

TOWN OF MILTON, DELAWARE
FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

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, 2017, and the related notes to the financial statements, which collectively comprise the Town of Milton, Delaware's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Auditors' Responsibility (continued)

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Town of Milton, Delaware, as of September 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the required supplementary information on pages 3 through 8 and pages 36 through 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2018, on our consideration of the Town of Milton, Delaware's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Milton, Delaware's internal control over financial reporting and compliance.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
February 15, 2018

TOWN OF MILTON, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017

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, 2017. Please read it in conjunction with the Town's financial statements, which begin on page 9.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Financial Statements

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, public works, code enforcement and parks and recreation. 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, 2017

Governmental Funds (Continued)

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

The Town adopts an annual appropriated budget for its General Fund. The basic governmental fund financial statements can be found on pages 11 through 14. Included in required supplementary information is a budgetary comparison statement for the General Fund to demonstrate compliance with this budget. The budgetary comparison can be found on page 36.

Proprietary Funds

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

Summary of Significant Accounting Policies and Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Notes to the financial statements are part of the basic financial statements and can be found on pages 18 through 35 of this report.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator of a government's overall financial condition and position. In the case of the Town, assets exceeded liabilities by \$7 million at the close of the current fiscal year. The Town's net position is divided into three categories – net investment in capital assets, restricted, and unrestricted net position.

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

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

TOWN OF MILTON, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017

Net Position

As of September 30, 2017, the Town's net position was \$6,943,000. Of this amount, \$2,294,000 was the investment in capital assets, \$2,085,000 was restricted, and \$2,564,000 was unrestricted.

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

Town of Milton's Net Position (in thousands of dollars)						
	2017			2016		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Assets						
Current and other assets	\$ 3,718	\$ 1,370	\$ 5,088	\$ 3,068	\$ 1,332	\$ 4,400
Capital assets	1,065	1,493	2,558	1,134	1,536	2,670
Total assets	<u>4,783</u>	<u>2,863</u>	<u>7,646</u>	<u>4,202</u>	<u>2,868</u>	<u>7,070</u>
Deferred outflows of resources	<u>172</u>	<u>33</u>	<u>205</u>	<u>60</u>	<u>11</u>	<u>71</u>
Liabilities						
Current and other liabilities	150	107	257	133	124	257
Long term liabilities	<u>128</u>	<u>260</u>	<u>388</u>	<u>18</u>	<u>268</u>	<u>286</u>
Total liabilities	<u>278</u>	<u>367</u>	<u>645</u>	<u>151</u>	<u>392</u>	<u>543</u>
Deferred inflows of resources	<u>239</u>	<u>24</u>	<u>263</u>	<u>181</u>	<u>23</u>	<u>204</u>
Net position						
Net investment in capital assets	1,065	1,229	2,294	1,134	1,232	2,366
Restricted	1,534	551	2,085	1,202	492	1,694
Unrestricted	<u>1,839</u>	<u>725</u>	<u>2,564</u>	<u>1,594</u>	<u>740</u>	<u>2,334</u>
Total net position	<u>\$ 4,438</u>	<u>\$ 2,505</u>	<u>\$ 6,943</u>	<u>\$ 3,930</u>	<u>\$ 2,464</u>	<u>\$ 6,394</u>

Change in Net Position

Net position for the period ending September 30, 2017 increased by \$549,000. This is a consequence of governmental activity assets increasing by \$508,000 and business-type assets increasing by \$41,000.

TOWN OF MILTON, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017

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

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

	2017			2016		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenues						
Program revenues						
Charges for services	\$ 594	\$ 915	\$ 1,509	\$ 575	\$ 890	\$ 1,465
Operating grants and contributions	213	53	266	173		173
Capital grants and contributions	11	62	73	45	63	108
General revenues						
Property and transfer taxes	1,496		1,496	1,501		1,501
Miscellaneous revenues	87		87	119		119
Unrestricted investment earnings	(2)	1	(1)	2		2
Total revenues	<u>2,399</u>	<u>1,031</u>	<u>3,430</u>	<u>2,415</u>	<u>953</u>	<u>3,368</u>
Expenses						
General government	431		431	436		436
Public safety	890		890	787		787
Public works	233		233	222		222
Code enforcement	239		239	255		255
Parks and recreation	98		98	88		88
Utilities		990	990		840	840
Total expenses	<u>1,891</u>	<u>990</u>	<u>2,881</u>	<u>1,788</u>	<u>840</u>	<u>2,628</u>
Change in net position	<u>\$ 508</u>	<u>\$ 41</u>	<u>\$ 549</u>	<u>\$ 627</u>	<u>\$ 113</u>	<u>\$ 740</u>

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Governmental Funds

For the fiscal year ended September 30, 2017, the Town had an increase in its governmental fund balance of \$636,000.

TOWN OF MILTON, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017

Proprietary Fund

The Town's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Net position totaled \$2,505,000 at September 30, 2017. Other factors concerning these funds finances are addressed on pages 15 through 17 and a more detailed comparison to 2016 and 2015 is shown on page 41.

BUDGETARY HIGHLIGHTS

The general fund budget was amended during the fiscal year for anticipated changes in expenditures. As a result of the amendments, the general fund budgeted surplus changed from \$7,697 to \$8,560.

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 budget, the final revised budget, actual results, and the variance between the final budget and actual results. Major variances between the final budget and actual results are as follows:

- Total general fund revenues exceeded the final budget by \$526,224.
- Transfer taxes exceeded the final budget by \$347,447.
- Total expenditures were under the final budget by \$100,805.

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, 2017 was \$2,557,914 (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

- 2017 Ford Explorer for \$30,177
- 2016 Dodge Charger for \$27,138
- 8 Police Body Cameras for \$5,842
- HP Workstation for \$5,200

Business-Type Activities

- Water tower handrail fabrication and installation for \$16,000
- 3 Axle 9 Ton Trailer for \$8,467

TOWN OF MILTON, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017

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

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 38	\$ 38	\$	\$	\$ 38	\$ 38
Construction in progress			30		30	-
Buildings	481	509			481	509
Other improvements	300	342	1,368	1,418	1,668	1,760
Machinery and equipment	31	49	91	110	122	159
Streets and sidewalks	163	177			163	177
Vehicles	52	18	4	8	56	26
Total net capital assets	\$ 1,065	\$ 1,133	\$ 1,493	\$ 1,536	\$ 2,558	\$ 2,669

Long-Term Debt

At year end, the Town had \$263,816 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

Growth in Town continues resulting in an increase in the property tax base.

The water mapping and modeling project has been completed. As a result, the consultants recommended a number of infrastructure improvements. The Town is in the planning stages of the Wagamon's water extension project. The project is expected to cost \$395,000. A grant has been obtained to pay for the planning phase.

Additionally, the Town is planning the drilling and construction of an additional well and treatment plant. The project is estimated to cost \$500,000.

REQUESTS FOR INFORMATION

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

TOWN OF MILTON, DELAWARE

STATEMENT OF NET POSITION

SEPTEMBER 30, 2017

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets			
Cash	\$ 1,773,642	\$ 483,795	\$ 2,257,437
Investments, at fair value	304,000		304,000
Taxes receivable	71,897		71,897
Accounts receivable, net of allowance	27,127	228,685	255,812
Inventory		80,226	80,226
Prepaid expenses		25,356	25,356
Restricted cash	1,541,391	551,333	2,092,724
Total current assets	<u>3,718,057</u>	<u>1,369,395</u>	<u>5,087,452</u>
Noncurrent assets			
Capital assets, net of accumulated depreciation	1,065,294	1,492,620	2,557,914
Total assets	<u>4,783,351</u>	<u>2,862,015</u>	<u>7,645,366</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred financing outflows - retirement	<u>171,687</u>	<u>33,091</u>	<u>204,778</u>
LIABILITIES			
Current liabilities			
Current portion of long-term debt		40,596	40,596
Accounts payable	85,753	50,064	135,817
Accrued wages and payroll taxes	24,664	3,357	28,021
Accrued compensated absences, net of long-term	39,573	9,922	49,495
Accrued interest payable		2,541	2,541
Total current liabilities	<u>149,990</u>	<u>106,480</u>	<u>256,470</u>
Noncurrent liabilities			
Notes payable		223,220	223,220
Accrued compensated absences	18,908	7,252	26,160
Net pension liability	109,167	28,999	138,166
Total noncurrent liabilities	<u>128,075</u>	<u>259,471</u>	<u>387,546</u>
Total liabilities	<u>278,065</u>	<u>365,951</u>	<u>644,016</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred grants	42,290		42,290
Deferred financing inflows - retirement	196,396	24,082	220,478
Total deferred inflows of resources	<u>238,686</u>	<u>24,082</u>	<u>262,768</u>
NET POSITION			
Net investment in capital assets	1,065,294	1,228,804	2,294,098
Restricted	1,533,769	551,333	2,085,102
Unrestricted	1,839,224	724,936	2,564,160
Total net position	<u>\$ 4,438,287</u>	<u>\$ 2,505,073</u>	<u>\$ 6,943,360</u>

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

TOWN OF MILTON, DELAWARE

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2017

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
GOVERNMENTAL ACTIVITIES							
General government	\$ 430,596	\$ 8,045	\$	\$	\$ (422,551)	\$	\$ (422,551)
Public safety	890,502	24,913	149,612	10,625	(705,352)		(705,352)
Public works	233,350	97,829	64,086		(71,435)		(71,435)
Code enforcement	239,055	460,989			221,934		221,934
Parks and recreation	98,246	2,460			(95,786)		(95,786)
Total governmental activities	<u>1,891,749</u>	<u>594,236</u>	<u>213,698</u>	<u>10,625</u>	<u>(1,073,190)</u>		<u>(1,073,190)</u>
BUSINESS-TYPE ACTIVITIES							
Utilities	990,050	915,389	52,627	62,350		40,316	40,316
Total business-type activities	<u>990,050</u>	<u>915,389</u>	<u>52,627</u>	<u>62,350</u>		<u>40,316</u>	<u>40,316</u>
Total	<u>\$ 2,881,799</u>	<u>\$ 1,509,625</u>	<u>\$ 266,325</u>	<u>\$ 72,975</u>	<u>(1,073,190)</u>	<u>40,316</u>	<u>(1,032,874)</u>
GENERAL REVENUES							
					1,038,373		1,038,373
Real estate taxes					457,447		457,447
Transfer taxes					47,312		47,312
Franchise fees					(1,825)	524	(1,301)
Unrestricted investment earnings (losses)					39,973		39,973
Miscellaneous					1,581,280	524	1,581,804
Total general revenues					<u>508,090</u>	<u>40,840</u>	<u>548,930</u>
Change in net position							
NET POSITION, BEGINNING OF YEAR					<u>3,930,197</u>	<u>2,464,233</u>	<u>6,394,430</u>
NET POSITION, END OF YEAR					<u>\$ 4,438,287</u>	<u>\$ 2,505,073</u>	<u>\$ 6,943,360</u>

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

TOWN OF MILTON, DELAWARE

**BALANCE SHEET
GOVERNMENTAL FUND**

SEPTEMBER 30, 2017

ASSETS

	General Fund
	<u> </u>
Cash	\$ 1,773,642
Investments, at fair value	304,000
Taxes receivable	71,897
Accounts receivable, net of allowance	27,127
Restricted cash	<u>1,541,391</u>
Total assets	<u><u>\$ 3,718,057</u></u>

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES,
AND FUND BALANCES**

LIABILITIES

Accounts payable	\$ 85,753
Accrued wages and payroll taxes	24,664
Accrued compensated absences	<u>39,573</u>
Total liabilities	<u>149,990</u>

DEFERRED INFLOWS OF RESOURCES

Deferred property taxes and grants	<u>110,590</u>
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FUND BALANCES

Restricted	1,533,769
Unassigned	<u>1,923,708</u>
Total fund balances	<u>3,457,477</u>

Total liabilities, deferred inflows of resources, and fund balances	<u><u>\$ 3,718,057</u></u>
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The accompanying notes are an integral part of these financial statements.

TOWN OF MILTON, DELAWARE

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

SEPTEMBER 30, 2017

Total fund balance, governmental fund	\$ 3,457,477
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Amounts reported for governmental activities in the Statement of
Net Position are different because:

Capital assets used in governmental activities are not financial resources and are therefore not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.	1,065,294
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Some expenditures reported in the governmental funds require the use of current financial resources and these are not reported as expenses in the Statement of Activities: Deferred financing outflows - retirement	171,687
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Some liabilities are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position.

Accrued compensated absences	(18,908)
Deferred financing inflows - retirement	(196,396)
Net pension liability	(109,167)

Certain revenues that do not provide current financial resources are reported as deferred income in the fund financial statements, but are reported as revenue in the governmental activities of the Statement of Net Position.

Deferred taxes	<u>68,300</u>
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Net position, governmental activities	<u><u>\$ 4,438,287</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, 2017

	General Fund
REVENUES	
Real estate taxes	\$ 1,056,608
Transfer taxes	457,447
Licenses and permits	383,066
Intergovernmental revenues	224,323
Charges for services	234,893
Fines and forfeitures	34,365
Earnings (losses) on investments	(1,825)
Miscellaneous	29,197
Total revenues	<u>2,418,074</u>
EXPENDITURES	
Current	
General government	399,358
Public safety	815,703
Public works	191,827
Parks and recreation	69,924
Code enforcement	234,833
Capital outlay	70,840
Total expenditures	<u>1,782,485</u>
Net change in fund balance	635,589
FUND BALANCES, BEGINNING OF YEAR	<u>2,821,888</u>
FUND BALANCES, END OF YEAR	<u><u>\$ 3,457,477</u></u>

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

TOWN OF MILTON, DELAWARE

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

YEAR ENDED SEPTEMBER 30, 2017

Net change in fund balances, governmental fund \$ 635,589

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

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

Capital outlay	70,840
Depreciation expense	<u>(139,334)</u>

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	(1,335)
Change in deferred financing outflows - retirement	(124,352)
Change in net pension liability	(131,803)

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	(18,235)
Change in deferred financing inflows - retirement	<u>216,720</u>

Change in net position, governmental activities	<u><u>\$ 508,090</u></u>
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The accompanying notes are an integral part of these financial statements.

TOWN OF MILTON, DELAWARE

**STATEMENT OF NET POSITION
PROPRIETARY FUND**

SEPTEMBER 30, 2017

	<u>Utilities Fund</u>
ASSETS	
Current assets	
Cash	\$ 483,795
Accounts receivable, net of allowance	228,685
Inventory	80,226
Prepaid maintenance contract	25,356
Restricted cash	551,333
Total current assets	<u>1,369,395</u>
Noncurrent assets	
Capital assets, net of accumulated depreciation	1,492,620
Total assets	<u>2,862,015</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred financing outflows - retirement	<u>33,091</u>
 LIABILITIES	
Current liabilities	
Accounts payable	50,064
Accrued wages and payroll taxes	3,357
Accrued interest payable	2,541
Accrued compensated absences, net of long-term	9,922
Current portion of long-term debt	40,596
Total current liabilities	<u>106,480</u>
Non-current liabilities	
Accrued compensated absences	7,252
Notes payable	223,220
Net pension liability	28,999
Total non-current liabilities	<u>259,471</u>
Total liabilities	<u>365,951</u>
 DEFERRED INFLOWS OF RESOURCES	
Deferred financing inflows - retirement	<u>24,082</u>
 NET POSITION	
Net investment in capital assets	1,228,804
Restricted	551,333
Unrestricted	724,936
Total net position	<u>\$ 2,505,073</u>

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

TOWN OF MILTON, DELAWARE

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

YEAR ENDED SEPTEMBER 30, 2017

	<u>Utilities Fund</u>
OPERATING REVENUES	
Water service charges	\$ 501,520
Trash service charges	314,070
Tapping fees	21,500
Sales of meters	55,182
Operating grants	52,627
Penalties	6,956
Other	16,161
Total operating revenues	<u>968,016</u>
OPERATING EXPENSES	
Salaries and labor	197,111
Payroll taxes	12,072
Pension	9,678
Employee benefits	33,784
Uniforms	3,585
Utilities	23,384
Trash removal services	275,772
Telephone	4,778
Gas and oil	6,672
Repairs and maintenance	209,121
Operating supplies	78,579
Professional fees	18,028
Insurance	6,980
Miscellaneous	3,543
Depreciation	97,691
Total operating expenses	<u>980,778</u>
Operating loss	<u>(12,762)</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest income	524
Interest expense	(9,272)
Net non-operating expenses	<u>(8,748)</u>
Income before contributions	(21,510)
Capital contributions - impact fees	<u>62,350</u>
Change in net position	40,840
NET POSITION, BEGINNING OF YEAR	<u>2,464,233</u>
NET POSITION, END OF YEAR	<u><u>\$ 2,505,073</u></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, 2017

	<u>Utilities Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 905,548
Other receipts	68,788
Payments to suppliers	(651,289)
Payments to employees	(239,624)
	<hr/>
Net cash provided by operating activities	83,423
	<hr/>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(54,721)
Principal paid on long-term debt	(39,344)
Interest paid on long-term debt	(9,272)
Capital contributions	62,350
	<hr/>
Net cash used by capital and related financing activities	(40,987)
	<hr/>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Interfund borrowings	(81,194)
	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	524
	<hr/>
Net decrease in cash	(38,234)
CASH, BEGINNING OF YEAR	<hr/> 1,073,362
CASH, END OF YEAR	<hr/> <hr/> \$ 1,035,128
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (12,762)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	97,691
Change in deferred outflows and inflows	(20,721)
(Increase) decrease in assets	
Accounts receivable	6,320
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	12,895
	<hr/>
Net cash provided by operating activities	<hr/> <hr/> \$ 83,423

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

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting entity

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

Basis of presentation

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

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

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

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of presentation (continued)

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

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

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

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

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

Utilities Fund (Enterprise 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 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.

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement focus, basis of accounting (continued)

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

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

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

Budgetary data

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

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

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary data (continued)

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

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

Cash equivalents

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

Investments

Investments consist of funds managed and held by M&T Securities Inc. for the purpose of generating income and capital appreciation on a total return basis. Investments with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in fund balance in the governmental funds and the change in net position in the government-wide statements.

The fair values and original costs of the Town's investments as of September 30, 2017 are as follows:

	Cost	Fair Value	Unrealized Gains/(Losses)
Corporate bonds	<u>\$ 308,863</u>	<u>\$ 304,000</u>	<u>\$ (4,863)</u>

Prepaid items

Prepaid balances are for payments made by the Town in the current year to provide services occurring in the subsequent fiscal year.

Inventory

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

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017 were \$6,577 and \$3,800, respectively.

Deferred inflows of resources

The Town may report a separate section for deferred inflows of resources. This separate financial element reflects an increase in net assets that applies to a future period. The Town has three types of items that qualify for reporting in this category: deferred property taxes, which are not recognized until available (collected not later than 60 days after the end of the Town's fiscal year), deferred financing inflows retirement, and deferred grants, which are not recognized until a future event occurs.

Deferred outflows of resources

The Town may report decreases in net assets that relate to a future period as deferred outflows of resources in a separate section of its government-wide and proprietary statements of net position or the governmental funds balance sheet. The Town has one item that qualifies for reporting in this category: deferred outflow retirement contributions.

Pensions

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Delaware Public Employees' Retirement System (DPERS), and additions to/deductions from DPERS's fiduciary net position have been determined on the same basis as they are reported by DPERS.

Accounting for compensated absences

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

Sick pay is generally not vested except under certain circumstances such as retirement or death. Therefore, sick pay is not accrued but expensed when paid.

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property taxes

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

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. Capital assets are defined by the Town as assets with an initial, individual cost of \$5,000 or more and an estimated useful life exceeding one year. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated capital assets received prior to June 15, 2015 are valued at their fair market value on the date donated. Donated capital assets received after June 15, 2015 are recorded at acquisition value. Repairs and maintenance that do not add to the value of the asset or materially extend the asset's life are not capitalized.

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	5 – 40 years
Streets and sidewalks	10 – 25 years
Machinery and equipment	3 – 20 years
Vehicles	2 – 5 years

Use of estimates

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

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide and proprietary net position

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

Net investment in capital assets – 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 plus deferred outflows of resources less deferred inflows of resources related to those assets.

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

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

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

Governmental fund balances

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

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

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

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

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

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

In governmental funds, the Town’s policy is to first apply the expenditure for budgeted items toward unassigned fund balances and then to other, more restrictive classifications (committed, assigned, and then restricted fund balances).

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

CASH AND EQUIVALENTS

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, corporate debt instruments, 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, 2017, \$3,816,529 of the Town's deposits were exposed to custodial credit risk. These amounts were not covered by the Federal Deposit Insurance Corporation (FDIC) but were collateralized with securities held by the pledging financial institution's trust department, not in the Town's name.

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, 2017

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
Total capital assets not being depreciated	38,380			38,380
<i>Capital assets being depreciated</i>				
Buildings	818,691			818,691
Other improvements	1,137,473			1,137,473
Machinery and equipment	547,943	11,042		558,985
Streets and sidewalks	272,545			272,545
Vehicles	264,193	59,798		323,991
Total capital assets being depreciated	3,040,845	70,840		3,111,685
less accumulated depreciation for:				
Buildings	309,513	27,667		337,180
Other improvements	799,344	43,827		843,171
Machinery and equipment	495,017	27,367		522,384
Streets and sidewalks	95,704	13,942		109,646
Vehicles	245,859	26,531		272,390
Total accumulated depreciation	1,945,437	139,334		2,084,771
Total capital assets being depreciated, net	1,095,408	(68,494)		1,026,914
Capital assets, net	\$ 1,133,788	\$ (68,494)	\$	\$ 1,065,294

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

Governmental activities:	
General government	\$ 26,957
Public safety	45,598
Public works	39,672
Code enforcement	520
Parks and recreation	26,587
Total governmental activities	<u>\$ 139,334</u>

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

CAPITAL ASSETS (Continued)

Business-type activities:	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets being depreciated</i>				
Improvements	\$ 2,460,805	\$ 46,253	\$	\$ 2,507,058
Machinery and equipment	483,611	8,467		492,078
Vehicles	191,065			191,065
Total capital assets being depreciated	3,135,481	54,720		3,190,201
less accumulated depreciation for:				
Improvements	1,042,435	66,584		1,109,019
Machinery and equipment	374,496	26,031		400,527
Vehicles	182,959	5,076		188,035
Total accumulated depreciation	1,599,890	97,691		1,697,581
Total capital assets being depreciated, net	1,535,591	(42,971)		1,492,620
Capital assets, net	<u>\$ 1,535,591</u>	<u>\$ (42,971)</u>	<u>\$</u>	<u>\$ 1,492,620</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, 2017 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Notes payable	<u>\$ 303,160</u>	<u>\$</u>	<u>\$ 39,344</u>	<u>\$ 263,816</u>

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

LONG-TERM DEBT (Continued)

Business-type activities (continued)

Principal and interest requirements to amortize all Business-type Activities debt outstanding as of September 30, 2017 are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2018	\$ 40,596	\$ 8,019	\$ 48,615
2019	41,889	6,726	48,615
2020	43,224	5,391	48,615
2021	44,600	4,015	48,615
2022	46,021	2,594	48,615
2023	47,486	1,128	48,614
	<u>\$ 263,816</u>	<u>\$ 27,873</u>	<u>\$ 291,689</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, 2017, total interest incurred and paid in the Utilities fund was \$9,272. The full amount was charged to operations.

INTERNAL BALANCES

Balances due to/from other funds at September 30, 2017 consist of the following:

	<u>Beginning of year</u>	<u>Increase (Decrease)</u>	<u>End of year</u>
Due from the utilities fund to the general fund	<u>\$ 81,194</u>	<u>\$ (81,194)</u>	<u>\$</u>

TOWN OF MILTON DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

FUND BALANCES – GOVERNMENTAL FUNDS

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

IMPACT FEES – WASTEWATER TREATMENT PLANT

On July 1, 2007, the Town sold the wastewater treatment plant, sewer infrastructure, franchise fees, prior engineering costs, land, and repayment of the State Revolving Fund debt to Tidewater Environment Services, Inc. (TESI) for \$6,400,000. After a cash payment of \$2,500,000, there was a remaining balance of \$3,900,000. This amount will be received in installments of \$1,500 per customer from the impact fees collected by TESI.

The Town is scheduled to collect the \$3,900,000, but it has not been recorded as a receivable as of September 30, 2017. 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 \$62,350.

RETIREMENT AND PENSION PLANS

General information about the pension plans

Plan descriptions: The Town participates in two plans of the Delaware Public Employees' Retirement System (DPERS): the County Municipal Police/Firefighters Pension Plan (Police Plan) and the County Municipal Other Employees' Pension Plan (General Plan).

Both plans are cost sharing multiple-employer defined-benefit pension plan established in the Delaware Code. The General Assembly is responsible for setting benefits and contributions and amending plan provisions; administrative rules and regulations are adopted and maintained by the Board of Pension Trustees (the Board). The management of the Plan is the responsibility of the Board. The Board is comprised of five members appointed by the Governor and confirmed by the State Senate, plus two ex officio members. The daily operation is the responsibility of the Office of Pensions. Although most of the assets of the Plans are commingled with other Plans for investment purposes, the Plans' assets may be used for the payment of benefits to the members of the Plans in accordance with the terms of the Plans.

The following are brief descriptions of the Plans in effect as of June 30, 2016. For a more complete description, please refer to the DPERS CAFR for each plan. Separately issued financial statements for DPERS are available from the pension office at: McArdle Building, Suite 1, 860 Silver Lake Blvd, Dover, DE 19904.

TOWN OF MILTON DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

RETIREMENT AND PENSION PLANS (Continued)

Benefits provided. The DPERS provide retirement, disability and death benefits. Eligibility and benefits vary depending on which plan the employee is enrolled in.

Police Plan covers police officers and firefighters employed by a county or municipality of the state that have joined the Plan. Service benefits are based on 2.5% of final average monthly compensation multiplied by years of credited service up to 20 years, plus 3.5% of final average monthly compensation multiplied by years of service in excess of 20 years. For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation. Employees in the plan may retire after age 62 with 5 years of service; age plus credited service (but not less than 10 years) equals 75; or 20 years of credited service. Benefits are vested after five years of credited service.

Total disability benefits for duty officers are based on 75% of final average compensation plus 10% for each dependent but not to exceed 25% for all dependents. Partial disability benefits for duty officers are calculated the same as service benefits, subject to minimum of 50% of final average compensation. Disability benefits for non-duty officers are calculated the same as service benefits, total disability subject to a minimum of 50% of final average monthly compensation plus 5% of each dependent not to exceed 20% for all dependents with partial disability benefits subject to a minimum of 30% of final average monthly compensation.

For survivor benefits, if the employee is receiving a pension, then eligible survivor receives 50% of pension; if the employee is active, eligible survivor receives 50% of pension the employee would have received at age 62. If the member is killed in the line of duty, the eligible survivor receives 75% of the members' compensation.

General plan covers employees of counties or municipalities that have joined the plan. Services benefits are based on 1/60th of final average monthly compensation multiplied by years of credited service, subject to maximum limitations. For this plan average monthly compensation is the monthly average of the highest five years of compensation. Employees in the plan may retire after age 62 with 5 years of credited services, age 60 with 15 years of credited services, or after 30 years of credited services. Benefits are vested after five years of credited service.

Disability benefits are the same as service benefits. Employee must have 5 years of credited service. For survivor benefits, if the employee is receiving a pension, then eligible survivor received 50% of pension, if employee is active, eligible survivor receives 50% of pension the employee would have received at age 62.

TOWN OF MILTON DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

RETIREMENT AND PENSION PLANS (Continued)

Contributions: Active members of the Police Plan are required to contribute to the Plan at the rate of 7% of their covered salary. Active members of the General Plan are required to contribute to the plan at the rate of 3% of earnings in excess of \$6,000. Employer contributions are determined by the Board of Pension Trustees. Contributions to the plan from the Town for the past three years were as follows:

Ending	Cost	Funded
9/30/2015	\$ 73,015	100%
9/30/2016	\$ 79,071	100%
9/30/2017	\$ 80,111	100%

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 \$29,556.

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions

At September 30, 2017, the Town reported a liability in the government-wide activities of \$138,166 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. Update procedures were used to roll forward the total pension liability/asset to June 30, 2016. The Town's proportion of the net pension liability was based on the percentage of actual employee contributions. At June 30, 2016, the Town's proportion for the Police Plan was .4243% and for the General Plan was 1.1416%.

For the year ended September 30, 2017, the Town recognized pension expense of \$71,285. At September 30, 2017, the Town reported deferred outflows of resources or deferred inflows of resources related to pensions from the following sources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion	\$ 999	\$ 95,628
Net difference between projected and actual earnings on pension plan investments	96,200	88,451
Differences between expected and actual experience	30,723	36,399
Changes of assumptions	10,333	
Contributions subsequent to measurement date	66,523	
	<u>\$ 204,778</u>	<u>\$ 220,478</u>

TOWN OF MILTON DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

RETIREMENT AND PENSION PLANS (Continued)

The Town's contribution subsequent to the measurement date of \$66,523, reported as deferred outflows of resources, will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. The collective deferred outflows of resources and deferred inflows of resources are being amortized as follows:

	Measurement Period Ended	Amortization Period	
<u>Deferred outflows of resources:</u>	June 30	General	Police
Difference between expected and actual experience	2016	10 years	9 years
Net difference between projected actual earnings on pension plan investments	2014	5 years	5 years
	2015	5 years	5 years
	2016	5 years	5 years
Changes in assumption	2016		10 years
<u>Deferred inflows of resources:</u>			
Difference between expected and actual experience	2015	8 years	11 years
Changes in assumption	2016	10 years	

The previous amounts do not include employer specific deferred outflows of resources and deferred inflows of resources related to changes in proportion. These amounts are amortized over the average of the expected remaining service lives of all plan members which is 10 years and 9 years for the 2016 amounts for the General Plan and the Police Plan, respectively.

The following table shows the net amortization of these balances:

<u>Year Ending September 30</u>	<u>Deferred Inflows</u>	<u>Deferred Outflows</u>
2018	\$ 51,176	29168
2019	51,176	29168
2020	27,517	29168
2021	19,624	29165
2022	19,624	5117
2023	15,367	5119
2024	13,237	5034
2025	12,381	5034
2026	9,232	1282
2027	1,144	
	<u>\$ 220,478</u>	<u>\$ 138,255</u>

TOWN OF MILTON DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

RETIREMENT AND PENSION PLANS (Continued)

Actuarial assumptions. The collective total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of June 30, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016. These actuarial valuations used the following actuarial assumptions:

Investment rate of return	7.2%
Projected salary increases	2.5% + Merit
Inflation	2.5%

Mortality assumptions are based on the RP-2014 mortality tables with gender adjustments for healthy annuitants and disabled retirees and an adjusted version on MP-2015 mortality improvement scale on a fully generational basis.

Discount rate: The discount rate for all plans used to measure the total pension liability was 7.2%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at rates determined by the Board of Pension Trustees, actuarially determined. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investment was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate: The following presents the collective net pension liability (asset) of the Plan, calculated using the discount rate of 7.2%, as well as what the Plan's net pension liability (asset) would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

1% Decrease (6.2%)	\$ 418,892
Current discount rate (7.2%)	\$ 138,166
1% Increase (8.2%)	\$ (91,268)

Pension Plan Fiduciary Net Position: Detailed information about the Pension Plan's fiduciary net position is available in the separately issued DPERS financial reports.

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, 2017

FAIR VALUE MEASUREMENTS

Government Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application, defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement, and enhances the disclosure requirements for fair value measurements. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2017 is as follows:

	Fair value using:		
	Level 1	Level 2	Level 3
Corporate bonds	\$	\$ 304,000	\$

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practical to estimate that value:

Investments in corporate bonds (Level 2) – The fair value of the investments are based on quoted market prices for similar investments.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, although the Town believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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.

TOWN OF MILTON DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

NEW PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended September 30, 2017, that have effective dates that may impact future financial presentations. The full statements are available on the GASB's website. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements on the Town.

GASB Statement No. 84, *Fiduciary Activities*, will be effective for the Town beginning with the year ended September 30, 2019, with early application encouraged. This statement establishes specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business-type activities should report their fiduciary activities.

GASB Statement No. 87, *Leases*, will be effective for the Town beginning with the year ending September 30, 2020. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This statement will also change the way leases are disclosed in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

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

YEAR ENDED SEPTEMBER 30, 2017

	Budget		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Real estate taxes	\$ 1,031,292	\$ 1,050,000	\$ 1,056,608	\$ 6,608
Transfer taxes	110,000	110,000	457,447	347,447
Licenses and permits	282,125	282,125	383,066	100,941
Intergovernmental revenues	157,214	234,245	224,323	(9,922)
Charges for services	175,130	175,630	234,893	59,263
Fines and forfeitures	20,500	24,500	34,365	9,865
Earnings (losses) on investments	1,350	1,350	(1,825)	(3,175)
Miscellaneous	13,000	14,000	29,197	15,197
Total revenues	<u>1,790,611</u>	<u>1,891,850</u>	<u>2,418,074</u>	<u>526,224</u>
EXPENDITURES				
Current				
General government	425,377	434,077	399,358	34,719
Public safety	841,956	894,232	815,703	78,529
Public works	179,065	182,065	191,827	(9,762)
Parks and recreation	66,280	67,280	69,924	(2,644)
Code enforcement	203,462	203,462	234,833	(31,371)
Capital outlay	66,774	102,174	70,840	31,334
Total expenditures	<u>1,782,914</u>	<u>1,883,290</u>	<u>1,782,485</u>	<u>100,805</u>
Net change in fund balance	<u>\$ 7,697</u>	<u>\$ 8,560</u>	<u>\$ 635,589</u>	<u>\$ 627,029</u>

TOWN OF MILTON, DELAWARE

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE TOWN'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY**

**DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(UNAUDITED)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>County & Municipal Police and Firefighters' Pension Plan</u>			
Town's proportion of the net pension liability (asset)	0.4243%	0.4360%	0.5216%
Town's proportionate share of the net pension liability (asset) \$	67,438	\$ (22,978)	\$ (56,430)
Town's covered-employee payroll \$	472,936	\$ 383,128	\$ 392,497
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	14%	-6%	-14%
Plan fiduciary net position as a percentage of the total pension liability (asset)	94.7%	102.0%	104.5%
<u>County & Municipal Other Employees' Pension Plan</u>			
Town's proportion of the net pension liability (asset)	1.1416%	1.360%	1.325%
Town's proportionate share of the net pension liability (asset) \$	70,728	\$ 580	\$ (4,878)
Town's covered-employee payroll \$	415,983	\$ 363,868	\$ 378,200
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	17%	0%	-1%
Plan fiduciary net position as a percentage of the total pension liability (asset)	86.4%	99.9%	101.8%

TOWN OF MILTON, DELAWARE

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE TOWN'S CONTRIBUTIONS

**DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(UNAUDITED)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>County & Municipal Police and Firefighters' Pension Plan</u>			
Contractually required contribution	\$ 43,892	\$ 53,639	\$ 49,272
Contributions in relation to the contractually required contribution	<u>(43,892)</u>	<u>(53,639)</u>	<u>(49,272)</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>
Town's covered-employee payroll	\$ 472,936	\$ 383,128	\$ 392,497
Contributions as a percentage of covered-employee payroll	9%	14%	13%
<u>County & Municipal Other Employees' Pension Plan</u>			
Contractually required contribution	\$ 26,133	\$ 26,756	\$ 23,743
Contributions in relation to the contractually required contribution	<u>(26,133)</u>	<u>(26,756)</u>	<u>(23,743)</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>
Town's covered-employee payroll	\$ 415,983	\$ 363,868	\$ 378,200
Contributions as a percentage of covered-employee payroll	6%	7%	6%

SUPPLEMENTARY INFORMATION



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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Mayor and Council
Town of Milton, Delaware

Report on Supplementary Information

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

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Matter

The prior year summarized comparative information has been derived from the Town's 2016 and 2015 financial statements and, in our reports dated December 30, 2016 and January 20, 2016 we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities and each major fund.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
February 15, 2018

TOWN OF MILTON, DELAWARE
SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016 AND 2015)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
REVENUES			
Real estate taxes	\$ 1,056,608	\$ 1,006,556	\$ 1,000,020
Transfer taxes	457,447	450,804	518,850
Licenses and permits	383,066	316,283	304,174
Intergovernmental revenues	224,323	236,696	224,447
Charges for services	234,893	309,651	196,935
Fines and forfeitures	34,365	30,570	17,627
Earnings (losses) on investments	(1,825)	1,881	1,378
Miscellaneous	29,197	24,345	23,811
Total revenues	<u>2,418,074</u>	<u>2,376,786</u>	<u>2,287,242</u>
EXPENDITURES			
Current			
General government	399,358	396,027	376,902
Public safety	815,703	686,742	760,603
Public works	191,827	181,233	171,642
Parks and recreation	69,924	59,518	74,729
Code enforcement	234,833	250,384	175,234
Capital outlay	70,840	34,421	82,044
Total expenditures	<u>1,782,485</u>	<u>1,608,325</u>	<u>1,641,154</u>
Excess revenues over expenditures	635,589	768,461	646,088
OTHER FINANCING SOURCES			
Proceeds from sale of assets	<u> </u>	<u>143,930</u>	<u>500</u>
Net change in fund balance	<u>\$ 635,589</u>	<u>\$ 912,391</u>	<u>\$ 646,588</u>

TOWN OF MILTON, DELAWARE

**SCHEDULE OF REVENUES AND EXPENSES
UTILITIES FUND**

**YEAR ENDED SEPTEMBER 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016 AND 2015)**

	2017	2016	2015
OPERATING REVENUES			
Water service charges	\$ 501,520	\$ 481,444	\$ 539,622
Trash service charges	314,070	303,959	289,867
Tapping fees	21,500	21,500	22,800
Sales of meters	55,182	48,918	62,672
Operating grants	52,627		
Penalties	6,956	8,299	7,592
Other	16,161	32,751	22,905
Total operating revenues	<u>968,016</u>	<u>896,871</u>	<u>945,458</u>
OPERATING EXPENSES			
Salaries and labor	197,111	155,101	166,051
Payroll taxes	12,072	9,658	11,235
Pension	9,678	17,772	2,368
Employee benefits	33,784	21,243	18,425
Uniforms	3,585	3,796	3,611
Utilities	23,384	24,852	33,642
Trash removal	275,772	270,333	265,041
Telephone	4,778	3,343	3,965
Gas and oil	6,672	6,136	5,798
Repairs and maintenance	209,121	122,705	238,106
Operating supplies	78,579	83,474	79,813
Professional fees	18,028	8,904	3,200
Insurance	6,980	7,793	9,674
Miscellaneous	3,543	1,161	3,718
Depreciation	97,691	99,828	90,700
Total operating expenses	<u>980,778</u>	<u>836,099</u>	<u>935,347</u>
Operating income (loss)	<u>(12,762)</u>	<u>60,772</u>	<u>10,111</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	524	463	422
Interest expense	<u>(9,272)</u>	<u>(10,486)</u>	<u>(11,388)</u>
Net non-operating expenses	<u>(8,748)</u>	<u>(10,023)</u>	<u>(10,966)</u>
Income (loss) before contributions	(21,510)	50,749	(855)
Capital contributions - impact fees	<u>62,350</u>	<u>62,350</u>	<u>71,050</u>
Change in net position	<u>\$ 40,840</u>	<u>\$ 113,099</u>	<u>\$ 70,195</u>

GOVERNMENT AUDITING STANDARDS REPORT



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**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, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the Town of Milton, Delaware as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated February 15, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Internal Control over Financial Reporting (continued)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

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

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
February 15, 2018