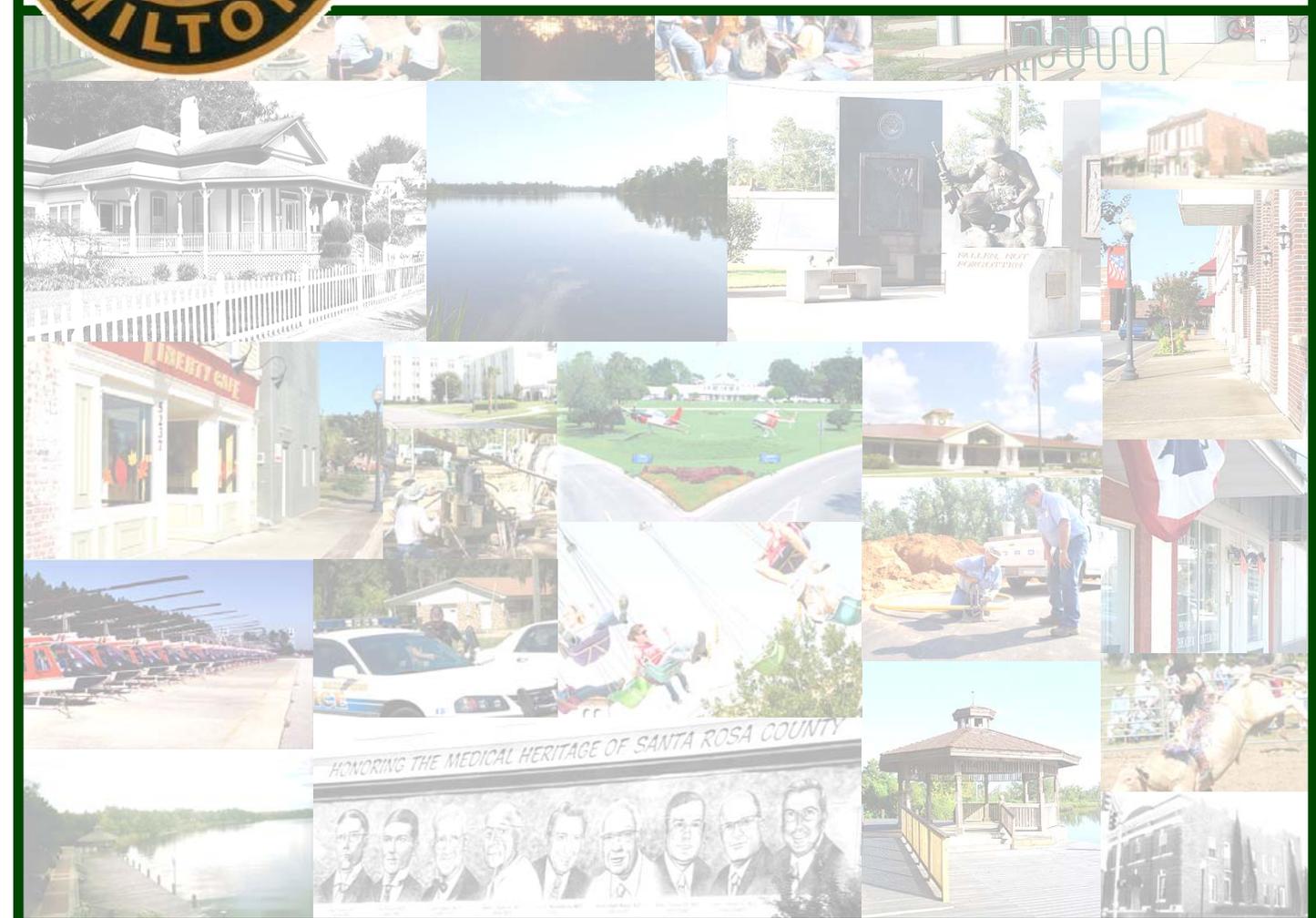




Financial Statements and Supplemental Information

Fiscal Year Ended September 30, 2008



I. INTRODUCTORY SECTION

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CITY OF MILTON

**Financial Statements and
Supplemental Information**

September 30, 2008

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CITY OF MILTON

**Financial Statements and
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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, 2008, 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, 2008, 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 3, 2009, 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 3-18, the Schedule of Funding Progress on page 59, and the 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 State Financial Assistance is presented for purposes of additional analysis as required by 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 3, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

As Management of the City of Milton, Florida (the City) we offer readers of the City's financial statements this narrative overview and analysis of financial activities of the City for the fiscal year ended September 30, 2008.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities by \$32.85 million (net assets), and represent an increase of \$1.40 million or (4.44%) from the prior year. Of this amount, \$24.22 million represents investments in capital assets, net of related debt (e.g. land, infrastructure, building, machinery, and equipment), \$5.68 million is restricted for future obligations, and \$2.95 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 \$526 thousand (or 2.36%) from the prior year. The increase is attributable to increased revenues from charges for services.
- The net assets of the governmental-type activities of the City increased by \$872 thousand or 9.55% from the prior year, attributable to increased transfers in from business-type activities.
- The City's governmental funds reported combined ending fund balances of \$2.85 million, an increase of \$516 thousand.
- At the end of the current fiscal year, unreserved/undesignated fund balance for the General Fund was \$1.13 million, or approximately 1.5 months of General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The focus of the Governmental Accounting Standards Board (GASB) Statement No. 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's basic financial statements. The City'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's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City'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.

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 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 for services (business-type activities). The governmental activities of the City 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 include water and sewer, natural gas, sanitation, and stormwater. The government-wide financial statements are found on pages 19-20 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, 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 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 21-25 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 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 always 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 on pages 61-62 in the report.

The City 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 25 of this report.

PROPRIETARY FUNDS

All proprietary funds of the City 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 uses enterprise funds to account for its utility operations (water and sewer, natural gas, sanitation, and stormwater).

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. Found on pages 26-29 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 and police) 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's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Found on pages 30-31 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 32 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'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 61-67 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, assets exceeded liabilities by \$32.85 million (net assets) for the fiscal year ended 2008, as reported in Table 1. As reported in Table 2, the overall increase in the City's net assets was \$1.4 million (or 4.44%) during fiscal year 2008.

By far the largest portion of the City's net assets \$24.22 million (or 73.7%) 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 uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City 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.

An additional portion of the City's net assets \$5.68 million (or 17.29%) represents resources that are subject to external restrictions on how they may be used.

The remaining balance of unrestricted net assets, \$2.95 million, may be used to meet the government's ongoing obligations to citizens and creditors.

Table 1
City of Milton
STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2008 AND 2007
(In Thousands of Dollars*)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 3,159	\$ 2,574	\$ 10,216	\$ 11,159	\$ 13,375	\$ 13,733
Capital assets	9,497	9,668	30,802	30,328	40,299	39,996
Total assets	<u>12,656</u>	<u>12,242</u>	<u>41,018</u>	<u>41,487</u>	<u>53,674</u>	<u>53,729</u>
Long-term liabilities outstanding	2,390	2,903	17,783	19,018	20,173	21,921
Other liabilities	262	206	390	149	652	355
Total liabilities	<u>2,652</u>	<u>3,109</u>	<u>18,173</u>	<u>19,167</u>	<u>20,825</u>	<u>22,276</u>
Net assets						
Invested in capital assets net of related debt	7,501	7,139	16,716	15,162	24,217	22,300
Restricted	1,331	1,244	4,351	4,740	5,682	5,984
Unrestricted	1,172	750	1,778	2,418	2,950	3,168
Total net assets	<u>\$ 10,004</u>	<u>\$ 9,133</u>	<u>\$ 22,845</u>	<u>\$ 22,320</u>	<u>\$ 32,849</u>	<u>\$ 31,452</u>

**all dollar amounts rounded to the nearest thousand*

GOVERNMENTAL ACTIVITIES

Governmental activities increased the City's net assets by \$872 thousand, thereby accounting for 62.38% of the increase in the net assets of the City. Reported in Table 2 are the key elements of this increase.

Table 2
City of Milton
CHANGE IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	Governmental Activities		Business-Type Activities		Primary Government Total	
	2008	2007	2008	2007	2008	2007
REVENUES						
Program revenues						
Charges for services	\$ 949,911	\$ 892,254	\$ 10,614,417	\$ 10,171,856	\$ 11,564,328	\$ 11,064,110
Operating grants and contributions	6,168	213,009	-	2,817	6,168	215,826
Capital grants and contributions	74,977	433,434	1,771,170	2,579,609	1,846,147	3,013,043
General revenues						
Property taxes	917,699	907,291	-	-	917,699	907,291
Other taxes	1,250,777	1,188,909	-	-	1,250,777	1,188,909
Other revenue	1,030,241	931,322	322,572	357,597	1,352,813	1,288,919
TOTAL REVENUES	<u>4,229,773</u>	<u>4,566,219</u>	<u>12,708,159</u>	<u>13,111,879</u>	<u>16,937,932</u>	<u>17,678,098</u>
EXPENSES						
Primary government						
General government	2,233,538	2,237,138	-	-	2,233,538	2,237,138
Public safety	3,140,395	2,945,042	-	-	3,140,395	2,945,042
Transportation	525,023	432,475	-	-	525,023	432,475
Economic environment	34,912	16,266	-	-	34,912	16,266
Culture and recreation	940,084	832,360	-	-	940,084	832,360
Debt service interest	81,229	98,277	-	-	81,229	98,277
Business-type activities						
Natural gas	-	-	4,053,905	4,088,553	4,053,905	4,088,553
Water and sewer	-	-	3,654,061	2,540,493	3,654,061	2,540,493
Sanitation	-	-	873,795	858,195	873,795	858,195
Non-major proprietary fund	-	-	3,479	-	3,479	-
TOTAL EXPENSES	<u>6,955,181</u>	<u>6,561,558</u>	<u>8,585,240</u>	<u>7,487,241</u>	<u>15,540,421</u>	<u>14,048,799</u>
Increase (decrease) in net assets before transfers	(2,725,408)	(1,995,339)	4,122,919	5,624,638	1,397,511	3,629,299
Transfers	3,597,243	1,770,924	(3,597,243)	(1,770,924)	-	-
Increase (decrease) in net assets	871,835	(224,415)	525,676	3,853,714	1,397,511	3,629,299
NET ASSETS						
BEGINNING	<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>
NET ASSETS ENDING	<u>\$ 10,004,542</u>	<u>\$ 9,132,707</u>	<u>\$ 22,845,299</u>	<u>\$ 22,319,623</u>	<u>\$ 32,849,841</u>	<u>\$ 31,452,330</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, wastewater, natural gas, sanitation, stormwater, impact fees, recreation user fees, etc.).
- Changing Patterns in Intergovernmental Grant Revenue (Both Recurring and Non-Recurring) - Certain recurring revenues (e.g. state revenue sharing and community development block grants) 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

- Charges for services increased 6% as a result of Management's efforts to increase user fees for park and recreation services, and the increases in fines and court cost revenues remitted from Santa Rosa County.
- Operating grants and contributions decreased 97% due to final hurricane damage reimbursements from FEMA received in 2007.
- Capital grants and contributions decreased 53% as a result of completion of various projects and acquisitions occurring in 2007, that were funded by the Community Development Block Grant and Florida Department of Transportation Grants.
- Other taxes increased 5% as a result of an increase in the communications service tax revenues.
- Other revenue decreased 3% due to reduced interest earnings caused from lower interest rates.
- Public safety expenses increased 7%, primarily caused by personnel costs.
- Transportation expenses increased 21% due to increased salary costs and approximately \$40 thousand of final Hurricane Dennis expenditures incurred.
- Economic environment costs increased over 100%, as a result of additional betterments and repairs to the Downtown Redevelopment area of the City.
- Culture and recreation expenses increased 13% due to additional landscaping contracts entered into during the year.

Chart 1
Expenses and Program Revenue
Governmental Activities

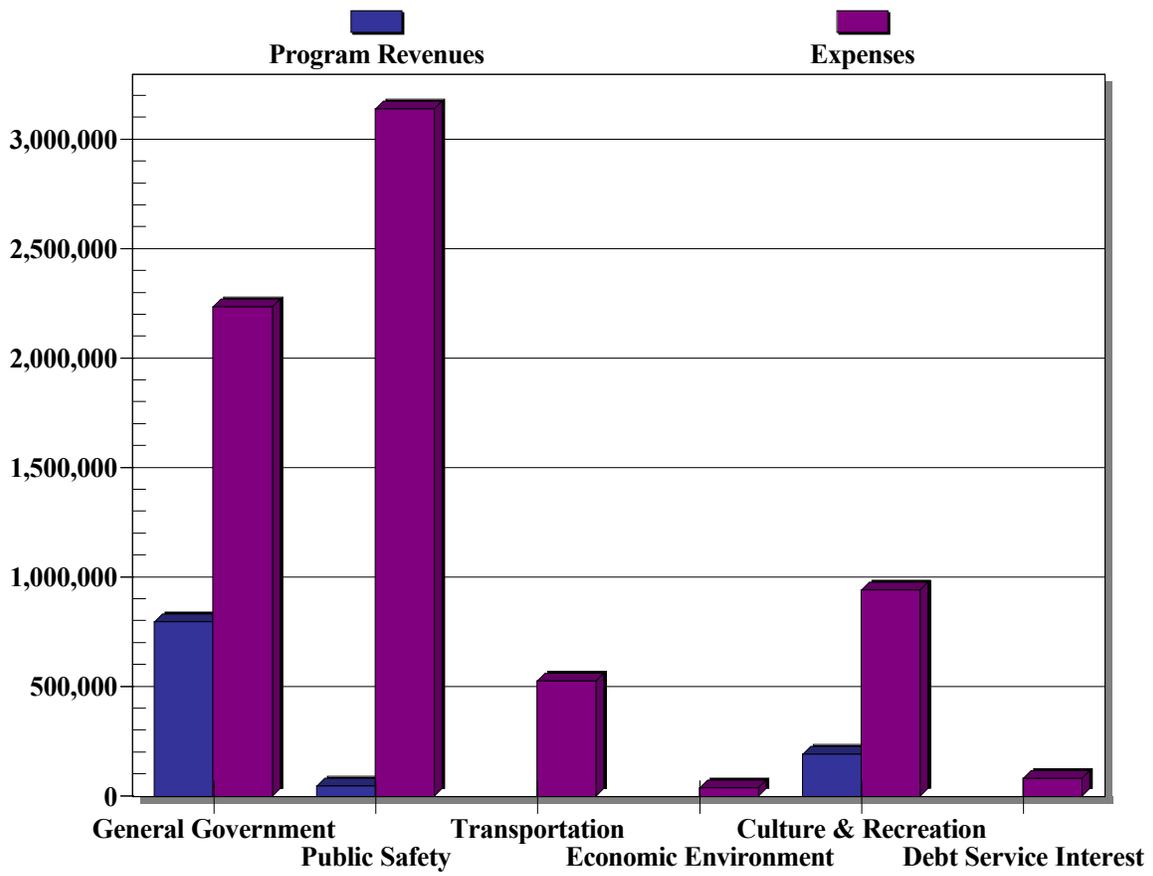
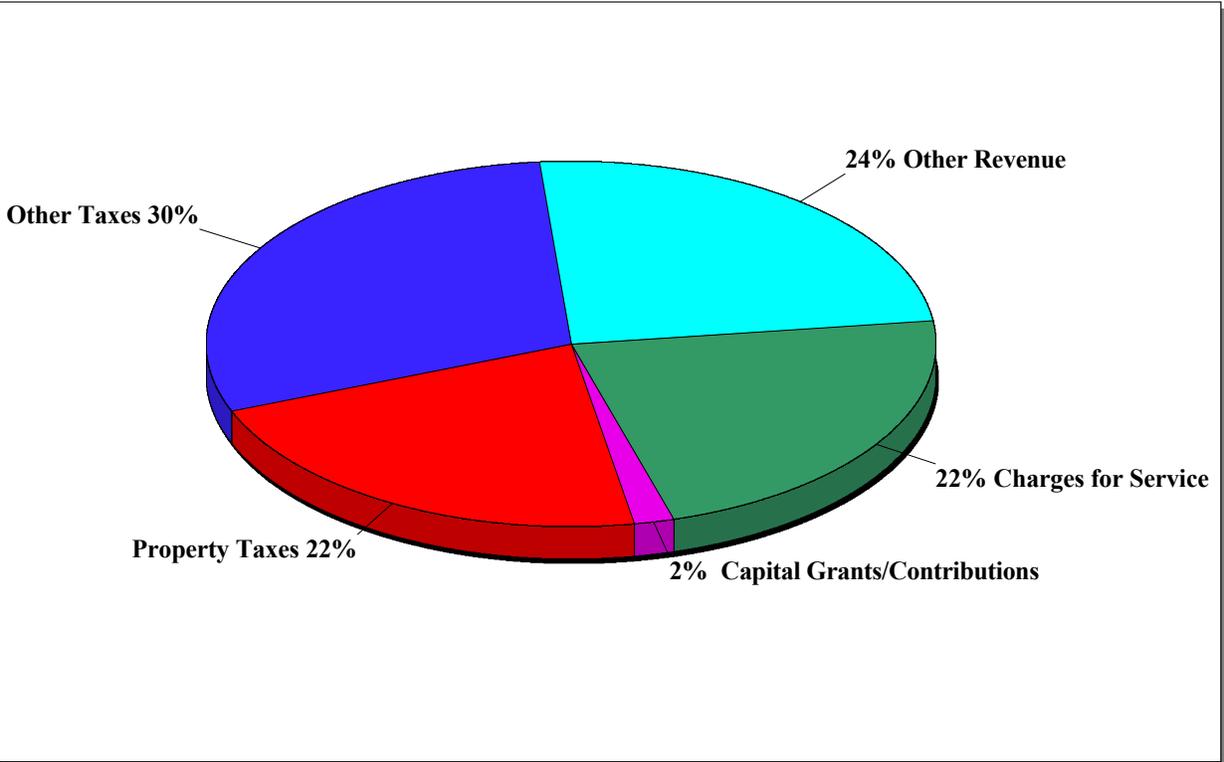


Chart 2
Revenues by Source
Governmental Activities



Business-Type Activities

The net assets from business-type activities increased by \$526 thousand (or 2.36%).

- Charges for services increased 5% as a function of the three-year tiered annual rate increases for utility services, as established by the City Council in 2005. A new rate study has been completed to allow for continual tiered increased in the utility charges for services for the following three years.
- The capital grants and contributions decreased 31% due to the 2007 receipt of a one-time \$900 thousand legislative appropriation related to the funding of the Wastewater Treatment Plant (WWTP) project.
- Several factors caused the 44% increase in water and sewer expenses.
 - First, the City allocated the Public Works Department personnel between the Natural Gas Fund and the Water and Sewer Fund.
 - Second, the WWTP, which costs approximately \$18 million, became fully operational during 2008, and therefore, the City incurred the first full year of depreciation costs associated with the WWTP.
 - Third, the City encountered its first full year of debt payments on the State Revolving Loan (SRL) related to the WWTP, which doubled the interest expense incurred during the year.

Chart 3
Expense and Program Revenue
Business - Type Activities

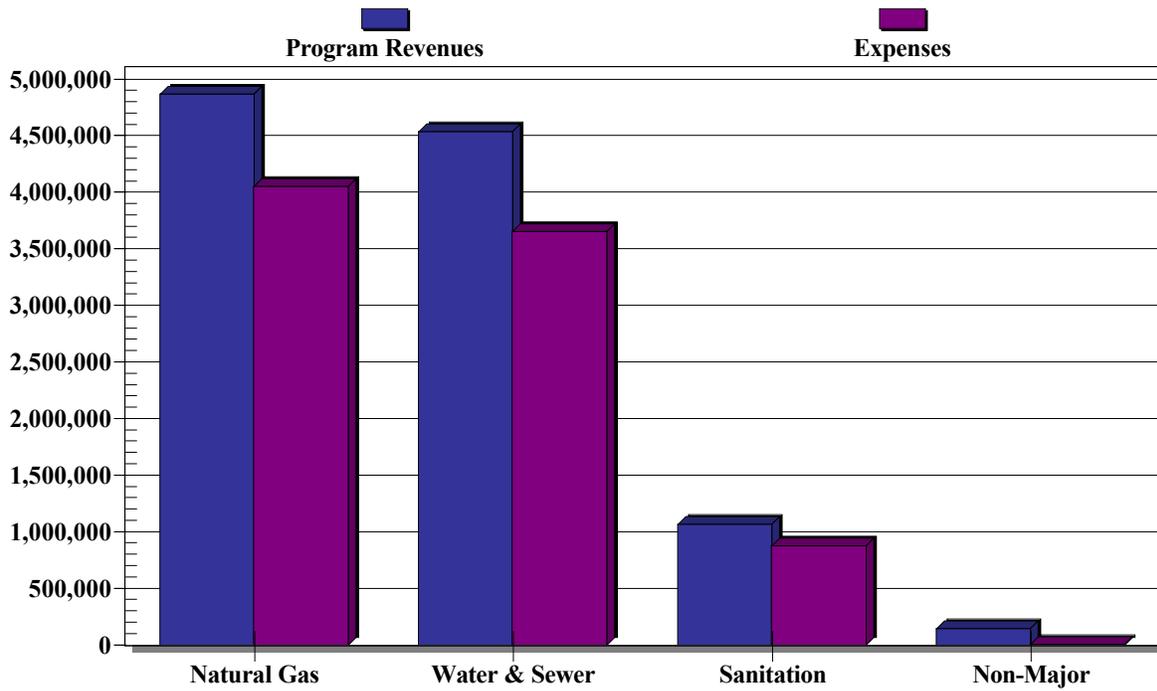
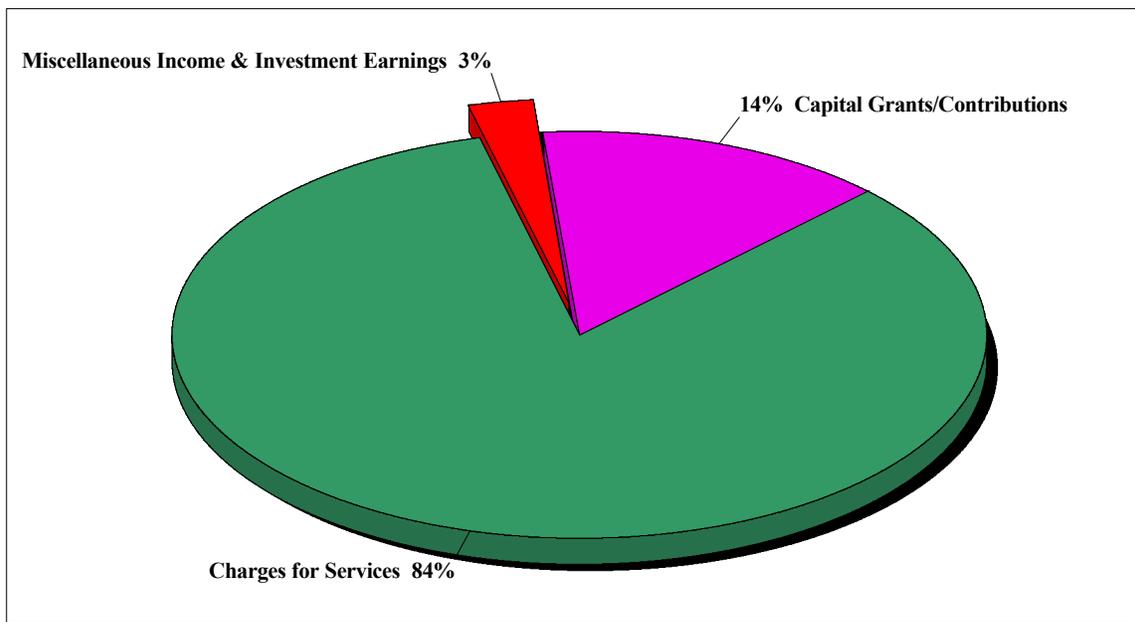


Chart 4
Revenues by Source
Business - Type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

GOVERNMENTAL FUNDS

The focus of the City's governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City'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's governmental funds reported combined ending fund balances of \$2.85 million, an increase of \$516 thousand in comparison with the prior year. \$1.48 million constitutes unreserved/undesignated fund balance, which is available for spending at the City Council's discretion. \$82 thousand represented a reservation of fund balance for inventory. \$122 thousand is reserved for capital improvements.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved/undesignated fund balance of the General Fund was \$1.13 million. 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 approximately 1.5 months of the General Fund expenditures.

During the current fiscal year, the fund balance of the City's General Fund increased by \$877 thousand. Key factors of the increase relate to higher transfers in from the proprietary funds.

PROPRIETARY FUNDS

The City'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 \$1.78 million at the end of the year. Proprietary funds net assets increased by \$526 thousand. Other factors concerning the finances of these proprietary funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budgeted expenditures were increased \$86 thousand, as presented in the final amended budget. The total budget variances from original to final are summarized as follows:

- Originally budgeted use of existing fund balance was reduced to \$139 thousand as a result of a plan to issue debt; however, no debt was actually issued during the year.
- Capital outlay costs varied the most from budgeted expectations, in response to Management's plan to reduce capital expenditures during the year.

CAPITAL ASSET AND OUTSTANDING DEBT

CAPITAL ASSETS

The City's investments in capital assets for its governmental and business-type activities as of September 30, 2008, amounts to \$40.30 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, water, wastewater and drainage systems improvements, machinery and equipment, park facilities, roads, and highways, etc. The overall increase the City's investment in capital assets, for the current fiscal year was \$303 thousand. The overall increase of the City's capital assets is essentially attributable to current year construction in progress related to the new firehouse and watertower.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Land	\$ 1,622,054	\$ 1,622,054	\$ 91,313	\$ 91,313	\$ 1,713,367	\$ 1,713,367
Buildings	4,439,389	4,762,730	-	-	4,439,389	4,762,730
Improvements other than buildings	1,660,092	1,334,984	25,228,047	4,548,359	26,888,139	5,883,343
Machinery and equipment	1,046,754	1,048,062	3,885,694	4,033,977	4,932,448	5,082,039
Construction in progress	729,031	900,211	1,596,449	21,654,527	2,325,480	22,554,738
Total	<u>\$ 9,497,320</u>	<u>\$ 9,668,041</u>	<u>\$ 30,801,503</u>	<u>\$ 30,328,176</u>	<u>\$ 40,298,823</u>	<u>\$ 39,996,217</u>

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

OUTSTANDING DEBT

At the end of the current fiscal year, the City had total debt outstanding of \$18.89 million. All of the City's debt, with the exception of compensated absences, represents loans secured solely by specified revenue sources (i.e., utility revenues and grant funds). The City 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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenue notes payable, net	\$ 1,996,238	\$ 2,529,568	\$ 2,939,441	\$ 3,373,773	\$ 4,935,679	\$ 5,903,341
State revolving loan	-	-	13,953,007	14,792,505	13,953,007	14,792,505
Total	\$ 1,996,238	\$ 2,529,568	\$ 16,892,448	\$ 18,166,278	\$ 18,888,686	\$ 20,695,846

The City's total debt decreased by \$1.81 million during the 2008 fiscal year which is attributable to required debt service payments.

Additional information on the City'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, fees, 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 2008-2009 budget for the City.

- The 2008 local unemployment rate was 4.8%, which represents an approximate 2% increase from 2007. The State of Florida's unemployment rate was 6.6%. The unemployment rate will impact the City's fee and usage based revenues, and shared portions of the State of Florida's usage based taxes.
- The Federal and State of Florida governments have decreased shared revenues and are indicating that future allocations of revenues will continue to decrease for the foreseeable future. The City has decreased some budgeted intergovernmental revenues during the 2009 budgeting process.
- Decreases in property tax revenues are anticipated by most regional municipalities. First, the property values continue to decline within Santa Rosa County, with little construction growth ongoing. Second, Amendment 1 becomes effective on October 1, 2008. With respect to homestead property, Amendment 1 increases the current \$25,000 homestead exemption by another \$25,000 (for property values between \$50,000 and \$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 the 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. Currently, the City is unsure of the impact of Amendment 1 on the property tax revenues.
- For the 2009 fiscal year, the City did not budget the use of fund balance, and did not budget any significant capital asset purchases or improvements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's financial information. 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@ci.milton.fl.us.

City of Milton, Florida
STATEMENT OF NET ASSETS
September 30, 2008

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 641,631	\$ 602,237	\$ 1,243,868
Certificates of deposit	799,126	439,881	1,239,007
Receivables, net	170,266	958,197	1,128,463
Due from other governments	135,349	-	135,349
Inventory, at cost	82,111	322,353	404,464
Restricted assets			
Cash and cash equivalents	1,165,994	6,366,970	7,532,964
Certificates of deposit	122,180	1,526,800	1,648,980
Capital assets			
Non-depreciable	2,351,085	1,687,762	4,038,847
Depreciable, net	7,146,235	29,113,741	36,259,976
Other assets			
Net pension asset	42,556	-	42,556
TOTAL ASSETS	<u>12,656,533</u>	<u>41,017,941</u>	<u>53,674,474</u>
LIABILITIES			
Accounts payable	22,873	270,830	293,703
Accrued liabilities	40,534	74,320	114,854
Due to other governments	110,966	-	110,966
Unearned revenues	87,713	44,868	132,581
Compensated absences	326,124	139,284	465,408
Revenue notes payable	159,753	262,711	422,464
State revolving loan payable	-	856,894	856,894
Payable from restricted assets			
Customer deposits	-	736,078	736,078
Non-current liabilities			
Compensated absences	67,543	14,814	82,357
Revenue notes payable, net	1,836,485	2,676,730	4,513,215
State revolving loan payable	-	13,096,113	13,096,113
TOTAL LIABILITIES	<u>2,651,991</u>	<u>18,172,642</u>	<u>20,824,633</u>
NET ASSETS			
Invested in capital assets, net of related debt	7,501,082	16,716,206	24,217,288
Restricted			
Debt service	-	1,588,357	1,588,357
Public safety	60,744	-	60,744
Downtown redevelopment	63,212	-	63,212
Retirement funding	42,556	-	42,556
Capital projects	1,164,218	2,762,184	3,926,402
Unrestricted	<u>1,172,730</u>	<u>1,778,552</u>	<u>2,951,282</u>
TOTAL NET ASSETS	<u>\$ 10,004,542</u>	<u>\$ 22,845,299</u>	<u>\$ 32,849,841</u>

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

City of Milton, Florida
STATEMENT OF ACTIVITIES
Year Ended September 30, 2008

					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	\$ 2,233,538	\$ 775,772	\$ 350	\$ 18,495	\$ (1,438,921)	\$ -	\$ (1,438,921)
Public safety	3,140,395	22,516	5,818	17,596	(3,094,465)	-	(3,094,465)
Transportation	525,023	-	-	-	(525,023)	-	(525,023)
Economic environment	34,912	-	-	-	(34,912)	-	(34,912)
Culture and recreation	940,084	151,623	-	38,886	(749,575)	-	(749,575)
Debt service interest	81,229	-	-	-	(81,229)	-	(81,229)
Total government activities	<u>6,955,181</u>	<u>949,911</u>	<u>6,168</u>	<u>74,977</u>	<u>(5,924,125)</u>	<u>-</u>	<u>(5,924,125)</u>
Business-type activities							
Natural gas	4,053,905	4,869,514	-	-	-	815,609	815,609
Water and sewer	3,654,061	4,534,784	-	1,771,170	-	2,651,893	2,651,893
Sanitation	873,795	1,065,172	-	-	-	191,377	191,377
Non-major proprietary fund	3,479	144,947	-	-	-	141,468	141,468
Total business-type activities	<u>8,585,240</u>	<u>10,614,417</u>	<u>-</u>	<u>1,771,170</u>	<u>-</u>	<u>3,800,347</u>	<u>3,800,347</u>
Total primary government	<u>\$ 15,540,421</u>	<u>\$ 11,564,328</u>	<u>\$ 6,168</u>	<u>\$ 1,846,147</u>	<u>\$ (5,924,125)</u>	<u>\$ 3,800,347</u>	<u>\$ (2,123,778)</u>
General revenues							
Taxes							
Property taxes					\$ 917,699	\$ -	\$ 917,699
Sales taxes					230,990	-	230,990
Utility service taxes					1,019,787	-	1,019,787
Municipal revenue sharing					913,448	-	913,448
Gain (loss) on sale of assets					375	-	375
Investment earnings					39,981	201,459	241,440
Miscellaneous					76,437	121,113	197,550
Interfund activity					3,597,243	(3,597,243)	-
Total general revenues and interfund activity					<u>6,795,960</u>	<u>(3,274,671)</u>	<u>3,521,289</u>
Change in net assets					871,835	525,676	1,397,511
Net assets - beginning of year					<u>9,132,707</u>	<u>22,319,623</u>	<u>31,452,330</u>
Net assets - end of year					<u>\$ 10,004,542</u>	<u>\$ 22,845,299</u>	<u>\$ 32,849,841</u>

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

City of Milton, Florida
GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 283,152	\$ 358,479	\$ 641,631
Certificates of deposit	799,126	-	799,126
Receivables	170,266	-	170,266
Due from other governments	135,349	-	135,349
Inventory, at cost	82,111	-	82,111
Restricted assets			
Cash and cash equivalents	-	1,165,994	1,165,994
Certificate of deposit	<u>122,180</u>	<u>-</u>	<u>122,180</u>
TOTAL ASSETS	<u>\$ 1,592,184</u>	<u>\$ 1,524,473</u>	<u>\$ 3,116,657</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 22,873	\$ -	\$ 22,873
Accrued liabilities	40,534	-	40,534
Due to other governments	110,966	-	110,966
Unearned revenue	<u>87,713</u>	<u>-</u>	<u>87,713</u>
Total liabilities	<u>262,086</u>	<u>-</u>	<u>262,086</u>
Fund balance			
Reserved for capital improvements	122,180	1,042,038	1,164,218
Reserved for public safety	-	60,744	60,744
Reserved for downtown redevelopment	-	63,212	63,212
Reserved for inventory	82,111	-	82,111
Unreserved			
Undesignated			
General Fund	1,125,807	-	1,125,807
Debt Service Fund	<u>-</u>	<u>358,479</u>	<u>358,479</u>
Total fund balance	<u>1,330,098</u>	<u>1,524,473</u>	<u>2,854,571</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,592,184</u>	<u>\$ 1,524,473</u>	<u>\$ 3,116,657</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, 2008

Fund balances - total governmental funds (page 21)		\$ 2,854,571
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 governmental funds.		
Governmental non-depreciable assets	2,351,085	
Governmental depreciable assets	13,641,326	
Less accumulated depreciation	<u>(6,495,091)</u>	9,497,320
Other assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.		
Net pension asset		42,556
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	(1,996,238)	
Compensated absences	<u>(393,667)</u>	<u>(2,389,905)</u>
Net assets of governmental activities (page 19)		<u>\$ 10,004,542</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, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 2,168,477	\$ -	\$ 2,168,477
Licenses, fees, and permits	689,351	-	689,351
Intergovernmental	920,936	74,597	995,533
Charges for services	156,606	-	156,606
Fines and forfeits	85,021	-	85,021
Miscellaneous	<u>118,364</u>	<u>16,426</u>	<u>134,790</u>
TOTAL REVENUES	<u>4,138,755</u>	<u>91,023</u>	<u>4,229,778</u>
EXPENDITURES			
Current			
General governmental services	2,048,816	-	2,048,816
Public safety	2,833,349	18,782	2,852,131
Economic environment	-	33,449	33,449
Transportation	556,551	-	556,551
Culture and recreation	751,630	-	751,630
Capital outlay	408,342	24,529	432,871
Debt service			
Principal	553,956	-	553,956
Interest	<u>81,229</u>	<u>-</u>	<u>81,229</u>
TOTAL EXPENDITURES	<u>7,233,873</u>	<u>76,760</u>	<u>7,310,633</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(3,095,118)</u>	<u>14,263</u>	<u>(3,080,855)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	4,709,747	585,307	5,295,054
Transfers out	<u>(737,628)</u>	<u>(960,182)</u>	<u>(1,697,810)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>3,972,119</u>	<u>(374,875)</u>	<u>3,597,244</u>
NET CHANGE IN FUND BALANCE	877,001	(360,612)	516,389
FUND BALANCE - BEGINNING OF YEAR	<u>453,097</u>	<u>1,885,085</u>	<u>2,338,182</u>
FUND BALANCE - END OF YEAR	<u>\$ 1,330,098</u>	<u>\$ 1,524,473</u>	<u>\$ 2,854,571</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, 2008

Net change in fund balances - total governmental funds (page 23)		\$ 516,389
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay 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	432,871	
Less current year depreciation	<u>(603,592)</u>	(170,721)
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. 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	553,956	
Loss on refunding	<u>(20,626)</u>	533,330
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	12,659	
Change in long-term compensated absences	<u>(19,822)</u>	<u>(7,163)</u>
Change in net assets of governmental activities (page 20)		<u>\$ 871,835</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, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 2,492,298	\$ 2,095,389	\$ 2,168,477	\$ 73,088
Licenses, fees, and permits	175,550	535,050	689,351	154,301
Intergovernmental	918,367	999,872	920,936	(78,936)
Charges for services	159,241	130,106	156,606	26,500
Fines and forfeits	79,624	78,124	85,021	6,897
Miscellaneous	<u>13,400</u>	<u>24,074</u>	<u>118,364</u>	<u>94,290</u>
TOTAL REVENUES	<u>3,838,480</u>	<u>3,862,615</u>	<u>4,138,755</u>	<u>276,140</u>
EXPENDITURES				
Current				
General government services	2,345,917	2,293,469	2,048,816	244,653
Public safety	3,022,854	2,969,975	2,833,349	136,626
Transportation	589,646	598,817	556,551	42,266
Culture and recreation	809,553	761,339	751,630	9,709
Capital outlay	1,222,149	1,324,982	408,342	916,640
Debt service	<u>451,743</u>	<u>579,255</u>	<u>635,185</u>	<u>(55,930)</u>
TOTAL EXPENDITURES	<u>8,441,862</u>	<u>8,527,837</u>	<u>7,233,873</u>	<u>1,293,964</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(4,603,382)</u>	<u>(4,665,222)</u>	<u>(3,095,118)</u>	<u>1,570,104</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	4,448,333	4,318,202	4,709,747	391,545
Transfers out	(21,007)	(43,739)	(737,628)	(693,889)
Issuance of debt	<u>-</u>	<u>251,453</u>	<u>-</u>	<u>(251,453)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>4,427,326</u>	<u>4,525,916</u>	<u>3,972,119</u>	<u>(553,797)</u>
NET CHANGE IN FUND BALANCE	(176,056)	(139,306)	877,001	1,016,307
FUND BALANCE - BEGINNING OF YEAR	<u>176,056</u>	<u>139,306</u>	<u>453,097</u>	<u>313,791</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,330,098</u>	<u>\$ 1,330,098</u>

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

City of Milton, Florida
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
September 30, 2008

	Natural Gas Fund	Water and Sewer Fund	Sanitation Fund	Non-Major Fund	Total
ASSETS					
Current assets					
Cash and cash equivalents	\$ 146,683	\$ 358,767	\$ 3,027	\$ 93,760	\$ 602,237
Certificates of deposit	439,881	-	-	-	439,881
Receivables, net	289,448	549,521	99,017	20,211	958,197
Due from other funds	-	-	-	-	-
Inventory, at cost	322,353	-	-	-	322,353
Restricted assets					
Cash and cash equivalents	1,834,864	4,532,106	-	-	6,366,970
Certificates of deposit	99,016	1,427,784	-	-	1,526,800
Total current assets	<u>3,132,245</u>	<u>6,868,178</u>	<u>102,044</u>	<u>-</u>	<u>10,216,438</u>
Capital assets					
Non-depreciable	126,829	1,560,933	-	-	1,687,762
Depreciable, net	1,130,389	27,750,190	233,162	-	29,113,741
Total capital assets	<u>1,257,218</u>	<u>29,311,123</u>	<u>233,162</u>	<u>-</u>	<u>30,801,503</u>
TOTAL ASSETS	<u>4,389,463</u>	<u>36,179,301</u>	<u>335,206</u>	<u>113,971</u>	<u>41,017,941</u>
LIABILITIES					
Current liabilities					
Accounts payable	147,058	122,972	800	-	270,830
Accrued liabilities					
Compensated absences	50,422	71,452	17,410	-	139,284
Wages	6,854	8,853	2,996	-	18,703
Other	52,450	3,167	-	-	55,617
Revenue notes payable	119,546	143,165	-	-	262,711
State revolving loan payable	-	856,894	-	-	856,894
Deferred revenues	6,793	38,075	-	-	44,868
Payable from restricted assets					
Customer deposits	311,324	424,754	-	-	736,078
Total current liabilities	<u>694,447</u>	<u>1,669,332</u>	<u>21,206</u>	<u>-</u>	<u>2,384,985</u>
Non-current liabilities					
Compensated absences	5,548	7,829	1,437	-	14,814
Revenue notes payable	1,219,895	1,456,835	-	-	2,676,730
State revolving loan payable	-	13,096,113	-	-	13,096,113
Total non-current liabilities	<u>1,225,443</u>	<u>14,560,777</u>	<u>1,437</u>	<u>-</u>	<u>15,787,657</u>
TOTAL LIABILITIES	<u>1,919,890</u>	<u>16,230,109</u>	<u>22,643</u>	<u>-</u>	<u>18,172,642</u>
NET ASSETS					
Invested in capital assets, net of related debt	1,124,928	15,358,116	233,162	-	16,716,206
Restricted					
Debt service	-	1,588,357	-	-	1,588,357
Capital projects	415,405	2,346,779	-	-	2,762,184
Unrestricted	<u>929,240</u>	<u>655,940</u>	<u>79,401</u>	<u>113,971</u>	<u>1,778,552</u>
TOTAL NET ASSETS	<u>\$ 2,469,573</u>	<u>\$ 19,949,192</u>	<u>\$ 312,563</u>	<u>\$ 113,971</u>	<u>\$ 22,845,299</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, 2008

	Natural Gas Fund	Water and Sewer Fund	Sanitation Fund	Non-Major Fund	Total
OPERATING REVENUES					
Charges for services	<u>\$ 4,869,514</u>	<u>\$ 4,534,784</u>	<u>\$ 1,065,172</u>	<u>\$ 144,947</u>	<u>\$10,614,417</u>
OPERATING EXPENSES					
Personal services	685,601	1,144,003	327,804	-	2,157,408
Operating	3,062,411	977,050	441,450	3,479	4,484,390
Depreciation	<u>176,252</u>	<u>1,141,298</u>	<u>104,542</u>	<u>-</u>	<u>1,422,092</u>
Total operating expenses	<u>3,924,264</u>	<u>3,262,351</u>	<u>873,796</u>	<u>3,479</u>	<u>8,063,890</u>
OPERATING INCOME	<u>945,250</u>	<u>1,272,433</u>	<u>191,376</u>	<u>141,468</u>	<u>2,550,527</u>
NON-OPERATING REVENUES (EXPENSES)					
Tower leases	-	95,558	-	-	95,558
Interest expense	(130,245)	(391,710)	-	-	(521,955)
Interest income	102,496	98,948	15	3	201,462
Miscellaneous	<u>10,369</u>	<u>14,985</u>	<u>803</u>	<u>-</u>	<u>26,157</u>
Total non-operating revenues (expenses)	<u>(17,380)</u>	<u>(182,219)</u>	<u>818</u>	<u>3</u>	<u>(198,778)</u>
INCOME BEFORE OPERATING TRANSFERS AND CAPITAL CONTRIBUTIONS					
	<u>927,870</u>	<u>1,090,214</u>	<u>192,194</u>	<u>141,471</u>	<u>2,351,749</u>
Capital contributions	-	1,771,170	-	-	1,771,170
Transfers in	745,996	4,888	51,916	-	802,800
Transfers out	<u>(1,491,259)</u>	<u>(2,425,170)</u>	<u>(456,114)</u>	<u>(27,500)</u>	<u>(4,400,043)</u>
Total transfers and capital contributions	<u>(745,263)</u>	<u>(649,112)</u>	<u>(404,198)</u>	<u>(27,500)</u>	<u>(1,826,073)</u>
CHANGE IN NET ASSETS	182,607	441,102	(212,004)	113,971	525,676
NET ASSETS - BEGINNING OF YEAR	<u>2,286,966</u>	<u>19,508,090</u>	<u>524,567</u>	<u>-</u>	<u>22,319,623</u>
NET ASSETS - END OF YEAR	<u>\$ 2,469,573</u>	<u>\$19,949,192</u>	<u>\$ 312,563</u>	<u>\$ 113,971</u>	<u>\$22,845,299</u>

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, 2008

	Natural Gas Fund	Water and Sewer Fund	Sanitation Fund	Non-Major Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	\$ 4,926,659	\$ 4,672,597	\$ 1,102,391	\$ 124,736	\$ 10,826,383
Payments to suppliers	(2,834,598)	(908,579)	(440,650)	(3,479)	(4,187,306)
Payments to employees	(687,058)	(1,127,522)	(323,620)	-	(2,138,200)
Miscellaneous income	10,369	14,985	803	-	26,157
Tower leases	-	95,558	-	-	95,558
Net cash provided (used) by operating activities	<u>1,415,372</u>	<u>2,747,039</u>	<u>338,924</u>	<u>121,257</u>	<u>4,622,592</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Borrowings (repayments)					
Due to other funds	(753,475)	-	5,278	-	(748,197)
Due from other funds	-	496,091	(87,830)	-	408,261
Transfers in	745,996	4,888	51,916	-	802,800
Transfers out	<u>(1,491,259)</u>	<u>(2,425,170)</u>	<u>(456,114)</u>	<u>(27,500)</u>	<u>(4,400,043)</u>
Net cash provided (used) by non-capital financing activities	<u>(1,498,738)</u>	<u>(1,924,191)</u>	<u>(486,750)</u>	<u>(27,500)</u>	<u>(3,937,179)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisitions of capital assets	(150,480)	(1,744,939)	-	-	(1,895,419)
Proceeds from impact fees	-	367,255	-	-	367,255
Capital contributions	-	1,403,915	-	-	1,403,915
Proceeds received from notes payable	-	1,600,000	-	-	1,600,000
Principal paid on notes payable and state revolving loans	(1,660,559)	(1,239,084)	-	-	(2,899,643)
Interest paid on notes payable and state revolving loans	<u>(130,245)</u>	<u>(365,894)</u>	<u>-</u>	<u>-</u>	<u>(496,139)</u>
Net cash provided (used) by capital and related financing activities	<u>(1,941,284)</u>	<u>21,253</u>	<u>-</u>	<u>-</u>	<u>(1,920,031)</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income	102,496	98,948	15	3	201,462
Purchase (sale) of investments	<u>(16,029)</u>	<u>128,500</u>	<u>-</u>	<u>-</u>	<u>112,471</u>
Net cash provided (used) by investing activities	<u>86,467</u>	<u>227,448</u>	<u>15</u>	<u>3</u>	<u>313,933</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,938,183)	1,071,549	(147,811)	93,760	(920,685)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,919,730</u>	<u>3,819,324</u>	<u>150,838</u>	<u>-</u>	<u>7,889,892</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,981,547</u>	<u>\$ 4,890,873</u>	<u>\$ 3,027</u>	<u>\$ 93,760</u>	<u>\$ 6,969,207</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, 2008

	Natural Gas Fund	Water and Sewer Fund	Sanitation Fund	Non-Major Fund	Total
CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF					
Current assets	\$ 146,683	\$ 358,767	\$ 3,027	\$ 93,760	\$ 602,237
Restricted assets	<u>1,834,864</u>	<u>4,532,106</u>	<u>-</u>	<u>-</u>	<u>6,366,970</u>
Total cash and cash equivalents	<u>\$ 1,981,547</u>	<u>\$ 4,890,873</u>	<u>\$ 3,027</u>	<u>\$ 93,760</u>	<u>\$ 6,969,207</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income	\$ 945,250	\$ 1,272,433	\$ 191,376	\$ 141,468	\$ 2,550,527
Adjustments to reconcile operating income to net cash provided by (used) operating activities					
Depreciation	176,252	1,141,298	104,542	-	1,422,092
Tower lease income	-	95,558	-	-	95,558
Miscellaneous revenue	10,369	14,985	803	-	26,157
Decrease (increase) in assets					
Accounts receivable	55,235	66,285	37,219	(20,211)	138,528
Inventory	68,529	-	-	-	68,529
Due from other governments	-	42,015	-	-	42,015
Increase (decrease) in liabilities					
Accounts payable	147,057	67,091	800	-	214,948
Compensated absences payable	(1,457)	16,481	4,184	-	19,208
Wages	-	3,438	-	-	3,438
Other accrued liabilities	12,227	(2,062)	-	-	10,165
Customer deposits	8,848	11,154	-	-	20,002
Deferred revenues	<u>(6,938)</u>	<u>18,363</u>	<u>-</u>	<u>-</u>	<u>11,425</u>
Net cash provided (used) by operating activities	<u>\$ 1,415,372</u>	<u>\$ 2,747,039</u>	<u>\$ 338,924</u>	<u>\$ 121,257</u>	<u>\$ 4,622,592</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, 2008

	Pension Trust Funds	Retired Employees' Insurance Trust Funds
ASSETS		
Cash and cash equivalents	\$ 2,233	\$ 510,354
Investments, at market	15,145,820	-
Due from State of Florida	34,609	-
Due from retired employees	-	2,389
TOTAL ASSETS	\$ 15,182,662	\$ 512,743
NET ASSETS		
Held in trust for pension and employee retirement benefits	\$ 15,182,662	\$ 512,743
TOTAL NET ASSETS	\$ 15,182,662	\$ 512,743

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, 2008

	<u>Pension Trust Funds</u>	<u>Retired Employees' Insurance Trust Funds</u>
ADDITIONS		
Contributions		
Employer	\$ 234,500	\$ -
Plan members	319,847	147,498
State of Florida	<u>184,686</u>	<u>-</u>
Total contributions	<u>739,033</u>	<u>147,498</u>
Investment income (loss)	(1,937,820)	2,442
Less investment expense	<u>(182,603)</u>	<u>-</u>
Net investment income (loss)	<u>(2,120,423)</u>	<u>2,442</u>
TOTAL ADDITIONS (DEDUCTIONS)	<u>(1,381,390)</u>	<u>149,940</u>
DEDUCTIONS		
Benefits and refunds paid		
Retirement payments	818,770	-
Insurance premiums	<u>-</u>	<u>53,658</u>
Total benefits and refunds paid	<u>818,770</u>	<u>53,658</u>
Administrative expenses		
Other	<u>2,612</u>	<u>10,338</u>
TOTAL DEDUCTIONS	<u>821,382</u>	<u>63,996</u>
NET INCREASE (DECREASE) IN NET ASSETS	(2,202,772)	85,944
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER RETIREMENT BENEFITS		
BEGINNING OF YEAR	<u>17,385,434</u>	<u>426,799</u>
END OF YEAR	<u>\$ 15,182,662</u>	<u>\$ 512,743</u>

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

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

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 GAAP in the U.S., these financial statements present the City 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 Statement No. 14 for determining financial accountability of potential component units in evaluating all potential component units. In accordance with GASB Statement 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, 2008

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 Statement No. 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 Activities) report information on all of the non-fiduciary 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, 2008

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 six 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, 2008

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, 2008
Levy Date	November 1, 2008
Due Date	November 1, 2008
Delinquent Date	April 1, 2009

Discounts of 1% for each month taxes are paid prior to March 2009, 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 2008 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 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, 2008

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 non-operating 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, 2008

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 wastewater 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 post-employment healthcare 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, 2008

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 U.S. Government or other obligations unconditionally guaranteed by the U.S. 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 U.S. 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 in accordance with 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 structured to maximize the plans' financial returns, including diversification of the plans' assets. Copies of the plan may be obtained by request from the Board of Trustees of the General, Fire or Police Pension Funds.

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."

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Receivables and Payables (Continued)

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 governmental activities are classified as restricted due to external restrictions imposed on the City. The restricted assets include, monies in the Police Special Investigation Fund, restricted for public safety purposes; monies in the Downtown Redevelopment Fund, restricted for future downtown redevelopment costs; monies restricted for upcoming capital projects, and monies restricted for retirement funding.

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, 2008

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 Statement No. 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 the life of the asset, 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, 2008

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

Years of Employment	Hours Accrued Per Month (Firefighters/All Others)
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, 2008

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, 2008

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

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 October 1 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, 2008

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

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.

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, 2008, were entirely covered by federal depository insurance or pooled collateral held by the State Treasurer and, therefore, have no custodial risk. At September 30, 2008, the bank balance was \$12,243,598, consisting entirely of deposits with financial institutions in checking, money market and certificate of deposit accounts.

Investments

As of September 30, 2008, 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.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

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 Plans' 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 U.S.; stocks issued by a corporation organized under the laws of the U.S.; 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, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

As of September 30, 2008, 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	\$ 398,188	\$ -	\$ 211,767	\$ 145,113	\$ 14,772	\$ 4,669	\$ 9,514	\$ 12,353	\$ -
U.S. Government CMOs	488,721	-	2,806	-	62,509	71,055	73,847	278,504	-
Non-Government CMOs	209,411	-	-	16,792	3,719	-	-	68,635	120,265
	<u>1,096,320</u>	<u>-</u>	<u>214,573</u>	<u>161,905</u>	<u>81,000</u>	<u>75,724</u>	<u>83,361</u>	<u>359,492</u>	<u>120,265</u>
Investments not subject to interest rate risk									
Money market funds	1,766,063								
Equity securities	5,139,470								
Mutual funds	7,043,942								
U.S. Treasury	<u>100,025</u>								
Total	<u>\$ 15,145,820</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 26 issues that were graded below the minimum grade of A by Standard and Poor's rating service as of September 30, 2008.

Concentration Credit Risk - To limit the City's risk against possible credit losses, each of the three Pension Funds' policies state that the exposure of the portfolio to any one corporate issuer, other than securities of the U.S. 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, 2008.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 4 - RECEIVABLES

Receivables at September 30, 2008, were as follows:

	Governmental Activities	Business-Type Activities				Total
	General	Natural Gas	Water and Sewer	Sanitation	Non-Major	
Utility taxes and franchise fees	\$ 168,320	\$ -	\$ -	\$ -	\$ -	\$ 168,320
Accounts	-	277,548	584,521	110,017	20,211	992,297
Less allowance for doubtful accounts	-	(12,817)	(35,000)	(11,000)	-	(58,817)
Other	1,946	24,717	-	-	-	26,663
Total receivables	\$ 170,266	\$ 289,448	\$ 549,521	\$ 99,017	\$ 20,211	\$ 1,128,463

Due from Other Governments

The City's receivables from other governments for governmental activities as of September 30, 2008, is \$135,349. The receivables consist of amounts due from the State of Florida, relating to intergovernmental revenues.

NOTE 5 - CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2008, was as follows:

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 1,622,054	\$ -	\$ -	\$ 1,622,054
Construction in progress	900,211	94,650	(265,830)	729,031
Total capital assets not being depreciated	<u>2,522,265</u>	<u>94,650</u>	<u>(265,830)</u>	<u>2,351,085</u>
Capital assets being depreciated				
Buildings	7,681,104	-	-	7,681,104
Improvements other than buildings	1,832,606	157,171	265,830	2,255,607
Machinery and equipment	3,523,565	181,050	-	3,704,615
Total capital assets being depreciated	<u>13,037,275</u>	<u>338,221</u>	<u>265,830</u>	<u>13,641,326</u>
Less accumulated depreciation				
Buildings	(2,918,374)	(323,341)	-	(3,241,715)
Improvements other than buildings	(497,622)	(97,893)	-	(595,515)
Machinery and equipment	(2,475,503)	(182,358)	-	(2,657,861)
Total accumulated depreciation	<u>(5,891,499)</u>	<u>(603,592)</u>	<u>-</u>	<u>(6,495,091)</u>
Total capital assets being depreciated, net	<u>7,145,776</u>	<u>(265,371)</u>	<u>-</u>	<u>7,146,235</u>
Governmental activities, net	\$ 9,668,041	\$ (170,721)	\$ -	\$ 9,497,320

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 5 - CHANGES IN CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Transfers</u>	<u>Ending Balance</u>
Business-Type Activities				
Capital assets not being depreciated				
Land	\$ 91,313	\$ -	\$ -	\$ 91,313
Construction in progress	<u>21,654,527</u>	<u>1,546,570</u>	<u>(21,604,648)</u>	<u>1,596,449</u>
Total capital assets not being depreciated	<u>21,745,840</u>	<u>1,546,570</u>	<u>(21,604,648)</u>	<u>1,687,762</u>
Capital assets being depreciated				
Improvements other than buildings	15,625,027	319,646	21,604,648	37,549,321
Machinery and equipment	<u>5,736,433</u>	<u>29,203</u>	<u>-</u>	<u>5,765,636</u>
Total capital assets being depreciated	<u>21,361,460</u>	<u>348,849</u>	<u>21,604,648</u>	<u>43,314,957</u>
Less accumulated depreciation				
Improvements other than buildings	(11,076,668)	(1,244,606)	-	(12,321,274)
Machinery and equipment	<u>(1,702,456)</u>	<u>(177,486)</u>	<u>-</u>	<u>(1,879,942)</u>
Total accumulated depreciation	<u>(12,779,124)</u>	<u>(1,422,092)</u>	<u>-</u>	<u>(14,201,216)</u>
Total capital assets being depreciated, net	<u>8,582,336</u>	<u>(1,073,243)</u>	<u>21,604,648</u>	<u>29,113,741</u>
Business-type activities, net	<u>\$ 30,328,176</u>	<u>\$ 473,327</u>	<u>\$ -</u>	<u>\$ 30,801,503</u>

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

Governmental Activities

General government	\$ 156,933
Public safety	289,726
Culture and recreation	<u>156,933</u>
Total depreciation expense - governmental activities	<u>\$ 603,592</u>

Business-Type Activities

Natural gas	\$ 176,252
Water and sewer	1,141,298
Sanitation	<u>104,542</u>
Total depreciation expense - business-type activities	<u>\$ 1,422,092</u>

Construction Commitments

The City has active construction projects as of September 30, 2008:

Project	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Berryhill Watertower	\$ 288,323	\$ 2,510,088
Firehouse	302,247	1,457,135
Locklin Lake	<u>710,822</u>	<u>24,870</u>
	<u>\$ 1,301,392</u>	<u>\$ 3,992,093</u>

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 6 - DEFINED BENEFIT PENSION PLANS

The City 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.

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, 2008, the date of the latest actuarial valuation:

	GERP	PORP	FRP
Retirees receiving benefits	19	7	7
Terminated plan members entitled to but not yet receiving benefits	4	-	1
Beneficiaries receiving benefits	2	2	2
Disabled participants	2	-	1
Deferred retirement option members	-	-	1
Active plan members	72	17	15
Total	99	26	27

General Employees' Retirement Plan (GERP) - Plan Description

The GERP is a single-employer defined benefit pension plan that covers general employees of the City. 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, 2008

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 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 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, 2008

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:

	GERP	PERP	FRP
Contribution rates (percentage of covered payroll)			
City	7.0 %	6.5 %	4.4 %
Plan members	10.0 %	6.0 %	6.5 %
Annual pension cost	\$ 176,965	\$ 149,671	\$ 96,527
Contributions made			
Employer	\$ 162,477	\$ 29,851	\$ 42,172
Employees	\$ 229,068	\$ 45,740	\$ 45,039
Other sources	\$ -	\$ 105,984	\$ 78,702
Net pension obligation (asset)	\$ (12,528)	\$ -	\$ (30,028)
Actuarial valuation date	10/1/2007	10/1/2007	10/1/2007
Actuarial cost method	Frozen Entry Age	Entry Age Normal	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	30 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 %	- %

	Three-Year Trend Information			
	Year Ending	Annual Pension Cost (APC)	Percentage Contribution	Net Pension Obligation (Asset)
GERP	9/30/2008	\$ 176,965	100 %	\$ (12,528)
	9/30/2007	\$ 147,299	100 %	\$ (12,147)
	9/30/2006	\$ 175,536	100 %	\$ -
PERP	9/30/2008	\$ 149,671	100 %	\$ -
	9/30/2007	\$ 118,430	100 %	\$ -
	9/30/2006	\$ 149,094	100 %	\$ -
FRP	9/30/2008	\$ 96,527	100 %	\$ (30,028)
	9/30/2007	\$ 45,759	100 %	\$ (29,117)
	9/30/2006	\$ -	100 %	\$ -

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

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. Individually, the Plan participants 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 \$409,983 at September 30, 2008. Contributions and distributions made during the fiscal year ended September 30, 2008, were \$84,391 and \$82,905, respectively. The Plan had net earnings of \$38,893.

NOTE 8 - RISK MANAGEMENT

The City 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, 2008

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, 2008:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Revenue note payable	\$ 2,550,194	\$ -	\$ (553,956)	\$ 1,996,238	\$ 159,753
Less loss on refunding	(20,626)	-	20,626	-	-
Compensated absences	<u>373,845</u>	<u>23,314</u>	<u>(3,492)</u>	<u>393,667</u>	<u>326,124</u>
Total governmental activities	<u>\$ 2,903,413</u>	<u>\$ 23,314</u>	<u>\$ (536,822)</u>	<u>\$ 2,389,905</u>	<u>\$ 485,877</u>
Business-Type Activities					
Revenue note payable	\$ 3,399,586	\$ 1,600,000	\$(2,060,145)	\$ 2,939,441	\$ 262,711
Less loss on refunding	(25,813)	-	25,813	-	-
State revolving loan payable	14,792,505	-	(839,498)	13,953,007	856,894
Compensated absences	<u>134,620</u>	<u>24,935</u>	<u>(5,457)</u>	<u>154,098</u>	<u>139,284</u>
Total business-type activities	<u>\$18,300,898</u>	<u>\$ 1,624,935</u>	<u>\$(2,879,287)</u>	<u>\$ 17,046,546</u>	<u>\$ 1,258,889</u>

Description of Long-Term Debt Outstanding

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
GOVERNMENTAL ACTIVITIES			
<i>Revenue Note Payable</i>			
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>\$ 159,753</u>	<u>\$ 1,836,485</u>	<u>\$ 1,996,238</u>
<i>Total revenue note payable</i>	<u>159,753</u>	<u>1,836,485</u>	<u>1,996,238</u>
<i>Compensated Absences</i>			
Total long-term portion of accumulated, vested annual and sick leave for governmental fund types.	<u>326,124</u>	<u>67,543</u>	<u>393,667</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 485,877</u>	<u>\$ 1,904,028</u>	<u>\$ 2,389,905</u>

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 9 - LONG-TERM DEBT (CONTINUED)

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
BUSINESS-TYPE ACTIVITIES			
<i>Revenue Notes Payable</i>			
<u>Water and Sewer</u>			
Revenue note payable incurred for the acquisition and construction of capital improvements in the Water and Sewer Fund, bearing interest at 4.20%. Principal and interest payments of \$51,732 are made quarterly, until maturity on September 15, 2010. The note is secured by Water and Sewer revenues.	\$ 143,165	\$ 1,456,835	\$ 1,600,000
<u>Natural Gas</u>			
Revenue note payable incurred for the acquisition and construction of capital improvements in the Natural Gas Fund, bearing interest at 4.20%. Principal and interest payments of \$44,068 are made quarterly, until maturity on September 15, 2010. The note is secured by natural gas revenues.	<u>119,546</u>	<u>1,219,895</u>	<u>1,339,441</u>
<i>Total revenue notes payable</i>	<u>262,711</u>	<u>2,676,730</u>	<u>2,939,441</u>
<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 wastewater collection and treatment facilities.	856,894	13,096,113	13,953,007
<i>Accrued Compensated Absences</i>			
Accumulated, vested annual compensation for Proprietary Funds.	<u>139,284</u>	<u>14,814</u>	<u>154,098</u>
TOTAL BUSINESS-TYPE ACTIVITIES	<u><u>\$ 1,258,889</u></u>	<u><u>\$14,330,822</u></u>	<u><u>\$17,046,546</u></u>
GRAND TOTAL LONG-TERM DEBT			<u><u>\$19,436,451</u></u>

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 9 - LONG-TERM DEBT (CONTINUED)

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, 2008, are as follows:

Governmental Activities

<u>Year Ending September 30</u>	<u>Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 159,753	\$ 69,195
2010	165,534	63,415
2011	171,524	57,454
2012	177,731	51,217
2013	184,162	44,786
2014-2018	1,025,731	119,011
2019	111,803	1,510
Total	<u>\$ 1,996,238</u>	<u>\$ 406,588</u>

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>
2009	\$ 856,894	\$ 339,448	\$ 262,711	\$ 120,488
2010	878,212	318,130	2,676,730	109,156
2011	900,062	296,280	-	-
2012	922,455	273,887	-	-
2013	945,405	250,938	-	-
2014-2018	5,091,762	889,948	-	-
2019-2023	4,058,344	260,493	-	-
2024-2027	299,873	3,560	-	-
Total	<u>\$ 13,953,007</u>	<u>\$ 2,632,684</u>	<u>\$ 2,939,441</u>	<u>\$ 229,644</u>

NOTE 10 - GAS FUND LINE OF CREDIT

In 2007, 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 6.50% at September 30, 2008). 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, 2008.

NOTE 11 - RENTAL ACTIVITIES

The City is the lessor in multiple operating leases with communication companies, which are renting space on the City's watertowers. The terms of the leases vary from 3-5 years, with options to renew, and expire in fiscal years 2009, through 2011. The rental income for the fiscal year ending September 30, 2008, was \$95,558.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 11 - RENTAL ACTIVITIES (CONTINUED)

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

2009	\$ 94,620
2010	93,420
2011	<u>93,420</u>
Total	<u>\$ 281,460</u>

NOTE 12 - CAPITAL CONTRIBUTIONS

For the year ended September 30, 2008, the Water and Sewer Fund had \$1,771,170 of capital contributions, which included approximately \$356,550 of impact fees, and \$1,414,620 in capital grants related to the wastewater treatment plant and the Locklin Lake improvements.

NOTE 13 - UNEARNED REVENUE

At September 30, 2008, the Natural Gas Fund had \$6,793 in unearned revenues associated with signed natural gas generator contracts that were uncompleted at year-end. The Water and Sewer Fund had \$38,075 related to rental income from the above mentioned cell tower leases received in fiscal year 2008, but to be earned in fiscal year 2009. The General Fund had \$87,713 related to 2009 occupational licenses purchased in 2008.

NOTE 14 - INTERFUND TRANSFERS

Transfers Out	Transfers In					Total
	General Fund	Non-Major Govern- mental Funds	Natural Gas Fund	Water and Sewer Fund	Sanitation Fund	
General	\$ -	\$ 388,190	\$ -	\$ 318,802	\$ 30,636	\$ 737,628
Non-Major Governmental	955,294	-	4,888	-	-	960,182
Natural Gas	1,491,259	-	-	-	-	1,491,259
Water and Sewer	1,860,569	116,127	-	427,194	21,280	2,425,170
Sanitation	375,124	80,990	-	-	-	456,114
Non-Major Proprietary	<u>27,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,500</u>
Totals	<u>\$ 4,709,747</u>	<u>\$ 585,307</u>	<u>\$ 4,888</u>	<u>\$ 745,996</u>	<u>\$ 51,916</u>	<u>\$ 6,097,853</u>

Approximately \$1 million of these transfers, related to the retirement of interfund receivables and payables, accumulated from prior years. All other 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, 2008

NOTE 15 - POST-EMPLOYEE HEALTHCARE BENEFITS

In addition to providing pension benefits, the City provides limited healthcare 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 11 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, 2008, those costs totaled \$53,658.

NOTE 16 - 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 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.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE 16 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Hurricane

During 2005, the City received grants from the Federal Emergency Management Agency (FEMA) and the State of Florida to assist in cleanup of hurricane 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, 2008, total \$110,966, and relate 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.

Economic Condition

Subsequent to year-end, the credit and liquidity crisis in the U.S. and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, the City's investments have likely incurred a significant decline in fair value since year-end.

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)
10/1/2007	\$ 8,836,690	\$ 10,010,193	\$ 1,173,503	88.28 %	\$ 2,243,608	52.30 %
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)
10/1/2007	\$ 4,652,328	\$ 4,024,381	\$ (627,947)	115.60 %	\$ 726,635	(86.42)%
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 %

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)
10/1/2007	\$ 4,385,262	\$ 5,097,081	\$ 711,819	86.03 %	\$ 596,472	119.34 %
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)%

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	\$ 162,477	110.30 %
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 %
September 30, 2000	\$ 118,267	\$ 118,267	100.00 %
September 30, 1999**	\$ 119,636	\$ 119,636	100.00 %

Police Officers' Retirement Fund

	Annual Required Contribution	City Contribution	State Contribution	Percentage Contributed
September 30, 2007	\$ 149,671	\$ 49,856	\$ 99,815	100.00 %
September 30, 2006	\$ 118,430	\$ 18,615	\$ 99,815	100.00 %
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 %

Firefighters' Retirement Fund

	Annual Required Contribution	City Contribution	State Contribution	Percentage Contributed
September 30, 2007	\$ 96,527	\$ 21,731	\$ 74,796	100.00 %
September 30, 2006	\$ 45,759	\$ 29,117	\$ 66,609	100.00 %
September 30, 2005	\$ -	\$ -	\$ 78,702	-
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 %

#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.

**Frozen per Chapter 185, Florida Statutes.

***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 is more than one fund of a given fund type.

NON-MAJOR 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
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
September 30, 2008

	<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	\$ -	\$ -	\$ 358,479	\$ -	\$ 358,479
Restricted cash	<u>60,744</u>	<u>63,212</u>	<u>-</u>	<u>1,042,038</u>	<u>1,165,994</u>
TOTAL ASSETS	<u>\$ 60,744</u>	<u>\$ 63,212</u>	<u>\$ 358,479</u>	<u>\$ 1,042,038</u>	<u>\$ 1,524,473</u>
LIABILITIES AND FUND BALANCE					
Fund balance					
Reserved for public safety	\$ 60,744	\$ -	\$ -	\$ -	\$ 60,744
Reserved for downtown redevelopment	-	63,212	-	-	63,212
Reserved for capital improvements	-	-	-	1,042,038	1,042,038
Unreserved/undesignated	<u>-</u>	<u>-</u>	<u>358,479</u>	<u>-</u>	<u>358,479</u>
Total fund balance	<u>60,744</u>	<u>63,212</u>	<u>358,479</u>	<u>1,042,038</u>	<u>1,524,473</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 60,744</u>	<u>\$ 63,212</u>	<u>\$ 358,479</u>	<u>\$ 1,042,038</u>	<u>\$ 1,524,473</u>

City of Milton, Florida
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
Year Ended September 30, 2008

	<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					
Intergovernmental	\$ 9,569	\$ 65,028	\$ -	\$ -	\$ 74,597
Miscellaneous	-	-	186	16,240	16,426
Total revenues	<u>9,569</u>	<u>65,028</u>	<u>186</u>	<u>16,240</u>	<u>91,023</u>
EXPENDITURES					
Current					
Public safety	18,782	-	-	-	18,782
Economic environment	-	33,449	-	-	33,449
Capital outlay	-	24,529	-	-	24,529
Total expenditures	<u>18,782</u>	<u>57,978</u>	<u>-</u>	<u>-</u>	<u>76,760</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(9,213)</u>	<u>7,050</u>	<u>186</u>	<u>16,240</u>	<u>14,263</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	2,078	583,229	-	585,307
Transfers out	(16,134)	(1,162)	(895,684)	(47,202)	(960,182)
Total other financing sources (uses)	<u>(16,134)</u>	<u>916</u>	<u>(312,455)</u>	<u>(47,202)</u>	<u>(374,875)</u>
NET CHANGE IN FUND BALANCE	(25,347)	7,966	(312,269)	(30,962)	(360,612)
FUND BALANCE - BEGINNING OF YEAR	<u>86,091</u>	<u>55,246</u>	<u>670,748</u>	<u>1,073,000</u>	<u>1,885,085</u>
FUND BALANCE - END OF YEAR	<u>\$ 60,744</u>	<u>\$ 63,212</u>	<u>\$ 358,479</u>	<u>\$ 1,042,038</u>	<u>\$ 1,524,473</u>

NON-MAJOR PROPRIETARY FUND

The Proprietary Fund is used to account for operations that are financed in a manner similar to private business enterprise where the intent of the government's council is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the government's council has decided that periodic determination of net income is appropriate for accountability purposes.

Stormwater Fund

To account for the income and expenses related to the operation of the stormwater utility system.

City of Milton, Florida
BALANCE SHEET
NON-MAJOR PROPRIETARY FUND
September 30, 2008

	<u>Stormwater Fund</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 93,760
Receivables, net	<u>20,211</u>
TOTAL ASSETS	<u>\$ 113,971</u>
NET ASSETS	
Unrestricted	<u>\$ 113,971</u>
TOTAL NET ASSETS	<u>\$ 113,971</u>

City of Milton, Florida
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS
NON-MAJOR PROPRIETARY FUND
Year Ended September 30, 2008

	<u>Stormwater Fund</u>
OPERATING REVENUES	
Charges for services	<u>\$ 144,947</u>
OPERATING EXPENSES	
Operating	<u>3,479</u>
OPERATING INCOME (LOSS)	<u>141,468</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest	<u>3</u>
INCOME (LOSS) BEFORE TRANSFERS	141,471
Transfer out	<u>(27,500)</u>
CHANGE IN NET ASSETS	113,971
NET ASSETS - BEGINNING OF YEAR	<u>-</u>
NET ASSETS - END OF YEAR	<u>\$ 113,971</u>

City of Milton, Florida
STATEMENT OF CASH FLOWS
NON-MAJOR PROPRIETARY FUND
Year Ended September 30, 2008

	Stormwater Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 124,736
Payments to suppliers	(3,479)
Net cash provided (used) by operating activities	121,257
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers out	(27,500)
NET CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	3
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	93,760
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 93,760
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ 141,468
Adjustments to reconcile operating income to net cash provided by operating activities	
Decrease (increase) in assets	
Accounts receivable	(20,211)
Net cash provided (used) by operating activities	\$ 121,257

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
September 30, 2008

	General Employees' Pension Fund	Police Officers' Pension Fund	Firefighters' Pension Fund	Total Employee Pension Funds
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ 2,233	\$ 2,233
Investments, at market	7,798,473	4,178,238	3,169,109	15,145,820
Due from State of Florida	-	-	34,609	34,609
TOTAL ASSETS	<u>\$ 7,798,473</u>	<u>\$ 4,178,238</u>	<u>\$ 3,205,951</u>	<u>\$ 15,182,662</u>
NET ASSETS				
Held in trust for pension and employee retirement benefits	<u>\$ 7,798,473</u>	<u>\$ 4,178,238</u>	<u>\$ 3,205,951</u>	<u>\$ 15,182,662</u>
TOTAL NET ASSETS	<u>\$ 7,798,473</u>	<u>\$ 4,178,238</u>	<u>\$ 3,205,951</u>	<u>\$ 15,182,662</u>

City of Milton, Florida
PENSION TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS
Year Ended September 30, 2008

	General Employees' Pension Fund	Police Officers' Pension Fund	Firefighters' Pension Fund	Total Employee Pension Funds
ADDITIONS				
Contributions				
Employer	\$ 162,477	\$ 29,851	\$ 42,172	\$ 234,500
Plan members	229,068	45,740	45,039	319,847
State of Florida	<u>-</u>	<u>105,984</u>	<u>78,702</u>	<u>184,686</u>
Total contributions	<u>391,545</u>	<u>181,575</u>	<u>165,913</u>	<u>739,033</u>
Investment income (loss)	(1,004,664)	(488,085)	(445,071)	(1,937,820)
Less investment expense	<u>(81,894)</u>	<u>(51,261)</u>	<u>(49,448)</u>	<u>(182,603)</u>
Net investment income (loss)	<u>(1,086,558)</u>	<u>(539,346)</u>	<u>(494,519)</u>	<u>(2,120,423)</u>
TOTAL ADDITIONS	<u>(695,013)</u>	<u>(357,771)</u>	<u>(328,606)</u>	<u>(1,381,390)</u>
DEDUCTIONS				
Benefits and refunds paid				
Retirement payments	<u>391,288</u>	<u>203,751</u>	<u>223,731</u>	<u>818,770</u>
Administrative expenses				
Other	<u>-</u>	<u>-</u>	<u>2,612</u>	<u>2,612</u>
TOTAL DEDUCTIONS	<u>391,288</u>	<u>203,751</u>	<u>226,343</u>	<u>821,382</u>
NET INCREASE (DECREASE)	<u>(1,086,301)</u>	<u>(561,522)</u>	<u>(554,949)</u>	<u>(2,202,772)</u>
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER RETIREMENT BENEFITS				
BEGINNING OF YEAR	<u>8,884,774</u>	<u>4,739,760</u>	<u>3,760,900</u>	<u>17,385,434</u>
END OF YEAR	<u>\$ 7,798,473</u>	<u>\$ 4,178,238</u>	<u>\$ 3,205,951</u>	<u>\$ 15,182,662</u>

IV. COMPLIANCE SECTION

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

City of Milton, Florida
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
Year Ended September 30, 2008

<u>State Project</u>	<u>CSFA Number</u>	<u>Contract/Grant Number</u>	<u>Expenditures</u>
Florida Department of Environmental Protection			
Direct Programs			
Small County Wastewater Treatment Grants	37.039	SG625090	\$ 939,792
Statewide Surface Water Restoration and Wastewater Projects	37.039	LP6757	59,758
Florida Recreational Development Assistance	37.017	F6138	79,286
Locklin Lake Restoration	37.039	LP0516/LP6051	<u>562,850</u>
<i>Total Florida Department of Environmental Protection</i>			<u>1,641,686</u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			<u>\$ 1,641,686</u>

The accompanying notes are an integral
part of this schedule.

City of Milton, Florida
NOTES TO SCHEDULE OF EXPENDITURES OF
STATE FINANCIAL ASSISTANCE
Year Ended September 30, 2008

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of State Financial Assistance includes the 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 described in the State of Florida, *Executive Office of the Governor's State Projects Compliance Supplement*. 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, 2008, which collectively comprise the City of Milton, Florida's basic financial statements, and have issued our report thereon dated February 3, 2009. 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 the 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 in the following, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 deficiency described in the accompanying Schedule of Findings and Questioned Costs, item 2006-01 to be a significant deficiency 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 non-compliance 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, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our test disclosed no instances of non-compliance 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 03, 2009.

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, and is 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 3, 2009



O'SULLIVAN CREEL, LLP
Certified Public Accountants & Consultants

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Honorable Mayor and City Council Members
City of Milton, Florida

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROJECT AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH CHAPTER 10.550, RULES OF
THE AUDITOR GENERAL**

Compliance

We have audited the compliance of the City of Milton (the City) with the types of compliance requirements described in the *Executive Office of the Governor's State Projects, Compliance Supplement* that are applicable to each of its major state projects for the year ended September 30, 2008. The City's major 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 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; and Chapter 10.550, *Rules of the Auditor General*. Those standards, and Chapter 10.550, *Rules of the Auditor General* require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above, that could have a direct and material effect on a major 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 state projects for the year ended September 30, 2008.

Honorable Mayor and City Council Members
City of Milton, Florida
Report on Compliance with Requirements Applicable to Each
Major Project and on Internal Control Over Compliance in
Accordance with Chapter 10.550, *Rules of the Auditor General* (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 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 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 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 non-compliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major state project 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 the 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, state awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

O'Sullivan Creel, LLP

February 3, 2009

City of Milton, Florida
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2008

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 is/are not considered to be material weaknesses? X Yes _____ No
- Non-compliance material to financial statements noted? _____ Yes X No

State Projects

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that is/are not considered to be material weaknesses? _____ Yes X No

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:

CSFA Number	Name of State Project
37.039	Small County Wastewater Treatment Grant

Continued...

City of Milton, Florida
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2008

I. SUMMARY OF AUDITOR'S RESULTS (CONTINUED)

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

\$100,000

II. FINANCIAL STATEMENT FINDING

<u>FINDING NUMBER</u>	<u>FINDING</u>
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>

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

We noted no matters involving noncompliance that are required to be reported in accordance with Chapter 10.550, *Rules of the Auditor General*.

City of Milton, Florida
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2008

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, 2008, and have issued our report thereon dated February 3, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards 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 Project and on Internal Control Over Compliance in Accordance with Chapter 10.550, *Rules of the Auditor General*, and Schedule of Findings and Questioned Costs. Disclosures in this report and schedules, which are dated February 3, 2009, 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."

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.

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

The *Rules of the 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 "Prior Year Comments" and "Current Year Comment."

The *Rules of the Auditor General* (Sections 10.554(1)(i)(4)) require disclosure in the management letter of violations of provisions of contracts and grant agreements, or abuse that have an effect on the financial statements that is less than 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. Utilizing the standards set forth in GASB Statement No. 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, 2008. 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.

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)(7.b.)), we determined that the annual financial report for the City of Milton for the fiscal year ended September 30, 2008, 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, 2008.

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 did not indicate a deteriorating financial condition.

PRIOR YEAR COMMENTS

1. *DELINQUENT ACCOUNTS RECEIVABLE*

Prior Year Comment Summarized

We previously reported from 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.

Status

For the fiscal year ending September 30, 2008, we noted the amount of proprietary fund accounts receivable in excess of 120 days had decreased from 45% to 12% as a result of Management writing-off approximately \$310,000 of bad debts. Management has also adopted procedures to evaluate write-offs of uncollectible accounts annually and to adhere to existing customer cutoff policies associated with the utility accounts.

PRIOR YEAR COMMENTS (CONTINUED)

2. CAPITAL ASSETS

Prior Year Comment Summarized

We noted the City had not reconciled the capital asset subsidiary ledger totals with the general ledger control totals in a timely manner. We recommended Management reconcile all capital asset activity regularly to ensure proper tracking of such items and to provide an accurate reporting tool to Management.

Status

For the fiscal year ending September 30, 2008, we noted capital assets were not reconciled to the subsidiary ledger until December 2008. We continue our recommendation as stated above.

Management Response

The City will reconcile the fixed asset subsidiary accounts in a timely manner during the coming year.

CURRENT YEAR COMMENTS

1. FINANCIAL CONDITION

Observation

The council was able to substantially increase fund balance in the General Fund by eliminating approximately \$1,000,000 in interfund liabilities during the year ended September 30, 2008, through operating transfers. Unreserved fund balance in the General Fund is now \$1,125,807. This amount represents just over two months of normal operating expenses and is less than recommended minimum reserves of three to six months. Without this transfer, General Fund expenditures would have exceeded revenues for the second year in a row, which may be a sign that the normal recurring revenue sources are not adequate to meet the City's ongoing needs.

Recommendation

We recommend 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.

CURRENT YEAR COMMENTS (CONTINUED)

1. FINANCIAL CONDITION (CONTINUED)

Management Response

Management will review the recommended practices and work with the Council to establish a formal reserve policy.

2. GENERAL LEDGER MAINTENANCE

Observation

During our audit, we noted several subsidiary ledgers were not reconciled with the general ledger control accounts, including the utility accounts receivables, capital assets, and long-term debt accounts. We also noted suspense accounts within the general ledger that had not been investigated.

Recommendation

We recommend the City reconcile each subsidiary account to the general ledger control account on a monthly basis, and that proper investigation of any differences be conducted and reviewed by the Accounting Department in a timely manner.

Management Response

During the monthly closeout process, Management will review and follow up on differences noted in the monthly reconciliation of the general ledger control accounts and subsidiary ledgers.

3. BANK RECONCILIATION PROCESS

Observation

The City's pooled cash bank reconciliation process has been hindered by software related account postings from the utility billing software, as reported in our Schedule of Findings and Questioned Costs. The reconciliation process is cumbersome and time consuming and is impeded by accounting errors made in the normal course of operations.

Recommendation

Reconciling the bank account completely and timely each month must remain a priority of Management. Great care should be taken to insure that all transactions are complete and correctly recorded. Any errors discovered in the reconciliation process should be investigated and corrected immediately. We also believe that an appropriate member of Management should review and sign the reconciliation as evidence of their review each month.

CURRENT YEAR COMMENTS (CONTINUED)

3. *BANK RECONCILIATION PROCESS (CONTINUED)*

Management Response

Management will closely monitor the bank reconciliation process and ensure adequate review and approval is obtained on a monthly basis.

4. *INTERNAL FINANCIAL REPORTING*

Observation

The City's computer generated monthly financial statements are extremely detailed and not presented in a manner allowing Management to quickly assess the City's financial position. Accordingly, they are supplemented by additional schedules and reports. This process is time consuming, increases the chance for errors, and delays the monthly financial reports.

Recommendation

We recommend that the different members of the City's Management meet and determine what financial reports are critical to the City's operations and either write or contract to have them written so they may be produced from the City's accounting software.

Management Response

The City has already begun the process of developing new internal financial reports, which facilitate Management's review of the overall financial condition of the City. Further, Management will discuss with Council the reporting needs required to monitor the City's operations, to improve the internal financial reporting process.

5. *EXTERNAL FINANCIAL REPORTING*

Observation

In early 2008, the City experienced turnover in the Accounting Department causing a shift of responsibilities within the Department. Although the City designates a capable individual responsible for overseeing the financial statement process, the existing staff does not provide the technical background required, with respect to emerging governmental accounting standards, to produce its financial statements.

Recommendation

We recommend Management evaluate additional training for existing staff to understand the financial reporting aspects of the City, and to adequately address any emerging governmental issues that may impact the City in the future.

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

CURRENT YEAR COMMENTS (CONTINUED)

5. *EXTERNAL FINANCIAL REPORTING (CONTINUED)*

Management Response

The City understands the importance of external financial reporting, and will provide existing staff governmental accounting and financial reporting training aimed at enhancing the City's external financial reporting.

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 to us during our audit.

O'Sullivan Creel, LLP

February 3, 2009