	64,029
Total service charges	<u>96,250</u>	<u>73,157</u>	<u>98,846</u>
Fines and forfeitures	<u>15,500</u>	<u>32,956</u>	<u>25,322</u>
Earnings on investments	<u>33,000</u>	<u>6,813</u>	<u>70,913</u>
Miscellaneous			
Donations	8,500	12,880	2,296
Other	5,500	27,337	27,994
Total miscellaneous	<u>14,000</u>	<u>40,217</u>	<u>30,290</u>
TOTAL	<u>\$ 1,239,750</u>	<u>\$ 1,361,447</u>	<u>\$ 1,406,274</u>

TOWN OF MILTON, DELAWARE

SCHEDULE OF EXPENDITURES—BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED SEPTEMBER 30, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

	2011		2010
	Final Budget	Actual	Actual
Expenditures			
General government			
Administration	\$ 570,815	\$ 421,527	\$ 595,121
Law	23,000	105,477	43,660
Total general government	<u>593,815</u>	<u>527,004</u>	<u>638,781</u>
Public safety			
Police department	780,780	850,389	792,716
Fire department	2,500		5,000
Total public safety	<u>783,280</u>	<u>850,389</u>	<u>797,716</u>
Public Works			
Streets	60,132	51,819	152,955
Sanitation	20,500	23,317	22,932
Total public works	<u>80,632</u>	<u>75,136</u>	<u>175,887</u>
Parks and recreation	<u>51,355</u>	<u>40,816</u>	<u>52,397</u>
Code enforcement	<u>198,301</u>	<u>134,510</u>	<u>162,247</u>
Capital outlay	<u>2,500</u>	<u>47,781</u>	<u>79,255</u>
Total expenditures	<u>\$ 1,709,883</u>	<u>\$ 1,675,636</u>	<u>\$ 1,906,283</u>

TOWN OF MILTON, DELAWARE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS**

YEAR ENDED SEPTEMBER 30, 2011

	Municipal Street Aid Fund	Emergency Illegal Drug Enforcement Fund	State Aid to Local Law Enforcement Fund	SWAT Fund	Total Non-Major Funds
Revenues					
Intergovernmental revenues	\$ 42,251	\$ 4,485	\$ 5,580	\$	\$ 52,316
Earnings on investments	8				8
Total revenues	<u>42,259</u>	<u>4,485</u>	<u>5,580</u>		<u>52,324</u>
Expenditures					
Current					
Public safety		4,485	5,580		10,065
Public works	46,756				46,756
Total expenditures	<u>46,756</u>	<u>4,485</u>	<u>5,580</u>		<u>56,821</u>
Net change in fund balances	(4,497)				(4,497)
Transfers out	(56)			(62)	(118)
Fund balances, beginning of year, as restated	<u>4,553</u>			<u>62</u>	<u>4,615</u>
Fund balances, end of year	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

TOWN OF MILTON, DELAWARE
SCHEDULE OF REVENUES AND EXPENSES
UTILITIES FUND

YEAR ENDED SEPTEMBER 30, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

	<u>2011</u>	<u>2010</u>
Operating revenues		
Water service charges	\$ 456,533	\$ 454,483
Trash service charges	228,665	200,644
Tapping fees	5,000	14,500
Sales of meters	9,083	11,397
Penalties	5,082	5,552
Other	5,732	5,558
Total revenues	<u>710,095</u>	<u>692,134</u>
Operating expenses		
Salaries and labor	83,094	127,652
Payroll taxes	7,003	9,205
Pension	10,218	12,290
Employee benefits	19,841	29,043
Uniforms	9,589	8,446
Utilities	26,040	32,638
Trash removal	201,290	186,886
Telephone	5,252	5,426
Gas and oil	13,902	13,884
Repairs and maintenance	47,038	57,280
Operating supplies	25,262	33,152
Professional fees	28,488	1,329
Insurance	2,190	
Miscellaneous	3,245	1,577
Depreciation	101,451	107,632
Total expenses	<u>583,903</u>	<u>626,440</u>
Operating income	<u>126,192</u>	<u>65,694</u>
Nonoperating revenues (expenses)		
Interest income	238	241
Interest expense	(15,777)	(16,758)
Net nonoperating revenues (expenses)	<u>(15,539)</u>	<u>(16,517)</u>
Income before contributions	110,653	49,177
Capital contributions - impact fees	13,050	39,150
Change in net assets	<u>\$ 123,703</u>	<u>\$ 88,327</u>

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***

To the Mayor and Council
Town of Milton, Delaware

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Milton, Delaware as of and for the year ended September 30, 2011, which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 26, 2012. 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.

Internal Control Over Financial Reporting

Management of the Town of Milton, Delaware, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. We consider the deficiency 11-01 described in the accompanying schedule of findings and responses to be a material weakness.

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. We consider the deficiencies 11-02 and 11-03 described in the accompanying schedule of findings and responses to be significant deficiencies.

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*.

We noted certain matters, other than those described in the schedule of findings and responses that we reported to the management of the Town in a separate letter dated October 26, 2012.

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Mayor and Council, management, others within the entity, and federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

October 26, 2012

TOWN OF MILTON, DELAWARE
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2011

MATERIAL WEAKNESSES

11-01 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 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 - Management acknowledges the condition and notes that the small size of their organization makes the segregation of duties difficult. Management is satisfied with the controls in place and is willing to accept any risks associated with this deficiency.

SIGNIFICANT DEFICIENCIES

11-02 Criteria – Reconciliation of the accounts receivable and accounts payable subsidiary ledgers with the general ledger is the primary means of preventing or detecting an error or fraud.

Condition – The taxes receivable, utilities receivable, miscellaneous accounts receivable, and accounts payable subsidiary ledgers were not reconciled with the general ledger balances for the general and enterprise funds.

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

Cause – There was no monitoring of the reconciliation procedures and no follow-up when the procedures were not performed.

Recommendation – We recommend that the subsidiary ledgers for accounts receivable and accounts payable be reconciled with the general ledger on a monthly basis. In addition, completed reconciliations should be reviewed for accuracy and completeness by management or their designee.

Auditee's response and planned corrective action – Management acknowledges the condition and agreed that the reconciliations will be completed.

TOWN OF MILTON, DELAWARE
SCHEDULE OF FINDINGS AND RESPONSES
(Continued)

YEAR ENDED SEPTEMBER 30, 2011

11-03 **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.

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

Cause - Management does not have sufficient knowledge of required generally accepted accounting principles (GAAP) to prepare the financial statements and related disclosures.

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 determined that it is in the best interests of the Town to outsource this task to its independent auditors.