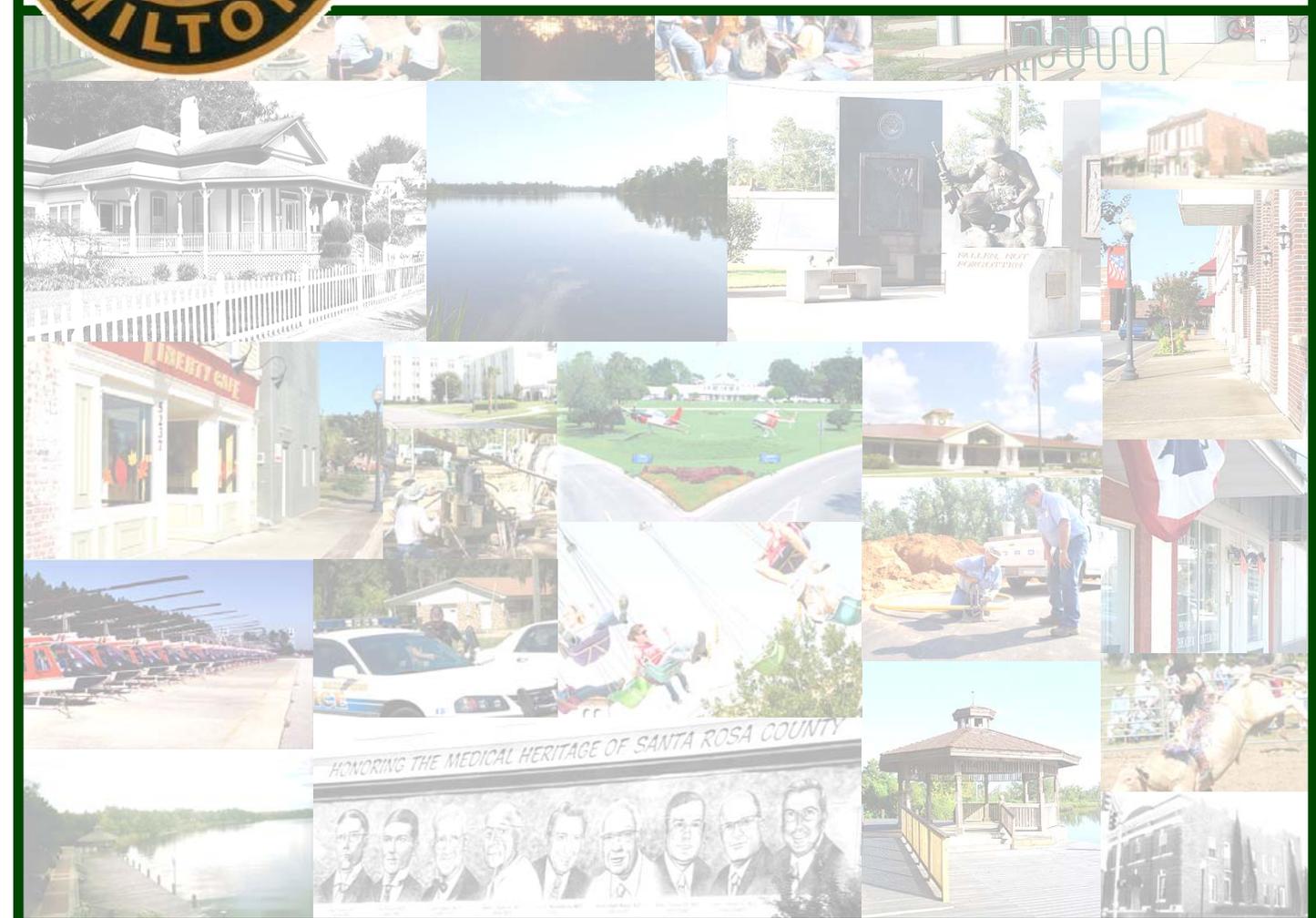




# Financial Statements and Supplemental Information

*Fiscal Year Ended September 30, 2009*



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**CITY OF MILTON, FLORIDA**

**Financial Statements and  
Supplemental Information**

**September 30, 2009**

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# CITY OF MILTON, FLORIDA

## Financial Statements and Supplemental Information

September 30, 2009

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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, 2009, 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, 2009, and the respective changes in financial position and cash flows, where applicable thereof, and the respective budgetary fund information for the General Fund and the Capital Projects Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2010, 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.

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

The Management's Discussion and Analysis on pages 3-17, the Schedule of Funding Progress on page 60, and the Schedule of Contributions from the Employer and Other Contributing Entities on page 61 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 Non-Major 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 9, 2010

## **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, 2009.

### **FINANCIAL HIGHLIGHTS**

- The assets of the City exceeded its liabilities by \$33.39 million (net assets), which represents an increase of \$543 thousand (or 2%) from the prior year. Of this amount, \$24.71 million represents investments in capital assets, net of related debt (e.g. land, infrastructure, building, machinery and equipment), \$4.67 million is restricted for future obligations, and \$4.01 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 decreased by \$277 thousand (or 1.21%) from the prior year. The decrease is attributable to depreciation costs associated with the wastewater treatment plant's first full year of operations, and a decline in the construction of new homes, resulting in the reduction of impact fee revenues.
- The net assets of the governmental-type activities of the City increased by \$820 thousand (or 8.20%) from the prior year, attributable to increased franchise fees received and the increased millage rate.
- The City's governmental funds reported combined ending fund balances of \$2.08 million, a decrease of \$776 thousand. This decrease is directly attributable to the construction of the firehouse, and the planned use of existing reserved fund balance for construction costs.
- At the end of the current fiscal year, unreserved/undesignated fund balance for the General Fund was \$1.29 million, or approximately 2.5 months of General Fund expenditures, an increase of approximately one month from 2008.

### **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 18-19 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 20-25 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, and the Capital Projects Fund. Data from the other three governmental funds (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 62-63 in the report.

The City adopts an annual appropriated budget for its General Fund and its Capital Projects Fund. A budgetary comparison statement is provided for each fund to demonstrate compliance with the budget, which are found on pages 24 - 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 60-61 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 62-68 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 \$33.39 million (net assets) for the fiscal year ended 2009, as reported in Table 1. As reported in Table 2, the overall increase in the City's net assets was \$543 thousand (or 2%) during fiscal year 2009.

By far the largest portion of the City's net assets, \$24.71 million (or 74%) 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 \$4.67 million (or 13.99%) represents resources that are subject to external restrictions on how they may be used.

The remaining balance of unrestricted net assets, \$4.01 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, 2009 AND 2008**  
**(In Thousands of Dollars\*)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 2,658	\$ 3,159	\$ 8,552	\$ 10,216	\$ 11,210	\$ 13,375
Capital assets	<u>10,694</u>	<u>9,497</u>	<u>30,336</u>	<u>30,802</u>	<u>41,030</u>	<u>40,299</u>
<b>Total assets</b>	<b><u>13,352</u></b>	<b><u>12,656</u></b>	<b><u>38,888</u></b>	<b><u>41,018</u></b>	<b><u>52,240</u></b>	<b><u>53,674</u></b>
Long-term liabilities outstanding	2,225	2,390	15,925	17,783	18,150	20,173
Other liabilities	<u>303</u>	<u>262</u>	<u>395</u>	<u>390</u>	<u>698</u>	<u>652</u>
<b>Total liabilities</b>	<b><u>2,528</u></b>	<b><u>2,652</u></b>	<b><u>16,320</u></b>	<b><u>18,173</u></b>	<b><u>18,848</u></b>	<b><u>20,825</u></b>
Net assets						
Invested in capital assets net of related debt	8,858	7,501	15,852	16,716	24,710	24,217
Restricted	564	1,331	4,108	4,351	4,672	5,682
Unrestricted	<u>1,402</u>	<u>1,172</u>	<u>2,608</u>	<u>1,778</u>	<u>4,010</u>	<u>2,950</u>
<b>Total net assets</b>	<b><u>\$ 10,824</u></b>	<b><u>\$ 10,004</u></b>	<b><u>\$ 22,568</u></b>	<b><u>\$ 22,845</u></b>	<b><u>\$ 33,392</u></b>	<b><u>\$ 32,849</u></b>

*\*all dollar amounts rounded to the nearest thousand*

**GOVERNMENTAL ACTIVITIES**

Governmental activities increased the City's net assets by \$820 thousand. 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, 2009 AND 2008**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Primary Government Total</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>REVENUES</b>						
<b>Program revenues</b>						
Charges for services	\$ 972,675	\$ 949,911	\$ 10,086,885	\$ 10,614,417	\$ 11,059,560	\$ 11,564,328
Operating grants and contributions	4,557	6,168	6,450	-	11,007	6,168
Capital grants and contributions	74,519	74,977	1,466,311	1,771,170	1,540,830	1,846,147
<b>General revenues</b>						
Property taxes	1,022,291	917,699	-	-	1,022,291	917,699
Other taxes	1,292,928	1,250,777	-	-	1,292,928	1,250,777
Other revenue	<u>1,040,026</u>	<u>1,030,241</u>	<u>228,836</u>	<u>322,572</u>	<u>1,268,862</u>	<u>1,352,813</u>
<b>TOTAL REVENUES</b>	<b><u>4,406,996</u></b>	<b><u>4,229,773</u></b>	<b><u>11,788,482</u></b>	<b><u>12,708,159</u></b>	<b><u>16,195,478</u></b>	<b><u>16,937,932</u></b>
<b>EXPENSES</b>						
<b>Primary government</b>						
General government	2,098,113	2,233,538	-	-	2,098,113	2,233,538
Public safety	3,220,769	3,140,395	-	-	3,220,769	3,140,395
Transportation	577,823	525,023	-	-	577,823	525,023
Economic environment	50,022	34,912	-	-	50,022	34,912
Culture and recreation	990,776	940,084	-	-	990,776	940,084
Debt service interest	69,848	81,229	-	-	69,848	81,229
<b>Business-type activities</b>						
Natural gas	-	-	3,352,448	4,053,905	3,352,448	4,053,905
Water and sewer	-	-	4,431,125	3,654,061	4,431,125	3,654,061
Non-major proprietary funds	<u>-</u>	<u>-</u>	<u>861,803</u>	<u>877,274</u>	<u>861,803</u>	<u>877,274</u>
<b>TOTAL EXPENSES</b>	<b><u>7,007,351</u></b>	<b><u>6,955,181</u></b>	<b><u>8,645,376</u></b>	<b><u>8,585,240</u></b>	<b><u>15,652,727</u></b>	<b><u>15,540,421</u></b>
Increase (decrease) in net assets before transfers	(2,600,355)	(2,725,408)	3,143,106	4,122,919	542,751	1,397,511
Transfers	<u>3,420,353</u>	<u>3,597,243</u>	<u>(3,420,353)</u>	<u>(3,597,243)</u>	<u>-</u>	<u>-</u>
<b>Increase (decrease) in net assets</b>	<b>819,998</b>	<b>871,835</b>	<b>(277,247)</b>	<b>525,676</b>	<b>542,751</b>	<b>1,397,511</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b><u>10,004,542</u></b>	<b><u>9,132,707</u></b>	<b><u>22,845,299</u></b>	<b><u>22,319,623</u></b>	<b><u>32,849,841</u></b>	<b><u>31,452,330</u></b>
<b>NET ASSETS - ENDING OF YEAR</b>	<b><u>\$ 10,824,540</u></b>	<b><u>\$ 10,004,542</u></b>	<b><u>\$ 22,568,052</u></b>	<b><u>\$ 22,845,299</u></b>	<b><u>\$ 33,392,592</u></b>	<b><u>\$ 32,849,841</u></b>

## **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.

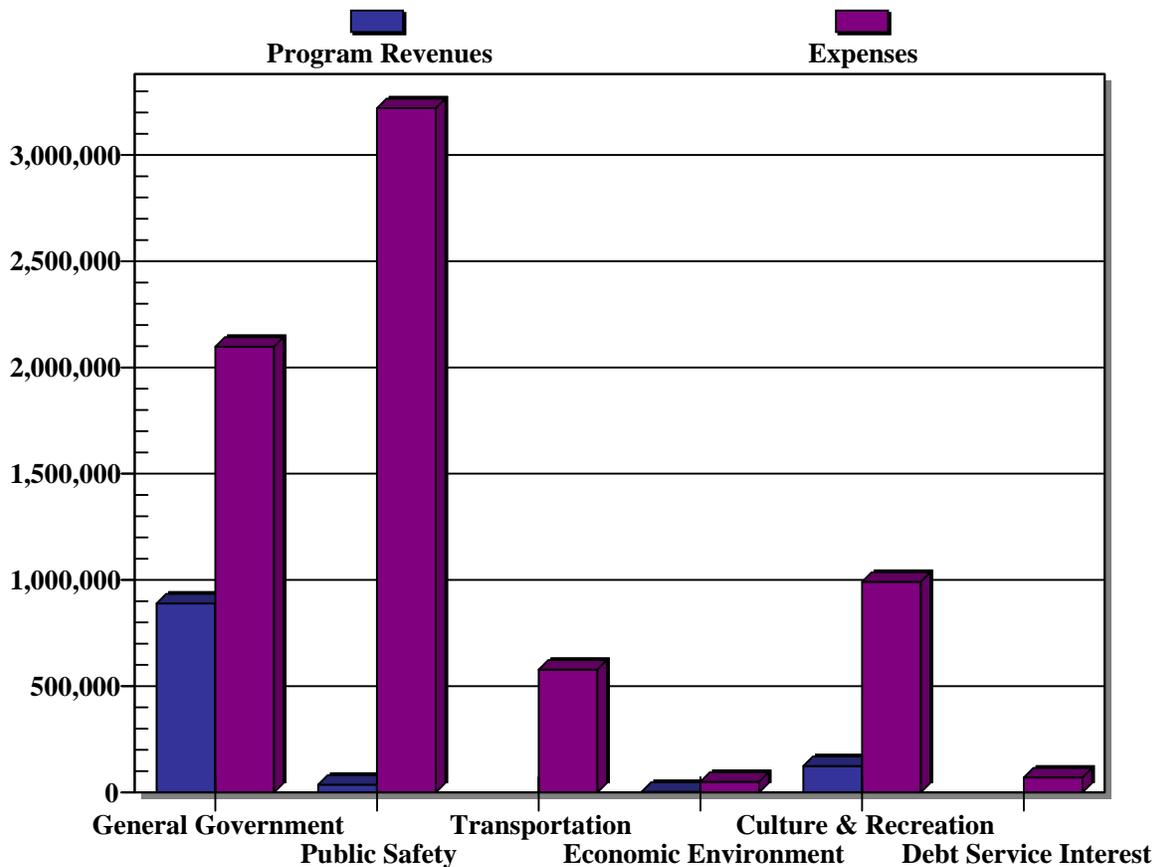
#### ***Expenses***

- 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.

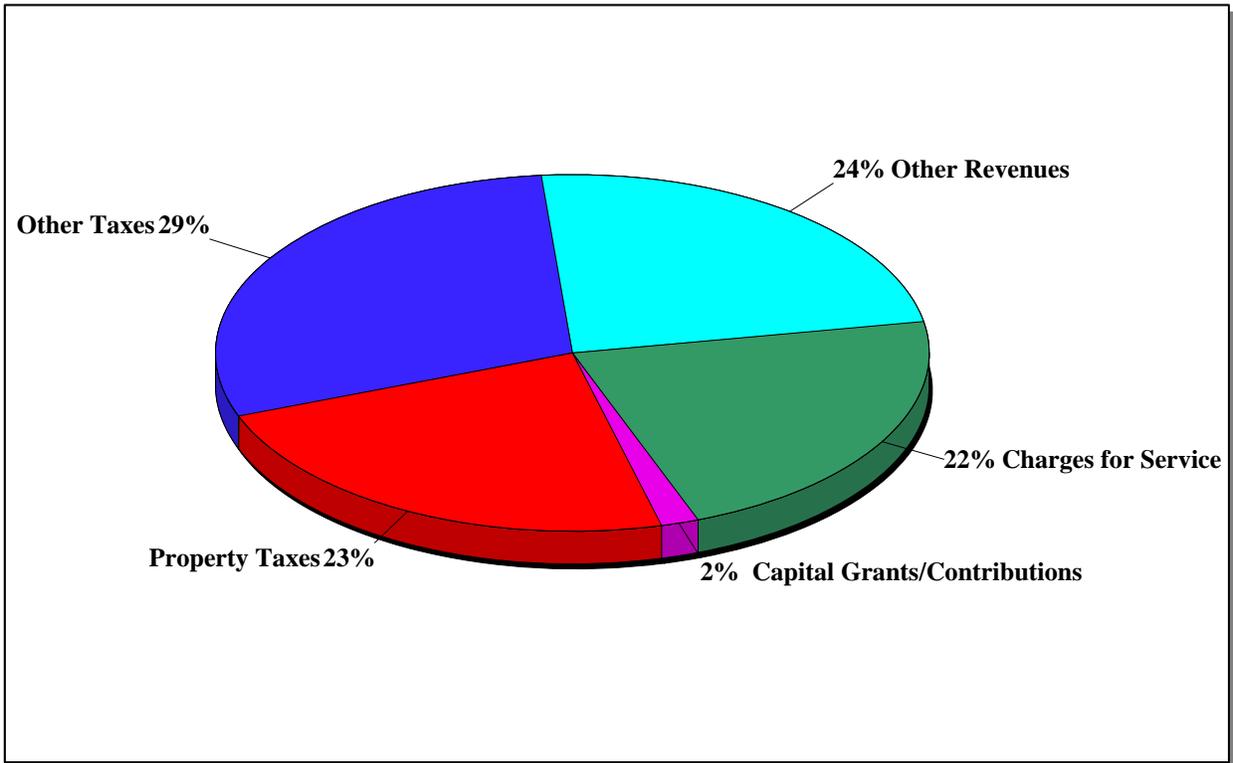
***Current Year Impacts - Governmental Activities***

- Total governmental revenues increased 4% overall, primarily due to the increase in the millage rate, resulting in an 11% increase in property tax revenues.
- Total governmental expenses remained fairly consistent with the prior year, although fluctuations were noted within the components of governmental expenses as described below:
  - General government expenses decreased 8%, which is the result of the increase to the net pension asset for the General Fund Employees Retirement Fund of approximately \$166 thousand, which effectively reduces the retirement costs charged to the general government function during the fiscal year of the change.
  - Public safety expenses increased approximately \$80 thousand (or 2.5%) due to increases in wages, and services contracted for the Downtown Redevelopment area.

**Chart 1**  
**Expenses and Program Revenues**  
*Governmental Activities*



**Chart 2**  
**Revenues by Source**  
*Governmental Activities*

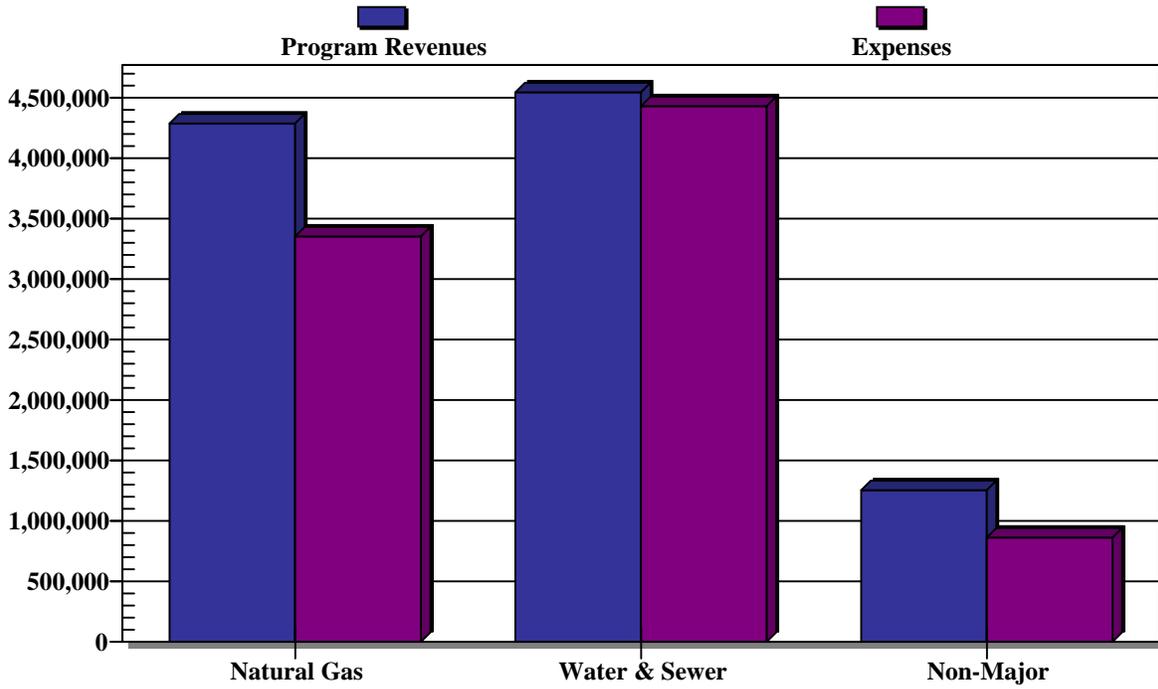


### ***Business-Type Activities***

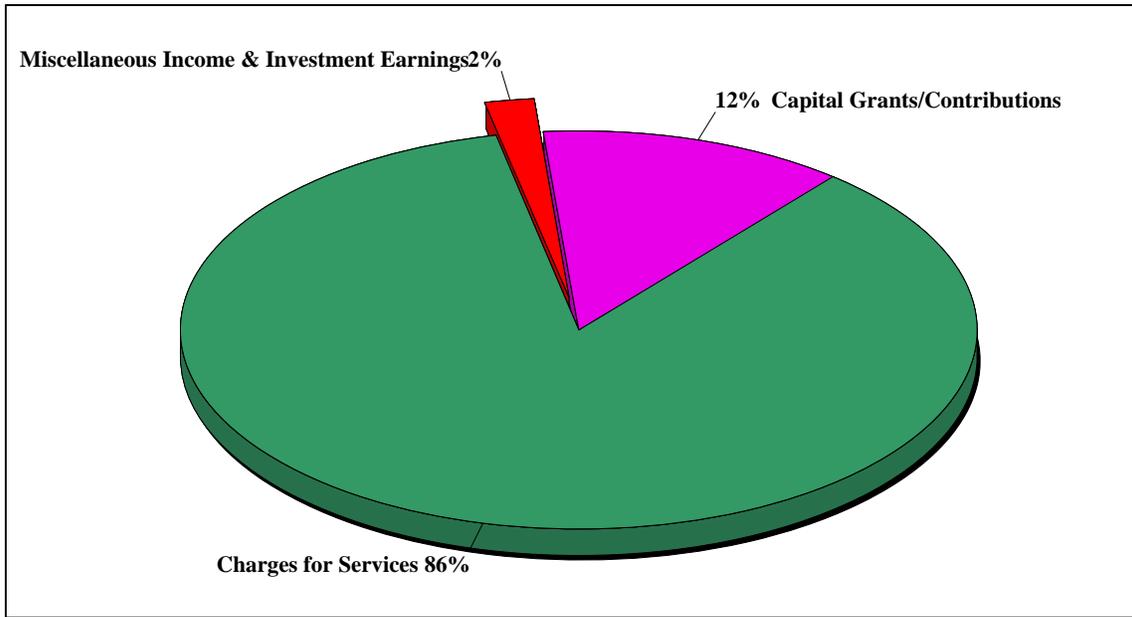
The net assets from business-type activities decreased by \$277 thousand (or 1.21%) during fiscal year 2009.

- Charges for services decreased 4%, which is a result of the decrease in usage and charges for natural gas services. The charges for natural gas services decreased \$581 thousand during the 2009 fiscal year.
- Total capital grants and contributions decreased \$304 thousand, due to substantial completion in the prior year of the Locklin Lake Restoration. Current capital grants and contributions consist of the Community Development Block Grant (CDBG) designated for construction of water and sewer and natural gas infrastructure for the new prison in East Milton. The City anticipates completion in fiscal year 2010.
- The Natural Gas Fund expenses decreased 17%, primarily due to the decrease in volume and cost of purchased gas. For the entire fiscal year, purchased gas decreased \$227 thousand.
- The Water and Sewer Fund expenses increased 22%, which is related to increased depreciation costs. Depreciation expense increased 50% from fiscal year 2008 as a result of the Berryhill Water Tower being placed into service, and the Wastewater Treatment Plant experienced its first full year of operation.

**Chart 3**  
**Expenses and Program Revenues**  
*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 \$2.08 million, a decrease of \$776 thousand from the prior year. \$1.63 million constitutes unreserved/undesignated fund balance, which is available for spending at the City Council's discretion. The remaining fund balance is reserved for various purposes and commitments.

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 \$1.29 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 2.5 months of the General Fund expenditures.

During the current fiscal year, the fund balance of the City's General Fund increased by \$254 thousand. Key reasons are higher than anticipated franchise fees, due to increases in rates charged by the utility providers, and the increase in the millage rate applied to property values.

### **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 \$2.61 million at the end of the year. Proprietary funds net assets decreased by \$277 thousand. The factors concerning the finances of these proprietary funds have been addressed in the discussion of the City's business-type activities.

## GENERAL FUND BUDGETARY HIGHLIGHTS

The original budgeted expenditures decreased by \$83 thousand, budgeted revenues were decreased by \$70 thousand, and budgeted transfers out were increased \$360 thousand, as presented in the final amended budget. The cause of the budget adjustment was the result of overspending on the firehouse construction. The General Fund budget was adjusted to contribute \$360 thousand to the Capital Projects Fund for the completion of the construction.

The total budget variances from original to final are summarized as follows:

- The budget for intergovernmental revenues decreased by \$37 thousand for anticipated decreased state shared revenues and the 1/2 cent sales tax projected revenues.
- The budget for charges for services revenues decreased by \$41 thousand due to the cancellation of the police and fire responder service fee charge.
- The budget for planned capital outlay costs decreased by \$25 thousand to offset the lower revenues projected.

## 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, 2009, amounts to \$41.03 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, water, wastewater and drainage system improvements, machinery and equipment, park facilities, roads and highways, etc. The overall increase in the City's investment in capital assets, for the current fiscal year, was \$731 thousand. The overall increase of the City's capital assets is essentially attributable to current year construction of the firehouse and completion of the Berryhill Water Tower.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Land	\$ 1,622,054	\$ 1,622,054	\$ 91,313	\$ 91,313	\$ 1,713,367	\$ 1,713,367
Buildings	6,088,039	4,439,389	-	-	6,088,039	4,439,389
Improvements other than buildings	1,980,822	1,660,092	25,963,285	25,228,047	27,944,107	26,888,139
Machinery and equipment	951,760	1,046,754	3,765,928	3,885,694	4,717,688	4,932,448
Construction in progress	51,680	729,031	515,293	1,596,449	566,973	2,325,480
<b>Total</b>	<b><u>\$ 10,694,355</u></b>	<b><u>\$ 9,497,320</u></b>	<b><u>\$ 30,335,819</u></b>	<b><u>\$ 30,801,503</u></b>	<b><u>\$ 41,030,174</u></b>	<b><u>\$ 40,298,823</u></b>

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 \$16.88 million. All of the City's debt 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>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenue notes payable, net	\$ 1,836,332	\$ 1,996,238	\$ 1,759,114	\$ 2,939,441	\$ 3,595,446	\$ 4,935,679
State revolving loan	-	-	13,280,492	13,953,007	13,280,492	13,953,007
<b>Total</b>	<b>\$ 1,836,332</b>	<b>\$ 1,996,238</b>	<b>\$ 15,039,606</b>	<b>\$ 16,892,448</b>	<b>\$ 16,875,938</b>	<b>\$ 18,888,686</b>

The City's total debt decreased by \$2.01 million during the 2009 fiscal year, which is attributable to the restructure of the utilities note payable, including returning unspent proceeds.

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 Governments, 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 fiscal year 2009-2010 budget for the City:

- The local unemployment rate was 6.9%, which represents an approximate 2% increase from 2008. The State of Florida's unemployment rate was 11.2%. 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 budgeted intergovernmental revenues, approximately 14%, during the 2010 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 became 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. For the 2010 fiscal year, the City decreased budgeted property tax revenues by 7%.
- For the 2010 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](http://www.ci.milton.fl.us). Inquiries may also be sent via email to the Finance Department at [chiefaccountant@mymiltonflorida.com](mailto:chiefaccountant@mymiltonflorida.com).

**City of Milton, Florida**  
**STATEMENT OF NET ASSETS**  
**September 30, 2009**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,607,420	\$ 1,792,215	\$ 3,399,635
Receivables, net	115,943	765,397	881,340
Due from other governments	167,084	176,320	343,404
Inventory, at cost	126,957	371,777	498,734
Prepaid items	38,810	41,916	80,726
Restricted assets			
Cash and cash equivalents	325,115	5,404,626	5,729,741
Capital assets			
Non-depreciable	1,673,734	606,606	2,280,340
Depreciable, net	9,020,621	29,729,213	38,749,834
Other assets			
Net pension asset	<u>276,746</u>	<u>-</u>	<u>276,746</u>
<b>TOTAL ASSETS</b>	<u><b>13,352,430</b></u>	<u><b>38,888,070</b></u>	<u><b>52,240,500</b></u>
<b>LIABILITIES</b>			
Accounts payable	67,004	262,607	329,611
Accrued liabilities	88,580	77,265	165,845
Due to other governments	68,517	-	68,517
Unearned revenues	78,903	55,325	134,228
Compensated absences	335,813	138,760	474,573
Revenue notes payable	165,534	139,890	305,424
State revolving loan payable	-	754,140	754,140
Payable from restricted assets			
Customer deposits	-	741,271	741,271
Non-current liabilities			
Compensated absences	52,741	5,184	57,925
Revenue notes payable	1,670,798	1,619,224	3,290,022
State revolving loan payable	<u>-</u>	<u>12,526,352</u>	<u>12,526,352</u>
<b>TOTAL LIABILITIES</b>	<u><b>2,527,890</b></u>	<u><b>16,320,018</b></u>	<u><b>18,847,908</b></u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	8,858,023	15,851,413	24,709,436
Restricted			
Debt service	-	1,468,670	1,468,670
Public safety	35,605	-	35,605
Downtown redevelopment	85,730	-	85,730
Retirement funding	276,746	-	276,746
Capital projects	165,456	2,639,484	2,804,940
Unrestricted	<u>1,402,980</u>	<u>2,608,485</u>	<u>4,011,465</u>
<b>TOTAL NET ASSETS</b>	<u><b>\$ 10,824,540</b></u>	<u><b>\$ 22,568,052</b></u>	<u><b>\$ 33,392,592</b></u>

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

**City of Milton, Florida**  
**STATEMENT OF ACTIVITIES**  
**Year Ended September 30, 2009**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Function/program activities							
Government activities							
General government	\$ 2,098,113	\$ 814,876	\$ 4,557	\$ 69,792	\$ (1,208,888)	\$ -	\$ (1,208,888)
Public safety	3,220,769	33,640	-	2,468	(3,184,661)	-	(3,184,661)
Transportation	577,823	-	-	-	(577,823)	-	(577,823)
Economic environment	50,022	-	-	2,259	(47,763)	-	(47,763)
Culture and recreation	990,776	124,159	-	-	(866,617)	-	(866,617)
Debt service interest	69,848	-	-	-	(69,848)	-	(69,848)
Total government activities	<u>7,007,351</u>	<u>972,675</u>	<u>4,557</u>	<u>74,519</u>	<u>(5,955,600)</u>	<u>-</u>	<u>(5,955,600)</u>
Business-type activities							
Natural gas	3,352,448	4,288,040	-	77,322	-	1,012,914	1,012,914
Water and sewer	4,431,125	4,545,136	-	1,388,989	-	1,503,000	1,503,000
Non-major proprietary funds	861,803	1,253,709	6,450	-	-	398,356	398,356
Total business-type activities	<u>8,645,376</u>	<u>10,086,885</u>	<u>6,450</u>	<u>1,466,311</u>	<u>-</u>	<u>2,914,270</u>	<u>2,914,270</u>
Total primary government	<u>\$ 15,652,727</u>	<u>\$ 11,059,560</u>	<u>\$ 11,007</u>	<u>\$ 1,540,830</u>	<u>\$ (5,955,600)</u>	<u>\$ 2,914,270</u>	<u>\$ (3,041,330)</u>
General revenues							
Taxes							
Property taxes					\$ 1,022,291	\$ -	\$ 1,022,291
Sales taxes					264,428	-	264,428
Utility service taxes					1,028,500	-	1,028,500
Municipal revenue sharing					860,070	-	860,070
Gain on sale of assets					21,715	-	21,715
Investment earnings					25,313	37,929	63,242
Miscellaneous					132,928	190,907	323,835
Interfund activity					3,420,353	(3,420,353)	-
Total general revenues and interfund activity					<u>6,775,598</u>	<u>(3,191,517)</u>	<u>3,584,081</u>
Change in net assets					819,998	(277,247)	542,751
Net assets - beginning of year					<u>10,004,542</u>	<u>22,845,299</u>	<u>32,849,841</u>
Net assets - end of year					<u>\$ 10,824,540</u>	<u>\$ 22,568,052</u>	<u>\$ 33,392,592</u>

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

**City of Milton, Florida**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**September 30, 2009**

	General Fund	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,274,877	\$ -	\$ 332,543	\$ 1,607,420
Receivables	115,318	-	625	115,943
Due from other governments	167,084	-	-	167,084
Inventory, at cost	126,957	-	-	126,957
Prepaid items	38,810	-	-	38,810
Restricted assets				
Cash and cash equivalents	<u>125,767</u>	<u>78,013</u>	<u>121,335</u>	<u>325,115</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 1,848,813</b></u>	<u><b>\$ 78,013</b></u>	<u><b>\$ 454,503</b></u>	<u><b>\$ 2,381,329</b></u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>Liabilities</b>				
Accounts payable	\$ 28,680	\$ 38,324	\$ -	\$ 67,004
Accrued liabilities	88,580	-	-	88,580
Due to other governments	68,517	-	-	68,517
Unearned revenue	<u>78,903</u>	<u>-</u>	<u>-</u>	<u>78,903</u>
<b>Total liabilities</b>	<u><b>264,680</b></u>	<u><b>38,324</b></u>	<u><b>-</b></u>	<u><b>303,004</b></u>
<b>Fund balance</b>				
Reserved for capital improvements	125,767	39,689	-	165,456
Reserved for prepaid items	38,810	-	-	38,810
Reserved for public safety	-	-	35,605	35,605
Reserved for downtown redevelopment	-	-	86,355	86,355
Reserved for inventory	126,957	-	-	126,957
Unreserved				
Undesignated				
General Fund	1,292,599	-	-	1,292,599
Debt Service Fund	<u>-</u>	<u>-</u>	<u>332,543</u>	<u>332,543</u>
<b>Total fund balance</b>	<u><b>1,584,133</b></u>	<u><b>39,689</b></u>	<u><b>454,503</b></u>	<u><b>2,078,325</b></u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><b>\$ 1,848,813</b></u>	<u><b>\$ 78,013</b></u>	<u><b>\$ 454,503</b></u>	<u><b>\$ 2,381,329</b></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, 2009**

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Fund balances - total governmental funds (page 20)		\$ 2,078,325
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	1,673,734	
Governmental depreciable assets	16,132,739	
Less accumulated depreciation	<u>(7,112,118)</u>	10,694,355
Other assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.		
Net pension asset		276,746
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Notes payable	(1,836,332)	
Compensated absences	<u>(388,554)</u>	<u>(2,224,886)</u>
Net assets of governmental activities (page 18)		<u>\$ 10,824,540</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, 2009**

	General Fund	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 2,317,918	\$ -	\$ -	\$ 2,317,918
Licenses, fees, and permits	766,754	-	-	766,754
Intergovernmental	901,060	-	45,240	946,300
Charges for services	143,795	-	-	143,795
Fines and forfeits	47,504	-	-	47,504
Miscellaneous	<u>181,008</u>	<u>3,571</u>	<u>145</u>	<u>184,724</u>
<b>TOTAL REVENUES</b>	<u>4,358,039</u>	<u>3,571</u>	<u>45,385</u>	<u>4,406,995</u>
<b>EXPENDITURES</b>				
Current				
General governmental services	2,169,069	-	-	2,169,069
Public safety	2,902,539	-	23,832	2,926,371
Economic environment	-	-	56,167	56,167
Transportation	634,855	-	-	634,855
Culture and recreation	773,317	-	-	773,317
Capital outlay	118,802	1,683,275	11,985	1,814,062
Debt service				
Principal	-	-	159,906	159,906
Interest	<u>-</u>	<u>-</u>	<u>69,848</u>	<u>69,848</u>
<b>TOTAL EXPENDITURES</b>	<u>6,598,582</u>	<u>1,683,275</u>	<u>321,738</u>	<u>8,603,595</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(2,240,543)</u>	<u>(1,679,704)</u>	<u>(276,353)</u>	<u>(4,196,600)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	3,437,037	677,355	274,527	4,388,919
Transfers out	<u>(942,459)</u>	<u>-</u>	<u>(26,106)</u>	<u>(968,565)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>2,494,578</u>	<u>677,355</u>	<u>248,421</u>	<u>3,420,354</u>
<b>NET CHANGE IN FUND BALANCE</b>	254,035	(1,002,349)	(27,932)	(776,246)
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>1,330,098</u>	<u>1,042,038</u>	<u>482,435</u>	<u>2,854,571</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 1,584,133</u>	<u>\$ 39,689</u>	<u>\$ 454,503</u>	<u>\$ 2,078,325</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, 2009**

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Net change in fund balances - total governmental funds (page 22)		\$ (776,246)
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	1,814,062	
Less current year depreciation	<u>(617,027)</u>	1,197,035
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		159,906
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	234,190	
Change in long-term compensated absences	<u>5,113</u>	<u>239,303</u>
Change in net assets of governmental activities (page 19)		<u>\$ 819,998</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, 2009**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
Taxes	\$ 2,163,686	\$ 2,141,557	\$ 2,317,918	\$ 176,361
Licenses, fees, and permits	528,800	528,800	766,754	237,954
Intergovernmental	819,966	782,009	901,060	119,051
Charges for services	273,000	231,950	143,795	(88,155)
Fines and forfeits	65,035	64,885	47,504	(17,381)
Miscellaneous	<u>11,000</u>	<u>42,321</u>	<u>181,008</u>	<u>138,687</u>
<b>TOTAL REVENUES</b>	<u>3,861,487</u>	<u>3,791,522</u>	<u>4,358,039</u>	<u>566,517</u>
<b>EXPENDITURES</b>				
Current				
General government services	2,210,885	2,223,277	2,169,069	54,208
Public safety	3,076,362	3,009,249	2,902,539	106,710
Transportation	715,084	730,314	634,855	95,459
Culture and recreation	906,423	887,365	773,317	114,048
Capital outlay	<u>116,169</u>	<u>91,169</u>	<u>118,802</u>	<u>(27,633)</u>
<b>TOTAL EXPENDITURES</b>	<u>7,024,923</u>	<u>6,941,374</u>	<u>6,598,582</u>	<u>342,792</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(3,163,436)</u>	<u>(3,149,852)</u>	<u>(2,240,543)</u>	<u>909,309</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	3,417,742	3,414,742	3,437,037	22,295
Transfers out	<u>(254,306)</u>	<u>(614,890)</u>	<u>(942,459)</u>	<u>(327,569)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>3,163,436</u>	<u>2,799,852</u>	<u>2,494,578</u>	<u>(305,274)</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	(350,000)	254,035	604,035
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>-</u>	<u>350,000</u>	<u>1,330,098</u>	<u>980,098</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,584,133</u>	<u>\$ 1,584,133</u>

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

**City of Milton, Florida**  
**CAPITAL PROJECTS FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - BUDGET AND ACTUAL**  
**Year Ended September 30, 2009**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Miscellaneous	\$ -	\$ -	\$ 3,571	\$ 3,571
EXPENDITURES				
Capital outlay	<u>1,284,000</u>	<u>1,686,000</u>	<u>1,683,275</u>	<u>2,725</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,284,000)</u>	<u>(1,686,000)</u>	<u>(1,679,704)</u>	<u>6,296</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>12,000</u>	<u>-</u>	<u>677,355</u>	<u>677,355</u>
NET CHANGE IN FUND BALANCE	(1,272,000)	(1,686,000)	(1,002,349)	683,651
FUND BALANCE - BEGINNING OF YEAR	<u>1,296,000</u>	<u>1,698,000</u>	<u>1,042,038</u>	<u>(655,962)</u>
FUND BALANCE - END OF YEAR	<u>\$ 24,000</u>	<u>\$ 12,000</u>	<u>\$ 39,689</u>	<u>\$ 27,689</u>

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

**City of Milton, Florida**  
**PROPRIETARY FUNDS**  
**STATEMENT OF NET ASSETS**  
**September 30, 2009**

	Natural Gas Fund	Water and Sewer Fund	Non-Major Funds	Total
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 453,292	\$ 1,040,990	\$ 297,933	\$ 1,792,215
Receivables, net	194,322	449,912	121,163	765,397
Due from other governments	69,954	99,916	6,450	176,320
Prepaid items	10,005	27,304	4,607	41,916
Inventory, at cost	371,777	-	-	371,777
Restricted assets				
Cash and cash equivalents	<u>704,078</u>	<u>4,700,548</u>	<u>-</u>	<u>5,404,626</u>
Total current assets	<u>1,803,428</u>	<u>6,318,670</u>	<u>430,153</u>	<u>8,552,251</u>
Capital assets				
Non-depreciable	94,902	511,704	-	606,606
Depreciable, net	<u>1,138,954</u>	<u>28,426,873</u>	<u>163,386</u>	<u>29,729,213</u>
Total capital assets	<u>1,233,856</u>	<u>28,938,577</u>	<u>163,386</u>	<u>30,335,819</u>
<b>TOTAL ASSETS</b>	<u>3,037,284</u>	<u>35,257,247</u>	<u>593,539</u>	<u>38,888,070</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	161,732	77,659	23,216	262,607
Accrued liabilities				
Compensated absences	38,711	81,934	18,115	138,760
Wages	9,088	16,651	4,424	30,163
Other	43,723	3,379	-	47,102
Revenue notes payable	15,388	124,502	-	139,890
State revolving loan payable	-	754,140	-	754,140
Unearned revenues	-	55,325	-	55,325
Payable from restricted assets				
Customer deposits	<u>309,914</u>	<u>431,357</u>	<u>-</u>	<u>741,271</u>
Total current liabilities	<u>578,556</u>	<u>1,544,947</u>	<u>45,755</u>	<u>2,169,258</u>
Non-current liabilities				
Compensated absences	2,341	2,679	164	5,184
Revenue notes payable	178,115	1,441,109	-	1,619,224
State revolving loan payable	<u>-</u>	<u>12,526,352</u>	<u>-</u>	<u>12,526,352</u>
Total non-current liabilities	<u>180,456</u>	<u>13,970,140</u>	<u>164</u>	<u>14,150,760</u>
<b>TOTAL LIABILITIES</b>	<u>759,012</u>	<u>15,515,087</u>	<u>45,919</u>	<u>16,320,018</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	1,195,662	14,492,365	163,386	15,851,413
Restricted				
Debt service	-	1,468,670	-	1,468,670
Capital projects	238,855	2,400,629	-	2,639,484
Unrestricted	<u>843,755</u>	<u>1,380,496</u>	<u>384,234</u>	<u>2,608,485</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 2,278,272</u>	<u>\$ 19,742,160</u>	<u>\$ 547,620</u>	<u>\$ 22,568,052</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, 2009**

	Natural Gas Fund	Water and Sewer Fund	Non-Major Fund	Total
<b>OPERATING REVENUES</b>				
Charges for services	<u>\$ 4,288,040</u>	<u>\$ 4,545,136</u>	<u>\$ 1,253,708</u>	<u>\$10,086,884</u>
<b>OPERATING EXPENSES</b>				
Personal services	498,506	1,264,181	327,164	2,089,851
Operating	2,652,192	1,077,809	464,863	4,194,864
Depreciation	<u>166,975</u>	<u>1,706,386</u>	<u>69,776</u>	<u>1,943,137</u>
Total operating expenses	<u>3,317,673</u>	<u>4,048,376</u>	<u>861,803</u>	<u>8,227,852</u>
<b>OPERATING INCOME</b>	<u>970,367</u>	<u>496,760</u>	<u>391,905</u>	<u>1,859,032</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Intergovernmental	-	-	6,450	6,450
Tower leases	-	134,306	-	134,306
Interest expense	(35,289)	(382,746)	-	(418,035)
Interest income	15,154	22,765	577	38,496
Miscellaneous	<u>16,384</u>	<u>38,898</u>	<u>1,265</u>	<u>56,547</u>
Total non-operating revenues (expenses)	<u>(3,751)</u>	<u>(186,777)</u>	<u>8,292</u>	<u>(182,236)</u>
<b>INCOME BEFORE OPERATING TRANSFERS AND CAPITAL CONTRIBUTIONS</b>	<u>966,616</u>	<u>309,983</u>	<u>400,197</u>	<u>1,676,796</u>
Capital contributions	77,322	1,388,989	-	1,466,311
Transfers in	207,497	177,039	-	384,536
Transfers out	<u>(1,442,736)</u>	<u>(2,083,043)</u>	<u>(279,111)</u>	<u>(3,804,890)</u>
Total transfers and capital contributions	<u>(1,157,917)</u>	<u>(517,015)</u>	<u>(279,111)</u>	<u>(1,954,043)</u>
<b>CHANGE IN NET ASSETS</b>	(191,301)	(207,032)	121,086	(277,247)
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>2,469,573</u>	<u>19,949,192</u>	<u>426,534</u>	<u>22,845,299</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 2,278,272</u>	<u>\$19,742,160</u>	<u>\$ 547,620</u>	<u>\$22,568,052</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, 2009**

	<u>Natural Gas Fund</u>	<u>Water and Sewer Fund</u>	<u>Non-Major Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 4,305,009	\$ 4,568,682	\$ 1,245,323	\$ 10,119,014
Payments to suppliers	(2,705,673)	(1,150,215)	(447,054)	(4,302,942)
Payments to employees	(511,190)	(1,251,052)	(326,304)	(2,088,546)
Miscellaneous income	16,384	38,898	1,265	56,547
Tower leases	-	134,306	-	134,306
Net cash provided (used) by operating activities	<u>1,104,530</u>	<u>2,340,619</u>	<u>473,230</u>	<u>3,918,379</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Transfers in	207,497	177,039	-	384,536
Transfers out	<u>(1,442,736)</u>	<u>(2,083,043)</u>	<u>(279,111)</u>	<u>(3,804,890)</u>
Net cash provided (used) by non-capital financing activities	<u>(1,235,239)</u>	<u>(1,906,004)</u>	<u>(279,111)</u>	<u>(3,420,354)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisitions of capital assets	(143,613)	(1,333,839)	-	(1,477,452)
Capital contributions	77,322	1,388,989	-	1,466,311
Intergovernmental revenues	-	-	6,450	6,450
Proceeds received from notes payable	193,502	1,565,612	-	1,759,114
Principal paid on notes payable and state revolving loans	(1,339,441)	(2,272,515)	-	(3,611,956)
Interest paid on notes payable and state revolving loans	<u>(35,289)</u>	<u>(382,746)</u>	<u>-</u>	<u>(418,035)</u>
Net cash provided (used) by capital and related financing activities	<u>(1,247,519)</u>	<u>(1,034,499)</u>	<u>6,450</u>	<u>(2,275,568)</u>
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest income	15,154	22,765	577	38,496
Purchase (sale) of investments	<u>538,897</u>	<u>1,427,784</u>	<u>-</u>	<u>1,966,681</u>
Net cash provided (used) by investing activities	<u>554,051</u>	<u>1,450,549</u>	<u>577</u>	<u>2,005,177</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(824,177)	850,665	201,146	227,634
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>1,981,547</u>	<u>4,890,873</u>	<u>96,787</u>	<u>6,969,207</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 1,157,370</u>	<u>\$ 5,741,538</u>	<u>\$ 297,933</u>	<u>\$ 7,196,841</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, 2009**

	<u>Natural Gas Fund</u>	<u>Water and Sewer Fund</u>	<u>Non-Major Fund</u>	<u>Total</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF</b>				
Current assets	\$ 453,292	\$ 1,040,990	\$ 297,933	\$ 1,792,215
Restricted assets	<u>704,078</u>	<u>4,700,548</u>	<u>-</u>	<u>5,404,626</u>
Total cash and cash equivalents	<u>\$ 1,157,370</u>	<u>\$ 5,741,538</u>	<u>\$ 297,933</u>	<u>\$ 7,196,841</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating income	\$ 970,367	\$ 496,760	\$ 391,905	\$ 1,859,032
Adjustments to reconcile operating income to net cash provided (used) by operating activities				
Depreciation	166,975	1,706,386	69,776	1,943,137
Tower lease income	-	134,306	-	134,306
Miscellaneous revenue	16,384	38,898	1,265	56,547
Decrease (increase) in assets				
Accounts receivable	95,126	99,609	(1,935)	192,800
Inventory	(49,424)	-	-	(49,424)
Prepaid items	(10,005)	(27,304)	(4,607)	(41,916)
Due from other governments	(69,954)	(99,916)	(6,450)	(176,320)
Increase (decrease) in liabilities				
Accounts payable	14,675	(45,314)	22,416	(8,223)
Compensated absences payable	(14,918)	5,331	(568)	(10,155)
Wages	2,234	7,798	1,428	11,460
Other accrued liabilities	(8,727)	212	-	(8,515)
Customer deposits	(1,410)	6,603	-	5,193
Deferred revenues	<u>(6,793)</u>	<u>17,250</u>	<u>-</u>	<u>10,457</u>
Net cash provided (used) by operating activities	<u>\$ 1,104,530</u>	<u>\$ 2,340,619</u>	<u>\$ 473,230</u>	<u>\$ 3,918,379</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, 2009**

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	Pension Trust Funds	Retired Employees' Insurance Trust Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,369	\$ 588,500
Investments, at market	15,342,424	-
Due from State of Florida	15,340	-
Other	-	356
Due from retired employees	-	2,392
<b>TOTAL ASSETS</b>	<b><u>\$ 15,359,133</u></b>	<b><u>\$ 591,248</u></b>
<b>NET ASSETS</b>		
Held in trust for pension and employee retirement benefits	<u>\$ 15,359,133</u>	<u>\$ 591,248</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$ 15,359,133</u></b>	<b><u>\$ 591,248</u></b>

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, 2009**

	<u>Pension Trust Funds</u>	<u>Retired Employees' Insurance Trust Funds</u>
<b>ADDITIONS</b>		
Contributions		
Employer	\$ 275,172	\$ -
Plan members	377,127	69,867
State of Florida	112,468	-
Total contributions	<u>764,767</u>	<u>69,867</u>
Investment income (loss)	544,138	51,062
Less investment expense	<u>(181,241)</u>	<u>-</u>
Net investment income (loss)	<u>362,897</u>	<u>51,062</u>
<b>TOTAL ADDITIONS (DEDUCTIONS)</b>	<u>1,127,664</u>	<u>120,929</u>
<b>DEDUCTIONS</b>		
Benefits and refunds paid		
Retirement payments	949,844	-
Insurance premiums	<u>-</u>	<u>42,379</u>
Total benefits and refunds paid	<u>949,844</u>	<u>42,379</u>
Administrative expenses		
Other	<u>1,349</u>	<u>45</u>
<b>TOTAL DEDUCTIONS</b>	<u>951,193</u>	<u>42,424</u>
<b>NET INCREASE (DECREASE) IN NET ASSETS</b>	176,471	78,505
<b>NET ASSETS HELD IN TRUST FOR PENSION AND OTHER RETIREMENT BENEFITS</b>		
<b>BEGINNING OF YEAR</b>	<u>15,182,662</u>	<u>512,743</u>
<b>END OF YEAR</b>	<u>\$ 15,359,133</u>	<u>\$ 591,248</u>

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

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

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**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 United States, 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, 2009**

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**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, 2009**

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**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, 2009**

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**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, 2009
Levy Date	November 1, 2009
Due Date	November 1, 2009
Delinquent Date	April 1, 2010

Discounts of 1% for each month taxes are paid prior to March 2010, 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 2010 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, 2009**

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**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.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Basis of Presentation (Continued)**

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 two major governmental funds, the General Fund and Capital Projects 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.

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.

***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, service, sanitary wastewater collection, treatment and disposal.

***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.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

*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.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

***Receivables and Payables***

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

***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.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

*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.

*Restricted Assets (Continued)*

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.

*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.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

***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.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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.

***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.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

*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.

**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.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

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**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)**

**Budgets (Continued)**

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.

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.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

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**NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)**

***Deposits (Continued)***

The City's deposits at September 30, 2009, were entirely covered by federal depository insurance or pooled collateral held by the State Treasurer and, therefore, have no custodial risk.

**Investments**

As of September 30, 2009, the City's investments consist of those held in the various pension trust funds. The types of investments which can be made by the City are restricted by state statutes, retirement fund plan documents, and other contractual agreements. A description of the requirements and the types of investments allowed can be found in Note 1-E. Further, the City's three pension trust funds have also developed investment policies that govern the investment activity of each respective pension fund.

*Pension Plans* - The Pension Board Trustees recognize that the general investment objective is to maximize return consistent with the risks incumbent with each investment. The Board achieves its fiduciary responsibility regarding the investment objectives by practicing the Prudent Investment Rule, understanding that section 112.661(4) of the Florida Statutes supercedes any conflicting provisions of law guiding the 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; and 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.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

**NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)**

**Investments (Continued)**

*Interest Rate Risk* - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Pension Trust Fund's 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.

*Intereste Rate Risk (Continued)*

As of September 30, 2009, 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	7,240,546								
U.S. Treasury	<u>100,025</u>								
Total	<u>\$ 15,342,424</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, 2009.

*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, 2009.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

**NOTE 4 - RECEIVABLES**

Receivables at September 30, 2009, were as follows:

	Governmental Activities	Business-Type Activities			Total
	General	Natural Gas	Water and Sewer	Non-Major	
Utility taxes and franchise fees	\$ 113,601	\$ -	\$ -	\$ -	\$ 113,601
Accounts	-	207,133	484,597	132,163	823,893
Less allowance for doubtful accounts	-	(20,035)	(34,685)	(11,000)	(65,720)
Other	2,342	7,224	-	-	9,566
Total receivables	<u>\$ 115,943</u>	<u>\$ 194,322</u>	<u>\$ 449,912</u>	<u>\$ 121,163</u>	<u>\$ 881,340</u>

**Due from Other Governments**

The City's receivables from other governments for governmental activities as of September 30, 2009, is \$167,084. The receivables consist of amounts due from the State of Florida, relating to intergovernmental revenues, and an amount due from the Federal Emergency Management Agency (FEMA) for prior hurricane related expenditures. The amount from FEMA is outstanding until grant closeout.

The City's receivables from other governments for business-type activities as of September 30, 2009, is \$176,320. The receivables consist of amounts due from the Community Development Block Grant (CDBG) funds.

**NOTE 5 - CHANGES IN CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2009, was as follows:

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Land	\$ 1,622,054	\$ -	\$ -	\$ 1,622,054
Construction in progress	729,031	11,000	(688,351)	51,680
Total capital assets not being depreciated	<u>2,351,085</u>	<u>11,000</u>	<u>(688,351)</u>	<u>1,673,734</u>
Capital assets being depreciated				
Buildings	7,681,104	1,673,434	285,968	9,640,506
Improvements other than buildings	2,255,607	32,314	402,383	2,690,304
Machinery and equipment	3,704,615	97,314	-	3,801,929
Total capital assets being depreciated	<u>13,641,326</u>	<u>1,803,062</u>	<u>688,351</u>	<u>16,132,739</u>

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

**NOTE 5 - CHANGES IN CAPITAL ASSETS (CONTINUED)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Transfers</u>	<u>Ending Balance</u>
<b>Governmental Activities (Continued)</b>				
Less accumulated depreciation				
Buildings	(3,241,715)	(310,752)	-	(3,552,467)
Improvements other than buildings	(595,515)	(113,967)	-	(709,482)
Machinery and equipment	<u>(2,657,861)</u>	<u>(192,308)</u>	<u>-</u>	<u>(2,850,169)</u>
Total accumulated depreciation	<u>(6,495,091)</u>	<u>(617,027)</u>	<u>-</u>	<u>(7,112,118)</u>
Total capital assets being depreciated, net	<u>7,146,235</u>	<u>1,186,035</u>	<u>-</u>	<u>9,020,621</u>
<b>Governmental Activities, Net</b>	<u>\$ 9,497,320</u>	<u>\$ 1,197,035</u>	<u>\$ -</u>	<u>\$ 10,694,355</u>
<b>Business-Type Activities</b>				
Capital assets not being depreciated				
Land	\$ 91,313	\$ -	\$ -	\$ 91,313
Construction in progress	<u>1,596,449</u>	<u>1,387,479</u>	<u>(2,468,635)</u>	<u>515,293</u>
Total capital assets not being depreciated	<u>1,687,762</u>	<u>1,387,479</u>	<u>(2,468,635)</u>	<u>606,606</u>
Capital assets being depreciated				
Improvements other than buildings	37,549,321	84,893	2,468,635	40,102,849
Machinery and equipment	<u>5,765,636</u>	<u>5,081</u>	<u>-</u>	<u>5,770,717</u>
Total capital assets being depreciated	<u>43,314,957</u>	<u>89,974</u>	<u>2,468,635</u>	<u>45,873,566</u>
Less accumulated depreciation				
Improvements other than buildings	(12,321,274)	(1,818,290)	-	(14,139,564)
Machinery and equipment	<u>(1,879,942)</u>	<u>(124,847)</u>	<u>-</u>	<u>(2,004,789)</u>
Total accumulated depreciation	<u>(14,201,216)</u>	<u>(1,943,137)</u>	<u>-</u>	<u>(16,144,353)</u>
Total capital assets being depreciated, net	<u>29,113,741</u>	<u>(1,853,163)</u>	<u>2,468,635</u>	<u>29,729,213</u>
<b>Business-Type Activities, Net</b>	<u>\$ 30,801,503</u>	<u>\$ (465,684)</u>	<u>\$ -</u>	<u>\$ 30,335,819</u>

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

<b>Governmental Activities</b>	
General government	\$ 160,427
Public safety	296,173
Culture and recreation	<u>160,427</u>
Total depreciation expense - governmental activities	<u>\$ 617,027</u>
<b>Business-Type Activities</b>	
Natural gas	\$ 166,975
Water and sewer	1,706,386
Non-major	<u>69,776</u>
Total depreciation expense - business-type activities	<u>\$ 1,943,137</u>

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

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**NOTE 5 - CHANGES IN CAPITAL ASSETS (CONTINUED)**

Construction Commitments

The City has active construction projects as of September 30, 2009:

Projects	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Street and other general government projects	\$ 51,587	Undetermined
Gas and sewer for prison	217,955	\$ 482,045
Various other water and sewer expansion projects	<u>297,338</u>	<u>Undetermined</u>
	<u>\$ 566,880</u>	<u>\$ 482,045</u>

**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 price are reported at estimated fair value.

Administrative costs are financed from each respective fund's investment earnings.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

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**NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**B. Plan Descriptions**

Membership of each plan consisted of the following at September 30, 2009, the date of the latest actuarial valuation:

	<u>GERP</u>	<u>PORP</u>	<u>FRP</u>
Retirees receiving benefits	18	7	7
Terminated plan members entitled to but not yet receiving benefits	5	-	1
Beneficiaries receiving benefits	2	2	2
Disabled participants	3	-	1
Deferred retirement option members	-	-	1
Active plan members	<u>78</u>	<u>17</u>	<u>15</u>
Total	<u>106</u>	<u>26</u>	<u>27</u>

***General Employees' Retirement Plan (GERP) - Plan Description***

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

***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.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

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**NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**B. Plan Descriptions (Continued)**

*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.

The plan does not address maximum contribution rates.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

**NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)**

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

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

	<u>GERP</u>	<u>PORP</u>	<u>FRP</u>
Contribution rates (percentage of covered payroll)			
City	6.2 %	6.5 %	2.1 %
Plan members	10.0 %	6.0 %	6.5 %
Annual pension cost	\$ 150,416	\$ 127,653	\$ 138,246
Contributions made			
Employer	\$ 194,278	\$ 19,921	\$ 60,973
Employees	\$ 276,458	\$ 53,830	\$ 46,839
Other sources	\$ -	\$ 86,811	\$ 25,657
Net pension obligation (asset)	\$ (238,798)	\$ -	\$ (37,948)
Actuarial valuation date	10/1/2008	10/1/2008	10/1/2008
Actuarial cost method	*Entry Age Normal	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
*The City changed it's actuarial method from Frozen Entry Age to Entry Age Normal during the valuation dated October 1, 2008.			
Actuarial assumptions			
Invested rate of return	8.0 %	8.0 %	8.0 %
Projected salary increases <sup>#</sup>	5.5 %	7.5 %	6.0 %
<sup>#</sup> Includes inflation at Post retirement COLA	3.0 % - %	3.0 % 1.0 %	5.0 % - %

	<u>Year Ending</u>	<u>Three-Year Trend Information</u>		
		<u>Annual Pension Cost (APC)</u>	<u>Percentage Contribution</u>	<u>Net Pension Obligation (Asset)</u>
GERP	9/30/2009	\$ 150,416	105 %	\$ (238,798)
	9/30/2008	\$ 176,965	100 %	\$ (224,512)
	9/30/2007	\$ 147,299	108 %	\$ (217,696)
PORP	9/30/2009	\$ 127,653	103 %	\$ -
	9/30/2008	\$ 149,671	100 %	\$ -
	9/30/2007	\$ 118,430	100 %	\$ -
FRP	9/30/2009	\$ 138,246	107 %	\$ (37,948)
	9/30/2008	\$ 96,527	100 %	\$ (30,028)
	9/30/2007	\$ 45,759	100 %	\$ (29,117)

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

**NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)**

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

The funded status of each plan as of October 1, 2008, the most recent actuarial valuation date is as follows:

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as % of Payroll
GERP	\$ 8,953,753	\$ 10,721,884	\$ 1,768,131	83.51 %	\$ 2,489,102	71.03 %
PORP	\$ 4,770,776	\$ 4,501,440	\$ (269,336)	105.98 %	\$ 750,271	(35.90)%
FRP	\$ 3,597,423	\$ 5,651,832	\$ 2,054,409	63.65 %	\$ 654,729	313.78 %

**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 \$402,828 at September 30, 2009. Contributions and distributions made during the fiscal year ended September 30, 2009, were \$45,696 and \$57,549, respectively. The Plan had net earnings of \$4,689.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

**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.

**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, 2009:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<b>Governmental Activities</b>					
Revenue note payable	\$ 1,996,238	\$ -	\$ (159,906)	\$ 1,836,332	\$ 165,534
Compensated absences	<u>393,667</u>	<u>392,011</u>	<u>(397,124)</u>	<u>388,554</u>	<u>335,813</u>
Total governmental activities	<u>\$ 2,389,905</u>	<u>\$ 392,011</u>	<u>\$ (557,030)</u>	<u>\$ 2,224,886</u>	<u>\$ 501,347</u>
<b>Business-Type Activities</b>					
Revenue notes payable	\$ 2,939,441	\$ 1,759,114	\$(2,939,441)	\$ 1,759,114	\$ 139,890
State revolving loan payable	13,953,007	-	(672,515)	13,280,492	754,140
Compensated absences	<u>154,098</u>	<u>154,396</u>	<u>(164,550)</u>	<u>143,944</u>	<u>138,760</u>
Total business-type activities	<u>\$17,046,546</u>	<u>\$ 1,913,510</u>	<u>\$(3,776,506)</u>	<u>\$ 15,183,550</u>	<u>\$ 1,032,790</u>

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

**NOTE 9 - LONG-TERM DEBT (CONTINUED)**

**Description of Long-Term Debt Outstanding**

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<b>GOVERNMENTAL ACTIVITIES</b>			
<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.	\$ 165,534	\$ 1,670,798	\$ 1,836,332
<i>Compensated Absences</i>			
Total long-term portion of accumulated, vested annual and sick leave for governmental fund types.	335,813	52,741	388,554
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 501,347</u></b>	<b><u>\$ 1,723,539</u></b>	<b><u>\$ 2,224,886</u></b>
<b>BUSINESS-TYPE ACTIVITIES</b>			
<i>Revenue Notes Payable</i>			
<u>Water and Sewer</u>			
Utilities refunding revenue note payable (89%) incurred for the acquisition and construction of capital improvements in the Water and Sewer Fund, bearing interest at 4.48%. Principal and interest payments of \$49,754 are made quarterly, until maturity on July 15, 2019. The note is secured by water and sewer revenues.	\$ 124,502	\$ 1,441,109	\$ 1,565,611
<u>Natural Gas</u>			
Utilities refunding revenue note payable (11%) incurred for the acquisition and construction of capital improvements in the Natural Gas Fund, bearing interest at 4.48%. Principal and interest payments of \$6,150 are made quarterly, until maturity on July 15, 2019. The note is secured by natural gas revenues.	15,388	178,115	193,503
<i>Total revenue notes payable</i>	<u>139,890</u>	<u>1,619,224</u>	<u>1,759,114</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.	754,140	12,526,352	13,280,492

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

**NOTE 9 - LONG-TERM DEBT (CONTINUED)**

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<b>BUSINESS-TYPE ACTIVITIES (CONTINUED)</b>			
<i>Accrued Compensated Absences</i>			
Accumulated, vested annual compensation for Proprietary Funds.	<u>138,760</u>	<u>5,184</u>	<u>143,944</u>
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<u>\$ 1,032,790</u>	<u>\$12,709,651</u>	<u>\$15,183,550</u>
<b>GRAND TOTAL LONG-TERM DEBT</b>			<u>\$17,408,436</u>

**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, 2009, are as follows:

**Governmental Activities**

<u>Year Ending September 30</u>	<u>Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 165,534	\$ 63,415
2011	171,524	57,424
2012	177,731	51,217
2013	184,162	44,786
2014	190,827	38,122
2015-2019	<u>946,554</u>	<u>38,122</u>
Total	<u>\$ 1,836,332</u>	<u>\$ 293,086</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>
2010	\$ 754,140	\$ 308,066	\$ 139,890	\$ 83,722
2011	758,764	303,443	146,878	76,734
2012	777,538	284,668	154,214	69,398
2013	796,778	265,429	161,917	61,695
2014	816,493	245,714	170,005	53,607
2015-2019	4,395,695	915,336	986,210	131,851
2020-2024	4,229,555	348,324	-	-
2025-2027	<u>751,529</u>	<u>27,986</u>	-	-
Total	<u>\$ 13,280,492</u>	<u>\$ 2,698,966</u>	<u>\$ 1,759,114</u>	<u>\$ 477,007</u>

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

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**NOTE 9 - LONG-TERM DEBT (CONTINUED)**

*Refunding*

During 2009, the City issued \$1,759,114 of a "Utilities Refunding Revenue Note", which allocated 89% to the Water and Sewer Fund, and 11% to the Natural Gas Fund. The utilities refunding revenue note was issued to provide permanent financing for the acquisition and construction of certain capital improvements to the City's Municipal Utilities System, and to take advantage of lower interest rates. Unspent loan proceeds associated with the previous revenue notes of \$1,600,000 (water and sewer) and \$1,339,441 (natural gas) were returned, and the respective notes were retired. The reacquisition price did not exceed the net carrying amount of the old debt, since a portion of the prior notes' unspent proceeds were returned. In addition, the transaction also resulted in an economic gain of \$938,097 in the business-type activities.

**NOTE 10 - GAS FUND LINE OF CREDIT**

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 4.75% at September 30, 2009). 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, 2009.

**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 2010 through 2011. The rental income for the fiscal year ending September 30, 2009, was \$134,306.

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

2010	\$ 94,620
2011	<u>93,420</u>
Total	<u>\$ 188,040</u>

**NOTE 12 - CAPITAL CONTRIBUTIONS**

For the year ended September 30, 2009, the Water and Sewer Fund had \$1,388,989 of capital contributions, which included approximately \$410,589 of impact fees, and \$978,400 in capital grants related to the wastewater treatment plant and the expansion of service to the prison. The Natural Gas Fund had \$77,322 of capital contributions relating to the expansion of service to the new prison.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

**NOTE 13 - UNEARNED REVENUE**

At September 30, 2009, the Water and Sewer Fund had \$55,325 related to rental income from the above mentioned cell tower leases received in fiscal year 2009, but to be earned in fiscal year 2010. The General Fund had \$78,903 relating to 2010 occupational licenses purchased in 2009.

**NOTE 14 - INTERFUND TRANSFERS**

<b>Transfers Out</b>	<b>Transfers In</b>					<b>Total</b>
	General Fund	Capital Projects	Non-Major Governmental Funds	Natural Gas Fund	Water and Sewer Fund	
General	\$ -	\$ 672,355	\$ 270,104	\$ -	\$ -	\$ 942,459
Capital Projects	-	-	-	-	-	-
Non-Major Governmental	26,106	-	-	-	-	26,106
Natural Gas	1,265,697	-	-	-	177,039	1,442,736
Water and Sewer	1,871,123	-	4,423	207,497	-	2,083,043
Non-Major Proprietary	274,111	5,000	-	-	-	279,111
<b>Totals</b>	<b><u>\$ 3,437,037</u></b>	<b><u>\$ 677,355</u></b>	<b><u>\$ 274,527</u></b>	<b><u>\$ 207,497</u></b>	<b><u>\$ 177,039</u></b>	<b><u>\$ 4,773,455</u></b>

Transfers occurred during the year on a routine basis and consistent with activities of the fund making the transfer, upon availability of funds. In addition, a one-time transfer of \$207,000 from the General Fund to the Capital Projects Fund, to fund additional construction costs of the firehouse, was made during the year ended September 30, 2009.

**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 healthcare benefits is recognized as an expenditure as premiums are paid. For the fiscal year ending September 30, 2009, those costs totaled \$42,379.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2009**

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**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.

**NOTE 17 - GASB PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED**

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, will be effective for the City beginning with its year ending September 30, 2011. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is based to observe constraints imposed upon the use of the resources reporting in the governmental funds. Management has not determine what impact, if any, this GASB statement may have on its financial statements.

### **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)
10/1/2008	\$ 8,953,753	\$ 10,721,884	\$ 1,768,131	83.51 %	\$ 2,489,102	71.03 %
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 %

*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)
10/1/2008	\$ 4,770,776	\$ 4,501,440	\$ (269,336)	105.98 %	\$ 750,271	(35.90)%
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)%

*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)
10/1/2008	\$ 3,597,423	\$ 5,651,832	\$ 2,054,409	63.65 %	\$ 654,729	313.78 %
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 %

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, 2008	\$ 150,416	\$ 157,672	104.82 %
September 30, 2007	\$ 176,965	\$ 176,965	100.00 %
September 30, 2006	\$ 147,299	\$ 159,446	108.25 %
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 %

***Police Officers' Retirement Fund***

	Annual Required Contribution	City Contribution	State Contribution	Percentage Contributed
September 30, 2008	\$ 127,653	\$ 31,155	\$ 99,815	102.60 %
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 %

***Firefighters' Retirement Fund***

	Annual Required Contribution	City Contribution	State Contribution	Percentage Contributed
September 30, 2008	\$ 102,006	\$ 24,822	\$ 84,164	106.84 %
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	\$ -	\$ -	\$ 55,026	100.00 %
September 30, 2004	\$ -	\$ -	\$ 55,026	100.00 %
September 30, 2003	\$ -	\$ -	\$ 55,026	100.00 %
September 30, 2002	\$ -	\$ -	\$ 55,026	100.00 %

\*This amount represents 60% of total member contributions made during the year ended September 30, 2004.

#This amount represents 6% of total annual payroll as of October 1, 2002.

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 used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest in accordance with bond ordinances.

**City of Milton, Florida**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
**September 30, 2009**

	<u>Special Revenue Funds</u>			Total Non-Major Governmental Funds
	<u>Police Special Investigation</u>	<u>Downtown Redevelopment</u>	<u>Debt Service</u>	
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ -	\$ 332,543	\$ 332,543
Receivables	-	625	-	625
Restricted cash	<u>35,605</u>	<u>85,730</u>	<u>-</u>	<u>121,335</u>
<b>TOTAL ASSETS</b>	<u>\$ 35,605</u>	<u>\$ 86,355</u>	<u>\$ 332,543</u>	<u>\$ 454,503</u>
<b>FUND BALANCE</b>				
Reserved for public safety	\$ 35,605	\$ -	\$ -	\$ 35,605
Reserved for downtown redevelopment	-	86,355	-	86,355
Unreserved/undesignated	<u>-</u>	<u>-</u>	<u>332,543</u>	<u>332,543</u>
<b>TOTAL FUND BALANCE</b>	<u>\$ 35,605</u>	<u>\$ 86,355</u>	<u>\$ 332,543</u>	<u>\$ 454,503</u>

**City of Milton, Florida**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**Year Ended September 30, 2009**

	<u>Special Revenue Funds</u>			Total Non-Major Governmental Funds
	<u>Police Special Investigation</u>	<u>Downtown Redevelopment</u>	<u>Debt Service</u>	
REVENUES				
Intergovernmental	\$ 333	\$ 44,907	\$ -	\$ 45,240
Miscellaneous	-	-	145	145
Total revenues	<u>333</u>	<u>44,907</u>	<u>145</u>	<u>45,385</u>
EXPENDITURES				
Current				
Public safety	23,832	-	-	23,832
Economic environment	-	56,167	-	56,167
Capital outlay	1,640	10,345	-	11,985
Debt service				
Principal	-	-	159,906	159,906
Interest	-	-	69,848	69,848
Total expenditures	<u>25,472</u>	<u>66,512</u>	<u>229,754</u>	<u>321,738</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(25,139)</u>	<u>(21,605)</u>	<u>(229,609)</u>	<u>(276,353)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	44,748	229,779	274,527
Transfers out	-	-	(26,106)	(26,106)
Total other financing sources (uses)	<u>-</u>	<u>44,748</u>	<u>203,673</u>	<u>248,421</u>
NET CHANGE IN FUND BALANCE	(25,139)	23,143	(25,936)	(27,932)
FUND BALANCE - BEGINNING OF YEAR	<u>60,744</u>	<u>63,212</u>	<u>358,479</u>	<u>482,435</u>
FUND BALANCE - END OF YEAR	<u>\$ 35,605</u>	<u>\$ 86,355</u>	<u>\$ 332,543</u>	<u>\$ 454,503</u>

## **NON-MAJOR PROPRIETARY FUNDS**

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.

### ***Sanitation Fund***

To account for operations of the sanitation services provided to the individuals and businesses located in the City.

### ***Stormwater Fund***

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

**City of Milton, Florida**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR PROPRIETARY FUNDS**  
**September 30, 2009**

	<u>Sanitation Fund</u>	<u>Stormwater Fund</u>	<u>Total Non-Major Funds</u>
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 90,304	\$ 207,629	\$ 297,933
Receivables, net	96,534	24,629	121,163
Prepaid items	4,607	-	4,607
Due from other governments	<u>-</u>	<u>6,450</u>	<u>6,450</u>
Total current assets	<u>191,445</u>	<u>238,708</u>	<u>430,153</u>
Capital assets			
Depreciable, net	<u>163,386</u>	<u>-</u>	<u>163,386</u>
<b>TOTAL ASSETS</b>	<u>\$ 354,831</u>	<u>\$ 238,708</u>	<u>\$ 593,539</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	\$ 23,216	\$ -	\$ 23,216
Accrued liabilities			
Compensated absences	18,115	-	18,115
Wages	<u>4,424</u>	<u>-</u>	<u>4,424</u>
Total current liabilities	<u>45,755</u>	<u>-</u>	<u>45,755</u>
Non-current liabilities			
Accrued liabilities			
Compensated absences	<u>164</u>	<u>-</u>	<u>164</u>
<b>TOTAL LIABILITIES</b>	<u>45,919</u>	<u>-</u>	<u>45,919</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	163,386	-	163,386
Unrestricted	<u>145,526</u>	<u>238,708</u>	<u>384,234</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 308,912</u>	<u>\$ 238,708</u>	<u>\$ 547,620</u>

**City of Milton, Florida**  
**COMBINING STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET ASSETS**  
**NON-MAJOR PROPRIETARY FUNDS**  
**Year Ended September 30, 2009**

	<u>Sanitation Fund</u>	<u>Stormwater Fund</u>	<u>Total Non-Major Funds</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 1,033,318	\$ 220,390	\$ 1,253,708
<b>OPERATING EXPENSES</b>			
Personal services	327,164	-	327,164
Operating	446,304	18,559	464,863
Depreciation	<u>69,776</u>	<u>-</u>	<u>69,776</u>
Total operating expenses	<u>843,244</u>	<u>18,559</u>	<u>861,803</u>
<b>OPERATING INCOME (LOSS)</b>	<u>190,074</u>	<u>201,831</u>	<u>391,905</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Intergovernmental	-	6,450	6,450
Interest	10	567	577
Miscellaneous	<u>1,265</u>	<u>-</u>	<u>1,265</u>
Total non-operating revenues (expenses)	<u>1,275</u>	<u>7,017</u>	<u>8,292</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	191,349	208,848	400,197
Transfer out	<u>(195,000)</u>	<u>(84,111)</u>	<u>(279,111)</u>
<b>CHANGE IN NET ASSETS</b>	(3,651)	124,737	121,086
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>312,563</u>	<u>113,971</u>	<u>426,534</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 308,912</u>	<u>\$ 238,708</u>	<u>\$ 547,620</u>

**City of Milton, Florida**  
**COMBINING STATEMENT OF CASH FLOWS**  
**NON-MAJOR PROPRIETARY FUNDS**  
**Year Ended September 30, 2009**

	Sanitation Fund	Stormwater Fund	Total Non-Major Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers and users	\$ 1,035,801	\$ 209,522	\$ 1,245,323
Payments to suppliers	(428,495)	(18,559)	(447,054)
Payments to employees	(326,304)	-	(326,304)
Miscellaneous income	1,265	-	1,265
Net cash provided (used) by operating activities	<u>282,267</u>	<u>190,963</u>	<u>473,230</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>			
Transfers out	<u>(195,000)</u>	<u>(84,111)</u>	<u>(279,111)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Intergovernmental revenues received	<u>-</u>	<u>6,450</u>	<u>6,450</u>
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest income	<u>10</u>	<u>567</u>	<u>577</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	87,277	113,869	201,146
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>3,027</u>	<u>93,760</u>	<u>96,787</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 90,304</u>	<u>\$ 207,629</u>	<u>\$ 297,933</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 190,074	\$ 201,831	\$ 391,905
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	69,776	-	69,776
Miscellaneous revenue	1,265	-	1,265
Decrease (increase) in assets			
Accounts receivable	2,483	(4,418)	(1,935)
Prepaid items	(4,607)	-	(4,607)
Due from other governments	-	(6,450)	(6,450)
Increase (decrease) in liabilities			
Accounts payable	22,416	-	22,416
Compensated absences payable	(568)	-	(568)
Wages	1,428	-	1,428
Net cash provided (used) by operating activities	<u>\$ 282,267</u>	<u>\$ 190,963</u>	<u>\$ 473,230</u>

## **FIDUCIARY FUNDS**

### **Pension Trust Funds**

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

#### *General Employees' Pension Fund*

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

#### *Police Officers' Pension Fund*

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

#### *Firefighters' Pension Fund*

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

**City of Milton, Florida**  
**PENSION TRUST FUNDS**  
**COMBINING STATEMENT OF PLAN NET ASSETS**  
**September 30, 2009**

	General Employees' Pension Fund	Police Officers' Pension Fund	Firefighters' Pension Fund	Total Employee Pension Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ -	\$ 1,369	\$ 1,369
Investments, at market	8,195,430	4,306,675	2,840,319	15,342,424
Due from State of Florida	-	-	15,340	15,340
<b>TOTAL ASSETS</b>	<b><u>\$ 8,195,430</u></b>	<b><u>\$ 4,306,675</u></b>	<b><u>\$ 2,857,028</u></b>	<b><u>\$ 15,359,133</u></b>
<b>NET ASSETS</b>				
Held in trust for pension and employee retirement benefits	<u>\$ 8,195,430</u>	<u>\$ 4,306,675</u>	<u>\$ 2,857,028</u>	<u>\$ 15,359,133</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$ 8,195,430</u></b>	<b><u>\$ 4,306,675</u></b>	<b><u>\$ 2,857,028</u></b>	<b><u>\$ 15,359,133</u></b>

**City of Milton, Florida**  
**PENSION TRUST FUNDS**  
**COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS**  
**Year Ended September 30, 2009**

	<u>General Employees' Pension Fund</u>	<u>Police Officers' Pension Fund</u>	<u>Firefighters' Pension Fund</u>	<u>Total Employee Pension Funds</u>
<b>ADDITIONS</b>				
Contributions				
Employer	\$ 194,278	\$ 19,921	\$ 60,973	\$ 275,172
Plan members	276,458	53,830	46,839	377,127
State of Florida	<u>-</u>	<u>86,811</u>	<u>25,657</u>	<u>112,468</u>
Total contributions	<u>470,736</u>	<u>160,562</u>	<u>133,469</u>	<u>764,767</u>
Investment income (loss)	448,587	247,302	(151,751)	544,138
Less investment expense	<u>(86,489)</u>	<u>(56,687)</u>	<u>(38,065)</u>	<u>(181,241)</u>
Net investment income (loss)	<u>362,098</u>	<u>190,615</u>	<u>(189,816)</u>	<u>362,897</u>
<b>TOTAL ADDITIONS</b>	<u>832,834</u>	<u>351,177</u>	<u>(56,347)</u>	<u>1,127,664</u>
<b>DEDUCTIONS</b>				
Benefits and refunds paid				
Retirement payments	<u>435,877</u>	<u>222,740</u>	<u>291,227</u>	<u>949,844</u>
Administrative expenses				
Other	<u>-</u>	<u>-</u>	<u>1,349</u>	<u>1,349</u>
<b>TOTAL DEDUCTIONS</b>	<u>435,877</u>	<u>222,740</u>	<u>292,576</u>	<u>951,193</u>
<b>NET INCREASE (DECREASE)</b>	<u>396,957</u>	<u>128,437</u>	<u>(348,923)</u>	<u>176,471</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION AND OTHER RETIREMENT BENEFITS</b>				
<b>BEGINNING OF YEAR</b>	<u>7,798,473</u>	<u>4,178,238</u>	<u>3,205,951</u>	<u>15,182,662</u>
<b>END OF YEAR</b>	<u>\$ 8,195,430</u>	<u>\$ 4,306,675</u>	<u>\$ 2,857,028</u>	<u>\$ 15,359,133</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, 2009**

<u>State Project</u>	<u>CSFA Number</u>	<u>Contract/Grant Number</u>	<u>Expenditures</u>
<b>Florida Department of Environmental Protection</b>			
Direct Programs			
Small County Wastewater Treatment Grants	37.039	SG625090	\$ 750,000
Locklin Lake Restoration	37.039	LP0516/LP6051	<u>98,511</u>
<i>Total Florida Department of Environmental Protection</i>			<u><u>848,511</u></u>
<b>TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE</b>			<u><u>\$ 848,511</u></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, 2009**

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*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, 2009, which collectively comprise the City of Milton, Florida's basic financial statements and have issued our report thereon dated February 9, 2010. 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 opinions 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.

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 City of Milton'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.

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 material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Milton's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**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 tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Milton, in a separate letter dated February 9, 2010.

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 9, 2010



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, 2009. 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, 2009.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Milton's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a major state project on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a major state project such that there is a more than remote likelihood that noncompliance with a type of compliance requirement of a major state project is more than inconsequential will not be prevented for detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a state project will not be prevented or detected by the City's internal control.

Our consideration of the internal control over compliance was limited for the purpose described in the first paragraph of this section, and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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 9, 2010

**City of Milton, Florida**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended September 30, 2009**

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**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? \_\_\_\_\_ Yes          X     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 *Executive Office of the Governors State Projects, Compliance Supplement, and Chapter 10.550, Rules of the Auditor General?* \_\_\_\_\_ Yes          X     No

Identification of major programs:

<b>CSFA Number</b>	<b>Name of State Project</b>
37.039	Small County Wastewater Treatment Grant

**City of Milton, Florida**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended September 30, 2009**

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**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**

The results of our audit of the City of Milton, Florida did not disclose any findings required to be reported under generally accepted government audit standards.

**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*.

**IV. SUMMARY OF SCHEDULE OF PRIOR YEAR AUDIT FINDING**

*Financial Statement Finding Number 2006-01:* Management has identified the issue surrounding the CIS postings and has implemented procedures to reconcile the miscellaneous postings within its bank reconciliation process.



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, 2009, and have issued our report thereon dated February 9, 2010.

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* issued by the Comptroller General of the United States, and the requirements described in the State of Florida, *Executive Office of the Governor's State Projects Compliance Supplement*. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, Independent Auditor's Report on Compliance with Requirements Applicable to Each Major State Project and on Internal Control over Compliance with Chapter 10.550, *Rules of the Auditor General*, and Schedule of Findings and Questioned Costs. Disclosures in this report and schedule, which are dated February 9, 2010, 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*, which governs the conduct of local governmental entity audits in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

Section 10.554(1)(i)(1), *Rules of the Auditor General*, requires that we determine whether or not correction actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial report (except as noted below under the heading "Prior Year Comments").

Section 10.554(1)(i)(2), *Rules of the Auditor General*, requires our audit to include 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)

Section 10.554(1)(i)(3), *Rules of the Auditor General*, requires that we address in the Management Letter any recommendations to improve financial management. In connection with our audit, our comments and recommendations are reported under the headings "Prior Year Comments" and "Current Year Comment."

Section 10.554(1)(i)(4), *Rules of the Auditor General*, requires that we address violations of provisions of contracts or grant agreements, or abuse that has an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)(5), *Rules of the Auditor General*, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: 1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and 2) control deficiencies that are not significant deficiencies. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)(6), *Rules of the Auditor General*, requires 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, 2009. As a result, the Housing Authority of the City of Milton, Florida is not included in the City's annual financial report.

Section 10.554(1)(i)(7.a.), *Rules of the Auditor General*, requires a statement be included as to whether or not the local entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions met. In connection with our audit, we determined that the City of Milton, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)(7.b.), *Rules of the Auditor General*, requires that we determine whether the annual financial report for the City of Milton for the fiscal year ended September 30, 2009, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2009. In connection with our audit, we determined that these reports are in agreement.

Pursuant to Sections 10.554(1)(i)(7.c.), and 10.556(7), *Rules of the Auditor General*, 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* (Section 10.556(7)), a financial condition assessment was performed, which did not indicate a deteriorating financial condition.

## **PRIOR YEAR COMMENTS**

### **1. CAPITAL ASSETS**

#### ***Prior Year Comment Summarized***

In 2008, 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, 2009, we noted that capital assets were reconciled to the subsidiary ledger in November 2009, one month earlier than in prior years. To ensure that activity is reconciled more timely, we recommend accounting personnel perform the reconciliation throughout the year to minimize potential errors before the year-end closing process.

#### ***Management Response***

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

### **2. FINANCIAL CONDITION**

#### ***Prior Year Comment Summarized***

During 2008, Council was able to substantially increase fund balance in the General Fund in part by eliminating approximately \$1,000,000 in interfund liabilities through operating transfers. Unreserved fund balance represented just over two months of normal operating expenses; less than the recommended minimum reserves of three to six months. General Fund expenditures would have exceeded revenues two years in a row without the transfers, which may indicate that normal recurring revenue sources were not adequate to meet the City's ongoing needs. We recommended that the City review its current reserves on a fund-by-fund basis and to 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 had taken place.

**PRIOR YEAR COMMENTS (CONTINUED)**

**2. FINANCIAL CONDITION (CONTINUED)**

***Status***

The City has informally adopted a reserve policy through its budgeting process. During the 2009 year, transfers were made in line with budgeted expectations, with one exception. A \$207,000 transfer was made from the General Fund to the Capital Projects Fund to cover unanticipated expenditures with the construction of the City's firehouse. Although the unreserved fund balance at year-end had increased from two to three months, we continue to recommend that a formal reserve policy be adopted and implemented in an effort to meet the recommended minimum reserves of three to six months.

**3. GENERAL LEDGER MAINTENANCE**

***Prior Year Comment Summarized***

In fiscal year 2008, several subsidiary ledgers had not been reconciled with the general ledger control accounts, and that balances in suspense accounts within the general ledger had not been investigated. We recommended that the City reconcile each subsidiary account to the general ledger control account monthly, and that proper investigation of differences in suspense accounts be conducted and reviewed by the Accounting Department in a timely manner.

***Status***

Although some accounts were not reconciled until year-end, the City had made considerable improvement in its reconciliation process. We continue to recommend that reconciliation of subsidiary ledgers with the general ledger should be performed on a monthly basis to ensure that activity is posted properly, and to minimize potential errors throughout the year.

***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.

## **PRIOR YEAR COMMENTS (CONTINUED)**

### **4. *BANK RECONCILIATION PROCESS***

#### ***Prior Year Comment Summarized***

In fiscal year 2008, the City had not completely reconciled its pooled cash bank account. The City's pooled cash bank reconciliation process had been hindered by software related account postings from the utility billing software, making the reconciliation process cumbersome and time consuming. This resulted in an error that was not discovered timely. We had recommended that the pooled cash bank account be reconciled completely and timely each month and that it remain a priority of management. We also recommended that any errors discovered in the reconciliation process be investigated and corrected immediately, and that evidence of management review be retained.

#### ***Status***

The City has worked diligently towards improving its pooled cash bank reconciliation procedures. Several factors have contributed to this improvement. During 2009, the City revamped its pooled cash bank reconciliation worksheets and supporting schedules; the City also worked closely with its software vendor to better understand the nature of miscellaneous postings created by the utility billing interface, and fewer accounting errors were noted.

### **5. *INTERNAL FINANCIAL REPORTING***

#### ***Prior Year Comment Summarized***

The City's computer generated monthly financial statements were extremely detailed and not presented in a manner allowing management to quickly assess the City's financial position. The financial statements were supplemented by additional schedules and reports making the internal financial reporting time consuming, increased the chance for errors, and ultimately delayed monthly financial reporting. We recommended 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 the financial's produced from the City's accounting software.

#### ***Status***

The City began the process of developing new internal financial reports, which facilitate management's review of the overall financial condition. Management has worked with Council to identify their reporting needs for monitoring the City's operations and for improving the internal financial reporting process. The revised current monthly reporting, while not produced directly from the accounting software, has improved monthly financial reporting.

## **PRIOR YEAR COMMENTS (CONTINUED)**

### **6. *EXTERNAL FINANCIAL REPORTING***

#### ***Prior Year Comment Summarized***

In early 2008, the City experienced turnover in the Accounting Department causing a shift of responsibilities within the Department. Although the City designated a capable individual responsible for overseeing the financial statement process, we noted that existing personnel did not currently have the technical background required, with respect to emerging governmental accounting standards, to produce its external financial statements. We recommended management provide additional training for accounting personnel with respect to the financial reporting aspects of the City, and to adequately address any emerging governmental issues that may impact the City.

#### ***Status***

Management provided additional training to staff regarding financial reporting and governmental accounting. Benefits of this training appeared to provide a better understanding of the financial reporting process. We continue to recommend the City invest in training relevant to external financial reporting and accounting for local governments.

## **CURRENT YEAR COMMENTS**

### **1. *PURCHASING***

#### ***Observation***

During 2009, we selected 60 disbursements, totaling approximately \$4.9 million, for further testing. We evaluated whether proper authorization and approval were maintained, and if the transaction was supported by a requisition, purchase order, invoice, etc. Our testing revealed two instances whereby a purchase order had been issued after the item had been delivered and received by the City. Although the amounts were insignificant relating to those two items, the City's policy was not consistently being applied.

#### ***Recommendation***

We recommend the City adhere to its purchasing policy to ensure that all purchases are properly authorized, prior to purchase. Further, if exceptions are made, then those exceptions should be documented and attached to the purchase order. We also recommend that all exceptions be approved by management.

#### ***Management Response***

The City will review its purchasing policies and procedures with staff to ensure future compliance.

**CURRENT YEAR COMMENTS (CONTINUED)**

**2. COMMUNITY CENTER BACK-UP PROCEDURES**

***Observation***

During 2009, we identified instances where financial data was lost at the Community Center as a result of the computer network being separate from the City's network. Backups were not being performed consistently at the Center.

***Recommendation***

We recommend the Community Center perform a daily backup of the electronic financial data and that the backup be maintained offsite from the Center. A properly executed back-up plan should prevent future data loss, and provide for a consistent process for safeguarding financial data.

***Management Response***

We will enforce a daily backup procedure to prevent future data loss for the Community Center.

Pursuant to Chapter 119, Florida Statutes, this letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information of the City of Milton, Florida, management, and the Florida Auditor General and is not intended to be, and should not be, used by anyone other than these specified parties.

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 9, 2010