

I. INTRODUCTORY SECTION

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CITY OF MILTON

**Financial Statements and
Supplemental Information**

September 30, 2007

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CITY OF MILTON

Financial Statements and Supplemental Information

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II. FINANCIAL SECTION



Honorable Mayor and City Council Members
City of Milton, Florida

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milton, Florida, as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Milton, Florida's Management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milton, Florida, as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary fund information for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Honorable Mayor and City Council Members
City of Milton, Florida
Independent Auditor's Report (Continued)

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2008, on our consideration of the City of Milton, Florida's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 - 16, the Schedule of Funding Progress on page 59 and Schedule of Contributions from the Employer and Other Contributing Entities on page 60 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of Management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Milton, Florida 's basic financial statements. The combining and individual nonmajor fund financial statements and other schedules, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance is presented for purposes of additional analysis as required by the United States Office of Management and Budget, Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.550, *Rules of the Auditor General*, and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements; and, in our opinion, the information is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

O'Sullivan Creel, LLP

February 27, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

As Management of the City of Milton, Florida we offer readers of the City of Milton's financial statements this narrative overview and analysis of financial activities of the City for the fiscal year ended September 30, 2007.

FINANCIAL HIGHLIGHTS

- The assets of the City of Milton exceeded its liabilities by \$31.45 million (net assets), and represent an increase of \$3.63 million or (13.04%) from prior year. Of this amount, \$22.30 million represents investments in capital assets (e.g. land, infrastructure, building, machinery, and equipment), \$5.98 million is restricted for future obligations, and \$3.17 million is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- The net assets of the business-type activities of the City increased by \$3.85 million (or 20.87%) from the prior year. The increase is attributable to additional operating and capital grants, reduced natural gas expenses and reduced operating transfers to governmental activities received during the current year.
- The governmental net assets decreased by \$224 thousand or 2% from the prior year.
- The City of Milton's governmental funds reported combined ending fund balances of \$2.34 million, a decrease of \$965 thousand.
- At the end of the current fiscal year, unreserved undesignated fund balance for the General Fund was \$453 thousand, or 0.06% of the total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The focus of the Governmental Accounting Standards Board (GASB) statement 34 financial statements is on both the City as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major funds) allow the user to address relevant questions, broaden a basis for comparison (year to year, government to government), and enhance the City's accountability.

This discussion and analysis intends to serve as an introduction to the City of Milton's basic financial statements. The City of Milton's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Designed to be corporate-like, the government-wide financial statements consolidate governmental and business-type activities into two columns, which add to a total for Primary Government. This provides readers with a broad overview of the City of Milton's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Milton's assets and liabilities, with the difference between the two reported as net assets. This statement combines and consolidates the governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. Over time, increases or decreases in net assets may serve as a useful indicator of the financial position of the City of Milton.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City of Milton 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 City of Milton include general government (city clerk, city council, city manager, human resources, finance, purchasing, fleet maintenance, service maintenance, administration, public works, and non-departmental expenses), public safety (police and fire), transportation (streets), culture and recreation (parks), special revenue (Police Special Investigations and Downtown Redevelopment), and debt service. The business-type activities of the City of Milton include water and sewer, natural gas and sanitation. The government-wide financial statements are found on pages 17 - 18 of this report.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City of Milton, 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 City of Milton can be divided into three categories: Governmental Funds, Proprietary Funds and Fiduciary Funds.

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 financial requirements. Found on pages 19 - 23 of this report are the basic governmental fund financial statements.

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 the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Milton maintains five individual governmental funds (General Fund, Capital Projects Fund, Police Special Investigation Fund, Downtown Redevelopment Fund, and Debt Service Fund). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for the General Fund, which is considered to be a major fund. Data from the other four governmental funds (Capital Projects Fund, Police Special Investigation Fund, Downtown Redevelopment Fund, and Debt Service Fund) are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements and can be found elsewhere in the report.

The City of Milton adopts an annual appropriated budget for its General Fund. A budgetary comparison statement is provided for the General Fund to demonstrate compliance with this budget, which is found on page 23 of this report.

PROPRIETARY FUNDS

All proprietary funds of the City of Milton are maintained as enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Milton uses enterprise funds to account for its utilities operations (water and sewer, natural gas, and sanitation).

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information on utility operations from water and sewer, natural gas, and sanitation. Found on pages 24 - 28 of this report are the basic proprietary fund financial statements.

FIDUCIARY FUNDS

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The City's fiduciary funds include the Pension Trust Funds (general employees, police and fire) and the Retired Employees' Insurance Fund. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Milton's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Found on pages 29 - 30 of this report are the basic fiduciary fund financial statements.

NOTES TO FINANCIAL STATEMENTS

The notes provide additional information, which is essential to the full understanding of the data provided in the government-wide and fund financial statements. Beginning on page 31 of this report are the notes to the financial statements.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also represents certain required supplemental information concerning the City of Milton's progress in funding its obligation to provide pension benefits to its employees. Found on pages 59 - 60 of this report is the required supplemental information.

The combining statements referred to earlier in connection with non-major governmental and proprietary funds are presented immediately following the required supplemental information on pensions. Found on pages 61 - 64 of this report are the combining and individual fund statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Milton, assets exceeded liabilities by \$31.45 million (net assets) for the fiscal year ended 2007, as reported in Table 1.

By far the largest portion of the City of Milton's net assets \$22.30 million (or 70.9%) reflects its investment in capital assets (e.g. land, infrastructure, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding.

The City of Milton uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Milton reports investment in its capital assets net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

Table 1
City of Milton
STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30
(In Thousands of Dollars*)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 2,574	\$ 3,783	\$ 11,159	\$ 8,630	\$ 13,733	\$ 12,413
Capital assets	<u>9,668</u>	<u>9,364</u>	<u>30,328</u>	<u>24,368</u>	<u>39,996</u>	<u>33,732</u>
Total assets	<u>12,242</u>	<u>13,147</u>	<u>41,487</u>	<u>32,998</u>	<u>53,729</u>	<u>46,145</u>
Long-term liabilities outstanding	2,903	3,352	19,018	13,740	21,921	17,092
Other liabilities	<u>206</u>	<u>438</u>	<u>148</u>	<u>792</u>	<u>354</u>	<u>1,230</u>
Total liabilities	<u>3,109</u>	<u>3,790</u>	<u>19,166</u>	<u>14,532</u>	<u>22,275</u>	<u>18,322</u>
Net assets						
Invested in capital assets net of related debt	7,138	6,836	15,162	11,998	22,300	18,834
Restricted	<u>1,244</u>	<u>635</u>	<u>4,740</u>	<u>1,681</u>	<u>5,984</u>	<u>2,316</u>
Unrestricted	<u>750</u>	<u>1,886</u>	<u>2,417</u>	<u>4,787</u>	<u>3,167</u>	<u>6,673</u>
Total net assets	<u>\$ 9,132</u>	<u>\$ 9,357</u>	<u>\$ 22,319</u>	<u>\$ 18,466</u>	<u>\$ 31,451</u>	<u>\$ 27,823</u>

**all dollar amounts rounded to the nearest thousand*

An additional portion of the City of Milton's net assets \$5.98 million (or 19.01%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$3.17 million may be used to meet the government's ongoing obligations to citizens and creditors.

The overall increase in the City's net assets was \$3.6 million (or 13.04%) during fiscal year 2007, most of which resulted from business-type activities.

GOVERNMENTAL ACTIVITIES

Governmental activities decreased the City of Milton's net assets by \$224 thousand, thereby accounting for 6.18% of the decrease in the net assets of the City of Milton. Reported in Table 2 are the key elements of this decrease.

Table 2
City of Milton
CHANGE IN NET ASSETS

	Governmental Activities		Business-Type Activities		Primary Government Total	
	2007	2006	2007	2006	2007	2006
REVENUES						
Program revenues						
Charges for services	\$ 892,254	\$ 865,318	\$ 10,171,856	\$ 10,427,087	\$ 11,064,110	\$ 11,292,405
Operating grants and contributions	213,009	279,494	2,817	169,539	215,826	449,033
Capital grants and contributions	433,434	768,247	2,579,609	1,204,812	3,013,043	1,973,059
General revenues						
Property taxes	907,291	758,113	-	-	907,291	758,113
Other taxes	1,188,909	1,306,861	-	-	1,188,909	1,306,861
Other revenue	931,322	1,021,467	357,597	299,341	1,288,919	1,320,808
TOTAL REVENUES	<u>4,566,219</u>	<u>4,999,500</u>	<u>13,111,879</u>	<u>12,100,779</u>	<u>17,678,098</u>	<u>17,100,279</u>
EXPENSES						
Primary government						
General government	2,237,138	2,748,681	-	-	2,237,138	2,748,681
Public safety	2,945,042	2,735,600	-	-	2,945,042	2,735,600
Transportation	432,475	514,933	-	-	432,475	514,933
Economic environment	16,266	32,205	-	-	16,266	32,205
Culture and recreation	832,360	807,779	-	-	832,360	807,779
Debt service interest	98,277	126,052	-	-	98,277	126,052
Business-type activities						
Natural gas	-	-	4,088,553	5,005,797	4,088,553	5,005,797
Water and sewer	-	-	2,540,493	2,429,118	2,540,493	2,429,118
Non-major proprietary funds	-	-	858,195	883,362	858,195	883,362
TOTAL EXPENSES	<u>6,561,558</u>	<u>6,965,250</u>	<u>7,487,241</u>	<u>8,318,277</u>	<u>14,048,799</u>	<u>15,283,527</u>
Increase (decrease) in net assets before transfers	(1,995,339)	(1,965,750)	5,624,638	3,782,502	3,629,299	1,816,752
Transfers	1,770,924	2,556,372	(1,770,924)	(2,556,372)	-	-
Increase (decrease) in net assets	(224,415)	590,622	3,853,714	1,226,130	3,629,299	1,816,752
NET ASSETS BEGINNING	<u>9,357,122</u>	<u>8,766,500</u>	<u>18,465,909</u>	<u>17,239,779</u>	<u>27,823,031</u>	<u>26,006,279</u>
NET ASSETS ENDING	<u>\$ 9,132,707</u>	<u>\$ 9,357,122</u>	<u>\$ 22,319,623</u>	<u>\$ 18,465,909</u>	<u>\$ 31,452,330</u>	<u>\$ 27,823,031</u>

FINANCIAL IMPACTS

NORMAL IMPACTS

There are eight basic impacts on revenues and expenses as reflected below.

Revenues

- Economic Condition - This can reflect a declining, stable, or growing economic environment and has a substantial impact on property, sales, gas or other tax revenue.
- Council Approved Rate Adjustments - While certain tax rates are set by statute, the City Council has significant authority to impose and periodically adjust rates (water, waste water, natural gas, sanitation, impact fees, recreation user fees, etc.).
- Changing Patterns in Intergovernmental Grant Revenue (both recurring and non-recurring) - Certain recurring revenues (state revenue sharing, community development block grants, etc.) may experience significant changes periodically while non-recurring (or one-time) grants are less predictable and often distorting in their impact on year-to-year comparisons.
- Market Impacts on Investment Income - The current market conditions have a significant influence on the City's investment income causing it to fluctuate greatly.

Expenses

- Introduction of New Programs - Within functional expense categories (police, fire, public works, parks and recreation, etc.), individual programs may be added or deleted to meet changing community needs.
- Authorized Position Adjustments - Changes in service demand may cause the City Council to change authorized staffing. Staffing costs (salary and related benefits) represent 31% of the City's operating costs.
- Salary Adjustments - The ability to attract and retain human and intellectual resources requires the City to strive to approach a competitive salary range position in the marketplace.
- Inflation - While overall inflation appears to be reasonably modest, the City is a major consumer of certain commodities such as paper, chemicals, supplies, fuel, oil, and parts. Some fluctuations may experience commodity specific increases.

Current Year Impacts - Governmental Activities

- Program revenues for governmental activities decreased \$374 thousand (or 20%) mostly due to funding of its Community Development Block Grant Project, which was completed during the year.

- Expenditures decreased \$404 thousand (or 6%) as a result of decreases in general government expenses related to Hurricane Ivan, Dennis, and Katrina damage repairs and services rendered in the prior year.

Chart 1
Expenses and Program Revenue
Governmental Activities

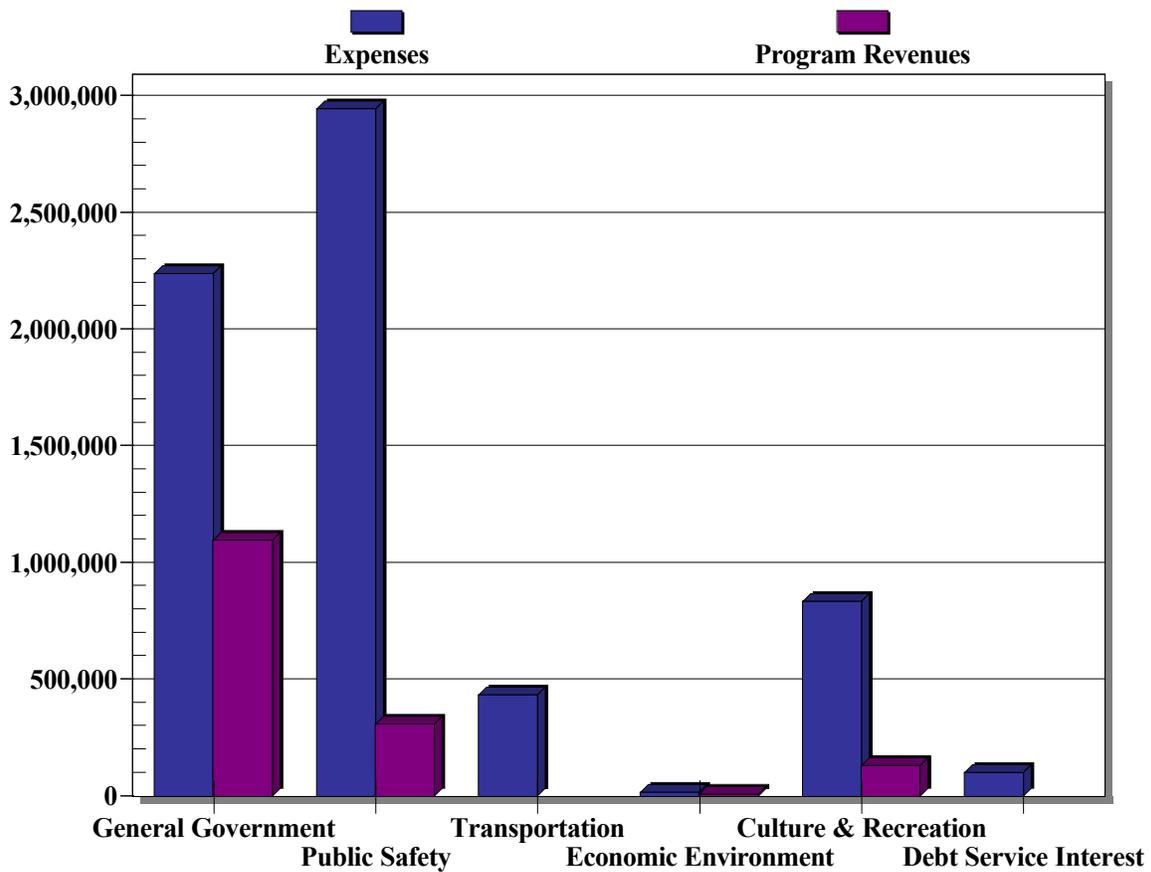
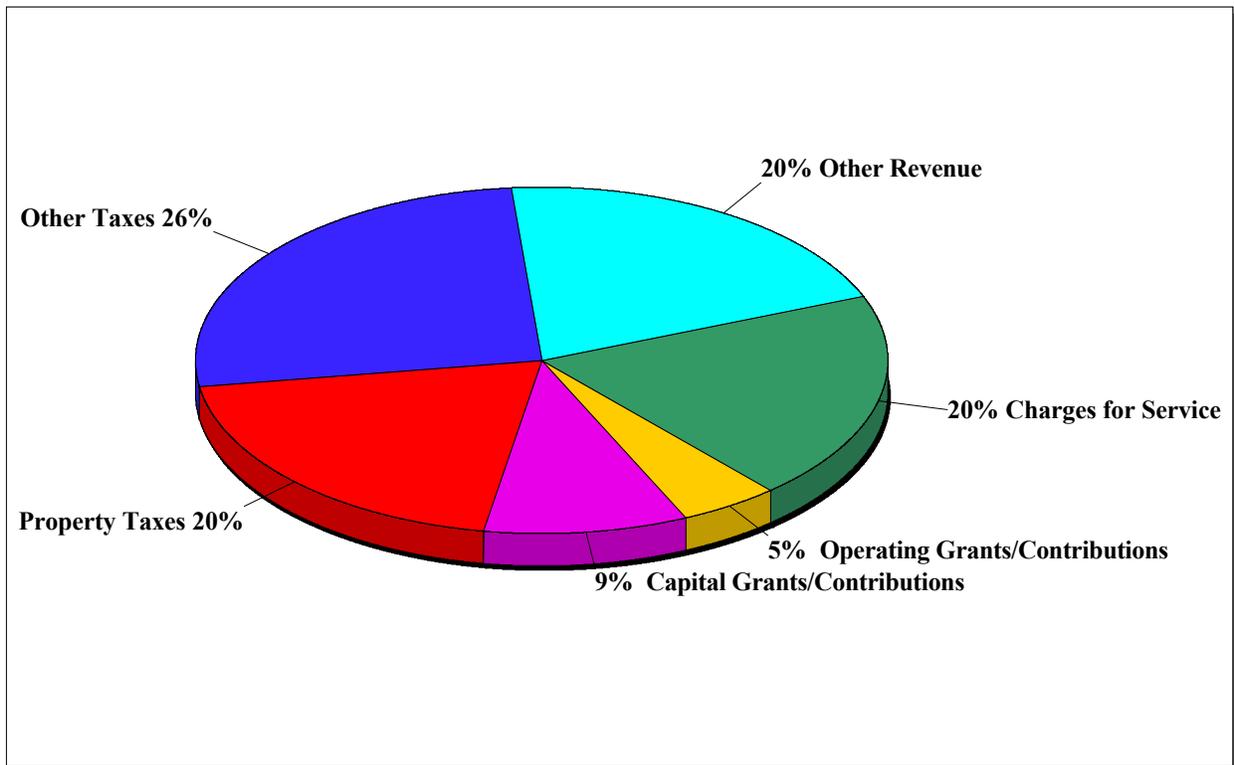


Chart 2
Revenues by Source
Governmental Activities



Business-Type Activities

The net assets from business-type activities increased by \$3.85 million (or 20.87%).

- Capital grants and contributions increased by \$1.37 million (or 98%) mostly due to grants awarded for the waste water utility project.
- Operating expenses decreased by \$831 thousand (or 9.99%) mostly due to a decrease in demand for natural gas from existing customers and a decrease in the purchase price of gas.

Chart 3
Expense and Program Revenue
Business - Type Activities

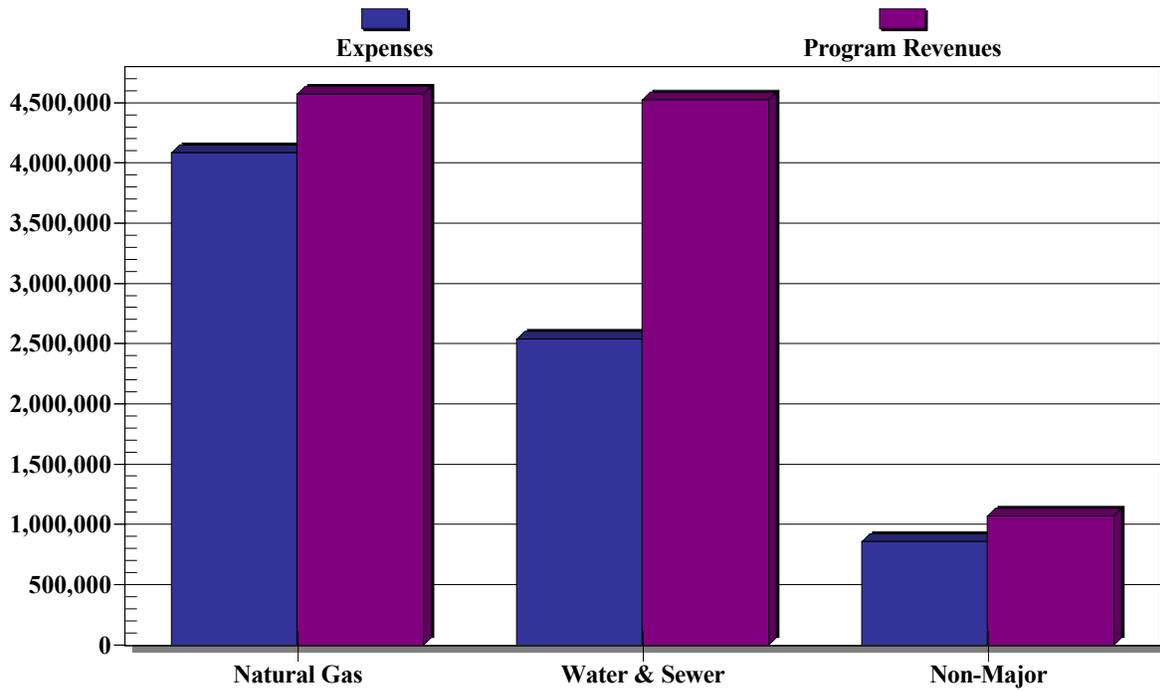
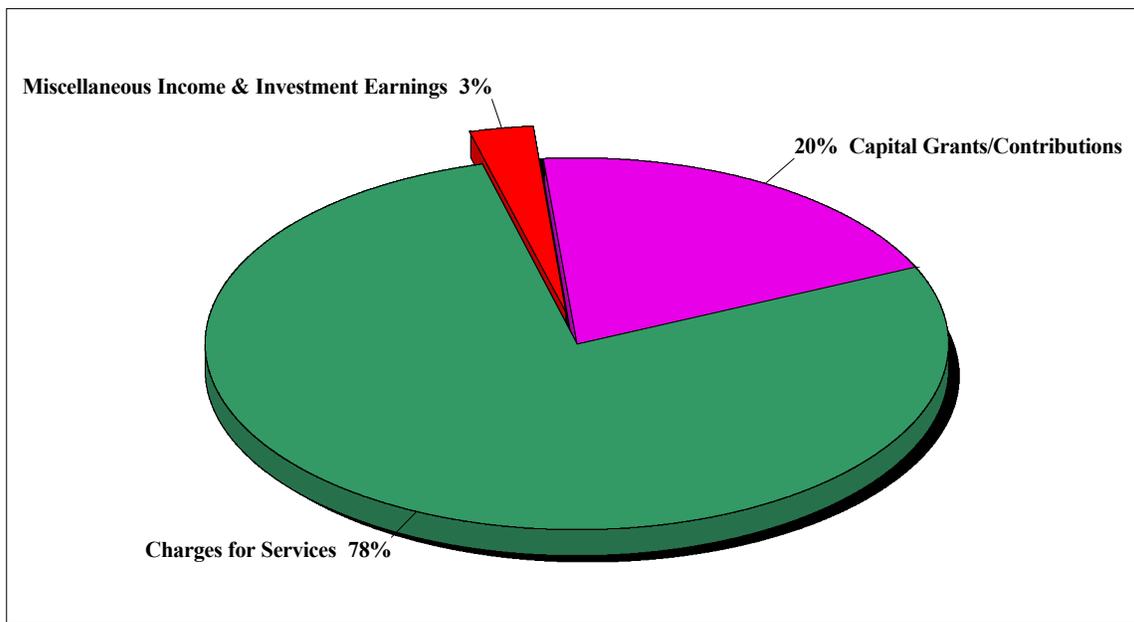


Chart 4
Revenues by Source
Business - Type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City of Milton uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

GOVERNMENTAL FUNDS

The focus of the City of Milton's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Milton's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Milton's governmental funds reported combined ending fund balances of \$2.34 million, a decrease of \$965 thousand in comparison with the prior year. Total fund balance of \$1.12 million constitutes unreserved/undesignated fund balance, which is available for spending at the City Council's discretion.

The General Fund is the chief operating fund of the City of Milton. At the end of the current fiscal year, unreserved/undesignated fund balance of the General Fund was \$453 thousand. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved/undesignated fund balance and total fund balance to total expenditures. Unreserved/undesignated fund balance represents 0.06% of the total General Fund expenditures.

During the current fiscal year, the fund balance of the City of Milton's General Fund decreased by \$795 thousand. Key factors of the decrease relate to lower transfers in from the proprietary funds, that were anticipated during the budgeting process.

PROPRIETARY FUNDS

The City of Milton's proprietary funds provide the same type of information found in the government-wide financial statements, but are more detailed.

Unrestricted net assets of the proprietary funds totaled \$2.42 million at the end of the year. Proprietary funds net assets increased by \$3.85 million. Other factors concerning the finances of these proprietary funds have already been addressed in the discussion of the City of Milton's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budgeted expenditures were decreased \$322 thousand as presented in the final amended budget. The total budget variances from original to final are summarized as follows:

- Originally budgeted expenditures for capital outlay were decreased \$256 thousand as a result of the completion of the Community Development Block Grant funded projects.
- Originally budgeted use of existing fund balance was reduced to \$374 thousand partially as a result of increases in taxes and anticipated transfers from proprietary funds.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The City of Milton's investments in capital assets for its governmental and business-type activities as of September 30, 2007, amounts to \$40.00 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, water, waste water and drainage systems improvements, machinery and equipment, park facilities, roads, and highways, etc. The overall increase the City of Milton's investment in capital assets, net of related debt, for the current fiscal year was \$3.47 million or 18.42% overall. The overall increase of the City of Milton's capital assets is essentially attributable to current year construction in progress to related to the Waste Water Treatment Plant construction and Water and Sewer Collection system improvements.

Table 3
City of Milton
CAPITAL ASSETS
(Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$ 1,622,054	\$ 1,622,054	\$ 91,313	\$ 91,313	\$ 1,713,367	\$ 1,713,367
Buildings	4,762,730	4,018,323	-	-	4,762,730	4,018,323
Improvements other than buildings	1,334,984	953,618	4,548,359	4,740,948	5,883,343	5,694,566
Machinery and equipment	1,048,062	1,057,575	4,033,977	4,073,724	5,082,039	5,131,299
Vehicles under capital lease	-	108,447	-	-	-	108,447
Construction in progress	900,211	1,604,253	21,654,527	15,462,408	22,554,738	17,066,661
Total	\$ 9,668,041	\$ 9,364,270	\$ 30,328,176	\$ 24,368,393	\$ 39,996,217	\$ 33,732,663

Additional information on the capital assets of the City of Milton can be found in Note 5 of this report.

OUTSTANDING DEBT

At the end of the current fiscal year, the City of Milton had total debt outstanding of \$20.70 million. All of the City of Milton's debt, with the exception of compensated absences, represents loans secured solely by specified revenue sources (i.e., franchise fees and utility revenues). The City of Milton has no general obligation or special assessment debt. The State of Florida does not place a legal limit of debt on municipalities. For general obligation debts, greater than one year, the City is required to conduct a voter referendum process for approval of this type of debt.

Table 4
City of Milton
OUTSTANDING DEBT
(Notes Payable and Capital Leases)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenue notes payable	\$ 2,529,568	\$ 2,934,897	\$ 3,373,773	\$ 818,981	\$ 5,903,341	\$ 3,753,878
Capital leases	-	53,643	-	-	-	53,643
State revolving loan	-	-	14,792,505	11,369,796	14,792,505	11,369,796
Total	\$ 2,529,568	\$ 2,988,540	\$ 18,166,278	\$ 12,188,777	\$ 20,695,846	\$ 15,177,317

The City of Milton's total debt increased by \$5.52 million during the 2007 fiscal year which is attributable to draws on the state revolving loan for waste water improvements and completion of the waste water treatment facility, and proceeds from a new utilities revenue note for the Natural Gas Fund for capital improvements.

Additional information on the City of Milton's long-term debt can be found in Note 9 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The State of Florida, by constitution, does not have a state personal income tax and therefore the State operates primarily using sales, gasoline, and corporate income taxes. Local governments (cities, counties, and school boards) primarily rely upon property and a limited array of permitted other taxes (sales, gasoline, utility service taxes, etc.) and fees (franchise and occupational license) for their governmental activities. There is a limited number of state shared revenues and recurring and non-recurring grants from both the state and federal government, which provide funding for specific programs, projects, or activities. For the business-type activities and certain governmental activities (permitting and recreational programs) the user pays a related fee or charge associated with the service.

The level of taxes, fee, and charges for services (including development related impact fees) has an impact on the City's specific competitive ability to encourage development and redevelopment (office, retail, residential, and industrial) for those businesses that choose to locate in our jurisdiction. As the City has limited growth potential, it places great emphasis on redevelopment and it is essential for the continued financial and economic health of our community.

The military has a significant presence in our community with Whiting Field Naval Base, employing military and civilian personnel. This installation is essential to the continued long-term economic vitality of this area. Combined, the military and defense-related industries have a \$30 billion annual impact on Florida's economy. The Governor's Office of Trade, Tourism & Economic Development (OTTED) is positioned closely with the military commanders in Florida, which may aid in limiting future base realignment and closures from negatively affecting this area. This strong relationship with the commanders gives the Governor and the State early warning of support issues they contend with on a regular basis.

Regional economic indicators were also considered in preparing the FY 2007-2008 budget for the City of Milton.

- The unemployment rate for the Milton Metropolitan Statistical Area (MMSA) was 2.8% for the third quarter of 2007, which impacts the City's ability to recruit and retain staff. The MMSA has consistently been well below the state average of 3% for the same period.
- Santa Rosa County is experiencing tremendous growth, with a 44.3% growth rate over a ten year period versus statewide growth rate of 23.5%. This growth impacts the City's needs for infrastructure expansions and improvements, and demands upon the municipality's public safety, cultural, recreational, and general governmental services.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Milton's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Chief Accountant, Post Office Box 909, Milton, Florida, 32572. The City's website address is www.ci.milton.fl.us. Inquiries may also be sent via email to the Finance Department at chiefaccountant@mymiltonflorida.com.

City of Milton, Florida
STATEMENT OF NET ASSETS
September 30, 2007

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 573,564	\$ 1,068,045	\$ 1,641,609
Certificates of deposit	-	427,204	427,204
Receivables, net	115,481	1,096,725	1,212,206
Internal balances	339,936	(339,936)	-
Due from other governments	212,224	42,015	254,239
Inventory, at cost	88,501	390,882	479,383
Restricted assets			
Cash and cash equivalents	1,214,337	6,821,847	8,036,184
Certificates of deposit	-	1,651,948	1,651,948
Capital assets			
Non-depreciable	2,522,265	21,745,840	24,268,105
Depreciable, net	7,145,776	8,582,336	15,728,112
Other assets			
Net pension asset	29,897	-	29,897
TOTAL ASSETS	<u>12,241,981</u>	<u>41,486,906</u>	<u>53,728,887</u>
LIABILITIES			
Accounts payable	665	55,882	56,547
Accrued liabilities	41,309	59,983	101,292
Due to other governments	110,966	-	110,966
Unearned revenues	52,921	33,443	86,364
Compensated absences	304,672	119,392	424,064
Revenue notes payable	419,049	325,434	744,483
State revolving loan payable	-	851,431	851,431
Payable from restricted assets			
Customer deposits	-	717,081	717,081
Non-current liabilities			
Compensated absences	69,173	15,228	84,401
Revenue notes payable, net	2,110,519	3,048,335	5,158,854
State revolving loan payable	-	13,941,074	13,941,074
TOTAL LIABILITIES	<u>3,109,274</u>	<u>19,167,283</u>	<u>22,276,557</u>
NET ASSETS			
Invested in capital assets, net of related debt	7,138,473	15,161,902	22,300,375
Restricted			
Debt service	-	1,966,078	1,966,078
Public safety	86,091	-	86,091
Downtown redevelopment	55,246	-	55,246
Retirement funding	29,897	-	29,897
Capital projects	1,073,000	2,774,358	3,847,358
Unrestricted	750,000	2,417,285	3,167,285
TOTAL NET ASSETS	<u>\$ 9,132,707</u>	<u>\$ 22,319,623</u>	<u>\$ 31,452,330</u>

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

City of Milton, Florida
STATEMENT OF ACTIVITIES
Year Ended September 30, 2007

					Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Program Revenues			Primary Government		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Function/program activities							
Government activities							
General government	\$ 2,237,138	\$ 745,253	\$ 210,052	\$ 138,755	\$ (1,143,078)	\$ -	\$ (1,143,078)
Public safety	2,945,042	18,325	2,957	286,515	(2,637,245)	-	(2,637,245)
Transportation	432,475	-	-	-	(432,475)	-	(432,475)
Economic environment	16,266	-	-	8,164	(8,102)	-	(8,102)
Culture and recreation	832,360	128,676	-	-	(703,684)	-	(703,684)
Debt service interest	98,277	-	-	-	(98,277)	-	(98,277)
Total government activities	<u>6,561,558</u>	<u>892,254</u>	<u>213,009</u>	<u>433,434</u>	<u>(5,022,861)</u>	<u>-</u>	<u>(5,022,861)</u>
Business-type activities							
Natural gas	4,088,553	4,573,502	2,817	11,001	-	498,767	498,767
Water and sewer	2,540,493	4,526,809	-	2,568,608	-	4,554,924	4,554,924
Nonmajor proprietary funds	858,195	1,071,545	-	-	-	213,350	213,350
Total business-type activities	<u>7,487,241</u>	<u>10,171,856</u>	<u>2,817</u>	<u>2,579,609</u>	<u>-</u>	<u>5,267,041</u>	<u>5,267,041</u>
Total primary government	<u>\$ 14,048,799</u>	<u>\$ 11,064,110</u>	<u>\$ 215,826</u>	<u>\$ 3,013,043</u>	<u>\$ (5,022,861)</u>	<u>\$ 5,267,041</u>	<u>\$ 244,180</u>
General revenues:							
Taxes							
Property taxes					907,291	-	907,291
Sales taxes					243,426	-	243,426
Utility service taxes					945,483	-	945,483
Municipal revenue sharing					784,766	-	784,766
Gain (loss) on sale of assets					4,771	2,320	7,091
Investment earnings					54,165	197,873	252,038
Miscellaneous					87,620	157,404	245,024
Interfund activity					1,770,924	(1,770,924)	-
Total general revenues and interfund activity					<u>4,798,446</u>	<u>(1,413,327)</u>	<u>3,385,119</u>
Change in net assets					(224,415)	3,853,714	3,629,299
Net assets - beginning of year					<u>9,357,122</u>	<u>18,465,909</u>	<u>27,823,031</u>
Net assets - end of year					<u>\$ 9,132,707</u>	<u>\$ 22,319,623</u>	<u>\$ 31,452,330</u>

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

City of Milton, Florida
GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2007

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 51,782	\$ 521,782	\$ 573,564
Receivables	115,481	-	115,481
Due from other funds	350,473	150,000	500,473
Due from other governments	212,224	-	212,224
Inventory, at cost	88,501	-	88,501
Restricted assets			
Cash and cash equivalents	-	1,214,337	1,214,337
TOTAL ASSETS	<u>\$ 818,461</u>	<u>\$ 1,886,119</u>	<u>\$ 2,704,580</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 665	\$ -	\$ 665
Accrued liabilities	41,309	-	41,309
Due to other funds	159,503	1,034	160,537
Due to other governments	110,966	-	110,966
Unearned revenue	52,921	-	52,921
Total liabilities	<u>365,364</u>	<u>1,034</u>	<u>366,398</u>
Fund balance			
Reserved for capital improvements	-	1,073,000	1,073,000
Reserved for public safety	-	86,091	86,091
Reserved for downtown redevelopment	-	55,246	55,246
Unreserved			
Undesignated			
General fund	453,097	-	453,097
Debt service fund	-	670,748	670,748
Total fund balance	<u>453,097</u>	<u>1,885,085</u>	<u>2,338,182</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 818,461</u>	<u>\$ 1,886,119</u>	<u>\$ 2,704,580</u>

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

City of Milton, Florida
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
September 30, 2007

Fund balances - total governmental funds (page 19)		\$ 2,338,182
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Governmental non-depreciable assets	2,522,265	
Governmental depreciable assets	13,037,275	
Less accumulated depreciation	<u>(5,891,499)</u>	9,668,041
Other assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.		
Net pension asset		29,897
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Notes payable, net of deferred loss	(2,529,568)	
Compensated absences	<u>(373,845)</u>	<u>(2,903,413)</u>
Net assets of governmental activities (page 17)		<u>\$ 9,132,707</u>

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

City of Milton, Florida
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended September 30, 2007

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 2,622,186	\$ 22,378	\$ 2,644,564
Licenses and permits	129,582	-	129,582
Intergovernmental	1,226,066	53,849	1,279,915
Charges for services	135,269	-	135,269
Fines and forfeits	67,300	3,835	71,135
Miscellaneous	137,896	29,103	166,999
TOTAL REVENUES	<u>4,318,299</u>	<u>109,165</u>	<u>4,427,464</u>
EXPENDITURES			
Current			
General governmental services	2,078,088	92	2,078,180
Public safety	2,667,851	5,242	2,673,093
Economic environment		11,025	11,025
Transportation	450,572	-	450,572
Culture and recreation	665,664	-	665,664
Capital outlay	715,516	149,319	864,835
Debt service			
Principal	460,750	-	460,750
Interest	98,223	-	98,223
Other debt service costs	-	54	54
TOTAL EXPENDITURES	<u>7,136,664</u>	<u>165,732</u>	<u>7,302,396</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,818,365)</u>	<u>(56,567)</u>	<u>(2,874,932)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	2,414,274	678,241	3,092,515
Transfers out	(530,085)	(791,507)	(1,321,592)
Contributions from others	138,755	-	138,755
TOTAL OTHER FINANCING SOURCES (USES)	<u>2,022,944</u>	<u>(113,266)</u>	<u>1,909,678</u>
NET CHANGE IN FUND BALANCE	(795,421)	(169,833)	(965,254)
FUND BALANCE - BEGINNING OF YEAR	<u>1,248,518</u>	<u>2,054,918</u>	<u>3,303,436</u>
FUND BALANCE - END OF YEAR	<u>\$ 453,097</u>	<u>\$ 1,885,085</u>	<u>\$ 2,338,182</u>

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

City of Milton, Florida
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
Year Ended September 30, 2007

Net change in fund balances - total governmental funds (page 21)		\$ (965,254)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is depreciated over the estimated useful lives of the assets.		
Expenditures for capital assets	864,835	
Less current year depreciation	<u>(554,632)</u>	310,203
Governmental funds do not report capital assets on the balance sheet; however, they are reported in the government wide financial statements. Accordingly, proceeds received for disposals of capital assets are shown as income on the governmental financial statements and a gain or loss in the statement of activities.		
Disposals of capital assets	(19,607)	
Accumulated depreciation associated with disposals	<u>13,175</u>	(6,432)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
Principal payments	460,750	
Loss on refunding	<u>(1,778)</u>	458,972
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in net pension asset	(11,366)	
Change in long-term compensated absences	<u>(10,538)</u>	<u>(21,904)</u>
Change in net assets of governmental activities (page 18)		<u>\$ (224,415)</u>

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

City of Milton, Florida
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
- BUDGET AND ACTUAL
Year Ended September 30, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 2,535,248	\$ 2,661,328	\$ 2,622,186	\$ (39,142)
Licenses	147,550	167,964	129,582	(38,382)
Intergovernmental	2,014,890	2,091,503	1,226,066	(865,437)
Charges for services	127,400	135,100	135,269	169
Fines and forfeits	73,766	73,766	67,300	(6,466)
Miscellaneous	<u>23,000</u>	<u>26,085</u>	<u>137,896</u>	<u>111,811</u>
TOTAL REVENUES	<u>4,921,854</u>	<u>5,155,746</u>	<u>4,318,299</u>	<u>(837,447)</u>
EXPENDITURES				
Current				
General government services	2,668,511	2,488,556	2,078,088	410,468
Public safety	2,774,888	2,924,748	2,667,851	256,897
Transportation	701,760	699,864	450,572	249,292
Culture and recreation	776,207	742,232	665,664	76,568
Capital outlay	3,031,693	2,775,743	715,516	2,060,227
Debt service	<u>584,410</u>	<u>584,410</u>	<u>558,973</u>	<u>25,437</u>
TOTAL EXPENDITURES	<u>10,537,469</u>	<u>10,215,553</u>	<u>7,136,664</u>	<u>3,078,889</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(5,615,615)</u>	<u>(5,059,807)</u>	<u>(2,818,365)</u>	<u>2,241,442</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	4,800,523	5,007,313	2,414,274	(2,593,039)
Transfers out	(17,400)	(552,519)	(530,085)	22,434
Contributions from others	<u>100,000</u>	<u>230,840</u>	<u>138,755</u>	<u>(92,085)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>4,883,123</u>	<u>4,685,634</u>	<u>2,022,944</u>	<u>(2,662,690)</u>
NET CHANGE IN FUND BALANCE	(732,492)	(374,173)	(795,421)	(421,248)
FUND BALANCE - BEGINNING OF YEAR	<u>732,492</u>	<u>374,173</u>	<u>1,248,518</u>	<u>874,345</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 453,097</u>	<u>\$ 453,097</u>

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

City of Milton, Florida
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
September 30, 2007

	<u>Natural Gas Fund</u>	<u>Water and Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 599,151	\$ 318,056	\$ 150,838	\$ 1,068,045
Certificates of deposit	427,204	-	-	427,204
Receivables, net	344,683	615,806	136,236	1,096,725
Due from other funds	-	496,091	5,278	501,369
Due from other governments	-	42,015	-	42,015
Inventory, at cost	390,882	-	-	390,882
Restricted assets				
Cash and cash equivalents	3,320,579	3,501,268	-	6,821,847
Certificates of deposit	<u>95,664</u>	<u>1,556,284</u>	<u>-</u>	<u>1,651,948</u>
Total current assets	<u>5,178,163</u>	<u>6,529,520</u>	<u>292,352</u>	<u>12,000,035</u>
Capital assets				
Non-depreciable	5,575	21,740,265	-	21,745,840
Depreciable, net	<u>1,277,415</u>	<u>6,967,217</u>	<u>337,704</u>	<u>8,582,336</u>
Total capital assets	<u>1,282,990</u>	<u>28,707,482</u>	<u>337,704</u>	<u>30,328,176</u>
TOTAL ASSETS	<u>6,461,153</u>	<u>35,237,002</u>	<u>630,056</u>	<u>42,328,211</u>

Continued...

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

City of Milton, Florida
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
September 30, 2007

	<u>Natural Gas Fund</u>	<u>Water and Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
LIABILITIES				
Current liabilities				
Accounts payable	-	55,882	-	55,882
Accrued liabilities				
Compensated absences	50,992	54,971	13,429	119,392
Wages	6,854	8,853	2,996	18,703
Other	39,218	2,062	-	41,280
Due to other funds	753,475	-	87,830	841,305
Revenue notes payable	60,559	264,875	-	325,434
State revolving loan payable	-	851,431	-	851,431
Deferred revenues	13,731	19,712	-	33,443
Payable from restricted assets				
Customer deposits	<u>303,481</u>	<u>413,600</u>	<u>-</u>	<u>717,081</u>
Total current liabilities	<u>1,228,310</u>	<u>1,671,386</u>	<u>104,255</u>	<u>3,003,951</u>
Non-current liabilities				
Compensated absences	6,436	7,558	1,234	15,228
Revenue notes payable	2,939,441	108,894	-	3,048,335
State revolving loan payable	<u>-</u>	<u>13,941,074</u>	<u>-</u>	<u>13,941,074</u>
Total non-current liabilities	<u>2,945,877</u>	<u>14,057,526</u>	<u>1,234</u>	<u>17,004,637</u>
TOTAL LIABILITIES	<u>4,174,187</u>	<u>15,728,912</u>	<u>105,489</u>	<u>20,008,588</u>
NET ASSETS				
Invested in capital assets, net of related debt				
Restricted				
Debt service	-	1,966,078	-	1,966,078
Capital projects	95,664	2,678,694	-	2,774,358
Unrestricted	<u>908,312</u>	<u>1,322,110</u>	<u>186,863</u>	<u>2,417,285</u>
TOTAL NET ASSETS	<u>\$ 2,286,966</u>	<u>\$ 19,508,090</u>	<u>\$ 524,567</u>	<u>\$ 22,319,623</u>

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

City of Milton, Florida
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended September 30, 2007

	Natural Gas Fund	Water and Sewer Fund	Sanitation Fund	Total
OPERATING REVENUES				
Charges for services	\$ 4,573,502	\$ 4,526,809	\$ 1,071,545	\$10,171,856
OPERATING EXPENSES				
Personal services	691,481	961,608	316,588	1,969,677
Operating	3,208,130	899,832	437,065	4,545,027
Depreciation	163,241	477,877	104,543	745,661
Total operating expenses	4,062,852	2,339,317	858,196	7,260,365
OPERATING INCOME	510,650	2,187,492	213,349	2,911,491
NON-OPERATING REVENUES (EXPENSES)				
Intergovernmental	13,818	1,858,890	-	1,872,708
Tower leases	-	129,394	-	129,394
Interest expense	(25,751)	(201,177)	-	(226,928)
Gain (loss) on disposal of fixed assets	1,770	-	550	2,320
Interest	51,046	146,803	24	197,873
Miscellaneous	15,080	12,423	288	27,791
Total non-operating revenues (expenses)	55,963	1,946,333	862	2,003,158
INCOME BEFORE OPERATING TRANSFERS	566,613	4,133,825	214,211	4,914,649
Capital contributions	-	709,988	-	709,988
Transfers in	-	44,975	-	44,975
Transfers out	(355,683)	(1,166,681)	(293,534)	(1,815,898)
Total transfers	(355,683)	(411,718)	(293,534)	(1,060,935)
CHANGE IN NET ASSETS	210,930	3,722,107	(79,323)	3,853,714
NET ASSETS - BEGINNING OF YEAR	2,076,036	15,785,983	603,890	18,465,909
NET ASSETS - END OF YEAR	\$ 2,286,966	\$19,508,090	\$ 524,567	\$22,319,623

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

City of Milton, Florida
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year Ended September 30, 2007

	Natural Gas Fund	Water and Sewer Fund	Sanitation Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 4,506,143	\$ 5,424,393	\$ 1,070,263	\$11,000,799
Payments to suppliers	(3,454,467)	(1,953,125)	(465,559)	(5,873,151)
Payments to employees	(705,578)	(980,432)	(313,572)	(1,999,582)
Miscellaneous income	15,080	12,423	288	27,791
Tower leases	-	129,394	-	129,394
Net cash provided (used) by operating activities	<u>361,178</u>	<u>2,632,653</u>	<u>291,420</u>	<u>3,285,251</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Borrowings (repayments)				
Due to other funds	321,822	(115,726)	-	206,096
Due from other funds	-	(367,831)	59,807	(308,024)
Transfers in	-	44,975	-	44,975
Transfers out	<u>(355,683)</u>	<u>(1,166,681)</u>	<u>(293,534)</u>	<u>(1,815,898)</u>
Net cash provided (used) by non-capital financing activities	<u>(33,861)</u>	<u>(1,605,263)</u>	<u>(233,727)</u>	<u>1,412,400</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisitions of fixed assets	(259,072)	(6,447,505)	-	(6,706,577)
Proceeds from impact fees	-	709,988	-	709,988
Intergovernmental revenues received	13,818	1,858,890	-	1,872,708
Proceeds received from notes payable	3,000,000	3,840,415	-	6,840,415
Principal paid on notes payable	(189,365)	(675,790)	-	(865,155)
Interest paid on bonds, loans, and leases payable	<u>(25,751)</u>	<u>(203,430)</u>	<u>-</u>	<u>(229,181)</u>
Net cash provided (used) by capital and related financing activities	<u>2,539,630</u>	<u>(917,432)</u>	<u>-</u>	<u>1,622,198</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	51,046	146,803	24	197,873
Purchases of investments	<u>304,688</u>	<u>(147,242)</u>	<u>-</u>	<u>157,446</u>
Net cash provided (used) by investing activities	<u>355,734</u>	<u>(439)</u>	<u>24</u>	<u>355,319</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	3,222,681	109,519	57,717	6,675,168
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
	<u>697,049</u>	<u>3,709,805</u>	<u>93,121</u>	<u>4,499,975</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR				
	<u>\$ 3,919,730</u>	<u>\$ 3,819,324</u>	<u>\$ 150,838</u>	<u>\$ 7,889,892</u>

Continued...

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

City of Milton, Florida
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year Ended September 30, 2007

	<u>Natural Gas Fund</u>	<u>Water and Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF				
Current assets	\$ 599,151	\$ 318,056	\$ 150,838	\$ 1,068,045
Restricted assets	<u>3,320,579</u>	<u>3,501,268</u>	<u>-</u>	<u>6,821,847</u>
Total cash and cash equivalents	<u>\$ 3,919,730</u>	<u>\$ 3,819,324</u>	<u>\$ 150,838</u>	<u>\$ 7,889,892</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income	\$ 510,650	\$ 2,187,492	\$ 213,349	\$ 2,911,491
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	163,241	477,877	104,543	745,661
Tower lease income	-	129,394	-	129,394
Miscellaneous revenue	15,080	12,423	288	27,791
Loss/gain on disposal of asset	1,770	-	550	2,320
Decrease (increase) in assets				
Accounts receivable	(44,102)	(37,373)	(1,282)	(82,757)
Inventory	(14,690)	-	-	(14,690)
Increase (decrease) in liabilities				
Accounts payable	(229,666)	(1,055,355)	(29,044)	(1,314,065)
Compensated absences payable	(14,562)	(13,836)	1,853	(26,545)
Wages	465	(2,926)	1,163	(1,298)
Other accrued liabilities	(3,752)	-	-	(3,752)
Customer deposits	(7,914)	31,852	-	23,938
Deferred revenues	(15,342)	152	-	(15,190)
Due from other governments	-	902,953	-	902,953
Net cash provided (used) by operating activities	<u>\$ 361,178</u>	<u>\$ 2,632,653</u>	<u>\$ 291,420</u>	<u>\$ 3,285,251</u>

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

City of Milton, Florida
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
September 30, 2007

	Pension Trust Funds	Retired Employees' Insurance Trust Funds
ASSETS		
Cash and cash equivalents	\$ 4,844	\$ 420,058
Investments, at market	17,337,771	-
Due from State of Florida	40,071	-
Due from retired employees	2,748	6,741
TOTAL ASSETS	\$ 17,385,434	\$ 426,799
NET ASSETS		
Held in trust for pension and employee retirement benefits	\$ 17,385,434	\$ 426,799
TOTAL NET ASSETS	\$ 17,385,434	\$ 426,799

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

City of Milton, Florida
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Year Ended September 30, 2007

	<u>Pension Trust Funds</u>	<u>Retired Employees' Insurance Trust Funds</u>
ADDITIONS		
Contributions		
Employer	\$ 216,205	\$ 5,082
Plan members	315,024	125,147
State of Florida	<u>193,105</u>	<u>-</u>
Total contributions	<u>724,334</u>	<u>130,229</u>
Investment income	1,915,201	3,636
Less investment expense	<u>(153,051)</u>	<u>-</u>
Net investment income	<u>1,762,150</u>	<u>3,636</u>
TOTAL ADDITIONS	<u>2,486,484</u>	<u>133,865</u>
DEDUCTIONS		
Benefits and refunds paid		
Retirement payments	798,715	-
Insurance premiums	<u>-</u>	<u>53,618</u>
Total benefits and refunds paid	<u>798,715</u>	<u>53,618</u>
Administrative expenses		
Other	<u>62,204</u>	<u>55</u>
TOTAL DEDUCTIONS	<u>860,919</u>	<u>53,673</u>
NET INCREASE IN NET ASSETS BEFORE OTHER RESOURCES	1,625,565	80,192
OTHER FINANCING SOURCES (USES)		
Transfers in	<u>-</u>	<u>-</u>
NET INCREASE AFTER OTHER FUNDING SOURCES	<u>1,625,565</u>	<u>80,192</u>
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER RETIREMENT BENEFITS		
BEGINNING OF YEAR	<u>15,759,869</u>	<u>346,607</u>
END OF YEAR	<u>\$ 17,385,434</u>	<u>\$ 426,799</u>

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

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Milton, Florida (the City) was originally incorporated under the Territorial Acts of 1844. The present Charter was enacted in 1927 as Chapter 13105, Laws of Florida. The City is the county seat of Santa Rosa County and operates with a City Manager-Council form of government. The City Council is responsible for the establishment and adoption of policy. The execution of such policy is the responsibility of the City Manager appointed by the Council. As authorized by its charter, the City provides the following services: public safety (police, fire, and inspection), roads and streets, water and sewer, sanitation, natural gas, culture and recreation, public improvements, planning and zoning, and general administrative services. In addition, the City maintains several trust funds in a fiduciary capacity. The City does not provide educational or library facilities, as those services are provided by the Santa Rosa County School Board and the West Florida Regional Library System, respectively.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America applicable to governmental units and the Uniform Accounting System mandated by Chapter 218.33, Florida Statutes.

The following is a summary of the more significant accounting policies of the City:

A. The Reporting Entity

An eight-member City Council and a Mayor govern the City, each elected at-large for four-year terms. The Council has no powers other than those expressly vested in it by State Statute and the City Charter, and their governmental powers cannot be delegated.

As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Milton as the primary government. In evaluating the City as a reporting entity, Management has considered all potential component units for which the City may or may not be financially accountable and, as such, be included within the City's financial statements. Management utilized criteria set forth in GASB No. 14 for determining financial accountability of potential component units in evaluating all potential component units. In accordance with GASB No. 14, the City (primary government) is financially accountable if it appoints a voting majority of the potential component unit's governing board and 1) it is able to impose its will on the organization or 2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the City. In addition, component units can be other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. The Reporting Entity (Continued)

The Milton Community Redevelopment Agency (the Agency) was established by the City as a separate legal entity in accordance with Florida Statute 163, Section III. The Agency oversees the redevelopment of the downtown area. The Community Redevelopment Advisory Board is appointed by the City Council of Milton, Florida through a City ordinance. The Mayor, City Manager, and one City Council member sit on the Advisory Board. In addition, City employees manage the Agency's assets. The Agency is reported in the financial statements of the primary government as a "blended component unit" as defined by GASB 14. Separate financial statements of the Agency are not prepared.

The Milton Housing Authority (the Authority) is considered a related organization to the City rather than a component unit. The City Council of Milton, Florida appoints the board members of the Authority; however, the Authority's board operates independently of the City Council and does not create a financial burden or benefit to the City.

B. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements (Continued)

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Pension plans recognize revenue when contributions are due as there is a statutory requirement to make the contribution. Property taxes are recorded as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 6 months of the end of the current fiscal period, except for property taxes, for which the period is 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Sales taxes, gasoline taxes, and other intergovernmental revenues collected and held by the state at year-end on behalf of the City, are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

The Santa Rosa County Tax Collector bills and collects property taxes for the City in accordance with the laws of the State of Florida. Property taxes attach as an enforceable lien on property as of the date of assessment and remain in effect until discharge by payment. Taxes are payable when levied (on November 1, or as soon thereafter as the assessment roll becomes available to the Tax Collector).

The following is the current property tax calendar:

Lien Date	January 1, 2007
Levy Date	November 1, 2007
Due Date	November 1, 2007
Delinquent Date	April 1, 2008

Discounts of 1% for each month taxes are paid prior to March 2008, are granted.

Revenue recognition criteria for property taxes under the GASB requires that property taxes expected to be collected within 60 days of the current period be accrued. No accrual has been made for 2007 ad-valorem taxes because property taxes are not legally due until subsequent to the end of the fiscal year. Current year taxes, which are uncollected as of the end of the fiscal year, are generally immaterial in amount and highly susceptible to uncollectibility and, therefore, are not recorded as a receivable on the balance sheet date.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with, or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected to follow subsequent private-sector guidance.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation

The financial transactions of the City are recorded in individual funds. Each fund is a separate accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes there in, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the government's utility function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from cooperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for utility services. The City also recognizes as operating revenues the portion of tap fees intended to recover the cost of connecting customers to the system. Operating expenses for enterprise funds include the cost of service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first and then unrestricted resources, as they are needed.

The following three broad classifications are used to categorize the fund types used by the City:

Governmental

Governmental funds focus on the determination of financial position and changes in financial position (sources, uses, and balances of financial resources) and not net income. The City has one major governmental fund, the General Fund.

General Fund - This is the City's primary operating fund and is used to account for all financial resources except those required to be accounted for in another fund.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Continued)

Governmental (Continued)

Proprietary

Proprietary funds focus on the determination of net income, changes in net assets, financial position, and cash flows. All of the City's proprietary funds are enterprise funds, as fees are charged to external users for services. The following is a description of the major proprietary funds of the City.

Natural Gas Fund - Used to account for the sale of natural gas to the City's residents.

Water and Sewer Fund - Used to account for the water and sewer operations of the City, which provides distribution of potable water, sales and service and sanitary waste water collection, treatment and disposal.

Sanitation Fund - Accounts for the operation of the City that provides for solid waste collection, disposal, and/or recycling.

Fiduciary

Fiduciary Funds are used to account for the assets held on behalf of outside parties, including other governments, or on behalf of other funds within the City. The City has two types of Fiduciary Funds.

Pension Trust Funds - Used to report the resources that are required to be held in trust for the members and beneficiaries of the three defined benefit pension plans administered by the City; General Employees' Retirement Fund, Police Officers' Retirement Fund, and Firefighters' Retirement Fund.

Retired Employees' Insurance Trust Fund - Used to report the revenues and expenditures of postemployment health care benefits.

E. Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents

Each fund's cash on hand, demand deposits, and short-term investments are considered cash and cash equivalents. For purposes of these statements, all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Assets or Equity (Continued)

Deposits and Investments

Section 218.415, Florida Statutes, requires the investment of surplus public funds and prescribes the instruments in which those investments are authorized, specifically the State of Florida Local Government Surplus Funds Trust Fund, direct obligations of the United States Government or other obligations unconditionally guaranteed by the United States Government, collateralized interest-bearing time deposits or savings accounts in state or federal banks or savings and loan associations, debt securities of the Federal Farm Credit Banks, the Federal Home Loan Mortgages Corporation, the Federal Home Loan Bank, the Government National Mortgage Association, the Federal National Mortgage Association, and securities of other interest in certain investment companies or investment trusts, the portfolio of which is limited to United States Government obligations or repurchase agreements fully collateralized by such obligations. The City adheres strictly to the provisions of those cited Statutes, as well as with Chapter 280, Florida Statutes, which requires the City to maintain deposits only with "Qualified Public Depositories." The City maintains cash, money market deposit accounts, and certificates of deposit in each of the City's individual funds, which are stated at fair value. In addition, the City's General and Enterprise Funds have equity in a pooled cash bank account.

In addition, restricted cash accounts, certificates of deposit, and other investments are separately maintained by a few City funds in accordance with bond ordinances, retirement fund plan documents and other contractual agreements. Investments are stated at fair value.

Each Board of Trustees of the various pension trust funds has developed an investment policy according to Chapter 112.661, Florida Statutes. These plans provide written investment policies which must be structure to maximize the plans' financial return, including diversification of the plan's assets. Copies of the plan may be obtained by request from the Board of Trustees of the General, Fire or Police Pension Funds.

Bond Sinking Fund Investments are limited by bond ordinances to investments in direct obligations of the United States government or other marketable securities eligible as security of trust funds under regulations of the Board of Governors of the Federal Reserve System. The maturity date on Sinking Fund Investments is limited by the individual bond ordinances to correspond to the related debt service payments.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Assets or Equity (Continued)

Receivables and Payables

Interfund transactions are reflected as either loans, services provided, reimbursements, or transfers. Loans between funds outstanding at the end of the fiscal year are referred to as either "due to other funds" or "due from other funds" (i.e., the current portion of interfund loans) or "advances" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balance."

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation.

All proprietary fund receivables are shown net of an allowance for uncollectibles. The allowance is computed using 50% of receivables in excess of 120 days.

Inventories

Inventories held by the General Fund are stated at cost and priced by using a moving average. This weighted average method of inventory results in charges against revenue based on an average of the number of units acquired at each price level. The resulting cost price is applied to the ending inventory to determine the total inventory value. A portion of the General Fund balance equal to the inventory amount has been reserved in the fund financial statements to indicate that it is not available for appropriation.

Inventory recorded in the Natural Gas Fund consists of gas that is being held by the City for resale. The inventory is stated at cost and priced using the approved purchased gas adjustment (PGA) rates.

Restricted Assets

Certain resources of the Natural Gas Fund and the Water and Sewer Fund are classified as restricted assets because their use is limited by applicable bond covenants or loan agreements.

Additionally, water and sewer deposits and natural gas deposits received from customers are classified as restricted assets. This money is restricted for use as payment of the final customer bill or returned to the customer upon settlement of the final bill.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Assets or Equity (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, curbs and sidewalks, drainage systems, lighting systems and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City was in Phase III of the required implementation time of GASB 34; accordingly, they were not required to retroactively record infrastructure assets. Therefore, purchases of infrastructure assets subsequent to October 1, 2003 will be reported in the government-wide financial statements. Capital assets are defined by the city as assets with an initial cost more than the following:

Land		All
Buildings and improvements	\$	10,000
Infrastructure	\$	10,000
Improvements - other	\$	10,000
Equipment, vehicles, and computers	\$	5,000

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Water and sewer system	5-50 Years
Natural gas distribution system	20-50 Years
System infrastructure	20-40 Years
Buildings and improvements	5-20 Years
Tools and equipment	3-20 Years
Vehicles	3-10 Years

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Assets or Equity (Continued)

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused annual leave, sick pay and comp time. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Sick leave is accrued in the government-wide and proprietary fund financial statements based on a ratio of the sum of sick leave paid over the last several years to the total balance of sick leave at the end of each fiscal year. A liability for the amounts of vacation and sick leave is reported in governmental fund financial statements only if they have matured, for example, as a result of employee resignations and retirements. The policy for accruing such time is as follows:

Annual Leave

<u>Years of Employment</u>	<u>Hours Accrued Per Month Firefighters / All Others</u>
0-5 Years	12 hours / 8 hours
5-10 Years	15 hours / 10 hours
10-15 Years	18 hours / 12 hours
15-20 Years	21 hours / 14 hours
20+ Years	24 hours / 16 hours

Sick Leave

Firefighters accrue 15 hours per month of sick leave and all other employees accrue sick leave at the rate of 10 hours per month.

Comp Time

Comp time is accrued at time and a half for every hour worked in excess of 40 hours for the week. Employees may elect either to be paid these excess hours as overtime or to accrue them as comp time. In addition, on-call employees receive eight hours of comp time for every completed on-call period (one week). Employees must use on-call leave within the calendar year in which it is earned. A maximum of 40 hours of on-call time may be carried over to the next calendar year; however, the accumulated amounts may not be taken out as cash payments and are not paid if the employee is terminated.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Assets or Equity (Continued)

Compensated Absences (Continued)

Termination Policy

Upon termination of employment, an employee will be paid for accumulated annual leave, sick leave and comp time as indicated by the following schedule:

	Maximum Number of Accumulated Hours to be Paid
Annual leave	200*
Sick leave	40% of hours in excess of 480*
Comp time	Actual

* Firefighters may be paid for a maximum of 300 hours of annual leave and 40% of hours in excess of 720 hours of sick leave.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are unearned and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as unearned charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are restricted by outside parties for use as a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

F. Reclassifications

Certain accounts in prior-year financial statements have been reclassified for comparative purposes to conform to presentation in the current-year financial statements.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Management 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted by ordinance for all governmental and proprietary funds. However, budgets for proprietary funds are not legally required to be reported on and are not included in these financial statements. All appropriations lapse at fiscal year-end except for appropriations related to multi-year capital projects.

Budgetary data reflected in the financial statements are established by the following procedures:

Prior to September 30 of each year, proposed budgets are received by the City Council from the City Manager. These proposed expenditures, along with all estimated receipts, taxes to be levied, and balances expected to be brought forward are considered by the City Council. The City Council requires such changes as deemed necessary, sets proposed millages, and establishes dates for tentative and final public budget hearings as prescribed by Florida Statutes.

Proposed budgets are advertised in a newspaper of general circulation in the City. Public hearings are conducted for the purposes of receiving input, responding to complaints, and providing reasons and explanations for intended actions to all citizens participating.

Prior to October 1, the budget for all governmental and proprietary funds of the City is legally enacted through passage of an ordinance. Budget amendments are periodically passed through resolutions during the fiscal year. Appropriations lapse at year-end except for appropriations related to multi-year capital projects. Budgeted beginning fund balance in the accompanying financial statements reflects planned utilization of prior years unreserved/undesignated fund balance to the level required to accomplish current year objectives.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

A. Budgets (Continued)

The City Charter states the level of budgetary control (that is the level at which expenditures cannot legally exceed appropriations) has been established at the department level. Any revisions to the budget during each fiscal year must be approved by the City Council.

Budget amounts reflected in the financial statements are originally adopted amounts as amended by action of the City Council by revision of department totals. All amendments to originally adopted amounts were made in a legally permissible manner.

B. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits

The investment of surplus funds is governed by the provisions of Florida Statute 218.415 as to the type of investments that can be made. Deposits may be subject to custodial credit risk, which is the risk that in the event of a bank failure, the government's deposits may not be returned.

The City manages its custodial credit risk by maintaining its deposits with "Qualified Public Depositories" as defined in Chapter 280, Florida Statutes. The provisions of this statute allow "Qualified Public Depositories" to participate in a multiple financial institution collateral pool to ensure the security for public deposits. All Qualified Public Depositories must deposit eligible collateral with the Treasurer of the State of Florida equal to or in excess of their required collateral pledging level. In the event of default by a qualified public financial institution, the Treasurer will pay public depositors all losses in excess of insurance and collateral through assessments among all Qualified Public Depositories.

The City's deposits at September 30, 2007, were entirely covered by federal depository insurance or pooled collateral held by the State Treasurer and, therefore, have no custodial risk. At September 30, 2007, the bank balance was \$9,959,064, consisting entirely of deposits with financial institutions in checking, money market and certificate of deposit accounts.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

Investments

As of September 30, 2007, the City's investments consist of those held in the various pension trust funds. The types of investments which can be made by the City are restricted by state statutes, retirement fund plan documents, and other contractual agreements. A description of the requirements and the types of investments allowed can be found in Note 1-E. Further, the City's three pension trust funds have also developed investment policies that govern the investment activity of each respective pension fund.

Pension Plans - The Pension Board Trustees recognize that the general investment objective is to maximize return consistent with the risks incumbent with each investment. The Board achieves its fiduciary responsibility regarding the investment objectives by practicing the Prudent Investment Rule, understanding that section 112.661(4) of the Florida Statutes supercedes any conflicting provisions of law guiding the Plan's investments. The Firefighter's Pension Plan has developed an optimum portfolio market value investment allocation at 40% domestic fixed income securities and 60% domestic equity securities.

A brief summary of the Pension Fund's authorized investments include the following: cash instruments having a quality rating of Standard & Poor's A1, Moody's P1 or higher; obligations issued by the U.S. Government, or an agency or instrumentality of the U.S. Government, including mortgage-related securities; mortgage-related securities or asset-backed securities not issued by the U.S. Government or an agency or instrumentality thereof may also be purchased; bonds and other evidences of indebtedness issued or guaranteed by a corporation organized under the laws of the United States; stocks issued by a corporation organized under the laws of the United States; commingled stock and bond funds and mutual funds whose investments follow the aforementioned parameters; international stocks, not to exceed 10% of the trust assets at market value; annuity and life insurance contracts of life insurance companies; bonds issued by the State of Israel.

In addition to authorizing investment instruments, the City's Pension Fund policies also identify various portfolio parameters addressing issuer diversification, term to maturity and liquidity.

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Pension Trust Funds policy is that the duration of bond maturities in the fixed income portfolio should not exceed 125% of the duration of the Lehman Brothers Aggregate Bond Index.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

As of September 30, 2007, the City had the following investments and maturities:

	Fair Value	INVESTMENT MATURITIES (YEARS)							
		<1	1-5	6-10	11-15	16-20	21-25	26-30	>30
Investments subject to interest rate risk:									
Corporate debt	\$ 370,562	\$ 9,954	\$ 144,379	\$ 178,804	\$ 6,173	\$ 10,013	\$ 5,490	\$ 15,749	\$ -
U.S. Agencies	50,508	-	35,494	15,014	-	-	-	-	-
U.S. Government CMOs	516,041	-	3,404	-	22,893	106,871	86,620	296,253	-
Non-Government CMOs	221,546	-	-	20,158	3,983	-	-	98,715	98,690
	<u>1,158,657</u>	<u>9,954</u>	<u>183,277</u>	<u>213,976</u>	<u>33,049</u>	<u>116,884</u>	<u>92,110</u>	<u>410,717</u>	<u>98,690</u>
Investments not subject to interest rate risk									
Money market funds	375,114								
Equity securities	6,582,826								
Mutual funds	9,142,852								
U.S. Treasury	<u>78,322</u>								
Total	<u>\$ 17,337,771</u>								

Credit Rate Risk - The structure of the pension portfolios is designed to minimize credit risk. The Firefighter's Pension investment policy limits investments in bonds and other evidences of indebtedness to those for which the issuer has a Standard and Poor's rating of AAA, AA, A or Moody's rating of Aaa, Aa, or A. The General Employee's Pension Fund and the Police Officer's Pension Fund limit investments in bonds and other evidences of indebtedness to those for which the issuer has a Standard and Poor's rating of AAA, AA, A, BBB or Moody's rating of Aaa, Aa, A, Baa. Of the debt securities held by the Firefighter's Pension Trust Fund, there were twenty -six issues that were graded below the minimum grade of A by Standard and Poor's rating service as of September 30, 2007.

Concentration Credit Risk - To limit the City's risk against possible credit losses, each of the three Pension Fund's policies state that the exposure of the portfolio to any one corporate issuer, other than securities of the United States Government or Agencies, shall not exceed 10% of the market value of the total fixed income portfolio. The Firefighter's Pension Fund was the only fund that held any single corporate debt issues. The largest corporate debt issue held by the Firefighter's Pension Fund represented 7% of the market value of the total fixed income portfolio as of September 30, 2007.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 4 - RECEIVABLES

Receivables at September 30, 2007, were as follows:

	Governmental	Business-Type Activities			Total
	Activities		Water and		
	General	Natural Gas	Sewer	Sanitation	
Utility taxes and franchise fees	\$ 113,693	\$ -	\$ -	\$ -	\$ 113,693
Accounts	-	382,068	702,486	163,036	1,247,590
Less allowance for doubtful accounts	-	(37,385)	(86,680)	(26,800)	(150,865)
Other	1,788	-	-	-	1,788
Total receivables	<u>\$ 115,481</u>	<u>\$ 344,683</u>	<u>\$ 615,806</u>	<u>\$ 136,236</u>	<u>\$ 1,212,206</u>

Due From Other Governments

The City's receivables from other governments for governmental activities as of September 30, 2007, is \$212,224. The receivables consist of amounts due from the State of Florida and the Federal Emergency Management Agency (FEMA), relating to intergovernmental revenues and grants.

The City's receivables from other governments in the business-type activities consists of \$42,015, which represents amounts due from the State of Florida from a capitalization grant.

NOTE 5 - CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007, was as follows:

	Beginning		Decreases/	Ending
	Balance	Increases	Transfers	Balance
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 1,622,054	\$ -	\$ -	\$ 1,622,054
Construction in progress	1,604,253	303,104	(1,007,146)	900,211
Total capital assets not being depreciated	<u>3,226,307</u>	<u>303,104</u>	<u>(1,007,146)</u>	<u>2,522,265</u>
Capital assets being depreciated				
Buildings	6,636,284	37,674	1,007,146	7,681,104
Improvements other than buildings	1,403,223	429,383	-	1,832,606
Machinery and equipment	3,227,928	94,674	200,963	3,523,565
Vehicles under capital lease	220,570	-	(220,570)	-
Total capital assets being depreciated	<u>11,488,005</u>	<u>561,731</u>	<u>987,539</u>	<u>13,037,275</u>
Less accumulated depreciation				
Buildings	(2,617,961)	(300,413)	-	(2,918,374)
Improvements other than buildings	(449,605)	(48,017)	-	(497,622)
Machinery and equipment	(2,170,353)	(206,202)	(98,948)	(2,475,503)
Vehicles under capital lease	(112,123)	-	112,123	-
Total accumulated depreciation	<u>(5,350,042)</u>	<u>(554,632)</u>	<u>13,175</u>	<u>(5,891,499)</u>
Total capital assets being depreciated, net	<u>6,137,963</u>	<u>7,099</u>	<u>1,000,714</u>	<u>7,145,776</u>
Governmental activities, net	<u>\$ 9,364,270</u>	<u>\$ 310,203</u>	<u>\$ (6,432)</u>	<u>\$ 9,668,041</u>

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

Business-Type Activities

Capital assets not being depreciated				
Land	\$ 91,313	\$ -	\$ -	\$ 91,313
Construction in progress	<u>15,462,408</u>	<u>6,395,167</u>	<u>(203,048)</u>	<u>21,654,527</u>
Total capital assets not being depreciated	<u>15,553,721</u>	<u>6,395,167</u>	<u>(203,048)</u>	<u>21,745,840</u>
Capital assets being depreciated				
Improvements other than buildings	15,127,633	294,346	203,048	15,625,027
Machinery and equipment	<u>5,774,774</u>	<u>17,064</u>	<u>(55,405)</u>	<u>5,736,433</u>
Total capital assets being depreciated	<u>20,902,407</u>	<u>311,410</u>	<u>147,643</u>	<u>21,361,460</u>
Less accumulated depreciation				
Improvements other than buildings	(10,386,685)	(566,886)	(123,097)	(11,076,668)
Machinery and equipment	<u>(1,701,050)</u>	<u>(178,775)</u>	<u>177,369</u>	<u>(1,702,456)</u>
Total accumulated depreciation	<u>(12,087,735)</u>	<u>(745,661)</u>	<u>54,272</u>	<u>(12,779,124)</u>
Total capital assets being depreciated, net	<u>8,814,672</u>	<u>(434,251)</u>	<u>201,915</u>	<u>8,582,336</u>
Business-type activities, net	<u><u>\$ 24,368,393</u></u>	<u><u>\$ 5,960,916</u></u>	<u><u>\$ (1,133)</u></u>	<u><u>\$ 30,328,176</u></u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities

General government	\$ 144,205
Public safety	266,224
Culture and recreation	<u>144,203</u>
Total depreciation expense - governmental activities	<u><u>\$ 554,632</u></u>

Business-Type Activities

Natural gas	\$ 163,241
Water and sewer	477,877
Sanitation	<u>104,543</u>
Total depreciation expense - business type activities	<u><u>\$ 745,661</u></u>

NOTE 6 - DEFINED BENEFIT PENSION PLANS

The City of Milton, Florida administers three single-employee defined benefit pension plans - the General Employees' Retirement Plan (GERP), Police Officers' Retirement Plan (PORP) and the Firefighters' Retirement Plan (FRP). These plans provide benefits for all qualifying employees of the City. The financial activity of each plan is reported as a Pension Trust Fund in the City's combined financial statements. Each plan's assets may be used only for the payment of benefits to members of that plan. A summary of significant accounting policies of the Pension Trust Funds can be found at Note 1-E.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. Basis of Accounting and Method Used to Value Investments

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

B. Plan Descriptions

Membership of each plan consisted of the following at September 30, 2007, the date of the latest actuarial valuation:

	<u>GERP</u>	<u>PORP</u>	<u>FRP</u>
Retirees receiving benefits	18	6	7
Terminated plan members entitled to but not yet receiving benefits	4	-	1
Beneficiaries receiving benefits	2	2	1
Disabled participants	2	-	1
Deferred retirement option members	-	-	1
Active plan members	<u>74</u>	<u>20</u>	<u>14</u>
Total	<u>100</u>	<u>28</u>	<u>25</u>

General Employees' Retirement Plan (GERP) - Plan Description

The GERP is a single-employer defined benefit pension plan that covers general employees of the City of Milton, Florida. The GERP provides retirement, disability, and death benefits to plan members and beneficiaries. Participation in the plan is mandatory for all full-time general municipal employees, which excludes contract employees. Cost-of-living increases are not provided to members and beneficiaries. City ordinance assigns the authority to establish and amend benefit provisions to the City. The GERP does not issue a stand-alone financial report.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Plan Descriptions (Continued)

Police Officers' Retirement Plan (PORP) - Plan Description

The PORP is a single-employer defined benefit pension plan that covers police officers of the City of Milton, Florida and is administered by the Police Officers' Pension Plan Board of Trustees. PORP provides retirement, disability, and death benefits to plan members and beneficiaries. Participation in the plan is mandatory for all certified police officers. Since 2006, an annual 1% cost-of-living increase has been provided to members and beneficiaries. City ordinance assigns the authority to establish and amend benefit provisions to the Board of Trustees. The PORP does not issue a stand-alone financial report.

Firefighters' Retirement Plan (FRP) - Plan Description

The FRP is a single-employer defined benefit pension plan that covers firefighters of the City of Milton, Florida and is administered by the Firefighters' Pension Fund Board of Trustees. FRP provides retirement, disability, and death benefits to plan members and beneficiaries. Participation in the plan is mandatory for all firefighters. Cost-of-living increases are not provided to members and beneficiaries every year. City ordinance assigns the authority to establish and amend benefit provisions to the Board of Trustees. The FRP does not issue a stand-alone financial report.

C. Contributions, Funding Policy and Annual Pension Cost

The contribution requirements of plan members and the City are established annually and amended by City ordinance. Plan members are required to contribute at a set percentage of their annual covered salaries. The City is required to contribute at an actuarially determined rate.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Contributions, Funding Policy and Annual Pension Cost (Continued)

The City's annual pension cost for the current year and related information for each plan is as follows:

	<u>GERP</u>	<u>PERP</u>	<u>FRP</u>
Contribution rates (percentage of covered payroll)			
City	6.4 %	8.2 %	- %
Plan members	10.0 %	6.0 %	6.5 %
Annual pension cost	\$ 176,965	\$ 49,856	\$ -
Contributions made			
Employer	\$ 165,596	\$ 50,609	\$ -
Employees	\$ 222,340	\$ 47,514	\$ 45,170
Other sources	\$ -	\$ 105,984	\$ 87,121
Net pension obligation (asset)	\$ (778)	\$ -	\$ (29,117)
Actuarial valuation date	10/1/2006	10/1/2005	10/1/2006
Actuarial cost method	Frozen Entry Age	Frozen Entry Age	Entry Age Normal
Amortization method	Level percentage of pay, closed	Level percentage of pay, closed	Level percentage of pay, closed
Remaining amortization period	30 Years	28 Years	30 Years
Asset valuation method	4 Year Smooth	4 Year Smooth (Market)	4 Year Smooth
Actuarial assumptions			
Invested rate of return	8.0 %	8.0 %	8.0 %
Projected salary increases*	5.5 %	7.5 %	6.0 %
*Includes inflation at	3.0 %	3.0 %	5.0 %
Post retirement COLA	- %	1.0 %	- %

	<u>Three-Year Trend Information</u>			
	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Contribution</u>	<u>Net Pension Obligation (Asset)</u>
GERP	9/30/2007	\$ 176,965	93 %	\$ (778)
	9/30/2006	\$ 147,299	100 %	\$ (12,147)
	9/30/2005	\$ 175,536	100 %	\$ -
PERP	9/30/2007	\$ 49,856	100 %	\$ -
	9/30/2006	\$ 49,279	100 %	\$ -
	9/30/2005	\$ -	100 %	\$ -
FRP	9/30/2007	\$ -	100 %	\$ (29,117)
	9/30/2006	\$ -	100 %	\$ (29,117)
	9/30/2005	\$ -	100 %	\$ -

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Required Supplementary Information

The schedule of funding progress and schedule of employer contributions can be found in the supplemental information of this comprehensive annual financial report.

NOTE 7 - DEFERRED COMPENSATION PLAN

The City offers employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code Section 457. The Plan is a tax-deferred supplemental retirement program that allows City employees to contribute a portion of their salary before federal income taxes to a retirement account. The assets are held in trust for the employee's benefit. The Plan participants, individually, select and make changes in funding options made available by the independent plan administrator. Since plan participants select the investment fund or funds in which their deferred compensation accounts are invested, the City has no liability for investment losses. The City's fiduciary responsibility is to administer the Plan properly and to assure the investment alternatives made available are reasonable.

In accordance with GASB Statement No. 32, the assets and liabilities of the Plan are not reflected in the City's financial statements since the City has no fiduciary responsibilities, other than administrative, in connection with the Plan.

Assets of the Plan have a fair value of \$447,390 at September 30, 2007. Contributions and distributions made during the fiscal year ended September 30, 2007, were \$67,764 and \$48,040, respectively. The Plan had net earnings of \$29,683 and incurred service fees totaling \$29.

NOTE 8 - RISK MANAGEMENT

The City of Milton, Florida, is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases insurance through commercial carriers and coverage through Preferred Governmental Insurance Trust, which includes Workers' Compensation, Comprehensive General Liability, and Automobile Physical Damage.

The remaining insurance coverage, which includes but is not limited to property, flood, inland marine, boiler and machinery, and fiduciary, is purchased from various commercial carriers. The City maintains minimal deductibles for insurance policies purchased through these carriers.

There has been no significant reduction in insurance coverage from prior fiscal year. Insurance coverage has been sufficient to cover all claims made in the prior three fiscal years.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 9 - LONG-TERM DEBT

Changes in Long-Term Debt Liabilities

The following is a summary of changes in long-term debt liabilities of the City for the year ended September 30, 2007:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Notes payable	\$ 2,957,301	\$ -	\$ (407,107)	\$ 2,550,194	\$ 419,049
Less loss on refunding	(22,404)	-	1,778	(20,626)	-
Capital leases	53,643	-	(53,643)	-	-
Compensated absences	<u>363,307</u>	<u>15,363</u>	<u>(4,825)</u>	<u>373,845</u>	<u>304,672</u>
Total governmental activities	<u>\$ 3,351,847</u>	<u>\$ 15,363</u>	<u>\$ (463,797)</u>	<u>\$ 2,903,413</u>	<u>\$ 723,721</u>
Business-Type Activities					
Notes payable	\$ 847,039	\$ 3,000,000	\$ (447,449)	\$ 3,399,586	\$ 325,434
Less loss on refunding	(28,058)	-	2,245	(25,813)	-
State revolving loan payable	11,369,796	3,840,415	(417,706)	14,792,505	851,431
Compensated absences	<u>166,793</u>	<u>1,853</u>	<u>(34,026)</u>	<u>134,620</u>	<u>119,392</u>
Total business-type activities	<u>\$12,355,570</u>	<u>\$ 6,842,268</u>	<u>\$ (896,936)</u>	<u>\$ 18,300,898</u>	<u>\$ 1,296,257</u>

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 9 - LONG-TERM DEBT (CONTINUED)

Description of Long-Term Debt Outstanding

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
GOVERNMENTAL ACTIVITIES			
<i>Revenue Notes Payable</i>			
Revenue note payable incurred for the payoff of the Arcadia bonds, bearing interest at 2.58%. Principal and interest payments of \$68,165 are made quarterly, until maturity on March 15, 2009. Note is secured by pledged tax revenues.	\$ 264,875	\$ 134,711	\$ 399,586
Revenue note payable incurred for financing various capital projects, bearing interest at 3.56%. Principal and interest payments of \$57,237 are made quarterly, until maturity on March 15, 2019. Note is secured by pledged tax revenues.	<u>154,174</u>	<u>1,996,434</u>	<u>2,150,608</u>
Total of principal portion	419,049	2,131,145	2,550,194
Less refunding loss on all revenue notes	<u>-</u>	<u>(20,626)</u>	<u>(20,626)</u>
<i>Total revenue notes payable</i>	<u>419,049</u>	<u>2,110,519</u>	<u>2,529,568</u>
<i>Compensated Absences</i>			
Total long-term portion of accumulated, vested annual and sick leave for governmental fund types.	<u>304,672</u>	<u>69,173</u>	<u>373,845</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 723,721</u>	<u>\$ 2,179,692</u>	<u>\$ 2,903,413</u>
BUSINESS-TYPE ACTIVITIES			
<i>Revenue Notes Payable</i>			
<u>Water and Sewer</u>			
Revenue note payable incurred for the pay off of the Arcadia bonds, bearing interest at 2.58%. Principal and interest payments of \$68,165 are due on a quarterly basis through maturity at March 15, 2009. Note is secured by Water and Sewer System revenues.	\$ 264,875	\$ 134,711	\$ 399,586
<u>Gas</u>			
Revenue note payable incurred for the acquisition and construction of capital improvements in the Natural Gas Fund, bearing interest at 4.20%. Quarterly interest payments are due on the outstanding balance. Principal and interest payments of \$95,800 will be due beginning September 15, 2008, through September 15, 2010, when the balance of the note will be due. The note is secured by Natural Gas revenues.	<u>60,559</u>	<u>2,939,441</u>	<u>3,000,000</u>

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 9 - LONG-TERM DEBT (CONTINUED)

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
Total of principal portion	325,434	3,074,152	3,399,586
Less refunding loss on all revenue notes	-	(25,813)	(25,813)
<i>Total revenue notes payable</i>	325,434	3,048,339	3,373,773
<i>State Revolving Loan Payable</i>			
State of Florida Department of Environmental Protection State Revolving Loan Fund, semi-annual payments, including capitalized interest, interest at 2.46% beginning March 15, 2007, through September 15, 2027. Total approved loan is for \$15,380,154 for the purpose of improvements to the City's waste water collection and treatment facilities.			
	851,431	13,941,074	14,792,505
<i>Accrued Compensated Absences</i>			
Accumulated, vested annual compensation for Enterprise Funds.			
	119,392	15,228	134,620
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 1,296,257	\$17,004,641	\$18,300,898
 GRAND TOTAL LONG-TERM DEBT			\$21,204,311

Annual Requirements to Amortize Debt Outstanding

The annual requirements to amortize all debt outstanding except accrued and annual leave and advances from other funds as of September 30, 2007, are as follows:

Governmental Activities

<u>Year Ending September 30</u>	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 419,052	\$ 82,560
2009	294,464	70,506
2010	165,534	63,424
2011	171,524	57,424
2012	177,731	51,217
2013 - 2017	989,910	154,832
2018 - 2019	331,979	10,474
Total	\$ 2,550,194	\$ 490,437

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 9 - LONG-TERM DEBT (CONTINUED)

Business-Type Activities

<u>Year Ending September 30</u>	<u>State Revolving Loan</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 851,431	\$ 344,911	\$ 325,434	\$ 135,133
2009	856,894	339,448	384,491	121,798
2010	878,212	318,130	2,689,661	109,157
2011	900,062	296,280	-	-
2012	922,455	273,887	-	-
2013-2017	4,968,158	1,013,552	-	-
2018-2022	4,696,144	372,693	-	-
2023-2027	719,149	18,693	-	-
Total	<u>\$ 14,792,505</u>	<u>\$ 2,977,594</u>	<u>\$ 3,399,586</u>	<u>\$ 366,088</u>

NOTE 10 - GAS FUND LINE OF CREDIT

During the year ended September 30, 1997, the City established a line of credit in the amount of \$500,000. Interest is payable monthly at a rate of prime plus 1.5% (a total of 8.25% at September 30, 2007). The line of credit must have a \$0 balance for at least 30 days during each year. The line of credit is secured by gas revenues received by the City. No draws on the line of credit were made during the year ended September 30, 2007.

NOTE 11 - RENTAL ACTIVITIES

Water and Sewer Fund

The City is the lessor in multiple operating leases with communications companies, which are renting space on the City's water towers. The terms of the leases vary from 3-5 years, with options to renew, and expire in fiscal years 2008 through 2011. The rental income for the fiscal year ending September 30, 2007, was \$129,394.

Minimum lease payments to be received for the leases are as follows:

2008	\$ 111,926
2009	94,620
2010	93,420
2011	<u>93,420</u>
Total	<u>\$ 393,386</u>

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 12 - UNEARNED REVENUE

At September 30, 2007, the Natural Gas Fund had \$13,731 in unearned revenues associated with signed natural gas generator contracts that were uncompleted at year-end. The Water and Sewer Fund had \$19,712 related to rental income from the above mentioned cell tower leases received in fiscal year 2007, but to be earned in fiscal year 2008.

NOTE 13 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of September 30, 2007, is as follows:

Receivable Fund	Payable Fund	Amount
General	Natural Gas	\$ 318,803
General	Sanitation	30,636
General	Non-major governmental funds	1,034
Sanitation	Natural Gas	5,278
Water and Sewer	General	9,503
Water and Sewer	Natural Gas	429,394
Water and Sewer	Sanitation	57,194
Non-major governmental funds	General	150,000
		<u>\$ 1,001,842</u>

Transfers In				
	General Fund	Non-Major Governmental Funds	Water and Sewer Fund	Total
Transfers Out				
General	\$ -	\$ 528,535	\$ 1,550	\$ 530,085
Non-Major				
Governmental	784,082	-	7,425	791,507
Natural Gas	355,683	-	-	355,683
Water and Sewer	1,166,681	-	-	1,166,681
Sanitation	107,828	149,706	36,000	293,534
Totals	<u>\$ 2,414,274</u>	<u>\$ 678,241</u>	<u>\$ 44,975</u>	<u>\$ 3,137,490</u>

All transfers occurred on a routine basis and are consistent with the activities of the fund making the transfer, contingent upon the availability of funds.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 14 - POST-EMPLOYEE HEALTH CARE BENEFITS

In addition to providing pension benefits, the City provides limited health care benefits for retired municipal employees. Substantially all of the City's employees may become eligible for those benefits if they reach normal retirement age while working for the City. For retired employees, the City pays \$1 per year of credited service towards their monthly premiums. The City is also paying 100% of the monthly premiums for 12 past employees who had retired under different guidelines. The cost of retiree health care benefits is recognized as an expenditure as premiums are paid. For the fiscal year ending September 30, 2007, those costs totaled \$53,618.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Grants

The City participates in a number of federal and state assisted programs, such as the Disaster Funding Agreement, Disadvantaged Small Community Grants, Capitalization Grants for the State Revolving Fund, and others. Amounts received or receivable from grantor agencies are subject to audit and adjustment by these grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Legal Issues

The City is a defendant in various lawsuits and claims. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the City.

Hurricanes

During 2005, the City, along with most of Northwest Florida, sustained damage to its property due to Hurricane Dennis. The City received grants from the Federal Emergency Management Agency (FEMA) and the State of Florida to assist in clean-up of debris and repair expenses incurred by the City. FEMA and the State of Florida advanced some of these funds for certain debris removal and other expenses, based on estimates of these expenses, to the City. The City has subsequently determined that the advance of funds was greater than the actual expense incurred or allowed to be reimbursed. The City has recorded a liability for the funds it expects to remit to FEMA and the State of Florida. Payables due to FEMA and to the State of Florida at September 30, 2007, total \$110,966 related to hurricane Dennis. The actual amount due may vary from the recorded liability, based on the determination during close-out procedures with FEMA. The City does not expect the fluctuations, if any, to be significant.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 16 - SUBSEQUENT EVENT

Property Tax Amendment

On January 29, 2008, the Florida electorate approved an amendment to the Florida Constitution relative to property taxation. This amendment (referred to as Amendment 1) was placed on the ballot by the Florida Legislature at a special session held in October 2007. With respect to homestead property, Amendment 1 increases the current \$25,000 homestead exemption by another \$25,000 (for property values between \$50,000 - \$75,000), except for school district taxes. Since the new \$25,000 homestead exemption does not apply to school districts, this effectively amounts to a \$15,000 increase to the existing homestead exemption, resulting in an estimated annual savings of \$240 for an average homeowner. Amendment 1 also allows property owners to transfer (make portable) up to \$500,000 of their Save Our Homes benefits to their next homestead when they move. Save Our Homes became effective in 1995 and limits (caps) the annual increase in assessed value for homestead property to three percent (3%) or the percentage change in the Consumer Price Index, whichever is less.

With respect to non-homestead property, Amendment 1 limits (caps) the annual increase in assessed value for non-homestead property (business, industrial property, rental property, second homes, etc.) to ten percent (10%), except for school district taxes. The Amendment also provides a \$25,000 exemption for tangible personal property. Amendment 1 becomes effective on October 1, 2008, with the exception of the ten percent (10%) assessment cap on non-homestead property which becomes effective January 1, 2009.

At the present time, the City has not estimated the annual loss of property tax revenues for the upcoming year.

III. REQUIRED SUPPLEMENTAL INFORMATION

City of Milton, Florida
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF FUNDING PROGRESS
Unaudited

General Employees' Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
10/1/2006	\$ 8,131,721	\$ 9,489,446	\$ 1,357,725	85.69 %	\$ 2,265,681	59.93 %
10/1/2005	\$ 7,580,787	\$ 9,280,939	\$ 1,700,152	81.68 %	\$ 2,277,522	74.65 %
10/1/2004	\$ 7,142,025	\$ 8,379,700	\$ 1,237,675	85.23 %	\$ 2,185,875	56.62 %

Police Officers' Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
10/1/2006	\$ 4,290,349	\$ 3,797,852	\$ (492,497)	112.97 %	\$ 734,834	(67.02)%
10/1/2005	\$ 4,027,221	\$ 3,931,536	\$ (95,685)	102.43 %	\$ 709,565	(13.49)%
10/1/2004	\$ 3,849,812	\$ 3,571,921	\$ (277,891)	107.78 %	\$ 649,309	(42.80)%
10/1/2003	\$ 3,835,014	\$ 3,573,563	\$ (261,451)	107.32 %	\$ 559,329	(46.74)%
10/1/2002	\$ 3,838,364	\$ 3,597,263	\$ (241,101)	106.70 %	\$ 521,526	(46.23)%
10/1/2001	\$ 3,852,382	\$ 3,687,273	\$ (165,109)	104.48 %	\$ 418,755	(39.43)%
10/1/2000	\$ 3,743,793	\$ 3,959,984	\$ 216,191	94.54 %	\$ 480,909	44.95 %
10/1/1999	\$ 3,569,424	\$ 3,818,138	\$ 248,714	93.49 %	\$ 520,444	47.79 %
10/1/1998	\$ 3,282,724	\$ 3,448,722	\$ 165,998	95.19 %	\$ 508,275	32.66 %
10/1/1997	\$ 3,066,030	\$ 3,282,272	\$ 216,242	93.41 %	\$ 444,186	48.68 %
10/1/1996	\$ 2,415,465	\$ 2,687,444	\$ 271,979	89.88 %	\$ 357,137	76.16 %

Firefighters' Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
10/1/2006	\$ 4,280,171	\$ 4,834,251	\$ 554,080	88.54 %	\$ 539,174	102.76 %
10/1/2005	\$ 4,013,529	\$ 4,378,923	\$ 365,394	91.66 %	\$ 642,109	56.91 %
10/1/2004	\$ 3,826,443	\$ 4,019,235	\$ 192,792	95.20 %	\$ 570,692	33.78 %
10/1/2003	\$ 3,737,684	\$ 3,788,567	\$ 50,883	98.66 %	\$ 533,858	9.53 %
10/1/2002	\$ 3,400,661	\$ 3,518,297	\$ 117,636	96.66 %	\$ 483,191	24.35 %
10/1/2001	\$ 3,847,158	\$ 3,847,158	\$ -	100.00 %	\$ 467,019	- %
10/1/2000	\$ 4,228,241	\$ 4,114,763	\$ (113,478)	102.76 %	\$ 451,447	(25.14)%
10/1/1999	\$ 3,795,305	\$ 3,735,873	\$ (59,432)	101.59 %	\$ 469,438	(12.66)%
10/1/1998	\$ 3,409,801	\$ 3,313,362	\$ (96,439)	102.91 %	\$ 437,250	(22.06)%
10/1/1997	\$ 2,991,218	\$ 2,991,218	\$ -	100.00 %	\$ 408,305	- %

Note: The information presented in this schedule was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation can be found in Note 6 to the financial statements.

City of Milton, Florida
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND OTHER
CONTRIBUTING ENTITIES
Unaudited

General Employees' Retirement Fund

	Annual Required Contribution	Employer Contribution	Percentage Contributed
September 30, 2007	\$ 176,965	\$ 165,596	93.58 %
September 30, 2006	\$ 147,299	\$ 165,596	112.42 %
September 30, 2005	\$ 175,536	\$ 175,536	100.00 %
September 30, 2004**	\$ 132,569	\$ 155,993	117.67 %
September 30, 2003***	\$ 123,025	\$ 153,576	124.83 %
September 30, 2002	\$ 135,446	\$ 141,121	104.19 %
September 30, 2001	\$ 129,577	\$ 129,577	100.00 %

** This amount represents 60% of Total Member Contributions made during the year ended September 30, 2004.

*** This amount represents 6% of Total Annual Payroll as of October 1, 2002.

Police Officers' Retirement Fund

	Annual Required Contribution	City Contribution	State Contribution	Percentage Contributed
September 30, 2007	\$ 49,856	\$ 50,609	\$ 105,984	314.09 %
September 30, 2006	\$ 149,094	\$ 16,578	\$ 111,404	85.84 %
September 30, 2005	\$ 149,094	\$ 49,279	\$ 99,815	100.00 %
September 30, 2004	\$ 97,446	\$ -	\$ 99,815	102.43 %
September 30, 2003	\$ 90,647	\$ -	\$ 99,815	110.11 %
September 30, 2002	\$ 30,207	\$ -	\$ 99,815	330.44 %
September 30, 2001	\$ 22,179	\$ -	\$ 90,052 *	406.02 %
September 30, 2000	\$ 57,229	\$ -	\$ 90,052 *	157.35 %
September 30, 1999	\$ 52,576	\$ -	\$ 87,227	165.91 %
September 30, 1998	\$ 31,715	\$ -	\$ 81,456 *	256.84 %

*Frozen per Chapter 185, Florida Statutes.

Firefighters' Retirement Fund

	Annual Required Contribution	City Contribution	State Contribution	Percentage Contributed
September 30, 2007	\$ -	\$ 45,170	\$ 87,121	100.00 %
September 30, 2006	\$ 45,759	\$ 29,117	\$ 66,609	100.00 %
September 30, 2005	\$ -	\$ -	\$ 87,121	- %
September 30, 2004	\$ -	\$ -	\$ 55,026	100.00 %
September 30, 2003	\$ -	\$ -	\$ 55,026	100.00 %
September 30, 2002	\$ -	\$ -	\$ 55,026	100.00 %
September 30, 2001	\$ -	\$ -	\$ 55,026 *	100.00 %
September 30, 2000	\$ -	\$ -	\$ 55,026 *	100.00 %
September 30, 1999	\$ 42,716	\$ -	\$ 46,470	108.79 %
September 30, 1998	\$ 7,412	\$ -	\$ 61,080 *	824.07 %

*Frozen per Chapter 175, Florida Statutes.

Note: The information presented in this schedule was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation can be found in Note 6 to the financial statements.

CITY OF MILTON, FLORIDA

COMBINING AND INDIVIDUAL FUND STATEMENTS

These financial statements provide a more detailed view of the "Basic Financial Statements" presented in the preceding subsection.

Combining statements are presented when there are more than one fund of a given fund type. Individual fund statements are necessary to present budgetary comparisons.

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or for major capital projects) that are legally restricted to expenditure for specified purposes.

Police Special Investigation Fund

To account for funds received from seized or forfeited property to be used for the purpose of defraying the cost of protracted or complex investigations, to provide additional technical equipment or to provide matching funds to obtain federal grants.

Downtown Redevelopment Fund

To account for funds received from intergovernmental sources, as well as funds transferred into this fund by the City. Expenditures in this fund are to be used for the purpose of improving the City's downtown area.

Debt Service Fund

The Debt Service Fund is use to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest in accordance with bond ordinances.

Capital Projects Fund

This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities, except for those that are financed through proprietary funds.

City of Milton, Florida
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
September 30, 2007

	<u>Special Revenue Funds</u>				Total Non-Major Governmental Funds
	<u>Police Special Investigation</u>	<u>Downtown Redevelopment</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
ASSETS					
Cash and cash equivalents	\$ -	\$ 1,034	\$ 520,748	\$ -	\$ 521,782
Due from other funds	-	-	150,000	-	150,000
Restricted cash	<u>86,091</u>	<u>55,246</u>	<u>-</u>	<u>1,073,000</u>	<u>1,214,337</u>
TOTAL ASSETS	<u>\$ 86,091</u>	<u>\$ 56,280</u>	<u>\$ 670,748</u>	<u>\$ 1,073,000</u>	<u>\$ 1,886,119</u>
LIABILITIES AND FUND BALANCE					
Due to other funds	<u>\$ -</u>	<u>\$ 1,034</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,034</u>
Fund balance					
Reserved for public safety	86,091	-	-	-	86,091
Reserved for downtown redevelopment	-	55,246	-	-	55,246
Reserved for capital improvements	-	-	-	1,073,000	1,073,000
Unreserved/ undesignated	<u>-</u>	<u>-</u>	<u>670,748</u>	<u>-</u>	<u>670,748</u>
Total fund balance	<u>86,091</u>	<u>55,246</u>	<u>670,748</u>	<u>1,073,000</u>	<u>1,885,085</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 86,091</u>	<u>\$ 56,280</u>	<u>\$ 670,748</u>	<u>\$ 1,073,000</u>	<u>\$ 1,886,119</u>

City of Milton, Florida
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
Year Ended September 30, 2007

	<u>Special Revenue Funds</u>				Total Non-Major Governmental Funds
	<u>Police Special Investigation</u>	<u>Downtown Redevelopment</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
REVENUES					
Taxes	\$ -	\$ 22,378	\$ -	\$ -	\$ 22,378
Intergovernmental	-	53,849	-	-	53,849
Fines and forfeits	3,835	-	-	-	3,835
Miscellaneous	<u>2,544</u>	<u>81</u>	<u>204</u>	<u>26,274</u>	<u>29,103</u>
Total revenues	<u>6,379</u>	<u>76,308</u>	<u>204</u>	<u>26,274</u>	<u>109,165</u>
EXPENDITURES					
Current					
General government	-	-	-	92	92
Public safety	5,242	-	-	-	5,242
Economic environment	-	11,025	-	-	11,025
Capital outlay	-	149,319	-	-	149,319
Other debt service costs	<u>-</u>	<u>-</u>	<u>54</u>	<u>-</u>	<u>54</u>
Total expenditures	<u>5,242</u>	<u>160,344</u>	<u>54</u>	<u>92</u>	<u>165,732</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,137</u>	<u>(84,036)</u>	<u>150</u>	<u>26,182</u>	<u>(56,567)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	678,241	-	678,241
Transfers out	<u>(1,563)</u>	<u>-</u>	<u>(377,193)</u>	<u>(412,751)</u>	<u>(791,507)</u>
Total other financing sources (uses)	<u>(1,563)</u>	<u>-</u>	<u>301,048</u>	<u>(412,751)</u>	<u>(113,266)</u>
NET CHANGE IN FUND BALANCE	(426)	(84,036)	301,198	(386,569)	(169,833)
FUND BALANCE - BEGINNING OF YEAR	<u>86,517</u>	<u>139,282</u>	<u>369,550</u>	<u>1,459,569</u>	<u>2,054,918</u>
FUND BALANCE - END OF YEAR	<u>\$ 86,091</u>	<u>\$ 55,246</u>	<u>\$ 670,748</u>	<u>\$ 1,073,000</u>	<u>\$ 1,885,085</u>

FIDUCIARY FUNDS

Pension Trust Funds

The Pension Trust Funds are used to report resources that are held in trust for the members and beneficiaries of the City of Milton employee benefit plans.

General Employees' Pension Fund

The General Employees' Pension Fund is used to accumulate resources for payment of retirement benefits for general employees of the City of Milton, Florida.

Police Officers' Pension Fund

The Police Officers' Pension Fund is used to accumulate resources for the payment of retirement benefits for police officers of the City of Milton, Florida.

Firefighters' Pension Fund

The Firefighters' Pension Fund is used to accumulate resources for the payment of retirement benefits for firefighters of the City of Milton, Florida.

City of Milton, Florida
PENSION TRUST FUNDS
COMBINING STATEMENT OF PLAN NET ASSETS
Year Ended September 30, 2007

	General Employees' Pension Fund	Police Officers' Pension Fund	Firefighters' Pension Fund	Total Employee Pension Funds
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ 4,844	\$ 4,844
Investments, at market	8,882,026	4,739,760	3,715,985	17,337,771
Due from State of Florida	-	-	40,071	40,071
Other	<u>2,748</u>	<u>-</u>	<u>-</u>	<u>2,748</u>
TOTAL ASSETS	<u>\$ 8,884,774</u>	<u>\$ 4,739,760</u>	<u>\$ 3,760,900</u>	<u>\$ 17,385,434</u>
NET ASSETS				
Held in trust for pension and employee retirement benefits	<u>8,884,774</u>	<u>4,739,760</u>	<u>3,760,900</u>	<u>17,385,434</u>
TOTAL NET ASSETS	<u>\$ 8,884,774</u>	<u>\$ 4,739,760</u>	<u>\$ 3,760,900</u>	<u>\$ 17,385,434</u>

City of Milton, Florida
PENSION TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS
September 30, 2007

	General Employees' Pension Fund	Police Officers' Pension Fund	Firefighters' Pension Fund	Total Employee Pension Funds
ADDITIONS				
Contributions				
Employer	\$ 165,596	\$ 50,609	\$ -	\$ 216,205
Plan members	222,340	47,514	45,170	315,024
State of Florida	<u>-</u>	<u>105,984</u>	<u>87,121</u>	<u>193,105</u>
Total contributions	<u>387,936</u>	<u>204,107</u>	<u>132,291</u>	<u>724,334</u>
Investment income	1,069,068	575,176	270,957	1,915,201
Less investment expense	<u>(88,293)</u>	<u>(64,758)</u>	<u>-</u>	<u>(153,051)</u>
Net investment income (loss)	<u>980,775</u>	<u>510,418</u>	<u>270,957</u>	<u>1,762,150</u>
TOTAL ADDITIONS	<u>1,368,711</u>	<u>714,525</u>	<u>403,248</u>	<u>2,486,484</u>
DEDUCTIONS				
Benefits and refunds paid				
Retirement payments	<u>389,875</u>	<u>191,708</u>	<u>217,132</u>	<u>798,715</u>
Administrative expenses				
Other	<u>5,676</u>	<u>9,287</u>	<u>47,241</u>	<u>62,204</u>
TOTAL DEDUCTIONS	<u>395,551</u>	<u>200,995</u>	<u>264,373</u>	<u>860,919</u>
NET INCREASE (DECREASE)	<u>973,160</u>	<u>513,530</u>	<u>138,875</u>	<u>1,625,565</u>
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER RETIREMENT BENEFITS				
BEGINNING OF YEAR	<u>7,911,614</u>	<u>4,226,230</u>	<u>3,622,025</u>	<u>15,759,869</u>
END OF YEAR	<u>\$ 8,884,774</u>	<u>\$ 4,739,760</u>	<u>\$ 3,760,900</u>	<u>\$ 17,385,434</u>

IV. COMPLIANCE SECTION

- **COMPLIANCE MATTERS**
- **MANAGEMENT LETTER**
- **RESPONSES TO MANAGEMENT LETTER**

City of Milton, Florida
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
Year Ended September 30, 2007

Federal/State Agency Pass-Through Entity Federal Program/State Project	CFDA/ CSFA Number	Contract/Grant Number	Expenditures
U.S. Department of Transportation Indirect Program Pass-Through From: State and Community Highway Safety Program Aggressive Driving Program	20.605	FS-07-27-12	\$ 83,191
Total U.S. Department of Transportation			<u>83,191</u>
U.S. Department of Housing and Urban Development Indirect Program Pass-Through From Florida Department of Community Affairs Community Development Block Grant	14.228	04DB-1Q-01-67-02-C03	207,370
Florida Small Cities Community Development Block Grant - Hurricane Ivan Funds	14.228	05DB-15-01-67-02-H04	8,000
Total U.S. Department of Housing and Urban Development			<u>215,370</u>
U.S. Department of Justice Indirect Program Pass-Through From State Department of Law Enforcement Local Law Enforcement Block Grant	16.738	07-JAGD-SANT-1-P4-048	2,957
Total U.S. Department of Justice			<u>2,957</u>
U.S. Environmental Protection Agency Indirect Program Pass-Through From State Department of Environmental Protection Capitalization Grants for the State Revolving Fund	66.458	WW62512S	3,840,415
Total U.S. Environmental Protection Agency			<u>3,840,415</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,141,933</u>
Florida Department of Environmental Protection Direct Programs Small County Waste Water Treatment Grants	37.039	SG625090	\$ 766,962
Statewide Surface Water Restoration and Waste Water Projects	37.039	LP6757	59,758
Florida Recreational Development Assistance	37.017	F6138	11,129
Total Florida Department of Environmental Protection			<u>837,849</u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			<u>\$ 837,849</u>

The accompanying notes are an integral part of this schedule.

City of Milton, Florida
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
Year Ended September 30, 2007

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance includes the federal and state grant activity of the City of Milton, Florida, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.550, *Rules of the Auditor General*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



Honorable Mayor and City Council Members
City of Milton, Florida

**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***

We have audited the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Milton, Florida as of and for the year ended September 30, 2007, which collectively comprise the City of Milton, Florida's basic financial statements, and have issued our report thereon dated February 27, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Milton's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Milton's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Milton's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

Honorable Mayor and City Council Members
City of Milton, Florida
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 (Continued)

Internal Control Over Financial Reporting (Continued)

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Milton's financial statements that is more than inconsequential will not be prevented or detected by the City of Milton's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs, items 2007-01, 2007-02, and 2006-01 to be a significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented or detected by the entity's internal control. We did not identify any matters that we consider to be material weaknesses.

Our consideration of the internal control over financial reporting was limited for the purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Milton'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 statements 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 test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to Management of the City of Milton, in a separate letter dated February 27, 2008.

Honorable Mayor and City Council Members
City of Milton, Florida
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 (Continued)

This report is intended solely for the information and use of the Audit Committee, Management, others within the organization, City Council, and the State of Florida, Office of the Auditor General, not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

O'Sullivan Creel, LLP

February 27, 2008



Honorable Mayor and City Council Members
City of Milton, Florida

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR FEDERAL PROGRAM AND STATE PROJECT AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133 AND CHAPTER 10.550**

Compliance

We have audited the compliance of the City of Milton (the City) with the types of compliance requirements described in the *United States Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* and the requirements described in the *State of Florida, Executive Office of the Governor's State Projects Compliance Supplement* that are applicable to each of its major federal programs and state projects for the year ended September 30, 2007. The City's major federal programs and state projects are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs and state projects is the responsibility of the City's Management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, *Rules of the Auditor General*. Those standards, OMB Circular A-133, and Chapter 10.550, *Rules of the Auditor General* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state project occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Milton, Florida, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and state projects for the year ended September 30, 2007.

Honorable Mayor and City Council Members
City of Milton, Florida
Report on Compliance With Requirements Applicable to Each
Major Federal Program and State Project and on Internal Control
Over Compliance in Accordance with OMB Circular A-133 and Chapter 10.550 (Continued)

Internal Control Over Compliance

The Management of the City of Milton, Florida, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs and state projects. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program or state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Audit Committee, Management, others within the organization, City Council, and federal awarding agencies and pass-through entities, not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

O'Sullivan Creel, LLP

February 27, 2008

City of Milton, Florida
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2007

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes _____ None Reported
- Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards and State Projects

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

- Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General*? _____ Yes X No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
66.458	Capitalizing Grant for the State Revolving Fund
CSFA Number	Name of State Project
37.039	Small County Waste Water Treatment Grant

Dollar threshold used to distinguish between type A and type B programs for federal awards?

_____ \$300,000 _____

Continued...

City of Milton, Florida
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2007

I. SUMMARY OF AUDITOR'S RESULTS (CONTINUED)

Dollar threshold used to distinguish between type A and type B programs for state projects?

\$100,000

Auditee qualified as low-risk auditee for federal awards?

_____ Yes

_____ **X** _____

No

II. FINANCIAL STATEMENT FINDINGS

<u>FINDING NUMBER</u>	<u>FINDING</u>
2007-01	<p><u>CASH MANAGEMENT</u></p> <p><i>Criteria:</i> Governmental entities should retain a reserve of 3 to 6 months of normal operating expenditures, to alleviate cash flow issues that may arise in the normal course of operating. The City should have a formal policy for establishing a minimum cash reserve and method for funding the reserve.</p> <p><i>Condition:</i> The City does not have sufficient operating cash or fund balance in its General Fund. In 2007, the General Fund's unrestricted fund balance decreased significantly from \$1,248,518 to \$453,097. The General Fund portion of pooled cash was in a deficit position at year-end.</p> <p><i>Cause:</i> The City has not been effectively monitoring, and responding to its deteriorating financial condition and cash availability. The City should also review its budgetary process for determining interfund transfers. For example, the budgeted transfers from the Water and Sewer Fund to the General Fund was \$2,586,771. However, the Water and Sewer Fund was only able to transfer \$1,146,493.</p> <p><i>Effect:</i> The General Fund is not able to adequately plan for its cash needs, resulting in deficits in its portion of the pooled cash account and an inadequate amount of fund balance in the general fund.</p>

Continued...

City of Milton, Florida
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2007

II. FINANCIAL STATEMENT FINDINGS (CONTINUED)

<u>FINDING NUMBER</u>	<u>FINDING</u>
2007-01 (CONTINUED)	<p><u>CASH MANAGEMENT (CONTINUED)</u></p> <p><i>Recommendation:</i> We recommended the City review its current reserves on a fund-by-fund basis and establish a formal reserve policy. The policy should include the desired funding level, the conditions under which the funds can be spent, and how the City will rebuild the reserves after a necessary expenditure has taken place. We suggested guidelines governing reserves and budgeting for municipalities (which can be found on the Florida Auditor General's website) to be incorporated into a reserve policy.</p> <p>In addition, we recommend for Management and the Council to review cash flow projections and frequently monitor the uses and availability of cash. Preparation of short and long-term cash forecasts would assist Management in determining immediate and future cash needs. Proper cash management, based on good information and good planning techniques, can make an important contribution to ensuring that sound operating plans are not adversely affected by cash shortages.</p> <p>Five steps can be taken to ensure that the City's cash is being managed effectively:</p> <ol style="list-style-type: none"> 1. Determine the amount and timing of cash requirements. 2. Determine the amount, source and timing of cash receipts. 3. Adjust spending plans after consideration of amount of cash available. 4. Maintain the right amount of cash so that the lack of cash does not hinder progress or poses operating problems. 5. If the forecasts reveal a shortage, investigate sources of borrowing, as appropriate. <p><i>Views of responsible officials and planned corrective action:</i> The City will implement cash management procedures to provide for adequate reserves and operational needs.</p>

<u>FINDING NUMBER</u>	<u>FINDING</u>
2007-02	<p><u>BANK RECONCILIATION PROCESS</u></p> <p><i>Criteria:</i> Reconciliation of the month end bank balance to the general ledger balance should be performed with no unreconciled difference existing upon completion.</p> <p><i>Condition:</i> For the months December 2006, through September 2007, the City's bank reconciliation's for the pooled cash accounts did not agree to the general ledger balances without the inclusion of an unreconciled difference.</p> <p><i>Cause:</i> The City has implemented a sweep account and online credit card payments for utility services, which has complicated the bank reconciliation process. In addition, due to turnover throughout the year, the responsibility for bank reconciliation's has been transferred between several individuals within the Finance Department.</p>

Continued...

City of Milton, Florida
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2007

II. FINANCIAL STATEMENT FINDINGS (CONTINUED)

FINDING NUMBER	FINDING
2007-02 (CONTINUED)	<p><u>BANK RECONCILIATION PROCESS (CONTINUED)</u></p> <p><i>Effect:</i> The City is unable to determine the exact monthly cash balance and determine nature of unreconciled difference.</p> <p><i>Recommendation:</i> We recommend Management review the bank reconciliation process, and establish set procedures for the monthly reconciliations. In addition, we recommend Management consult with its financial institutions to acquire more detailed financial reports of the credit card payments and sweep transactions to ease the complications within the reconciliation process.</p> <p><i>Views of responsible officials and planned corrective action:</i> The City will review current bank reconciliation procedures and discuss corrective actions to be made in the coming year.</p>

FINDING NUMBER	FINDING
2006-01	<p><u>CASH RECEIPT POSTING FROM CIS</u></p> <p><i>Criteria:</i> All activity generated by the utility billing software and posted to the general ledger should be supported by detail reports identifying the transaction, as an integral part of internal control over the cash reconciliation process. There are still some items that remain unreconciled relating to the utility billing software.</p> <p><i>Condition:</i> The City is not able to rely on certain postings to the general ledger made by the software when transactions in the utility billing system program are interfaced with the general ledger. This requires the City to perform additional work and make adjustments to the pooled cash account and revenue accounts each month without adequate supporting documents. This increases the chances of other errors or irregularities occurring and not being detected. This condition is limited to the pooled cash bank account.</p> <p><i>Cause:</i> The City has worked with the vendor to determine a cause of errors. To date, the specific cause has not been determined or corrected.</p> <p><i>Effect:</i> The City is unable to identify the nature of the miscellaneous postings generated by the computer software. However, the City continues to monitor the adjustments on a monthly basis.</p> <p><i>Recommendation:</i> We recommend the City continue working with the software vendor to determine the correction needed in the program.</p> <p><i>Views of responsible officials and planned corrective action:</i> The City will continue its efforts to identify and monitor the specific differences caused by the utility billing interface.</p>

City of Milton, Florida
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2007

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

We noted no matters involving noncompliance that are required to be reported in accordance with the U.S. Office of Management and Budget Circular A-133 and Chapter 10.550, *Rules of the Auditor General*.

IV. SUMMARY OF SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

There is no status change in regards to Financial Statement Finding Number 2006-01.



Honorable Mayor and City Council Members
City of Milton, Florida

MANAGEMENT LETTER

We have audited the financial statements of the City of Milton, Florida, as of and for the fiscal year ended September 30, 2007, and have issued our report thereon dated February 27, 2008.

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, *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the requirements described in the State of Florida, Executive Office of the Governor's State Projects Compliance Supplement. We have issued our 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*, Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and Chapter 10.550 and Schedule of Findings and Questioned Costs. Disclosures in this report and schedules, which are dated February 27, 2008, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, *Rules of the Auditor General*. Those rules (Section 10.554(1)(i)) require that we include our comments and recommendations pursuant to Florida Statute 219.39(4) in the management letter, if not already addressed in the auditor's report on compliance and internal controls.

The *Rules of the Auditor General* (Section 10.554(1)(i)(1)) require that we address in the management letter, if not already addressed in the auditor's report on compliance and internal control, whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. The recommendations made in the preceding annual financial audit report have been corrected or further commented on under the heading Prior Year Comments.

Honorable Mayor and City Council Members
City of Milton, Florida
Management Letter (Continued)

As required by the *Rules of the Auditor General* (Section 10.554(1)(i)(2)), the scope of our audit included a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City of Milton, Florida, complied with Section 218.415, Florida Statutes.

The *Rules of Auditor General* (Section 10.554(1)(i)(3)) require disclosure in the management letter of our recommendations to improve the local government entity's financial management, accounting procedures, and internal controls. Our comments and recommendations are reported under the headings of Prior Year Comments, and Current Year Comment.

The *Rules of Auditor General* (Sections 10.554(1)(i)(4)) require disclosure in the management letter violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less the material but more than inconsequential.

As required by the *Rules of the Auditor General* (Section 10.554(1)(i)(5)), for those matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors, the following may be reported based on professional judgment: a) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements, b) improper expenditures or illegal acts that would have an immaterial effect on the financial statements, or c) control deficiencies that are not significant deficiencies, including, but not limited to improper or inadequate accounting procedures, failures to properly record financial transactions, or other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of the auditor.

The *Rules of the Auditor General* (Section 10.554(1)(i)(6)) also require that the name or official title and legal authority for the primary government and each component unit of the reporting entity as defined in publications cited in Rule 10.553, unless disclosed in the notes to the financial statements be disclosed in the management letter. The information can be found in Note 1 of the financial statements.

During 1992, the Florida Department of Community Affairs determined that the Housing Authority of the City of Milton, Florida, was a dependent special district of the City of Milton, Florida. Utilizing the standards set forth in GASB 14, the Housing Authority of the City of Milton, Florida, was not considered as having met sufficient criteria for inclusion within the City's audited financial statements for the year ended September 30, 2007. As a result, the Housing Authority of the City of Milton, Florida, is not included in the City's annual financial report.

As required by the *Rules of the Auditor General* (Section 10.554(1)(i)(7.a.)), the scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, regarding financial emergencies. In connection with our audit, we determined that the City of Milton did not meet any of the financial emergency conditions described in Section 218.503(1), Florida Statutes.

As required by the *Rules of the Auditor General* (Section 10.554(1)(i)(7.b.)), we determined that the annual financial report for the City of Milton for the fiscal year ended September 30, 2007, filed with the Department of Banking Finance pursuant to Section 218.32, Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2007.

As required by the *Rules of the Auditor General* (Sections 10.554(1)(i)(7.c.)), and 10.556(7), we applied financial condition assessment procedures. It is Management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by Management and the review of financial information provided by the same. In accordance with the *Rules of the Auditor General* (Sections 10.557(6)), a financial condition assessment was performed, which indicated the City's financial condition is deteriorating due to cash management policies and procedures, as described in Item 2007-01 in the Schedule of Findings and Questioned Costs.

PRIOR YEAR COMMENTS

1. FINANCIAL CONDITION

Prior Year Comment Summarized

We previously reported the General Fund's unrestricted fund balance was not sufficient to cover the City's needs during the first two months of the fiscal year when there was substantially no cash flow from ad valorem taxes; causing the City to obtain short-term borrowings to fund the shortfall. In addition, no procedures had been implemented for establishing and maintaining a sufficient reserve balance.

Status

See Financial Statement Finding Item 2007-01 in Section II of the Schedule of Findings and Questioned Costs.

2. DELINQUENT ACCOUNTS RECEIVABLE

Prior Year Comment Summarized

We previously reported from our review of the City's aged accounts receivable reports, that accounts receivable balances remained delinquent and had not been researched and charged against the allowance account or written off in a timely manner.

PRIOR YEAR COMMENTS (CONTINUED)

2. *DELINQUENT ACCOUNTS RECEIVABLE (CONTINUED)*

Status

For the fiscal year ending September 30, 2007, we noted the amount of proprietary fund accounts receivable in excess of 120 days increased from 43% to 45% of the total accounts receivable balances.

Recommendation

We understand that Management is monitoring delinquent accounts; however, we continue to recommend that if the subsequent collection is deemed unlikely, the account balance should be charged off.

Management Response

The City Clerk is investigating possible solutions for writing off unlikely accounts to be collected from the allowance account.

3. *PENSION FUND ACTIVITY*

Prior Year Comment Summarized

In the prior year, we noted that the City began a process of recording trust activity, however, the recorded activity was not reconciled to the year-end trust statements. As a result, the balances of the year-end pension statements did not agree with the general ledger amounts. Audit adjustments were necessary to reconcile the 2006 activity with the pension trust reports.

Status

During the year, Management completed the reconciliation of the General Employees' and Police Officers' Pension Fund activity with the general ledger activity, however, the Firefighters' Pension Fund general ledger balance did not reflect market value balances.

Recommendation

We continue to recommend the City improves its reconciliation process to ensure the pension fund reconciliation process results in the general ledger balance for each fund reflecting the market value of the investment at year-end.

Management Response

The City will reconcile all trust activity for all pensions to year-end pension trust statements to ensure its fiduciary responsibility including monitoring of transactions and facilitating appropriate adjusting entries are maintained and posted to the general ledger to reflect the market value of pension investments.

PRIOR YEAR COMMENTS (CONTINUED)

4. DEBT SERVICE

Prior Year Comment Summarized

We noted the City recorded all principal and interest payments in the general ledger through use of a debt service expense/expenditure account, for both governmental funds and proprietary-type funds. Tracking of such payments in this manner is done for budgetary purposes, however, the debt service accounts are not being adjusted to reflect the appropriate method of accounting. Significant journal entries were made during the audit process to correct the recording of such payments.

Status

The City is aware of the accounting necessary for proper presentation of debt service payments in the the proprietary-type and governmental funds. The City has requested the auditors assistance in making these necessary adjustments, due to time constraints and limited staffing resources. No further action required.

5. PURCHASING POLICY

Prior Year Comment Summarized

We noted the City did not comply with its internal purchasing policy for certain expenditures. The costs incurred for those items exceeded the threshold limitations for the requirements of a formal invitation to bid, as stated in the City's purchasing policy. We also noted instances where a purchase order had not obtained prior to purchase of items, as required by the internal purchasing policy.

Status

During the current year audit, we tested 32 purchasing transactions, and of the transactions tested, we noted no exceptions in the purchasing policy.

CURRENT YEAR COMMENT

1. *FIXED ASSETS*

Observation

We noted the City did not reconcile the subsidiary ledger totals with the general ledger totals in a timely manner.

Recommendation

We recommend Management reconcile the fixed asset activity on a regular basis to ensure proper internal controls over transactions and to provide for an accurate reporting to Management.

Management Response

As a result of a turnover in accounting personnel, the fixed asset subsidiary was not reconciled with the general ledger in a timely manner. The City will reconcile the fixed asset subsidiary accounts in a timely manner during the coming year.

This management letter is intended solely for the information of the City of Milton, Florida, Management, and the State of Florida Office of the Auditor General. However, this report is a matter of public record and its distribution is not limited.

We sincerely hope these comments and recommendations will be of assistance in the administration and operation of the City. Please feel free to contact us regarding the preceding or any other aspect of the audit of your financial statements.

We greatly appreciate the assistance and cooperation extended us during our audit.

O'Sullivan Creel, LLP

February 27, 2008