

THE TOWN OF MILTON, DELAWARE
FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

THE TOWN OF MILTON, DELAWARE

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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, and each major fund of the Town of Milton, Delaware, as of and for the year ended September 30, 2012, 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.

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 the 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.

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, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended 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 January 17, 2013 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

January 17, 2013

TOWN OF MILTON, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012

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, 2012. 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 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, 2012

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 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 \$4.4 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, 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 assets on the Statement of Net Assets represent impact fees, transfer taxes, municipal street aid, and law enforcement grants received and restricted to certain expenditures.

Net Assets

As of September 30, 2012, the Town had total net assets of \$4,448,000. Of this amount, \$2,422,000 was invested in capital assets, net of related debt, \$498,000 was restricted, and \$1,528,000 was unrestricted.

TOWN OF MILTON, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012

Net assets (continued)

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

<p style="text-align: center;">Table 1 Town of Milton's Net Assets <i>(in thousands of dollars)</i></p>						
	2012			2011		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Assets						
Current and other assets	\$ 1,203	\$ 1,047	\$ 2,250	\$ 949	\$ 963	\$ 1,912
Capital assets	1,383	1,488	2,871	1,487	1,532	3,019
Total assets	2,586	2,535	5,121	2,436	2,495	4,931
Liabilities						
Current and other liabilities	175	62	237	114	68	182
Long term liabilities	21	415	436		449	449
Total liabilities	196	477	673	114	517	631
Net assets						
Invested in capital assets, net of related debt	1,383	1,039	2,422	1,487	1,050	2,537
Restricted	217	281	498	119	243	362
Unrestricted	790	738	1,528	715	685	1,400
Total net assets	\$ 2,390	\$ 2,058	\$ 4,448	\$ 2,321	\$ 1,978	\$ 4,299

Change in Net Assets

Net assets for the period ending September 30, 2012 increased by \$149,000, relative to the stated value in the prior year. This is a consequence of government activities revenue exceeding expenditures by \$69,000. Business-type activities revenue exceeded expenditures by \$80,000.

Building permit receipts, which had a 56% decline in 2011 when compared to 2010, made a dramatic recovery and increased by \$145,073 in 2012 when compared to 2011.

Revenue for the October 1, 2011 through September 30, 2012 fiscal year was also enhanced by a 20% increase in the property tax rate. Combined property and realty transfer tax revenue increased \$160,000 in FY 2012, compared with FY 2011.

A more aggressive collection of business and rental license fees in 2012 resulted in a 52%, or \$32,220, increase in revenue in this category. A similar effort to recover fees for professional services resulted in an increase from \$1,276 in 2011 to \$32,549 in 2012.

Expenditures in governmental activities were reduced by \$6,000. There were increases of expenditure in the Public Safety, Public Works and Code Enforcement departments. These increases were offset by a larger decrease in the General Government department. The decrease in General Government department was due, in part, to an allocation of expenditures to the Utilities department for administrative services.

TOWN OF MILTON, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012

In addition to this allocation, capital expenditures in the Utility department increased. Capital expenditures increased by \$111,379 in 2012, compared to 2011. Ninety-two percent of Utility department capital expenditures were meters and other system improvements. These capital improvements were warranted by State of Delaware water conservation standards. The investment will result in more efficient operations and a greater ratio of revenue recovery to operating expense. Finally, a \$55,309 increase in expenditures for business-type activities is attributable to increased trash disposal costs. This increase, however, was offset by an equivalent increase in revenue through a change in rate.

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)

	2012			2011		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenues						
Program revenues						
Charges for services	\$ 469	\$ 798	\$ 1,267	\$ 170	\$ 710	\$ 880
Operating grants and contributions	198	8	206	187		187
Capital grants and contributions	25	33	58	96	13	109
General revenues						
Property and transfer taxes	1,046		1,046	904		904
Miscellaneous revenues	77		77	48		48
Unrestricted investment earnings	3	1	4	7	1	8
Total revenues	<u>\$ 1,818</u>	<u>\$ 840</u>	<u>\$ 2,658</u>	<u>\$ 1,412</u>	<u>\$ 724</u>	<u>\$ 2,136</u>
Expenses						
General government	396		396	577		577
Public safety	906		906	823		823
Public works	206		206	160		160
Code enforcement	169		169	122		122
Parks and recreation	72		72	73		73
Utilities		760	760		600	600
Total expenses	<u>1,749</u>	<u>760</u>	<u>2,509</u>	<u>1,755</u>	<u>600</u>	<u>2,355</u>
Change in net assets	<u>\$ 69</u>	<u>\$ 80</u>	<u>\$ 149</u>	<u>\$ (343)</u>	<u>\$ 124</u>	<u>\$ (219)</u>

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Governmental Funds

For the fiscal year ending September 30, 2012, the Town had an increase in its governmental fund balance of \$190,000. 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, 2012

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 \$738,000. 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 \$350,458.
- Licenses and permits revenues exceeded the final budget by \$107,083.
- Total expenditures exceeded the final budget by \$170,036.
- Total public safety expenditures exceeded the final budget by \$59,439.
- Total general government expenditures exceeded the final budget by \$66,542.

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, 2012 was \$2,870,000 (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. Purchase of street lights for \$5,844.
2. Purchase of 3 police vehicles for \$24,139.

Business-type activities

1. Maintenance shop bathroom upgrades of \$7,707.
2. Purchase of water meters for \$31,941.

TOWN OF MILTON, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2012

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 38	\$ 38	\$	\$	\$ 38	\$ 38
Buildings	620	648			620	648
Other improvements	411	445	1,317	1,365	1,728	1,810
Machinery and equipment	116	154	170	164	286	318
Streets and sidewalks	162	173			162	173
Vehicles	35	29	1	3	36	32
Total net capital assets	\$ 1,382	\$ 1,487	\$ 1,488	\$ 1,532	\$ 2,870	\$ 3,019

Long-Term Debt

At year end, the Town had \$449,000 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

In Governmental Activities, residential construction continues at a pace of approximately 25 homes per year. The dramatic increase in building permit revenue in 2012 is not indicative of this trend. Much may be attributed to activity with a single industrial property. FY 2013 building permit revenue is expected to exceed the projected residential building trend through activity at two industrial properties. It is not expected to exceed 2012 Building Permit revenue, though.

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

TOWN OF MILTON, DELAWARE

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2012

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets			
Cash	\$ 922,637	\$ 415,476	\$ 1,338,113
Taxes receivable	28,816		28,816
Accounts receivable, net of allowance	29,414	215,899	245,313
Internal balances	(46,742)	46,742	
Inventory		83,607	83,607
Prepaid expenses	2,718	4,600	7,318
Restricted cash	266,887	280,834	547,721
Total current assets	<u>1,203,730</u>	<u>1,047,158</u>	<u>2,250,888</u>
Capital assets			
Capital assets, at cost	2,952,273	2,730,133	5,682,406
Accumulated depreciation	(1,569,608)	(1,242,539)	(2,812,147)
Net capital assets	<u>1,382,665</u>	<u>1,487,594</u>	<u>2,870,259</u>
Total assets	<u>2,586,395</u>	<u>2,534,752</u>	<u>5,121,147</u>
LIABILITIES			
Current liabilities			
Current portion of long-term debt		34,706	34,706
Accounts payable	36,907	10,591	47,498
Accrued wages and payroll taxes	33,120	6,196	39,316
Accrued compensated absences, net of long term	36,001	7,113	43,114
Accrued interest payable		3,341	3,341
Deferred revenue	68,906		68,906
Total current liabilities	<u>174,934</u>	<u>61,947</u>	<u>236,881</u>
Noncurrent liabilities			
Notes payable		414,053	414,053
Accrued compensated absences	21,073	916	21,989
Total noncurrent liabilities	<u>21,073</u>	<u>414,969</u>	<u>436,042</u>
Total liabilities	<u>196,007</u>	<u>476,916</u>	<u>672,923</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,382,665	1,038,835	2,421,500
Restricted	216,954	280,834	497,788
Unrestricted	790,769	738,167	1,528,936
Total net assets	<u>\$ 2,390,388</u>	<u>\$ 2,057,836</u>	<u>\$ 4,448,224</u>

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

TOWN OF MILTON, DELAWARE
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2012

		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	\$ 395,615	\$ 55,002	\$ 75,345	\$	\$ (265,268)	\$	\$ (265,268)
Public safety	906,493	53,208	58,077	25,000	(770,208)		(770,208)
Public works	206,180	52,895	63,798		(89,487)		(89,487)
Code enforcement	169,327	304,335			135,008		135,008
Parks and recreation	71,260	3,100	1,072		(67,088)		(67,088)
Total governmental activities	<u>1,748,875</u>	<u>468,540</u>	<u>198,292</u>	<u>25,000</u>	<u>(1,057,043)</u>		<u>(1,057,043)</u>
Business-type activities							
Utilities	759,932	798,295	7,415	33,350		79,128	79,128
Total business-type activities	<u>759,932</u>	<u>798,295</u>	<u>7,415</u>	<u>33,350</u>		<u>79,128</u>	<u>79,128</u>
Total	<u>\$ 2,508,807</u>	<u>\$ 1,266,835</u>	<u>\$ 205,707</u>	<u>\$ 58,350</u>	<u>(1,057,043)</u>	<u>79,128</u>	<u>(977,915)</u>
		General revenues					
		Property taxes			802,954		802,954
		Transfer taxes			243,957		243,957
		Franchise fees			33,144		33,144
		Unrestricted investment earnings			1,997	458	2,455
		Miscellaneous			43,990		43,990
		Total general revenues			<u>1,126,042</u>	<u>458</u>	<u>1,126,500</u>
		Change in net assets			68,999	79,586	148,585
		Net assets, beginning of year			2,321,389	1,978,250	4,299,639
		Net assets, end of year			<u>\$ 2,390,388</u>	<u>\$ 2,057,836</u>	<u>\$ 4,448,224</u>

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

TOWN OF MILTON, DELAWARE

**BALANCE SHEET
GOVERNMENTAL FUND**

SEPTEMBER 30, 2012

	General Fund
ASSETS	
Cash	\$ 922,637
Taxes receivable	28,816
Accounts receivable, net of allowance	29,414
Prepaid assets	2,718
Restricted cash	266,887
Total assets	\$ 1,250,472
LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts payable	\$ 36,237
Accrued wages and payroll taxes	33,789
Accrued compensated absences	36,001
Due to other funds	46,742
Deferred revenue	109,188
Total liabilities	261,957
Fund balances	
Nonspendable	2,718
Restricted	216,954
Unassigned	768,843
Total fund balances	988,515
Total liabilities and fund balances	\$ 1,250,472

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 ASSETS**

SEPTEMBER 30, 2012

Total fund balance, governmental fund **\$ 988,515**

**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	2,952,273	
Accumulated depreciation	<u>(1,569,608)</u>	
		1,382,665

**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 Assets:**

Accrued compensated absences	(21,073)
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**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>40,281</u>
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Net assets of governmental activities in the Statement of Net Assets	<u><u>\$ 2,390,388</u></u>
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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, 2012

	General Fund
Revenues	
Taxes and assessments	\$ 1,042,899
Licenses and permits	274,734
Intergovernmental revenues	223,292
Charges for services	174,583
Fines and forfeitures	52,368
Earnings on investments	1,997
Miscellaneous	43,990
	<hr/>
Total revenues	1,813,863
	<hr/>
Expenditures	
Current	
General government	368,512
Public safety	854,734
Public works	164,977
Parks and recreation	39,380
Code enforcement	165,958
Capital outlay	29,983
	<hr/>
Total expenditures	1,623,544
	<hr/>
Net change in fund balance	190,319
Fund balance, beginning of year	798,196
	<hr/>
Fund balance, end of year	\$ 988,515
	<hr/> <hr/>

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, 2012

Net change in fund balances, governmental funds	\$	190,319
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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	29,983	
Depreciation expense	<u>(134,241)</u>	
		(104,258)

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	(21,073)
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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>4,011</u>
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Change in net assets of governmental activities	\$	<u><u>68,999</u></u>
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The accompanying notes are an integral part of these financial statements.

TOWN OF MILTON, DELAWARE

STATEMENT OF NET ASSETS
PROPRIETARY FUND

SEPTEMBER 30, 2012

	<u>Utilities Fund</u>
ASSETS	
Current assets	
Cash	\$ 415,476
Accounts receivable, net of allowance	215,899
Inventory	83,607
Prepaid maintenance	4,600
Due from other funds	46,742
Restricted cash	280,834
Total current assets	<u>1,047,158</u>
Capital assets	
Capital assets, at cost	2,730,133
Accumulated depreciation	<u>(1,242,539)</u>
Net capital assets	<u>1,487,594</u>
Total assets	<u>2,534,752</u>
LIABILITIES	
Current liabilities	
Accounts payable	10,591
Accrued wages and payroll taxes	6,196
Accrued interest payable	3,341
Accrued compensated absences, net of long term	7,113
Current portion of long-term debt	<u>34,706</u>
Total current liabilities	<u>61,947</u>
Noncurrent liabilities	
Accrued compensated absences	916
Notes payable	<u>414,053</u>
Total noncurrent liabilities	<u>414,969</u>
Total liabilities	<u>476,916</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,038,835
Restricted	280,834
Unrestricted	<u>738,167</u>
Total net assets	<u>\$ 2,057,836</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 FUND

YEAR ENDED SEPTEMBER 30, 2012

	<u>Utilities Fund</u>
Operating revenues	
Water service charges	\$ 472,498
Trash service charges	292,061
Tapping fees	3,500
Sales of meters	19,838
Operating grants	7,415
Penalties	4,346
Other	6,052
Total revenues	<u>805,710</u>
Operating expenses	
Salaries and labor	137,573
Payroll taxes	9,439
Pension	11,778
Employee benefits	23,590
Uniforms	8,095
Utilities	24,010
Trash removal services	256,602
Telephone	3,760
Gas and oil	15,345
Repairs and maintenance	54,472
Operating supplies	36,845
Professional fees	62,384
Insurance	10,479
Miscellaneous	6,315
Depreciation	84,486
Total expenses	<u>745,173</u>
Operating income	<u>60,537</u>
Nonoperating revenues (expenses)	
Interest income	458
Interest expense	(14,759)
Net nonoperating revenues (expenses)	<u>(14,301)</u>
Income before contributions	46,236
Capital contributions - impact fees	<u>33,350</u>
Change in net assets	79,586
Net assets, beginning of year	<u>1,978,250</u>
Net assets, end of year	<u>\$ 2,057,836</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, 2012

	<u>Utilities Fund</u>
Cash flows from operating activities	
Receipts from customers	\$ 802,743
Other receipts	13,467
Payments to suppliers	(577,536)
Payments to employees	(135,338)
Net cash provided by operating activities	<u>103,336</u>
Cash flows from noncapital financing activities	
Interfund borrowings	<u>(9,976)</u>
Cash flows from investing activities	
Interest income	<u>458</u>
Cash flows from capital and related financing activities	
Purchases of capital assets	(39,649)
Principal paid on long-term debt	(33,634)
Interest paid on long-term debt	(14,980)
Capital contributions	33,350
Net cash used by capital and related financing activities	<u>(54,913)</u>
Net increase in cash	38,905
Cash, beginning of year	<u>657,405</u>
Cash, end of year	<u><u>\$ 696,310</u></u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 60,537
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	84,486
Change in allowance for bad debts	2,000
(Increase) decrease in assets	
Accounts receivable	8,500
Inventory	(46,311)
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	<u>(5,876)</u>
Net cash provided by operating activities	<u><u>\$ 103,336</u></u>

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

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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 basic criteria for including component units in the Town's financial statements is 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 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, 2012

**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.

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.

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

**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 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.

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, 2012

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

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.

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

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

Inventory

Inventory consists of water meters, hydrants, and other supplies used in the water department and is recorded at cost using the first-in, first-out method. Inventory is 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. The allowance for uncollectible accounts in the general fund and utilities fund as of September 30, 2012 were \$35,883 and \$10,800, respectively.

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 fund 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, 2012

**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, 2012

**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 balances 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, 2012

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, 2012, \$876,081 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
- 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, 2012

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	5,844		1,036,433
Machinery and equipment	518,999			518,999
Streets and sidewalks	218,502			218,502
Vehicles	364,032	24,139	66,903	321,268
Total capital assets being depreciated	2,950,813	29,983	66,903	2,913,893
less accumulated depreciation for:				
Buildings	171,178	27,667		198,845
Other improvements	585,926	39,441		625,367
Machinery and equipment	364,304	39,130		403,434
Streets and sidewalks	45,880	11,059		56,939
Vehicles	334,982	16,944	66,903	285,023
Total accumulated depreciation	1,502,270	134,241	66,903	1,569,608
Total capital assets being depreciated, net	1,448,543	(104,258)		1,344,285
Governmental activities				
Capital assets, net	<u>\$ 1,486,923</u>	<u>\$ (104,258)</u>	<u>\$</u>	<u>\$ 1,382,665</u>

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

Governmental activities:	
General government	\$ 27,104
Public safety	34,055
Public works	41,203
Parks and recreation	31,880
Total governmental activities	<u>\$ 134,241</u>

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

CAPITAL ASSETS (Continued)

Business-type activities:	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets being depreciated</i>				
Improvements	\$ 2,109,027	\$ 7,708	\$	\$ 2,116,735
Machinery and equipment	411,539	31,941		443,480
Vehicles	169,918			169,918
Total capital assets being depreciated	2,690,484	39,649		2,730,133
less accumulated depreciation for:				
Improvements	743,233	56,515		799,748
Machinery and equipment	248,017	25,301		273,318
Vehicles	166,803	2,670		169,473
Total accumulated depreciation	1,158,053	84,486		1,242,539
Total capital assets being depreciated, net	1,532,431	(44,837)		1,487,594
Business-type activities				
Capital assets, net	<u>\$ 1,532,431</u>	<u>\$ (44,837)</u>	<u>\$</u>	<u>\$ 1,487,594</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, 2012 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Notes payable	<u>\$ 482,393</u>	<u>\$</u>	<u>\$ 33,634</u>	<u>\$ 448,759</u>

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

LONG-TERM DEBT (Continued)

Business-Type activities (Continued)

Principal and interest requirements to amortize all Business-type Activities debt outstanding as of September 30, 2012 are as follows:

Business-Type Activities			
Year Ending	Principal	Interest	Totals
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	39,343	9,272	48,615
2018-2022	216,330	26,744	243,074
2023	47,488	1,126	48,614
	<u>\$ 448,759</u>	<u>\$ 86,004</u>	<u>\$ 534,763</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, 2012, total interest incurred and paid in the Utilities fund was \$14,759. The full amount was charged to operations.

INTERNAL BALANCES

Balances due to/from other funds at September 30, 2012 consist of the following:

	Beginning of year	Increase	End of year
Due to the utilities fund from the general fund	<u>\$ 36,766</u>	<u>\$ 9,976</u>	<u>\$ 46,742</u>

TOWN OF MILTON DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

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 collect the \$2,400,000, but it has not been recorded as a receivable as of September 30, 2012. 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 \$30,075 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:

<u>Fiscal year ended</u>	<u>Annual Pension Costs (APC)</u>	<u>Presentation of APC Contribution</u>	<u>Net Pension Obligation</u>
September 30, 2012	\$85,949	100%	0
September 30, 2011	\$77,857	100%	0
September 30, 2010	\$87,292	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 \$41,923.

TOWN OF MILTON DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

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

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 Statement No. 62 for the year ended September 30, 2013; however, no material effect on the financial statements is anticipated.

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, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Favorable
				(Unfavorable)
Revenues				
Taxes and assessments	\$ 969,000	\$ 969,000	\$ 1,042,899	\$ 73,899
Licenses and permits	146,164	167,651	274,734	107,083
Intergovernmental revenues	131,798	132,073	223,292	91,219
Charges for services	137,980	133,750	174,583	40,833
Fines and forfeitures	27,531	27,531	52,368	24,837
Earnings on investments	5,100	5,100	1,997	(3,103)
Miscellaneous	21,000	28,300	43,990	15,690
Total revenues	<u>1,438,573</u>	<u>1,463,405</u>	<u>1,813,863</u>	<u>350,458</u>
Expenditures				
Current				
General government	299,356	301,970	368,512	(66,542)
Public safety	791,893	795,295	854,734	(59,439)
Public works	118,299	118,869	164,977	(46,108)
Parks and recreation	37,006	37,006	39,380	(2,374)
Code enforcement	178,740	172,018	165,958	6,060
Capital outlay	22,500	28,350	29,983	(1,633)
Total expenditures	<u>1,447,794</u>	<u>1,453,508</u>	<u>1,623,544</u>	<u>(170,036)</u>
Net change in fund balance	<u>\$ (9,221)</u>	<u>\$ 9,897</u>	<u>\$ 190,319</u>	<u>\$ 180,422</u>

SUPPLEMENTARY INFORMATION



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CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

**To the Mayor and Council
Town of Milton, Delaware**

We have audited the financial statements of the Town of Milton, Delaware as of and for the year ended September 30, 2012, and our report thereon dated January 17, 2013, which expressed an unmodified opinion on those 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 as a whole. The supplementary information listed in the table of contents, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for the portion marked "unaudited," was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

The prior year summarized comparative information has been derived from the Town's 2011 financial statements. In our report dated October 26, 2012, we stated that the scope of our audit was not sufficient to express, and we did not express an opinion on the supplementary information.

PKS + Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

January 17, 2013

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

YEAR ENDED SEPTEMBER 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	2012		2011
	Final Budget (Unaudited)	Actual	Actual
Revenues			
Taxes and assessments	\$ 969,000	\$ 1,042,899	\$ 903,347
Licenses and permits	167,651	274,734	140,859
Intergovernmental revenues	132,073	223,292	216,414
Charges for services	133,750	174,583	73,157
Fines and forfeitures	27,531	52,368	32,956
Earnings on investments	5,100	1,997	6,813
Miscellaneous	28,300	43,990	40,217
Total revenues	<u>1,463,405</u>	<u>1,813,863</u>	<u>1,413,763</u>
Expenditures			
Current			
General government	301,970	368,512	527,004
Public safety	795,295	854,734	860,454
Public works	118,869	164,977	121,892
Parks and recreation	37,006	39,380	40,816
Code enforcement	172,018	165,958	134,510
Capital outlay	28,350	29,983	47,781
Total expenditures	<u>1,453,508</u>	<u>1,623,544</u>	<u>1,732,457</u>
Net change in fund balance	<u>\$ 9,897</u>	<u>\$ 190,319</u>	<u>\$ (318,694)</u>

For comparative purposes, the 2011 amounts on pages 33, 34, and 35 have been restated to include the activity of the municipal street aid fund and the police grant funds. These funds were combined with the general fund for fiscal year 2012.

TOWN OF MILTON, DELAWARE

SCHEDULES OF REVENUES—BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED SEPTEMBER 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	2012		2011
	Final Budget (Unaudited)	Actual	Actual
REVENUES			
Taxes and assessments			
Real estate	\$ 804,000	\$ 788,573	\$ 658,154
Transfer	155,000	243,957	213,573
Penalties	10,000	10,369	31,620
Total taxes	<u>969,000</u>	<u>1,042,899</u>	<u>903,347</u>
Licenses and permits			
Business licenses	137,151	241,590	110,525
Franchise fees	30,500	33,144	30,334
Total licenses and permits	<u>167,651</u>	<u>274,734</u>	<u>140,859</u>
Intergovernmental revenues			
Federal Government			19,065
State of Delaware	132,073	198,292	177,349
Sussex County		25,000	20,000
Total intergovernmental revenues	<u>132,073</u>	<u>223,292</u>	<u>216,414</u>
Charges for services			
Professional fees	36,000	62,559	1,276
Other service charges	97,750	112,024	71,881
Total service charges	<u>133,750</u>	<u>174,583</u>	<u>73,157</u>
Fines and forfeitures	<u>27,531</u>	<u>52,368</u>	<u>32,956</u>
Earnings on investments	<u>5,100</u>	<u>1,997</u>	<u>6,813</u>
Miscellaneous			
Donations	9,500	12,114	12,880
Other	18,800	31,876	27,337
Total miscellaneous	<u>28,300</u>	<u>43,990</u>	<u>40,217</u>
TOTAL	<u>\$ 1,463,405</u>	<u>\$ 1,813,863</u>	<u>\$ 1,413,763</u>

TOWN OF MILTON, DELAWARE

SCHEDULES OF EXPENDITURES—BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED SEPTEMBER 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	2012		2011
	Final Budget (Unaudited)	Actual	Actual
Expenditures			
General government			
Administration	\$ 278,970	\$ 329,558	\$ 421,527
Law	23,000	38,954	105,477
Total general government	<u>301,970</u>	<u>368,512</u>	<u>527,004</u>
Public safety			
Police department	792,795	852,234	860,454
Fire department	2,500	2,500	
Total public safety	<u>795,295</u>	<u>854,734</u>	<u>860,454</u>
Public Works			
Streets	103,799	149,663	98,575
Sanitation	15,070	15,314	23,317
Total public works	<u>118,869</u>	<u>164,977</u>	<u>121,892</u>
Parks and recreation	<u>37,006</u>	<u>39,380</u>	<u>40,816</u>
Code enforcement	<u>172,018</u>	<u>165,958</u>	<u>134,510</u>
Capital outlay	<u>28,350</u>	<u>29,983</u>	<u>47,781</u>
Total expenditures	<u>\$ 1,453,508</u>	<u>\$ 1,623,544</u>	<u>\$ 1,732,457</u>

TOWN OF MILTON, DELAWARE

SCHEDULES OF REVENUES AND EXPENSES
UTILITIES FUND

YEAR ENDED SEPTEMBER 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	<u>2012</u>	<u>2011</u>
Operating revenues		
Water service charges	\$ 472,498	\$ 456,533
Trash service charges	292,061	228,665
Tapping fees	3,500	5,000
Sales of meters	19,838	9,083
Operating grants	7,415	
Penalties	4,346	5,082
Other	6,052	5,732
Total revenues	<u>805,710</u>	<u>710,095</u>
Operating expenses		
Salaries and labor	137,573	83,094
Payroll taxes	9,439	7,003
Pension	11,778	10,218
Employee benefits	23,590	19,841
Uniforms	8,095	9,589
Utilities	24,010	26,040
Trash removal	256,602	201,290
Telephone	3,760	5,252
Gas and oil	15,345	13,902
Repairs and maintenance	54,472	47,038
Operating supplies	36,845	25,262
Professional fees	62,384	28,488
Insurance	10,479	2,190
Miscellaneous	6,315	3,245
Depreciation	84,486	101,451
Total expenses	<u>745,173</u>	<u>583,903</u>
Operating income	<u>60,537</u>	<u>126,192</u>
Nonoperating revenues (expenses)		
Interest income	458	238
Interest expense	(14,759)	(15,777)
Net nonoperating expenses	<u>(14,301)</u>	<u>(15,539)</u>
Income before contributions	46,236	110,653
Capital contributions - impact fees	<u>33,350</u>	<u>13,050</u>
Change in net assets	<u>\$ 79,586</u>	<u>\$ 123,703</u>

GOVERNMENT AUDITING STANDARDS REPORT



PKS & Company, P.A.

Pigg, Krahl & Stern

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CERTIFIED PUBLIC ACCOUNTANTS

PKF INTERNATIONAL

**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, and each major fund of the Town of Milton, Delaware as of and for the year ended September 30, 2012, which collectively comprise the Town's basic financial statements and have issued our report thereon dated January 17, 2013. 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 12-01 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 12-02 and 12-03 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 January 17, 2013.

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

January 17, 2013

TOWN OF MILTON, DELAWARE
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2012

MATERIAL WEAKNESS

- 12-01 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

- 12-02 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, 2012

SIGNIFICANT DEFICIENCIES (continued)

- 12-03 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 prior to the preparation of the financial statements.

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