

TOWN OF MILTON, DELAWARE

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2018

TOWN OF MILTON, DELAWARE

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INDEPENDENT AUDITORS' REPORT

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ALLINIAL GLOBAL

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, 2018, 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, 2018, 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 37 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2019, on our consideration of the Town of Milton, Delaware's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Milton, Delaware's internal control over financial reporting and compliance.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
January 16, 2019

TOWN OF MILTON, DELAWARE
MANAGEMENT’S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018

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, 2018. 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, 2018

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 36 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 \$7.7 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 net 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, 2018

Net Position

As of September 30, 2018, the Town's net position was \$7,724,000. Of this amount, \$2,275,000 was the net investment in capital assets, \$2,591,000 was restricted, and \$2,858,000 was unrestricted.

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

	Town of Milton's Net Position (in thousands of dollars)					
	2018			2017		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Assets						
Current and other assets	\$ 4,286	\$ 1,417	\$ 5,703	\$ 3,718	\$ 1,370	\$ 5,088
Capital assets	1,050	1,448	2,498	1,065	1,493	2,558
Total assets	<u>5,336</u>	<u>2,865</u>	<u>8,201</u>	<u>4,783</u>	<u>2,863</u>	<u>7,646</u>
Deferred outflows of resources	<u>169</u>	<u>34</u>	<u>203</u>	<u>157</u>	<u>47</u>	<u>204</u>
Liabilities						
Current and other liabilities	153	111	264	150	107	257
Long term liabilities	112	222	334	128	260	388
Total liabilities	<u>265</u>	<u>333</u>	<u>598</u>	<u>278</u>	<u>367</u>	<u>645</u>
Deferred inflows of resources	<u>76</u>	<u>6</u>	<u>82</u>	<u>101</u>	<u>6</u>	<u>107</u>
Net position						
Net investment in capital assets	1,050	1,225	2,275	1,065	1,229	2,294
Restricted	1,956	635	2,591	1,534	551	2,085
Unrestricted	2,158	700	2,858	1,839	725	2,719
Total net position	<u>\$ 5,164</u>	<u>\$ 2,560</u>	<u>\$ 7,724</u>	<u>\$ 4,561</u>	<u>\$ 2,537</u>	<u>\$ 7,098</u>

*The 2017 amounts for deferred inflows and deferred outflows have been restated

Change in Net Position

Net position for the period ending September 30, 2018 increased by \$626,000. This is a consequence of governmental activity assets increasing by \$602,000 and business-type assets increasing by \$24,000.

TOWN OF MILTON, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018

Change in Net Position (Continued)

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)

	2018			2017		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenues						
Program revenues						
Charges for services	\$ 542	\$ 966	\$ 1,508	\$ 594	\$ 915	\$ 1,509
Operating grants and contributions	180	2	182	213	53	266
Capital grants and contributions	88	82	170	11	62	73
General revenues						
Property and transfer taxes	1,525		1,525	1,496		1,496
Miscellaneous revenues	117		117	87		87
Unrestricted investment earnings				(2)	1	(1)
Total revenues	2,452	1,050	3,502	2,399	1,031	3,430
Expenses						
General government	396		396	431		431
Public safety	898		898	890		890
Public works	259		259	233		233
Code enforcement	191		191	239		239
Parks and recreation	106		106	98		98
Utilities		1,026	1,026		990	990
Total expenses	1,850	1,026	2,876	1,891	990	2,881
Change in net position	\$ 602	\$ 24	\$ 626	\$ 508	\$ 41	\$ 549

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Governmental Funds

For the fiscal year ended September 30, 2018, the Town had an increase in its governmental fund balance of \$608,000. The increase was due in large part to the collection of transfer taxes, intergovernmental revenues, and charges for services exceeding the amount budgeted. A detailed comparison with the prior two years is shown on page 41.

TOWN OF MILTON, DELAWARE
MANAGEMENT’S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018

BUDGETARY HIGHLIGHTS

The general fund budget was amended during the fiscal year for anticipated changes in revenues and expenditures. As a result of the amendments, the general fund budgeted surplus changed from \$12,283 to \$1,318.

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 \$546,495.
- Transfer taxes exceeded the final budget by \$290,094.
- Intergovernmental revenues exceeded the final budget by \$91,246.
- Total general fund expenditures were under the final budget by \$60,060.

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, 2018 was \$2,497,751 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, furniture and fixtures, vehicles and water systems.

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

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 38	\$ 38	\$	\$	\$ 38	\$ 38
Construction in progress			34	30	34	30
Buildings	454	481			454	481
Other improvements	251	300	1,301	1,368	1,552	1,668
Machinery and equipment	36	31	113	91	149	122
Streets and sidewalks	197	163			197	163
Vehicles	74	52		4	74	56
Total net capital assets	\$ 1,050	\$ 1,065	\$ 1,448	\$ 1,493	\$ 2,498	\$ 2,558

This year’s major capital asset additions included:

Governmental Activities:

2018 White Dodge Ram for \$20,579; 2018 Dodge Charger for \$25,872; 2017 Suzuki Polaris Ranger Crew 570-4 for \$15,465; Permitting and Coding Software Module for \$11,500; HP Server for \$10,069; and Curb and Sidewalk for Front Street for \$47,981

Business-Type Activities

Generator for \$39,995

TOWN OF MILTON, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018

Long-Term Debt

At year end, the Town had \$223,220 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 a 2% 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 loan has been approved from the State of Delaware. Additionally, the Town has received approval for a loan of \$500,000 from the State of Delaware to fund the Shipbuilders Well and Treatment Facility. A Town-wide referendum for the loans was approved in July. The loans closed in December.

The Town approved a resolution to support the \$1,000,000 Rails to Trails project. The Delaware Department of Transportation will fund \$800,000 and the Town's responsibility is \$200,000. Senator Lopez has committed \$100,000, Representative Smyk has committed \$10,000, and the remaining \$90,000 will be funded by an Outdoor Recreations Parks and Trails grant. The Town will be responsible to maintain the landscaping, asphalt and any sidewalks.

On October 24, 2018, the Town, Loblolly, and Tidewater signed deeds to complete the agreed upon land transfer. The land transfer agreement was fulfilled by Loblolly deeding ten acres of the Sam Lucas property to the Town; the Town then transferred five of those acres to Tidewater.

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.

BASIC FINANCIAL STATEMENTS

TOWN OF MILTON, DELAWARE

STATEMENT OF NET POSITION

SEPTEMBER 30, 2018

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash	\$ 1,741,377	\$ 562,172	\$ 2,303,549
Investments, at fair value	292,733		292,733
Taxes receivable	66,726		66,726
Accounts receivable, net of allowance	27,704	262,923	290,627
Internal balances	154,226	(154,226)	
Inventory		76,789	76,789
Prepaid expenses	42,444	33,673	76,117
Restricted cash	1,960,795	635,374	2,596,169
Total current assets	4,286,005	1,416,705	5,702,710
Noncurrent assets			
Capital assets, net of accumulated depreciation	1,049,684	1,448,067	2,497,751
Total assets	5,335,689	2,864,772	8,200,461
DEFERRED OUTFLOWS OF RESOURCES			
Deferred financing outflows - retirement	169,031	34,478	203,509
LIABILITIES			
Current liabilities			
Current portion of long-term debt		41,889	41,889
Accounts payable	88,462	48,999	137,461
Accrued wages and payroll taxes	24,550	4,577	29,127
Current portion of accrued compensated absences	39,864	12,884	52,748
Accrued interest payable		2,541	2,541
Total current liabilities	152,876	110,890	263,766
Noncurrent liabilities			
Notes payable, less current portion		181,331	181,331
Accrued compensated absences, less current portion	27,471	9,659	37,130
Net pension liability	84,659	31,379	116,038
Total noncurrent liabilities	112,130	222,369	334,499
Total liabilities	265,006	333,259	598,265
DEFERRED INFLOWS OF RESOURCES			
Deferred grants	4,749		4,749
Deferred financing inflows - retirement	71,101	5,573	76,674
Total deferred inflows of resources	75,850	5,573	81,423
NET POSITION			
Net investment in capital assets	1,049,684	1,224,847	2,274,531
Restricted	1,956,046	635,374	2,591,420
Unrestricted	2,158,134	700,197	2,858,331
Total net position	\$ 5,163,864	\$ 2,560,418	\$ 7,724,282

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

TOWN OF MILTON, DELAWARE
STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2018

	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
FUNCTIONS/PROGRAMS						
GOVERNMENTAL ACTIVITIES						
General government	\$ 396,237	\$ 35,857	\$ 40,465	\$ (360,380)	\$	\$ (360,380)
Public safety	897,968	36,166	47,382	(726,388)		(726,388)
Public works	258,938	91,213		(53,903)		(53,903)
Code enforcement	190,780	374,077		183,297		183,297
Parks and recreation	106,010	5,210		(82,630)		(82,630)
Total governmental activities	<u>1,849,933</u>	<u>542,523</u>	<u>87,847</u>	<u>(1,040,004)</u>		<u>(1,040,004)</u>
BUSINESS-TYPE ACTIVITIES						
Utilities	1,026,734	2,110	82,000		22,837	22,837
Total business-type activities	<u>1,026,734</u>	<u>2,110</u>	<u>82,000</u>		<u>22,837</u>	<u>22,837</u>
Total	<u>\$ 2,876,667</u>	<u>\$ 1,507,984</u>	<u>\$ 169,847</u>	<u>(1,040,004)</u>	<u>22,837</u>	<u>(1,017,167)</u>
	GENERAL REVENUES					
	Real estate taxes			1,100,235		1,100,235
	Transfer taxes			425,094		425,094
	Franchise fees			116,991		116,991
	Unrestricted investment earnings (losses)			(2,215)	591	(1,624)
	Miscellaneous			2,593		2,593
	Loss on sale of assets			(302)		(302)
	Total general revenues			<u>1,642,396</u>	<u>591</u>	<u>1,642,987</u>
	Change in net position			602,392	23,428	625,820
	NET POSITION, BEGINNING OF YEAR, AS RESTATED			4,561,472	2,536,990	7,098,462
	NET POSITION, END OF YEAR			<u>\$ 5,163,864</u>	<u>\$ 2,560,418</u>	<u>\$ 7,724,282</u>

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

TOWN OF MILTON, DELAWARE

**BALANCE SHEET
GOVERNMENTAL FUND**

SEPTEMBER 30, 2018

ASSETS

	<u>General Fund</u>
Cash	\$ 1,741,377
Investments, at fair value	292,733
Taxes receivable	66,726
Accounts receivable, net of allowance	27,704
Prepaid insurance	42,444
Due from other funds	154,226
Restricted cash	<u>1,960,795</u>
Total assets	<u><u>\$ 4,286,005</u></u>

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

LIABILITIES

Accounts payable	\$ 88,462
Accrued wages and payroll taxes	24,550
Accrued compensated absences	39,864
Total liabilities	<u>152,876</u>

DEFERRED INFLOWS OF RESOURCES

Deferred property taxes and grants	<u>67,779</u>
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FUND BALANCES

Non-spendable	42,444
Restricted	1,956,046
Assigned	41,344
Unassigned	2,025,516
Total fund balances	<u>4,065,350</u>
Total liabilities, deferred inflows of resources, and fund balances	<u><u>\$ 4,286,005</u></u>

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, 2018

Total fund balance, governmental fund \$ 4,065,350

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. 1,049,684

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 169,031

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 (27,471)
Deferred financing inflows - retirement (71,101)
Net pension liability (84,659)

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 63,030

Net position, governmental activities \$ 5,163,864

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, 2018

	General Fund
REVENUES	
Real estate taxes	\$ 1,105,505
Transfer taxes	425,094
Licenses and permits	371,821
Intergovernmental revenues	248,191
Charges for services	216,266
Fines and forfeitures	46,464
Earnings (losses) on investments	(2,215)
Miscellaneous	48,519
Total revenues	<u>2,459,645</u>
EXPENDITURES	
Current	
General government	376,007
Public safety	848,924
Public works	220,701
Parks and recreation	83,027
Code enforcement	191,647
Capital outlay	131,466
Total expenditures	<u>1,851,772</u>
Net change in fund balance	607,873
FUND BALANCES, BEGINNING OF YEAR	<u>3,457,477</u>
FUND BALANCES, END OF YEAR	<u><u>\$ 4,065,350</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, 2018

Net change in fund balances, governmental fund \$ 607,873

Amounts reported for Governmental Funds 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	131,466	
Depreciation expense	<u>(145,024)</u>	
		(13,558)

In the Statement of Activities, the gain or loss on the disposal of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balances by the book value of the assets sold. (2,052)

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	(8,563)
Change in deferred financing outflows - retirement	11,992
Change in net pension liability	24,508

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	(5,268)
Change in deferred financing inflows - retirement	(12,540)

Change in net position, governmental activities \$ 602,392

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

TOWN OF MILTON, DELAWARE

**STATEMENT OF NET POSITION
PROPRIETARY FUND**

SEPTEMBER 30, 2018

	<u>Utilities Fund</u>
ASSETS	
Current assets	
Cash	\$ 562,172
Accounts receivable, net of allowance	262,923
Inventory	76,789
Prepaid expenses	33,673
Restricted cash	635,374
Total current assets	<u>1,570,931</u>
Noncurrent assets	
Capital assets, net of accumulated depreciation	1,448,067
Total assets	<u>3,018,998</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred financing outflows - retirement	<u>34,478</u>
LIABILITIES	
Current liabilities	
Accounts payable	48,999
Accrued wages and payroll taxes	4,577
Accrued interest payable	2,541
Current portion of accrued compensated absences	12,884
Due to other funds	154,226
Current portion of long-term debt	41,889
Total current liabilities	<u>265,116</u>
Non-current liabilities	
Accrued compensated absences, less current portion	9,659
Notes payable, less current portion	181,331
Net pension liability	31,379
Total non-current liabilities	<u>222,369</u>
Total liabilities	<u>487,485</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred financing inflows - retirement	<u>5,573</u>
NET POSITION	
Net investment in capital assets	1,224,847
Restricted	635,374
Unrestricted	700,197
Total net position	<u>\$ 2,560,418</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, 2018

	<u>Utilities Fund</u>
OPERATING REVENUES	
Water service charges	\$ 567,017
Trash service charges	305,634
Tapping fees	21,000
Sales of meters	42,024
Operating grants	2,110
Penalties	7,525
Other	22,261
Total operating revenues	<u>967,571</u>
OPERATING EXPENSES	
Salaries and labor	226,696
Payroll taxes	15,082
Pension	29,684
Employee benefits	32,738
Uniforms	4,134
Utilities	27,875
Trash removal services	294,420
Telephone	4,175
Gas and oil	8,414
Repairs and maintenance	116,786
Operating supplies	79,300
Professional fees	58,932
Insurance	19,007
Miscellaneous	5,281
Depreciation	96,192
Total operating expenses	<u>1,018,716</u>
Operating loss	<u>(51,145)</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest income	591
Interest expense	(8,018)
Net non-operating expenses	<u>(7,427)</u>
Loss before contributions	(58,572)
Capital contributions - impact fees	<u>82,000</u>
Change in net position	23,428
NET POSITION, BEGINNING OF YEAR, AS RESTATED	<u>2,536,990</u>
NET POSITION, END OF YEAR	<u><u>\$ 2,560,418</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, 2018

	<u>Utilities Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 908,962
Other receipts	24,371
Payments to suppliers	(624,269)
Payments to employees	(283,210)
	<hr/>
Net cash provided by operating activities	25,854
	<hr/>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(51,639)
Principal paid on long-term debt	(40,596)
Interest paid on long-term debt	(8,018)
Capital contributions	82,000
	<hr/>
Net cash used by capital and related financing activities	(18,253)
	<hr/>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Interfund borrowings	154,226
	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	591
	<hr/>
Net increase in cash	162,418
CASH, BEGINNING OF YEAR	1,035,128
	<hr/>
CASH, END OF YEAR	\$ 1,197,546
	<hr/> <hr/>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (51,145)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	96,192
Change in deferred outflows and inflows	12,021
(Increase) decrease in assets	
Accounts receivable	(34,238)
Inventory	3,437
Prepaid expenses	(8,317)
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	7,904
	<hr/>
Net cash provided by operating activities	\$ 25,854
	<hr/> <hr/>

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

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

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, 2018

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, 2018

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, 2018

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, 2018 are as follows:

	Cost	Fair Value	Unrealized Gains/(Losses)
Corporate bonds	\$ 307,175	\$ 292,733	\$ (14,442)

Prepaid expenses

Prepaid expenses are for payments made by the Town in the current year for insurance and maintenance contracts for 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, 2018

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, 2018 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 liability, 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, 2018

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

Use of estimates

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

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

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, 2018

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, 2018, \$4,365,699 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, 2018

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	<u>38,380</u>			<u>38,380</u>
<i>Capital assets being depreciated</i>				
Buildings	818,691			818,691
Other improvements	1,137,473			1,137,473
Machinery and equipment	558,985	21,569	45,637	534,917
Streets and sidewalks	272,545	47,981		320,526
Vehicles	323,991	61,916	63,436	322,471
Total capital assets being depreciated	<u>3,111,685</u>	<u>131,466</u>	<u>109,073</u>	<u>3,134,078</u>
less accumulated depreciation for:				
Buildings	337,180	27,667		364,847
Other improvements	843,171	43,827		886,998
Machinery and equipment	522,384	19,979	43,585	498,778
Streets and sidewalks	109,646	13,607		123,253
Vehicles	272,390	39,944	63,436	248,898
Total accumulated depreciation	<u>2,084,771</u>	<u>145,024</u>	<u>107,021</u>	<u>2,122,774</u>
Total capital assets being depreciated, net	<u>1,026,914</u>	<u>(13,558)</u>	<u>2,052</u>	<u>1,011,304</u>
Capital assets, net	<u>\$ 1,065,294</u>	<u>\$ (13,558)</u>	<u>\$ 2,052</u>	<u>\$ 1,049,684</u>

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

Governmental activities:	
General government	\$ 26,149
Public safety	49,644
Public works	40,456
Code enforcement	4,016
Parks and recreation	24,759
Total governmental activities	<u>\$ 145,024</u>

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

CAPITAL ASSETS (Continued)

Business-type activities:	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets being depreciated</i>				
Improvements	\$ 2,507,058	\$ 11,644	\$	\$ 2,518,702
Machinery and equipment	492,078	39,995		532,073
Vehicles	191,065			191,065
Total capital assets being depreciated	<u>3,190,201</u>	<u>51,639</u>		<u>3,241,840</u>
less accumulated depreciation for:				
Improvements	1,109,019	67,424		1,176,443
Machinery and equipment	400,527	24,891		425,418
Vehicles	188,035	3,877		191,912
Total accumulated depreciation	<u>1,697,581</u>	<u>96,192</u>		<u>1,793,773</u>
Total capital assets being depreciated, net	<u>1,492,620</u>	<u>(44,553)</u>		<u>1,448,067</u>
Capital assets, net	<u>\$ 1,492,620</u>	<u>\$ (44,553)</u>	<u>\$</u>	<u>\$ 1,448,067</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, 2018 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Notes payable	<u>\$ 263,816</u>	<u>\$</u>	<u>\$ 40,596</u>	<u>\$ 223,220</u>

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

LONG-TERM DEBT (Continued)

Business-type activities (continued)

Principal and interest requirements to amortize all Business-type Activities debt outstanding as of September 30, 2018 are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
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>\$ 223,220</u>	<u>\$ 19,854</u>	<u>\$ 243,074</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, 2018, total interest incurred and paid in the Utilities fund was \$8,018. The full amount was charged to operations.

INTERNAL BALANCES

Balances due to/from other funds at September 30, 2018 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>\$</u>	<u>\$ 154,226</u>	<u>\$ 154,226</u>

FUND BALANCES – GOVERNMENTAL FUNDS

Non-spendable fund balances consist of prepaid expenses for insurance and maintenance contracts.

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

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

FUND BALANCES – GOVERNMENTAL FUNDS (Continued)

Assigned fund balances consist of expenses budgeted in 2018 for which the goods or services were not received until 2019.

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 \$2,000 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, 2018. 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 \$82,000.

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, 2017. 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: McArde Building, Suite 1, 860 Silver Lake Blvd, Dover, DE 19904.

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

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 75% 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, 2018

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:

Fiscal Year Ending	Annual Pension Cost	Percentage Funded
9/30/2016	\$ 80,395	100%
9/30/2017	\$ 70,025	100%
9/30/2018	\$ 66,523	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 \$34,302.

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

At September 30, 2018, the Town reported a liability in the government-wide activities of \$116,038 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. Update procedures were used to roll forward the total pension liability/asset to June 30, 2017. The Town's proportion of the net pension liability was based on the percentage of actual employee contributions. At June 30, 2017, the Town's proportion for the Police Plan was .4593% and for the General Plan was 1.0762%.

For the year ended September 30, 2018, the Town recognized pension expense of \$81,968. At September 30, 2018, 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	\$ 1,561	\$ 26,671
Net difference between projected and actual earnings on pension plan investments	31,534	
Differences between expected and actual experience	30,022	32,940
Changes of assumptions	61,367	17,063
Contributions subsequent to measurement date	79,025	
	\$ 203,509	\$ 76,674

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

RETIREMENT AND PENSION PLANS (Continued)

The Town's contribution subsequent to the measurement date of \$79,025, reported as deferred outflows of resources, will be recognized as a reduction of the net pension liability in the year ended September 30, 2018. The collective deferred outflows of resources and deferred inflows of resources are being amortized as follows:

	Measurement	Amortization Period	
	Period Ended	General	Police
<u>Deferred outflows of resources:</u>	June 30		
Difference between expected and actual experience	2016	9 years	10 years
	2017	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
	2017	5 years	5 years
Changes in assumption	2016		10 years
	2017	9 years	10 years
<u>Deferred inflows of resources:</u>			
Difference between expected and actual experience	2015	8 years	11 years
	2017		10 years
Changes in assumption	2016	10 years	10 years

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions will be recognized in pension expense as follows:

Year Ending	
September 30	
2019	\$ (13,216)
2020	(26,224)
2021	27,892
2022	12,673
2023	5,497
Thereafter	66,298
	<u>\$ 72,920</u>

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 9 years and 9 years for the 2017 amounts for the General Plan and the Police Plan, respectively.

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

RETIREMENT AND PENSION PLANS (Continued)

Actuarial assumptions. The collective total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016, and update procedures were used to roll forward the total pension liability to June 30, 2017. These actuarial valuations used the following actuarial assumptions:

Investment rate of return	7.0%
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 7.0%. 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 7.0%, 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 (6.0%)	\$ 449,703
Current discount rate (7.0%)	\$ 116,038
1% Increase (8.0%)	\$ (156,362)

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, 2018

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, 2018 is as follows:

	Fair value using:		
	Level 1	Level 2	Level 3
Corporate bonds	\$	\$ 292,733	\$

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, 2018

PRIOR PERIOD ADJUSTMENT

The net position in the government-wide financial statements and proprietary fund statements have been restated to correct an error in the calculation of deferred financing inflows and outflows of resources. There is no effect on the current year changes in net position.

	Government-wide		Proprietary Fund
	Governmental Activities	Business-type Activities	Utilities Fund
Net position, as previously reported	\$ 4,438,287	\$ 2,505,073	\$ 2,505,073
Adjustment to:			
Deferred financing outflows	(14,649)	14,148	14,148
Deferred financing inflows	137,834	17,769	17,769
Net position, as restated	\$ 4,561,472	\$ 2,536,990	\$ 2,536,990

NEW PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended September 30, 2018, 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.

TOWN OF MILTON, DELAWARE
NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

SUBSEQUENT EVENTS

The Town has been approved for a loan of up to \$895,000 from the State of Delaware. Of this amount, \$395,000 will be used to fund the Wagamons Water Main Extension and \$500,000 will be used to fund the Shipbuilders Well and Treatment Facility.

The Delaware Department of Transportation (DOT), has preliminary plans for Phase II of the Milton Rails to Trails project with an estimated cost of \$1,000,000. The DOT will fund \$800,000 and the Town is responsible for \$200,000. The Town has received a \$100,000 funding commitment from the State Community Transportation Fund, thereby meeting half of the Town's responsibility.

REQUIRED SUPPLEMENTARY INFORMATION

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

YEAR ENDED SEPTEMBER 30, 2018

	Budget		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Real estate taxes	\$ 1,070,000	\$ 1,090,000	\$ 1,105,505	\$ 15,505
Transfer taxes	135,000	135,000	425,094	290,094
Licenses and permits	282,000	282,000	371,821	89,821
Intergovernmental revenues	156,945	156,945	248,191	91,246
Charges for services	187,705	188,555	216,266	27,711
Fines and forfeitures	27,500	27,500	46,464	18,964
Earnings (losses) on investments	6,000	6,000	(2,215)	(8,215)
Miscellaneous	14,000	27,150	48,519	21,369
Total revenues	<u>1,879,150</u>	<u>1,913,150</u>	<u>2,459,645</u>	<u>546,495</u>
EXPENDITURES				
Current				
General government	420,495	405,610	376,007	29,603
Public safety	848,880	853,130	848,924	4,206
Public works	204,619	234,619	220,701	13,918
Parks and recreation	79,420	79,420	83,027	(3,607)
Code enforcement	190,025	190,025	191,647	(1,622)
Capital outlay	123,428	149,028	131,466	17,562
Total expenditures	<u>1,866,867</u>	<u>1,911,832</u>	<u>1,851,772</u>	<u>60,060</u>
Net change in fund balance	<u>\$ 12,283</u>	<u>\$ 1,318</u>	<u>\$ 607,873</u>	<u>\$ 606,555</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)**

	2018	2017	2016	2015
<u>County & Municipal Police and Firefighters' Pension Plan</u>				
Town's proportion of the net pension liability (asset)	0.4593%	0.4243%	0.4360%	0.5216%
Town's proportionate share of the net pension liability (asset)	\$ 46,307	\$ 67,438	\$ (22,978)	\$ (56,430)
Town's covered-employee payroll	\$ 495,567	\$ 472,936	\$ 383,128	\$ 392,497
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	9%	14%	-6%	-14%
Plan fiduciary net position as a percentage of the total pension liability (asset)	97.0%	94.7%	102.0%	104.5%
<u>County & Municipal Other Employees' Pension Plan</u>				
Town's proportion of the net pension liability (asset)	1.0762%	1.1416%	1.360%	1.325%
Town's proportionate share of the net pension liability (asset)	\$ 69,731	\$ 70,728	\$ 580	\$ (4,878)
Town's covered-employee payroll	\$ 506,268	\$ 415,983	\$ 363,868	\$ 378,200
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	14%	17%	0%	-1%
Plan fiduciary net position as a percentage of the total pension liability (asset)	87.6%	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)**

	2018	2017	2016	2015
<u>County & Municipal Police and Firefighters' Pension Plan</u>				
Contractually required contribution	\$ 42,809	\$ 43,892	\$ 53,639	\$ 49,272
Contributions in relation to the contractually required contribution	<u>(42,809)</u>	<u>(43,892)</u>	<u>(53,639)</u>	<u>(49,272)</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Town's covered-employee payroll	\$ 495,567	\$ 472,936	\$ 383,128	\$ 392,497
Contributions as a percentage of covered-employee payroll	9%	9%	14%	13%
<u>County & Municipal Other Employees' Pension Plan</u>				
Contractually required contribution	\$ 23,714	\$ 26,133	\$ 26,756	\$ 23,743
Contributions in relation to the contractually required contribution	<u>(23,714)</u>	<u>(26,133)</u>	<u>(26,756)</u>	<u>(23,743)</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Town's covered-employee payroll	\$ 506,268	\$ 415,983	\$ 363,868	\$ 378,200
Contributions as a percentage of covered-employee payroll	5%	6%	7%	6%

SUPPLEMENTARY INFORMATION



INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

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E. LEE McCABE, CPA
JEFFREY A. MICHALIK, CPA
ROBERT L. MOORE, CPA
DANIEL M. O'CONNELL II, CPA
JOHN M. STERN, JR., CPA

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 2017 and 2016 financial statements and, in our reports dated February 15, 2018 and December 30, 2016 we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities and each major fund.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
January 16, 2019

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TOWN OF MILTON, DELAWARE
SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2018
(WITH COMPARATIVE TOTALS FOR 2017 AND 2016)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
REVENUES			
Real estate taxes	\$ 1,105,505	\$ 1,056,608	\$ 1,006,556
Transfer taxes	425,094	457,447	450,804
Licenses and permits	371,821	383,066	316,283
Intergovernmental revenues	248,191	224,323	236,696
Charges for services	216,266	234,893	309,651
Fines and forfeitures	46,464	34,365	30,570
Earnings (losses) on investments	(2,215)	(1,825)	1,881
Miscellaneous	48,519	29,197	24,345
Total revenues	<u>2,459,645</u>	<u>2,418,074</u>	<u>2,376,786</u>
EXPENDITURES			
Current			
General government	376,007	399,358	396,027
Public safety	848,924	815,703	686,742
Public works	220,701	191,827	181,233
Parks and recreation	83,027	69,924	59,518
Code enforcement	191,647	234,833	250,384
Capital outlay	131,466	70,840	34,421
Total expenditures	<u>1,851,772</u>	<u>1,782,485</u>	<u>1,608,325</u>
Excess revenues over expenditures	607,873	635,589	768,461
OTHER FINANCING SOURCES			
Proceeds from sale of assets			143,930
Net change in fund balance	<u>\$ 607,873</u>	<u>\$ 635,589</u>	<u>\$ 912,391</u>

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

YEAR ENDED SEPTEMBER 30, 2018
(WITH COMPARATIVE TOTALS FOR 2017 AND 2016)

	2018	2017	2016
OPERATING REVENUES			
Water service charges	\$ 567,017	\$ 501,520	\$ 481,444
Trash service charges	305,634	314,070	303,959
Tapping fees	21,000	21,500	21,500
Sales of meters	42,024	55,182	48,918
Operating grants	2,110	52,627	
Penalties	7,525	6,956	8,299
Other	22,261	16,161	32,751
Total operating revenues	967,571	968,016	896,871
OPERATING EXPENSES			
Salaries and labor	226,696	197,111	155,101
Payroll taxes	15,082	12,072	9,658
Pension	29,684	9,678	17,772
Employee benefits	32,738	33,784	21,243
Uniforms	4,134	3,585	3,796
Utilities	27,875	23,384	24,852
Trash removal	294,420	275,772	270,333
Telephone	4,175	4,778	3,343
Gas and oil	8,414	6,672	6,136
Repairs and maintenance	116,786	209,121	122,705
Operating supplies	79,300	78,579	83,474
Professional fees	58,932	18,028	8,904
Insurance	19,007	6,980	7,793
Miscellaneous	5,281	3,543	1,161
Depreciation	96,192	97,691	99,828
Total operating expenses	1,018,716	980,778	836,099
Operating income (loss)	(51,145)	(12,762)	60,772
NON-OPERATING REVENUES (EXPENSES)			
Interest income	591	524	463
Interest expense	(8,018)	(9,272)	(10,486)
Net non-operating expenses	(7,427)	(8,748)	(10,023)
Income (loss) before contributions	(58,572)	(21,510)	50,749
Capital contributions - impact fees	82,000	62,350	62,350
Change in net position	\$ 23,428	\$ 40,840	\$ 113,099

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, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated January 16, 2019.

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.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
January 16, 2019