

I. INTRODUCTORY SECTION

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CITY OF MILTON, FLORIDA

Financial Statements and
Supplemental Information

September 30, 2011

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CITY OF MILTON, FLORIDA

Financial Statements and Supplemental Information

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II. FINANCIAL SECTION

Honorable Mayor and City Council Members
City of Milton, Florida

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milton, Florida, as of and for the year ended September 30, 2011, 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, 2011, and the respective changes in financial position and cash flows, where applicable thereof, and the respective budgetary fund information for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2012, 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)

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-16, the Schedule of Funding Progress on page 61, and the Schedule of Contributions from the Employer and Other Contributing Entities on page 62, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 as a whole. The Introductory Section, 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. The combining and individual nonmajor fund financial statements and the schedule of expenditures of state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The Introductory Section, Combining and Individual Non-Major Fund Financial Statements and other schedules listed in the table of contents as supplementary information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Warren Averett, LLC

February 9, 2012

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, 2011.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities by \$34.80 million (net assets), which represents an increase of \$363.37 thousand (or 1%) from the prior year. Of this amount, \$23.3 million represents investments in capital assets, net of related debt (e.g. land, infrastructure, building, machinery and equipment), \$4.40 million is restricted for future obligations, and \$7.05 million is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- The net assets of the business-type activities of the City increased by \$111 thousand (or 0.48%) from the prior year. The increase is attributable to increased natural gas and water and sewer charges for services, due to the addition of the new prison.
- The net assets of the governmental-type activities of the City increased by \$252 thousand (or 2.24%) from the prior year, attributable to increased franchise fees received on utility services.
- The City's governmental funds reported combined ending fund balances of \$3.19 million, an increase of \$279 thousand. The increase is attributable to increased telecommunications and utility taxes received during the year.
- At the end of the current fiscal year, unrestricted/unassigned fund balance for the General Fund was \$2.41 million, or approximately four months of General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The focus of the Governmental Accounting Standards Board (GASB) Statement No. 34 financial statements is on both the City as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major funds) allow the user to address relevant questions, broaden a basis for comparison (year-to-year, government-to-government), and enhance the City's accountability.

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges for services (business-type activities). The governmental activities of the City include general government (City Clerk, City Council, City Manager, human resources, finance, purchasing, fleet maintenance, service maintenance, administration, public works, and non-departmental expenses), public safety (police and fire), transportation (streets), culture and recreation (parks), special revenue (Police Special Investigations, Red Light Camera Operations, and Downtown Redevelopment), and debt service. The business-type activities of the City include water and sewer, natural gas, sanitation, marina, and stormwater. The government-wide financial statements are found on pages 17-18 of this report.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities of 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 19-23 of this report are the basic governmental fund financial statements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains six individual governmental funds (General Fund, Capital Projects Fund, Police Special Investigation Fund, Downtown Redevelopment Fund, Red Light Camera Fund, and Debt Service Fund). Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance for the General Fund, which is always considered to be a major fund. Data from the other five governmental funds (Police Special Investigation Fund, Downtown Redevelopment Fund, Red Light Camera Fund, Capital Projects 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 63-64 in the report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement is provided for the fund to demonstrate compliance with the budget, which is found on page 23 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, marina, 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 24-27 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 28-29 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 30 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 61-62 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 63-69 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 \$34.80 million (net assets) for the fiscal year ended 2011, as reported in Table 1. As reported in Table 2, the overall increase in the City's net assets was \$363.37 thousand (or 1%) during fiscal year 2011.

By far the largest portion of the City's net assets, \$23 million (or 66%) 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 \$4.40 million (or 12.65%) represents resources that are subject to external restrictions on how they may be used.

The remaining balance of unrestricted net assets, \$7.05 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, 2011 AND 2010
(In Thousands of Dollars*)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 4,082	\$ 3,617	\$ 10,054	\$ 10,338	\$ 14,136	\$ 13,955
Capital assets	9,961	10,057	29,042	29,274	39,003	39,331
Total assets	<u>14,043</u>	<u>13,674</u>	<u>39,096</u>	<u>39,612</u>	<u>53,139</u>	<u>53,286</u>
Long-term liabilities outstanding	1,925	2,002	15,480	16,052	17,405	18,054
Other liabilities	592	398	346	402	938	800
Total liabilities	<u>2,517</u>	<u>2,400</u>	<u>15,826</u>	<u>16,454</u>	<u>18,343</u>	<u>18,854</u>
Net assets						
Invested in capital assets net of related debt	8,462	8,386	14,885	15,611	23,347	23,997
Restricted	526	468	3,871	5,293	4,397	5,761
Unrestricted	2,538	2,420	4,513	2,254	7,051	4,674
Total net assets	<u>\$ 11,526</u>	<u>\$ 11,274</u>	<u>\$ 23,269</u>	<u>\$ 23,158</u>	<u>\$ 34,795</u>	<u>\$ 34,432</u>

**all dollar amounts rounded to the nearest thousand*

GOVERNMENTAL ACTIVITIES

Governmental activities increased the City's net assets by \$252 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, 2011 AND 2010

	Governmental Activities		Business-Type Activities		Primary Government Total	
	2011	2010	2011	2010	2011	2010
REVENUES						
Program revenues						
Charges for services	\$ 1,019,494	\$ 993,994	\$ 10,802,468	\$ 10,887,260	\$ 11,821,962	\$ 11,881,254
Operating grants and contributions	10,875	1,200	-	-	10,875	1,200
Capital grants and contributions	50,738	108,199	926,653	1,481,764	977,391	1,589,963
General revenues						
Property taxes	967,369	984,660	-	-	967,369	984,660
Other taxes	1,456,466	1,351,434	-	-	1,456,466	1,351,434
Other revenue	<u>1,075,498</u>	<u>959,152</u>	<u>394,040</u>	<u>206,736</u>	<u>1,469,538</u>	<u>1,165,888</u>
TOTAL REVENUES	<u>4,580,440</u>	<u>4,398,639</u>	<u>12,123,161</u>	<u>12,575,760</u>	<u>16,703,601</u>	<u>16,974,399</u>
EXPENSES						
Primary government						
General government	2,362,658	2,131,267	-	-	2,362,658	2,131,267
Public safety	3,603,733	3,409,037	-	-	3,603,733	3,409,037
Transportation	1,305,222	1,234,376	-	-	1,305,222	1,234,376
Economic environment	19,941	30,021	-	-	19,941	30,021
Culture and recreation	666,250	654,036	-	-	666,250	654,036
Debt service interest	57,513	63,919	-	-	57,513	63,919
Business-type activities						
Natural gas	-	-	2,863,185	3,162,651	2,863,185	3,162,651
Water and sewer	-	-	4,567,470	4,421,619	4,567,470	4,421,619
Non-major proprietary funds	<u>-</u>	<u>-</u>	<u>894,257</u>	<u>827,693</u>	<u>894,257</u>	<u>827,693</u>
TOTAL EXPENSES	<u>8,015,317</u>	<u>7,522,656</u>	<u>8,324,912</u>	<u>8,411,963</u>	<u>16,340,229</u>	<u>15,934,619</u>
Increase (decrease) in net assets before transfers	(3,434,877)	(3,124,017)	3,798,249	4,163,797	363,372	1,039,780
Transfers	<u>3,687,352</u>	<u>3,573,315</u>	<u>(3,687,352)</u>	<u>(3,573,315)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	252,475	449,298	110,897	590,482	363,372	1,039,780
NET ASSETS - BEGINNING OF YEAR	<u>11,273,838</u>	<u>10,824,540</u>	<u>23,158,534</u>	<u>22,568,052</u>	<u>34,432,372</u>	<u>33,392,592</u>
NET ASSETS - ENDING OF YEAR	<u>\$ 11,526,313</u>	<u>\$ 11,273,838</u>	<u>\$ 23,269,431</u>	<u>\$ 23,158,534</u>	<u>\$ 34,795,744</u>	<u>\$ 34,432,372</u>

FINANCIAL IMPACTS

NORMAL IMPACTS

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

Revenues

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

Expenses

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

Current Year Impacts - Governmental Activities

- Charges for services increased \$26 thousand as a result of the increased electricity franchise fees collected during the year.
- Capital grants and contributions decreased \$57 thousand as a result of specific law enforcement grants received during fiscal year 2010.
- Other taxes increased \$105 thousand due to increases in electricity and telecommunication taxes collected.

- Other revenue increased \$116 thousand as a result of additional shared revenues from Santa Rosa County.
- General government expenses increased \$231 thousand, which is the result of the increased funding of the pension and increased costs related to non-capitalized projects.
- Public safety expenses increased \$195 thousand as a result of increased staffing and the actuarial adjustment to the required annual retirement contribution.

Chart 1
Expenses and Program Revenues
Governmental Activities

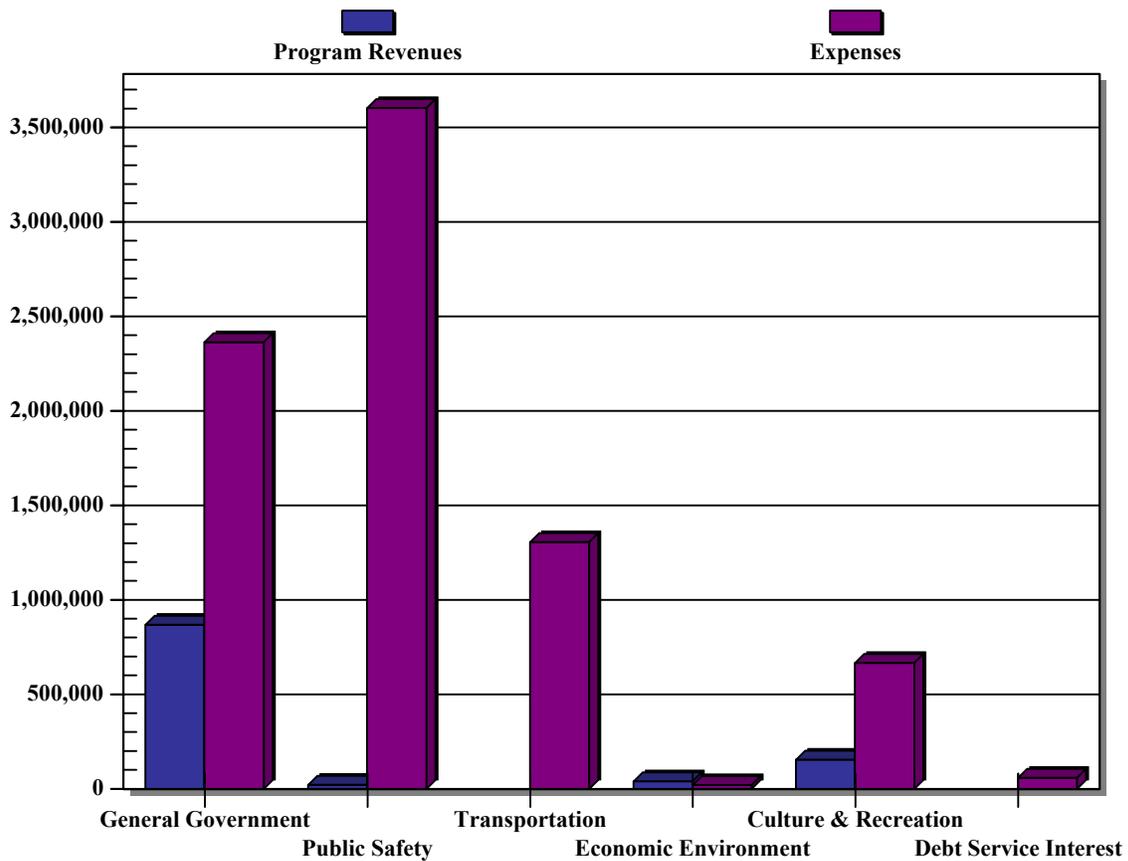
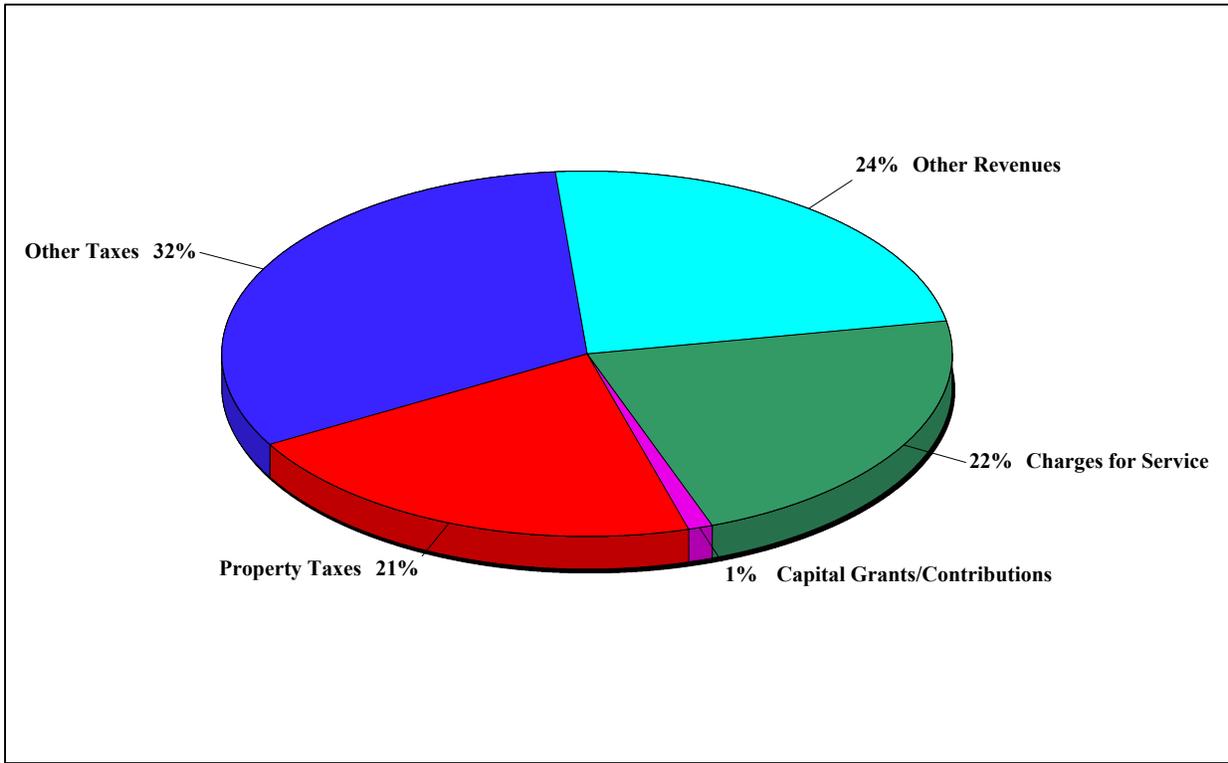


Chart 2
Revenues by Source
Governmental Activities



Business-Type Activities

- The net assets from business-type activities increased by \$111 thousand (or 0.48%) during fiscal year 2011.
- Overall revenues decreased \$453 thousand due to grants received in fiscal year 2010 for the completion of the new prison. No other significant change noted.
- The Natural Gas Fund expenses decreased \$299 thousand, primarily due to the decrease in the average purchase price of natural gas since 2010.

Chart 3
Expenses and Program Revenues
Business-Type Activities

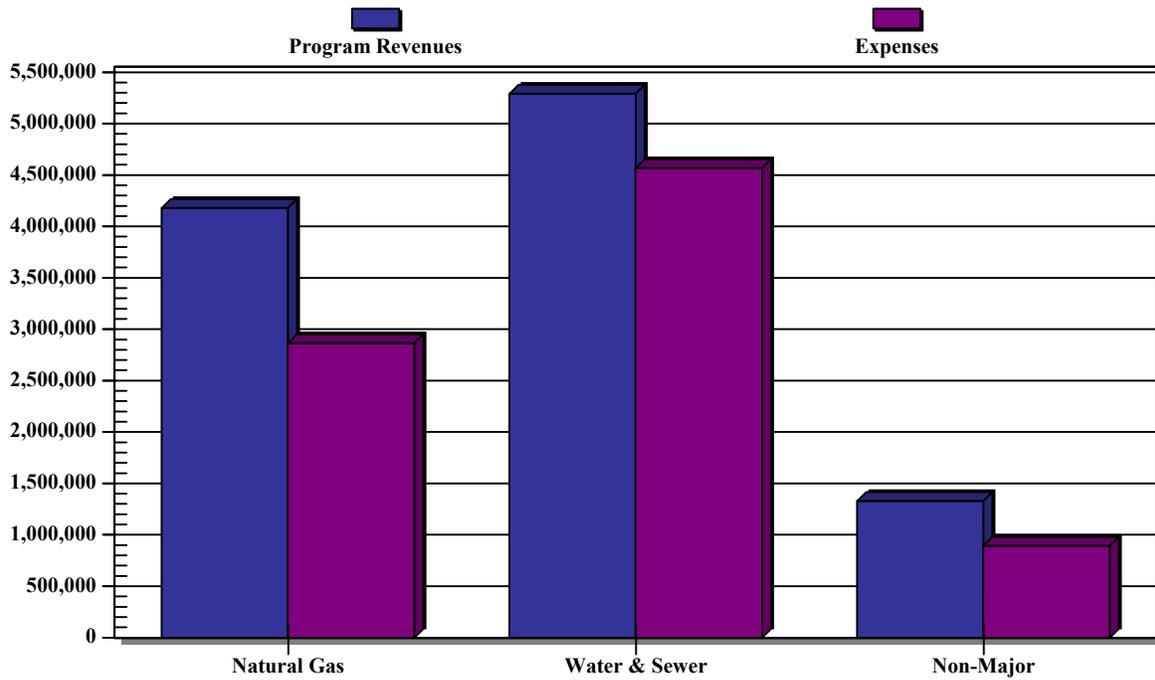
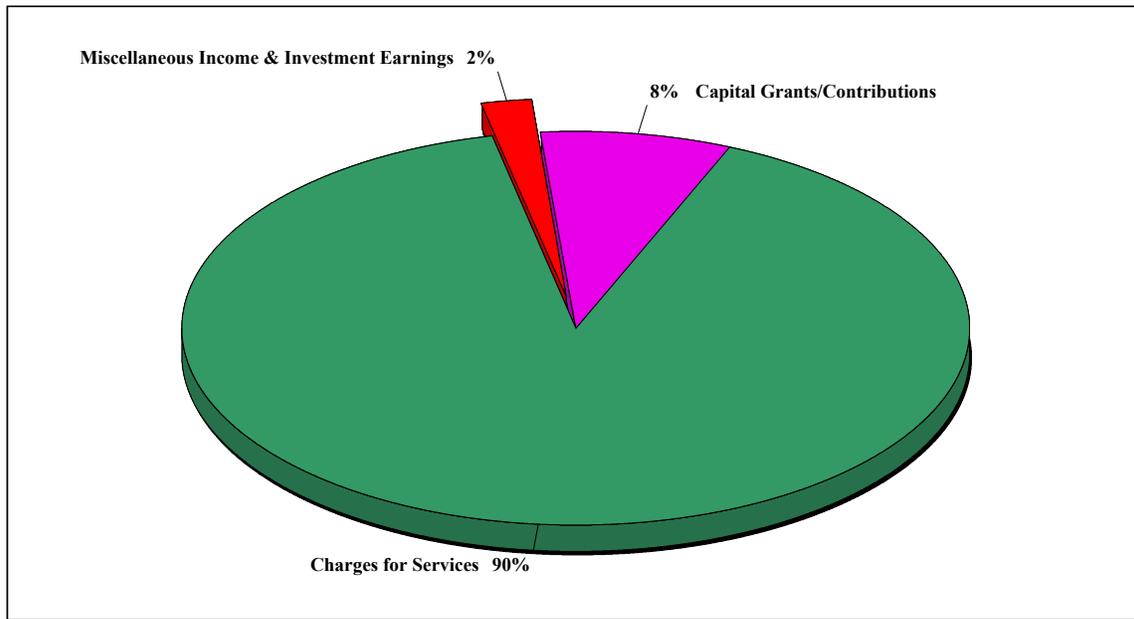


Chart 4
Revenues by Source
Business-Type Activities



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 \$3.19 million, an increase of \$279 thousand from the prior year. \$2.27 million constitutes unrestricted/unassigned fund balance, which is available for spending at the City Council's discretion. The remaining fund balance is restricted or assigned for various purposes and commitments.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unrestricted/unassigned fund balance of the General Fund was \$2.27 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved/unassigned fund balance and total fund balance to total expenditures. Unrestricted/unassigned fund balance represents approximately four months of the General Fund expenditures.

During the current fiscal year, the fund balance of the City's General Fund increased by \$418 thousand. Key reasons are consistent revenues and continual cost reduction efforts by the City Council.

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 \$4.51 million at the end of the year. Proprietary funds net assets increased by \$111 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 increased by \$372 thousand, budgeted revenues were increased by \$115 thousand, and budgeted net transfers decreased by \$545 thousand, as presented in the final amended budget. The majority of the General Fund budget adjustment was to account for additional intergovernmental revenues for several capital project expenditures. An additional \$112 thousand was added to intergovernmental revenues, and \$180 thousand was added for capital outlay costs. In addition, approximately \$90 thousand was added for additional public safety retirement contributions as required by the actuarial study.

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, 2011, amounts to \$39.00 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 decrease in the City's investment in capital assets, for the current fiscal year, was \$328 thousand. The overall decrease of the City's capital assets is essentially attributable to current year recognition of the depreciation costs, and very minimal new projects undertaken in the current year.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 1,622,054	\$ 1,622,054	\$ 526,313	\$ 91,313	\$ 2,148,367	\$ 1,713,367
Buildings	5,089,954	5,569,115	59,500	-	5,149,454	5,569,115
Improvements other than buildings	2,063,977	1,850,040	22,598,593	24,087,398	24,662,570	25,937,438
Machinery and equipment	866,475	920,558	3,854,972	3,875,497	4,721,447	4,796,055
Construction in progress	<u>318,775</u>	<u>94,746</u>	<u>2,002,519</u>	<u>1,220,046</u>	<u>2,321,294</u>	<u>1,314,792</u>
Total	<u>\$ 9,961,235</u>	<u>\$10,056,513</u>	<u>\$ 29,041,897</u>	<u>\$ 29,274,254</u>	<u>\$ 39,003,132</u>	<u>\$ 39,330,767</u>

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

OUTSTANDING DEBT

At the end of the current fiscal year, the City had total debt outstanding of \$16.67 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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenue notes payable, net	\$ 1,498,736	\$ 1,670,689	\$ 2,427,861	\$ 2,615,925	\$ 3,926,597	\$ 4,286,614
Note payable	-	-	364,196	-	364,196	-
State revolving loan	-	-	11,779,721	12,538,744	11,779,721	12,538,744
Compensated absences	<u>425,860</u>	<u>331,203</u>	<u>175,889</u>	<u>151,138</u>	<u>601,749</u>	<u>482,341</u>
Total	<u>\$ 1,924,596</u>	<u>\$ 2,001,892</u>	<u>\$ 14,747,667</u>	<u>\$ 15,305,807</u>	<u>\$ 16,672,263</u>	<u>\$ 17,307,699</u>

The City's total debt decreased a net \$635.44 thousand during the 2011 fiscal year, which is attributable to the regular debt service payments.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The State of Florida, by constitution, does not have a state personal income tax and therefore the State operates primarily using sales, gasoline and corporate income taxes. Local governments (cities, counties, and school boards) primarily rely upon property and a limited array of permitted other taxes (sales, gasoline, utility service taxes, etc.) and fees (franchise and occupational license) for their governmental activities. There is a limited number of state shared revenues and recurring and non-recurring grants from both the State and Federal 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 2011-2012 budget for the City:

- The local unemployment rate was 9.2%, which represents an approximate 1% increase from 2010. The State of Florida's unemployment rate was 10%. 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 expectation for intergovernmental revenues for the past few years, but during the 2012 budgeting process, the projected revenues remained consistent with fiscal year 2011 actual appropriations.
- Decreases in property tax revenues are anticipated by most regional municipalities. For the 2012 fiscal year, the City decreased budgeted property tax revenues by 3%.
- For the 2012 fiscal year, the City budgeted \$167,189 of existing fund balance, which has been reflected in the assigned classification of the September 30, 2011 fund balance of the General Fund.

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, 260 Dixon Street, Milton Florida 32572. The City's website address is www.ci.milton.fl.us. Inquiries may also be sent via email to the Finance Department at chiefaccountant@mymiltonflorida.com.

City of Milton, Florida
STATEMENT OF NET ASSETS
September 30, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,062,131	\$ 4,137,684	\$ 7,199,815
Receivables, net	140,663	1,056,975	1,197,638
Internal balances	2,464	(2,464)	-
Due from other governments	160,420	934	161,354
Inventory, at cost	135,416	213,506	348,922
Prepaid items	48,143	42,649	90,792
Restricted assets			
Cash and cash equivalents	232,873	4,604,296	4,837,169
Capital assets			
Non-depreciable	1,940,829	2,528,832	4,469,661
Depreciable, net	8,020,406	26,513,065	34,533,471
Other assets			
Net pension asset	299,933	-	299,933
TOTAL ASSETS	<u>14,043,278</u>	<u>39,095,477</u>	<u>53,138,755</u>
LIABILITIES			
Accounts payable	217,899	176,427	394,326
Accrued liabilities	202,368	132,178	334,546
Due to other governments	71,505	-	71,505
Unearned revenues	100,597	36,970	137,567
Compensated absences	326,125	166,096	492,221
Note payable	-	17,944	17,944
Revenue notes payable	177,731	1,158,298	1,336,029
State revolving loan payable	-	778,749	778,749
Payable from restricted assets			
Customer deposits	-	732,803	732,803
Non-current liabilities			
Compensated absences	99,735	9,793	109,528
Note payable	-	346,252	346,252
Revenue notes payable	1,321,005	1,269,563	2,590,568
State revolving loan payable	-	11,000,973	11,000,973
TOTAL LIABILITIES	<u>2,516,965</u>	<u>15,826,046</u>	<u>18,343,011</u>
NET ASSETS			
Invested in capital assets, net of related debt	8,462,499	14,884,533	23,347,032
Restricted			
Debt service	-	1,227,765	1,227,765
Public safety	25,517	-	25,517
Downtown redevelopment	51,581	-	51,581
Retirement funding	299,933	-	299,933
Capital projects	148,752	2,643,728	2,792,480
Unrestricted	2,538,031	4,513,405	7,051,436
TOTAL NET ASSETS	<u>\$ 11,526,313</u>	<u>\$ 23,269,431</u>	<u>\$ 34,795,744</u>

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

City of Milton, Florida
STATEMENT OF ACTIVITIES
Year Ended September 30, 2011

					Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Program Revenues			Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<i>Function/program activities</i>							
Government activities							
General government	\$ 2,362,658	\$ 856,483	\$ 10,875	\$ -	\$ (1,495,300)	\$ -	\$ (1,495,300)
Public safety	3,603,733	15,132	-	5,775	(3,582,826)	-	(3,582,826)
Transportation	1,305,222	-	-	-	(1,305,222)	-	(1,305,222)
Economic environment	19,941	-	-	38,969	19,028	-	19,028
Culture and recreation	666,250	147,879	-	5,994	(512,377)	-	(512,377)
Debt service interest	57,513	-	-	-	(57,513)	-	(57,513)
Total government activities	<u>8,015,317</u>	<u>1,019,494</u>	<u>10,875</u>	<u>50,738</u>	<u>(6,934,210)</u>	<u>-</u>	<u>(6,934,210)</u>
Business-type activities							
Natural gas	2,863,185	4,180,798	-	-	-	1,317,613	1,317,613
Water and sewer	4,567,470	5,291,303	-	926,653	-	1,650,486	1,650,486
Non-major proprietary funds	894,257	1,330,367	-	-	-	436,110	436,110
Total business-type activities	<u>8,324,912</u>	<u>10,802,468</u>	<u>-</u>	<u>926,653</u>	<u>-</u>	<u>3,404,209</u>	<u>3,404,209</u>
Total primary government	<u>\$ 16,340,229</u>	<u>\$ 11,821,962</u>	<u>\$ 10,875</u>	<u>\$ 977,391</u>	<u>\$ (6,934,210)</u>	<u>\$ 3,404,209</u>	<u>\$ (3,530,001)</u>
<i>General revenues</i>							
Taxes							
Property taxes					\$ 967,369	\$ -	\$ 967,369
Sales taxes					270,463	-	270,463
Utility service taxes					1,186,003	-	1,186,003
Municipal revenue sharing					981,708	155,000	1,136,708
Gain on sale of assets					15,698	-	15,698
Investment earnings					13,202	22,185	35,387
Miscellaneous					64,890	216,855	281,745
Transfers					<u>3,687,352</u>	<u>(3,687,352)</u>	<u>-</u>
Total general revenues and interfund activity					<u>7,186,685</u>	<u>(3,293,312)</u>	<u>3,893,373</u>
Change in net assets					252,475	110,897	363,372
Net assets - beginning of year					<u>11,273,838</u>	<u>23,158,534</u>	<u>34,432,372</u>
Net assets - end of year					<u>\$ 11,526,313</u>	<u>\$ 23,269,431</u>	<u>\$ 34,795,744</u>

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

City of Milton, Florida
GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2011

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 2,728,649	\$ 333,482	\$ 3,062,131
Receivables	140,163	500	140,663
Due from other funds	2,464	2,452	4,916
Due from other governments	160,420	-	160,420
Inventory, at cost	135,416	-	135,416
Prepaid items	48,143	-	48,143
Restricted assets			
Cash and cash equivalents	<u>127,534</u>	<u>105,339</u>	<u>232,873</u>
TOTAL ASSETS	<u>\$ 3,342,789</u>	<u>\$ 441,773</u>	<u>\$ 3,784,562</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 75,108	\$ 142,791	\$ 217,899
Accrued liabilities	202,368	-	202,368
Due to other funds	2,452	-	2,452
Due to other governments	68,517	2,988	71,505
Unearned revenue	<u>100,597</u>	<u>-</u>	<u>100,597</u>
Total liabilities	<u>449,042</u>	<u>145,779</u>	<u>594,821</u>
Fund balance			
Non-spendable			
Inventory	135,416	-	135,416
Prepaid items	48,143	-	48,143
Restricted			
Capital projects	127,534	21,218	148,752
Public safety	-	25,517	25,517
Downtown redevelopment	-	51,581	51,581
Unrestricted			
Assigned	173,755	333,482	507,237
Unassigned	<u>2,408,899</u>	<u>(135,804)</u>	<u>2,273,095</u>
Total fund balance	<u>2,893,747</u>	<u>295,994</u>	<u>3,189,741</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 3,342,789</u>	<u>\$ 441,773</u>	<u>\$ 3,784,562</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, 2011

Fund balances - total governmental funds (page 19) \$ 3,189,741

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	1,940,829	
Governmental depreciable assets	16,670,933	
Less accumulated depreciation	<u>(8,650,527)</u>	
		9,961,235

Other assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.

Net pension asset		299,933
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.

Notes payable	(1,498,736)	
Compensated absences	<u>(425,860)</u>	
		<u>(1,924,596)</u>

Net assets of governmental activities (page 17) \$ 11,526,313

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, 2011

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 2,423,835	\$ -	\$ 2,423,835
Licenses, fees, and permits	832,267	-	832,267
Intergovernmental	919,538	131,992	1,051,530
Charges for services	160,425	-	160,425
Fines and forfeits	15,984	17,593	33,577
Miscellaneous	<u>77,066</u>	<u>1,738</u>	<u>78,804</u>
TOTAL REVENUES	<u>4,429,115</u>	<u>151,323</u>	<u>4,580,438</u>
EXPENDITURES			
Current			
General governmental services	2,045,797	-	2,045,797
Public safety	3,197,157	20,283	3,217,440
Economic environment	-	37,916	37,916
Transportation	1,305,222	-	1,305,222
Culture and recreation	462,750	-	462,750
Capital outlay	86,927	603,504	690,431
Debt service			
Principal	-	171,953	171,953
Interest	<u>-</u>	<u>57,513</u>	<u>57,513</u>
TOTAL EXPENDITURES	<u>7,097,853</u>	<u>891,169</u>	<u>7,989,022</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,668,738)</u>	<u>(739,846)</u>	<u>(3,408,584)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	3,702,352	600,916	4,303,268
Transfers out	<u>(615,916)</u>	<u>-</u>	<u>(615,916)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>3,086,436</u>	<u>600,916</u>	<u>3,687,352</u>
NET CHANGE IN FUND BALANCE	417,698	(138,930)	278,768
FUND BALANCE - BEGINNING OF YEAR	<u>2,476,049</u>	<u>434,924</u>	<u>2,910,973</u>
FUND BALANCE - END OF YEAR	<u>\$ 2,893,747</u>	<u>\$ 295,994</u>	<u>\$ 3,189,741</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, 2011

Net change in fund balances - total governmental funds (page 21) \$ 278,768

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	690,431	
Less current year depreciation	<u>(782,688)</u>	(92,257)

Governmental funds do not report capital assets on the balance sheet; however, they are reported in the government wide financial statements. Accordingly, proceeds received for disposals of capital assets are shown as income on the governmental financial statements and a gain or loss in the statement of activities.

Disposals of capital assets		(3,021)
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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		171,953
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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	(8,311)	
Change in long-term compensated absences	<u>(94,657)</u>	<u>(102,968)</u>

Change in net assets of governmental activities (page 18) \$ 252,475

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, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 2,077,979	\$ 2,077,979	\$ 2,423,835	\$ 345,856
Licenses, fees, and permits	634,750	632,632	832,267	199,635
Intergovernmental	730,274	850,994	919,538	68,544
Charges for services	192,700	200,318	160,425	(39,893)
Fines and forfeits	35,500	35,500	15,984	(19,516)
Miscellaneous	<u>70,700</u>	<u>58,619</u>	<u>77,066</u>	<u>18,447</u>
TOTAL REVENUES	<u>3,741,903</u>	<u>3,856,042</u>	<u>4,429,115</u>	<u>573,073</u>
EXPENDITURES				
Current				
General government services	2,244,768	2,263,388	2,045,797	217,591
Public safety	3,179,174	3,295,919	3,197,157	98,762
Transportation	1,345,594	1,354,591	1,305,222	49,369
Culture and recreation	538,247	550,747	462,750	87,997
Capital outlay	33,879	213,527	86,927	126,600
Debt service	<u>-</u>	<u>35,000</u>	<u>-</u>	<u>35,000</u>
TOTAL EXPENDITURES	<u>7,341,662</u>	<u>7,713,172</u>	<u>7,097,853</u>	<u>615,319</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(3,599,759)</u>	<u>(3,857,130)</u>	<u>(2,668,738)</u>	<u>1,188,392</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	3,816,150	3,918,852	3,702,352	(216,500)
Transfers out	<u>(248,270)</u>	<u>(896,136)</u>	<u>(615,916)</u>	<u>280,220</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>3,567,880</u>	<u>3,022,716</u>	<u>3,086,436</u>	<u>63,720</u>
NET CHANGE IN FUND BALANCE	(31,879)	(834,414)	417,698	1,252,112
FUND BALANCE - BEGINNING OF YEAR	<u>31,879</u>	<u>834,414</u>	<u>2,476,049</u>	<u>1,641,635</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,893,747</u>	<u>\$ 2,893,747</u>

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

City of Milton, Florida
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
September 30, 2011

	Natural Gas Fund	Water and Sewer Fund	Non-Major Funds	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,169,746	\$ 2,504,749	\$ 463,189	\$ 4,137,684
Receivables, net	259,125	644,941	152,909	1,056,975
Due from other funds	-	65,388	-	65,388
Due from other governments	934	-	-	934
Prepaid items	9,791	28,354	4,504	42,649
Inventory, at cost	213,506	-	-	213,506
Restricted assets				
Cash and cash equivalents	<u>391,292</u>	<u>4,213,004</u>	<u>-</u>	<u>4,604,296</u>
Total current assets	<u>2,044,394</u>	<u>7,456,436</u>	<u>620,602</u>	<u>10,121,432</u>
Capital assets				
Non-depreciable	189,055	1,904,777	435,000	2,528,832
Depreciable, net	<u>964,350</u>	<u>25,116,648</u>	<u>432,067</u>	<u>26,513,065</u>
Total capital assets	<u>1,153,405</u>	<u>27,021,425</u>	<u>867,067</u>	<u>29,041,897</u>
TOTAL ASSETS	<u>3,197,799</u>	<u>34,477,861</u>	<u>1,487,669</u>	<u>39,163,329</u>
LIABILITIES				
Current liabilities				
Accounts payable	79,779	94,398	2,250	176,427
Accrued liabilities				
Compensated absences	53,873	90,946	21,277	166,096
Wages	33,841	36,367	14,617	84,825
Other	47,353	-	-	47,353
Due to other funds	65,388	-	2,464	67,852
Revenue notes payable	17,413	1,140,885	-	1,158,298
Note payable	-	-	17,944	17,944
State revolving loan payable	-	778,749	-	778,749
Unearned revenues	-	36,970	-	36,970
Payable from restricted assets				
Customer deposits	<u>288,188</u>	<u>444,615</u>	<u>-</u>	<u>732,803</u>
Total current liabilities	<u>585,835</u>	<u>2,622,930</u>	<u>58,552</u>	<u>3,267,317</u>
Non-current liabilities				
Compensated absences	3,174	6,596	23	9,793
Note payable	-	-	346,252	346,252
Revenue notes payable	139,652	1,129,911	-	1,269,563
State revolving loan payable	<u>-</u>	<u>11,000,973</u>	<u>-</u>	<u>11,000,973</u>
Total non-current liabilities	<u>142,826</u>	<u>12,137,480</u>	<u>346,275</u>	<u>12,626,581</u>
TOTAL LIABILITIES	<u>728,661</u>	<u>14,760,410</u>	<u>404,827</u>	<u>15,893,898</u>
NET ASSETS				
Invested in capital assets, net of related debt	996,340	13,385,322	502,871	14,884,533
Restricted				
Debt service	-	1,227,765	-	1,227,765
Capital projects	103,104	2,540,624	-	2,643,728
Unrestricted	<u>1,369,694</u>	<u>2,563,740</u>	<u>579,971</u>	<u>4,513,405</u>
TOTAL NET ASSETS	<u>\$ 2,469,138</u>	<u>\$ 19,717,451</u>	<u>\$ 1,082,842</u>	<u>\$ 23,269,431</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, 2011

	Natural Gas Fund	Water and Sewer Fund	Non-Major Fund	Total
OPERATING REVENUES				
Charges for services	<u>\$ 4,180,798</u>	<u>\$ 5,291,303</u>	<u>\$ 1,330,741</u>	<u>\$10,802,842</u>
OPERATING EXPENSES				
Personal services	689,614	1,133,958	382,354	2,205,926
Operating	1,992,423	1,223,531	483,899	3,699,853
Depreciation	<u>171,637</u>	<u>1,817,475</u>	<u>22,486</u>	<u>2,011,598</u>
Total operating expenses	<u>2,853,674</u>	<u>4,174,964</u>	<u>888,739</u>	<u>7,917,377</u>
OPERATING INCOME	<u>1,327,124</u>	<u>1,116,339</u>	<u>442,002</u>	<u>2,885,465</u>
NON-OPERATING REVENUES (EXPENSES)				
Intergovernmental	-	-	155,000	155,000
Tower leases	-	127,271	-	127,271
Interest expense	(9,511)	(392,506)	(5,517)	(407,534)
Interest income	3,821	18,364	543	22,728
Miscellaneous	<u>3,598</u>	<u>84,760</u>	<u>308</u>	<u>88,666</u>
Total non-operating revenues (expenses)	<u>(2,092)</u>	<u>(162,111)</u>	<u>150,334</u>	<u>(13,869)</u>
INCOME BEFORE OPERATING TRANSFERS AND CAPITAL CONTRIBUTIONS	<u>1,325,032</u>	<u>954,228</u>	<u>592,336</u>	<u>2,871,596</u>
Capital contributions	-	926,653	-	926,653
Transfers in	4,445	-	15,000	19,445
Transfers out	<u>(1,528,676)</u>	<u>(1,999,314)</u>	<u>(178,807)</u>	<u>(3,706,797)</u>
Total transfers and capital contributions	<u>(1,524,231)</u>	<u>(1,072,661)</u>	<u>(163,807)</u>	<u>(2,760,699)</u>
CHANGE IN NET ASSETS	(199,199)	(118,433)	428,529	110,897
NET ASSETS - BEGINNING OF YEAR	<u>2,668,337</u>	<u>19,835,884</u>	<u>654,313</u>	<u>23,158,534</u>
NET ASSETS - END OF YEAR	<u>\$ 2,469,138</u>	<u>\$19,717,451</u>	<u>\$ 1,082,842</u>	<u>\$23,269,431</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, 2011

	Natural Gas Fund	Water and Sewer Fund	Non-Major Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 4,144,479	\$ 5,183,117	\$ 1,318,553	\$ 10,646,149
Payments to suppliers	(1,894,108)	(1,238,480)	(525,668)	(3,658,256)
Payments to employees	(668,819)	(1,123,424)	(376,333)	(2,168,576)
Miscellaneous income	3,598	84,760	308	88,666
Tower leases	-	127,271	-	127,271
Net cash provided (used) by operating activities	<u>1,585,150</u>	<u>3,033,244</u>	<u>416,860</u>	<u>5,035,254</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Borrowings (repayments)				
Due to other funds	65,388	-	(78,000)	(12,612)
Due from other funds	-	12,612	2,464	15,076
Transfers in	4,445	-	15,000	19,445
Transfers out	<u>(1,528,676)</u>	<u>(1,999,314)</u>	<u>(178,807)</u>	<u>(3,706,797)</u>
Net cash provided (used) by non-capital financing activities	<u>(1,458,843)</u>	<u>(1,986,702)</u>	<u>(239,343)</u>	<u>(3,684,888)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisitions of capital assets	(149,660)	(1,074,030)	(555,553)	(1,779,243)
Capital contributions	-	926,653	-	926,653
Intergovernmental revenues	-	-	155,000	155,000
Proceeds received from revenue notes payable and note payable	169,641	1,372,548	370,000	1,912,189
Principal paid on note payable, revenue notes payable, and state revolving loans	(190,693)	(2,298,583)	(5,804)	(2,495,080)
Interest paid on note payable, revenue notes payable, and state revolving loans	<u>(9,511)</u>	<u>(392,506)</u>	<u>(5,517)</u>	<u>(407,534)</u>
Net cash provided (used) by capital and related financing activities	<u>(180,223)</u>	<u>(1,465,918)</u>	<u>(41,874)</u>	<u>(1,688,015)</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	<u>3,821</u>	<u>18,364</u>	<u>543</u>	<u>22,728</u>
Net cash provided (used) by investing activities	<u>3,821</u>	<u>18,364</u>	<u>543</u>	<u>22,728</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(50,095)	(401,012)	136,186	(314,921)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,611,133</u>	<u>7,118,765</u>	<u>327,003</u>	<u>9,056,901</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,561,038</u>	<u>\$ 6,717,753</u>	<u>\$ 463,189</u>	<u>\$ 8,741,980</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, 2011

	<u>Natural Gas Fund</u>	<u>Water and Sewer Fund</u>	<u>Non-Major Fund</u>	<u>Total</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF				
Current assets	\$ 1,169,746	\$ 2,504,749	\$ 463,189	\$ 4,137,684
Restricted assets	<u>391,292</u>	<u>4,213,004</u>	<u>-</u>	<u>4,604,296</u>
Total cash and cash equivalents	<u>\$ 1,561,038</u>	<u>\$ 6,717,753</u>	<u>\$ 463,189</u>	<u>\$ 8,741,980</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income	\$ 1,327,124	\$ 1,116,339	\$ 442,002	\$ 2,885,465
Adjustments to reconcile operating income to net cash provided (used) by operating activities				
Depreciation	171,637	1,817,475	22,486	2,011,598
Tower lease income	-	127,271	-	127,271
Miscellaneous revenue	3,598	84,760	308	88,666
Decrease (increase) in assets				
Accounts receivable	(17,262)	(103,005)	(12,188)	(132,455)
Inventory	102,003	-	-	102,003
Prepaid items	(411)	(2,121)	(187)	(2,719)
Increase (decrease) in liabilities				
Accounts payable	(482)	(10,764)	(41,582)	(52,828)
Compensated absences payable	10,187	12,046	2,518	24,751
Wages	10,608	(1,512)	3,503	12,599
Other accrued liabilities	(2,795)	(2,064)	-	(4,859)
Customer deposits	(19,057)	5,732	-	(13,325)
Deferred revenues	<u>-</u>	<u>(10,913)</u>	<u>-</u>	<u>(10,913)</u>
Net cash provided (used) by operating activities	<u>\$ 1,585,150</u>	<u>\$ 3,033,244</u>	<u>\$ 416,860</u>	<u>\$ 5,035,254</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, 2011

	<u>Pension Trust Funds</u>	<u>Retired Employees' Insurance Trust Fund</u>
ASSETS		
Cash and cash equivalents	\$ 957	\$ 153,261
Investments, at market	16,386,676	633,440
Due from State of Florida	<u>12,867</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 16,400,500</u>	<u>\$ 786,701</u>
LIABILITIES		
Other	<u>\$ -</u>	<u>\$ 741</u>
NET ASSETS		
Held in trust for pension and employee retirement benefits	<u>16,400,500</u>	<u>785,960</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 16,400,500</u>	<u>\$ 786,701</u>

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, 2011

	<u>Pension Trust Funds</u>	<u>Retired Employees' Insurance Trust Fund</u>
ADDITIONS		
Contributions		
Employer	\$ 550,736	\$ -
Plan members	322,929	169,635
State of Florida	<u>146,969</u>	<u>-</u>
Total contributions	<u>1,020,634</u>	<u>169,635</u>
Investment income (loss)	109,809	(30,661)
Less investment expense	<u>(233,435)</u>	<u>-</u>
Net investment income (loss)	<u>(123,626)</u>	<u>(30,661)</u>
TOTAL ADDITIONS (DEDUCTIONS)	<u>897,008</u>	<u>138,974</u>
DEDUCTIONS		
Benefits and refunds paid		
Retirement payments	1,119,191	19,396
Insurance premiums	<u>-</u>	<u>7,660</u>
Total benefits and refunds paid	<u>1,119,191</u>	<u>27,056</u>
Administrative expenses - other	<u>235</u>	<u>18,115</u>
TOTAL DEDUCTIONS	<u>1,119,426</u>	<u>45,171</u>
NET INCREASE (DECREASE) IN NET ASSETS	(222,418)	93,803
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER RETIREMENT BENEFITS - BEGINNING OF YEAR	<u>16,622,918</u>	<u>692,157</u>
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER RETIREMENT BENEFITS - END OF YEAR	<u>\$ 16,400,500</u>	<u>\$ 785,960</u>

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

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City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

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, 2011

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, 2011

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.

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).

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

The following is the current property tax calendar:

Lien Date	January 1, 2011
Levy Date	November 1, 2011
Due Date	November 1, 2011
Delinquent Date	April 1, 2012

Discounts of 1% for each month taxes are paid prior to March 2012, 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 2012 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.

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.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Continued)

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

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

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

Governmental

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

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

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.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Continued)

Fiduciary

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

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

Retired Employees' Insurance Trust Fund - Used to report the revenues and expenditures of post-employment healthcare benefits.

E. Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents

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

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.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Deposits and Investments (Continued)

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

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

Receivables and Payables

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

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

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

Inventories

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

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Inventories (Continued)

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

Restricted Assets

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

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

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

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

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Capital Assets (Continued)

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

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

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

Assets	<u>Years</u>
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	<u>Hours Accrued per Month (Firefighters/All Others)</u>
0-5 years	12 hours/8 hours
5-10 years	15 hours/10 hours
10-15 years	18 hours/12 hours
15-20 years	21 hours/14 hours
20+ years	24 hours/16 hours

Sick Leave

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

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Compensated Absences (Continued)

Compensatory Time

Compensatory 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 compensatory 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.

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, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

H. New Accounting Pronouncement

The City implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This GASB Statement clarifies governmental fund balance classifications and fund-type definitions and requires fund balances to be reported as either spendable or non-spendable. Amounts classified as spendable must further be classified as restricted, committed, assigned, or unassigned depending upon the nature of external or internal constraints in how the resources may be spent. See Note 16 for more information.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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, 2011

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (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.

The City's deposits at September 30, 2011, were entirely covered by federal depository insurance or pooled collateral held by the State Treasurer and, therefore, have no custodial risk.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

As of September 30, 2011, 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 supersedes 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.

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.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Interest Rate Risk (Continued)

As of September 30, 2011, 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	\$ 606,769	\$ -	\$ 267,078	\$ 270,557	\$ 6,402	\$ 26,917	\$ 23,883	\$ 11,932	\$ -
U.S. Government CMOs	398,828	-	-	33,157	140,729	35,478	91,504	97,960	-
Non-Government CMOs	97,824	-	-	11,261	-	-	37,620	10,635	38,308
GNMA	-	-	-	-	-	-	-	-	-
	<u>1,103,421</u>	<u>-</u>	<u>267,078</u>	<u>314,975</u>	<u>147,131</u>	<u>62,395</u>	<u>153,007</u>	<u>120,527</u>	<u>38,308</u>
Investments not subject to interest rate risk									
Money market funds	1,378,644								
Equity securities	1,580,680								
Mutual funds	12,846,539								
U.S. Treasury	<u>110,832</u>								
Total	<u>\$17,020,116</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 43 issues that were graded below the minimum grade of A by Standard and Poor's rating service as of September 30, 2011.

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 3% of the market value of the total fixed income portfolio as of September 30, 2011.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 4 - RECEIVABLES

Receivables at September 30, 2011, were as follows:

	Governmental Activities		Business-Type Activities			Total
	General	Non-Major Governmental Funds	Natural Gas	Water and Sewer		
				Non-Major	Non-Major	
Utility taxes and franchise fees	\$ 132,066	\$ -	\$ -	\$ -	\$ -	\$ 132,066
Accounts, less allowance for doubtful accounts	-	-	259,125	644,941	152,909	1,056,975
Other	8,097	500	-	-	-	8,597
Total receivables	<u>\$ 140,163</u>	<u>\$ 500</u>	<u>\$ 259,125</u>	<u>\$ 644,941</u>	<u>\$ 152,909</u>	<u>\$ 1,197,638</u>

Due from Other Governments

The City's receivables from other governments for governmental activities as of September 30, 2011, are \$160,420. The receivables consist of amounts due from the State of Florida, relating to intergovernmental revenues.

NOTE 5 - CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011, was as follows:

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,622,054	\$ -	\$ -	\$ 1,622,054
Construction in progress	94,746	231,715	(7,686)	318,775
Total capital assets not being depreciated	<u>1,716,800</u>	<u>231,715</u>	<u>(7,686)</u>	<u>1,940,829</u>
Capital assets being depreciated				
Buildings	9,678,066	-	-	9,678,066
Improvements other than buildings	2,716,762	371,776	4,665	3,093,203
Machinery and equipment	3,812,724	86,940	-	3,899,664
Total capital assets being depreciated	<u>16,207,552</u>	<u>458,716</u>	<u>4,665</u>	<u>16,670,933</u>
Less accumulated depreciation				
Buildings	(4,108,951)	(479,161)	-	(4,588,112)
Improvements other than buildings	(866,722)	(162,504)	-	(1,029,226)
Machinery and equipment	(2,892,166)	(141,023)	-	(3,033,189)
Total accumulated depreciation	<u>(7,867,839)</u>	<u>(782,688)</u>	<u>-</u>	<u>(8,650,527)</u>
Total capital assets being depreciated, net	<u>8,339,713</u>	<u>(323,972)</u>	<u>(3,021)</u>	<u>8,020,406</u>
Governmental activities, net	<u>\$ 10,056,513</u>	<u>\$ (92,257)</u>	<u>\$ (3,021)</u>	<u>\$ 9,961,235</u>

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 5 - CHANGES IN CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 91,313	\$ 435,000	\$ -	\$ 526,313
Construction in progress	<u>1,220,046</u>	<u>807,587</u>	<u>(25,114)</u>	<u>2,002,519</u>
Total capital assets not being depreciated	<u>1,311,359</u>	<u>1,242,587</u>	<u>(25,114)</u>	<u>2,528,832</u>
Capital assets being depreciated				
Buildings	-	60,000	-	60,000
Improvements other than buildings	40,179,612	437,771	22,614	40,639,997
Machinery and equipment	<u>5,898,772</u>	<u>38,883</u>	<u>(23,661)</u>	<u>5,913,994</u>
Total capital assets being depreciated	<u>46,078,384</u>	<u>536,654</u>	<u>(1,047)</u>	<u>46,613,991</u>
Less accumulated depreciation				
Buildings	-	(500)	-	(500)
Improvements other than buildings	(16,092,214)	(1,951,690)	2,500	(18,041,404)
Machinery and equipment	<u>(2,023,275)</u>	<u>(59,408)</u>	<u>23,661</u>	<u>(2,059,022)</u>
Total accumulated depreciation	<u>(18,115,489)</u>	<u>(2,011,598)</u>	<u>26,161</u>	<u>(20,100,926)</u>
Total capital assets being depreciated, net	<u>27,962,895</u>	<u>(1,474,944)</u>	<u>25,114</u>	<u>26,513,065</u>
Business-type activities, net	<u>\$ 29,274,254</u>	<u>\$ (232,357)</u>	<u>\$ -</u>	<u>\$ 29,041,897</u>

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

Governmental activities	
General government	\$ 203,499
Public safety	375,690
Culture and recreation	<u>203,499</u>
Total depreciation expense - governmental activities	<u>\$ 782,688</u>
Business-type activities	
Natural gas	\$ 171,637
Water and sewer	1,817,475
Non-major	<u>22,486</u>
Total depreciation expense - business-type activities	<u>\$ 2,011,598</u>

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 5 - CHANGES IN CAPITAL ASSETS (CONTINUED)

Construction Commitments

The City has active construction projects as of September 30, 2011:

Projects	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
Russell Harbor Landing Projects	\$ 49,186	\$ 14,814
Old River Trail	39,059	10,941
Elva and Canal Street Engineering	96,415	Undetermined
City Hall projects - AC and signage	134,115	22,568
Business Type Activities		
East Milton Wastewater Treatment Plant	960,826	65,215
Gas and sewer for prison	684,067	15,933
Various other water and sewer expansion projects	<u>357,626</u>	<u>Undetermined</u>
	<u>\$ 2,321,294</u>	<u>\$ 129,471</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, 2011

NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Plan Descriptions

Membership of each plan consisted of the following at September 30, 2011, the date of the latest actuarial valuation:

	<u>GERP</u>	<u>PORP</u>	<u>FRP</u>
Retirees receiving benefits	21	7	8
Terminated plan members entitled to but not yet receiving benefits	6	-	-
Beneficiaries receiving benefits	3	2	2
Disabled participants	3	-	1
Deferred retirement option members	3	-	-
Active plan members	<u>69</u>	<u>18</u>	<u>16</u>
Total	<u>105</u>	<u>27</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.

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.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

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.

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

	GERP	PORP	FRP
Contribution rates (percentage of covered payroll)			
City	8.7 %	13.6 %	19.2 %
Plan members	10.0 %	6.0 %	6.5 %
Annual pension cost	\$ 228,206	\$ 113,262	\$ 146,944
Contributions made			
Employer	\$ 253,772	\$ 160,003	\$ 136,961
Employees	\$ 224,667	\$ 50,681	\$ 47,581
Other sources	\$ -	\$ 87,297	\$ 59,672
Net pension obligation (asset)	\$ (244,734)	\$ (11,821)	\$ (43,378)
Actuarial valuation date	10/1/2010	10/1/2010	10/1/2010
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	27 Years	27 Years	30 Years
Asset valuation method	4 Year Smooth	4 Year Smooth (Market)	4 Year Smooth
*The City changed its 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 [#]	5.5 %	7.5 %	6.0 %
[#] Includes inflation at	3.0 %	3.0 %	5.0 %
Post retirement COLA	- %	1.0 %	- %

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

	Year Ending	Three-Year Trend Information		
		Actuarial Determined Contribution (ARC)	Percentage Contribution	Net Pension Obligation (Asset)
GERP	9/30/2010	\$ 212,522	100 %	\$ (244,734)
	9/30/2009	\$ 146,590	124 %	\$ (260,418)
	9/29/2008	\$ 150,416	105 %	\$ (238,798)
PORP	9/30/2010	\$ 112,105	100 %	\$ (11,821)
	9/30/2009	\$ 27,799	100 %	\$ (12,978)
	9/29/2008	\$ 27,838	100 %	\$ (13,122)
FRP	9/30/2010	\$ 142,495	100 %	\$ (43,378)
	9/30/2009	\$ 17,674	109 %	\$ (47,827)
	9/30/2008	\$ 17,842	107 %	\$ (37,948)

The funded status of each plan as of October 1, 2010, 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	\$ 9,373,310	\$ 12,150,571	\$ 2,777,261	77.14 %	\$ 2,310,954	120.18 %
PORP	\$ 4,989,119	\$ 5,103,861	\$ 114,742	97.75 %	\$ 836,238	13.72 %
FRP	\$ 3,359,575	\$ 6,105,598	\$ 2,746,023	55.02 %	\$ 739,015	371.58 %

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.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 7 - DEFERRED COMPENSATION PLAN (CONTINUED)

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 \$432,196 at September 30, 2011. Contributions and distributions made during the fiscal year ended September 30, 2011, were \$57,520 and \$110,494, respectively. The Plan had net earnings of \$3,816.

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, 2011:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental activities					
Revenue note payable	\$ 1,670,689	\$ -	\$ (171,953)	\$ 1,498,736	\$ 177,731
Compensated absences	<u>331,203</u>	<u>94,657</u>	<u>-</u>	<u>425,860</u>	<u>326,125</u>
Total governmental activities	<u>\$ 2,001,892</u>	<u>\$ 94,657</u>	<u>\$ (171,953)</u>	<u>\$ 1,924,596</u>	<u>\$ 503,856</u>

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 9 - LONG-TERM DEBT (CONTINUED)

Changes in Long-Term Debt Liabilities (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities					
Note payable	\$ -	\$ 370,000	\$ (5,804)	\$ 364,196	\$ 17,944
Revenue notes payable	2,615,925	1,542,189	(1,730,253)	2,427,861	1,158,298
State revolving loan payable	12,538,744	-	(759,023)	11,779,721	778,749
Compensated absences	151,138	24,751	-	175,889	166,096
Total business-type activities	<u>\$15,305,807</u>	<u>\$ 1,936,940</u>	<u>\$(2,495,080)</u>	<u>\$ 14,747,667</u>	<u>\$ 2,121,087</u>

Description of Long-Term Debt Outstanding

	Current	Long-Term	Total
GOVERNMENTAL ACTIVITIES			
<i>Revenue Note Payable</i>			
Revenue note payable incurred for financing various capital projects, bearing interest at 3.56%. Principal and interest payments of \$57,237 are made quarterly, until maturity on March 15, 2019. Note is secured by pledged tax revenues.	\$ 177,731	\$ 1,321,005	\$ 1,498,736
<i>Compensated Absences</i>			
Total long-term portion of accumulated, vested annual and sick leave for governmental fund types.	326,125	99,735	425,860
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 503,856</u>	<u>\$ 1,420,740</u>	<u>\$ 1,924,596</u>
BUSINESS-TYPE ACTIVITIES			
<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 3.18%. Principal and interest payments are made quarterly, until maturity on June 15, 2019. The note is secured by water and sewer revenues.	\$ 140,885	\$ 1,129,911	\$ 1,270,796
Utilities refunding revenue note payable incurred for the acquisition and construction of capital improvements in the Water and Sewer Fund, bearing interest at 2.55%. Interest only payments are made monthly, until maturity on March 10, 2012, when the entire principal balance is due. The note is secured by water and sewer revenues.	1,000,000	-	1,000,000

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 9 - LONG-TERM DEBT (CONTINUED)

Description of Long-Term Debt Outstanding (Continued)

	Current	Long-Term	Total
BUSINESS-TYPE ACTIVITIES (CONTINUED)			
<i>Revenue Notes Payable (Continued)</i>			
<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 3.18%. Principal and interest payments are made quarterly, until maturity on June 15, 2019. The note is secured by natural gas revenues.	17,413	139,652	157,065
<i>Total revenue notes payable</i>	1,158,298	1,269,563	2,427,861
 <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.	778,749	11,000,972	11,779,721
 <i>Note Payable</i>			
Note payable incurred for the acquisition of the Marina, recorded in the Marina Fund, bearing interest at 4.5%. Principal and interest payments of \$2,830 are made monthly, until maturity on May 25, 2016, when a balloon payment of \$275,941 is required. The note is secured by the Mariana land and building.	17,944	346,252	364,196
 <i>Accrued Compensated Absences</i>			
Accumulated, vested annual compensation for Proprietary Funds.	166,096	9,793	175,889
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 2,121,087	\$ 11,496,669	\$ 14,747,667
 GRAND TOTAL LONG-TERM DEBT			\$ 16,672,263

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 9 - LONG-TERM DEBT (CONTINUED)

Annual Requirements to Amortize Debt Outstanding

The annual requirements to amortize all debt outstanding except accrued and annual leave and advances from other funds as of September 30, 2011, are as follows:

Governmental Activities

<u>Year Ending September 30</u>	<u>Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 177,731	\$ 51,217
2013	184,162	44,786
2014	190,827	38,122
2015	197,732	31,216
2016	204,887	24,061
2017-2019	543,397	27,121
Total	<u>\$ 1,498,736</u>	<u>\$ 216,523</u>

Business-Type Activities

<u>Year Ending September 30</u>	<u>Note payable</u>		<u>State Revolving Loan</u>		<u>Revenue Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 17,944	\$ 16,022	\$ 778,749	\$ 303,443	\$ 1,158,298	\$ 41,723
2013	18,768	15,197	796,776	284,668	165,513	38,518
2014	19,631	14,335	816,493	265,429	173,053	33,152
2015	20,532	13,433	836,696	245,714	180,937	27,541
2016	287,321	8,434	857,399	225,510	189,177	21,674
2017-2021	-	-	4,615,918	806,571	560,253	27,128
2022-2026	-	-	2,913,560	248,281	-	-
2027	-	-	164,130	11,285	-	-
Total	<u>\$ 364,196</u>	<u>\$ 67,421</u>	<u>\$ 11,779,721</u>	<u>\$ 2,390,901</u>	<u>\$ 2,427,231</u>	<u>\$ 189,736</u>

Refunding

During 2011, the City issued \$1,542,189 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. The reacquisition price did not exceed the net carrying amount of the old debt. In addition, the transaction also resulted in an economic gain of \$162,563, and cash flow savings of \$171,299, in the business-type activities.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 10 - GAS FUND LINE OF CREDIT

The City established a line of credit in the amount of \$500,000, which is renewable annually in August. Interest is payable monthly at a rate of prime plus 1.5% (a total of 4.75% at September 30, 2011). 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, 2011.

NOTE 11 - RENTAL ACTIVITIES

The City is the lessor in multiple operating leases with communication companies, which are renting space on the City's water towers. The terms of the leases vary from 3-5 years, with options to renew, and expire in fiscal years 2012-2015. The rental income for the fiscal year ending September 30, 2011, was \$127,271.

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

2012	\$ 94,332
2013	41,684
2014	21,774
2015	<u>16,553</u>
Total	<u>\$ 174,343</u>

NOTE 12 - CAPITAL CONTRIBUTIONS

For the year ended September 30, 2011, the Water and Sewer Fund had \$926,653 of capital contributions, which included approximately \$176,653 of impact fees, and \$750,000 in capital grants related to the wastewater treatment plant, fluoridation of water system, and the expansion of service to the prison.

NOTE 13 - UNEARNED REVENUE

At September 30, 2011, the Water and Sewer Fund had \$36,970 related to rental income from the above mentioned cell tower leases received in fiscal year 2011, but to be earned in fiscal year 2012. At September 30, 2011, the General Fund had \$100,597 in unearned revenue which consisted of \$91,136 relating to 2012 occupational licenses purchased in 2011 and \$9,461 relating to event fees for 2012, paid in 2011.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 14 - INTERFUND BALANCES

The composition of interfund balances as of September 30, 2011, is as follows:

<i>Due To/From Other Funds</i>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General		Non-major proprietary fund	\$ 2,464
Water and Sewer		Natural Gas	65,388
Non-major governmental funds		General	<u>2,464</u>
			<u>\$ 70,316</u>

The Water and Sewer Fund is owed \$65,388 from the Natural Gas Fund which relates to project expenses incurred in the Water and Sewer Fund for Natural Gas Fund.

<u>Transfers Out</u>	<u>Transfers In</u>				<u>Total</u>
	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Natural Gas Fund</u>	<u>Non-Major Proprietary Fund</u>	
General	\$ -	\$ 600,916	\$ -	\$ 15,000	\$ 615,916
Non-Major Governmental	-	-	-	-	-
Natural Gas	1,528,676	-	-	-	1,528,676
Water and Sewer	1,994,869	-	4,445	-	1,999,314
Non-Major Proprietary	<u>178,807</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>178,807</u>
Totals	<u>\$3,702,352</u>	<u>\$ 600,916</u>	<u>\$ 4,445</u>	<u>\$ 15,000</u>	<u>\$4,322,713</u>

Transfers occurred during the year on a routine basis and consistent with activities of the fund making the transfer, upon availability of funds.

NOTE 15 - POST-EMPLOYEE HEALTHCARE BENEFITS

The City follows Governmental Accounting Standards Board Statement (GASB) No. 45, *Accounting and Reporting by Employers for Post-Employment Benefits Other than Pensions (OPEB)*, for certain post-employment health care benefits provided by the City. The following information is based on the most recent actuarial valuation as of September 30, 2009.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 15 - POST-EMPLOYEE HEALTHCARE BENEFITS (CONTINUED)

A. Plan Description

The City provides limited healthcare benefits for retired municipal employees under a single-employer plan: City of Milton Retired Employees Medical Insurance Fund Plan, as administered by the City. 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 eight past employees who had retired under different guidelines. Once an employee is eligible for Medicare, they are required to switch to Medicare. City ordinance assigns the authority to establish and amend benefit provisions to the City. The City of Milton's Retired Employees Medical Insurance Fund Plan does not issue a stand-alone financial report.

B. Funding Policy

The City is financing the post employee benefits on a "pay-as-you-go" basis. The City has 13 retirees receiving health care benefits. Annual required contributions amounted to \$109,712 for the current fiscal year, towards which the City made implied and actual contributions of \$109,947. The City has a net OPEB asset of \$9,505, which has not been recorded in the accompanying financial statements due to its immaterial nature.

C. Membership

Membership consisted of:

Retirees currently receiving benefits	13
Retirees employees entitled to benefits but not receiving them	<u>117</u>
Total	<u><u>130</u></u>
Participating employers	<u><u>1</u></u>

D. Annual OPEB Cost and Net OPEB Asset

The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 15 - POST-EMPLOYEE HEALTHCARE BENEFITS (CONTINUED)

D. Annual OPEB Cost and Net OPEB Asset (Continued)

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB asset to the retiree health plan:

Annual required contribution <i>(a)</i>	\$ 109,947
Interest on net OPEB obligation	(742)
Adjustment to annual required contribution	<u>507</u>
Annual OPEB cost (expense) total	109,712
Employer contributions	<u>(109,947)</u>
Decrease in net OPEB asset	(235)
Net OPEB asset - beginning of year	<u>(9,270)</u>
Net OPEB asset - end of year	<u>\$ (9,505)</u>

(a) Includes Normal Cost of \$42,915 plus Amortized UAAL Cost of \$67,032

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (first year of implementation), were as follows:

Annual OPEB cost	\$ 109,947
Percentage of Annual OPEB cost contributed	100 %
Net OPEB obligation	\$ (9,505)

E. Funded Status and Funding Progress

The unfunded actuarial accrued liability for benefits was \$1,093,356, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$4,255,604, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 25.7%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 15 - POST-EMPLOYEE HEALTHCARE BENEFITS (CONTINUED)

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The Entry Age Normal Actuarial Cost Method was used. The actuarial assumptions included an 8% investment rate of return and an annual healthcare costs trend rate of 9% initially, reduced by decrements to an ultimate rate of 5% after five years. Both rates included a 5% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized over a 30-year period, utilizing the level dollar payment method. The remaining amortization period at September 30, 2011, is 29 years.

NOTE 16 - GOVERNMENTAL FUND BALANCES

On October 1, 2010, the City implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This Statement clarifies governmental fund balance classifications and fund-type definitions. Fund balances are classified either as non-spendable or as spendable. Spendable fund balances are further classified in a hierarchy based on the extent to which there are external and internal constraints on the spending of these fund balances. These classifications are described as follows:

Non-spendable fund balances include amounts that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact. Non-spendable balances at year end consisted of \$135,416 for inventory, and \$48,143 for prepaid items.

Spendable fund balances are classified as follows depending on the City's ability to control the spending of these fund balances.

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 16 - GOVERNMENTAL FUND BALANCES (CONTINUED)

Restricted fund balances can only be used for specific purposes which are externally imposed by creditors, grantors, contributors, or laws or regulations or are imposed by law through constitutional provisions or enabling legislation. As of September 30, 2011, the City had restricted fund balances in its General and Special Revenue Fund, consisting of \$148,752 for capital projects, \$25,517 for public safety, and \$51,581 for downtown redevelopment projects.

Committed fund balances can only be used for specific purposes imposed internally by the City's formal action of highest level of decision making authority. As of September 30, 2011, the City had no committed fund balances.

Assigned fund balances are fund balances intended to be used for specific purposes, but which do not meet the more formal criterion to be considered either restricted or committed. As of September 30, 2011, the City had \$507,237 in assigned fund balances, consisting of \$6,566 for parks and recreation, \$333,482 for debt service funding, and \$167,189 for the 2012 budget.

Unassigned fund balances represent the residual positive fund balance within the General Fund, which has not been assigned to other funds and has not been restricted, committed, or assigned. In funds other than the General Fund, unassigned fund balances are limited to negative residual balances. As of September 30, 2011, the City had \$2,273,095 in unassigned fund balances.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

Grants

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

Legal Issues

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

City of Milton, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 18 - SUBSEQUENT EVENT

In October 2011, the City had draws of \$1,136,355 on its Clean Water State Revolving Fund Loan Agreement and utilized the funds to pay off the \$1,000,000 Utilities Revenue Note Payable.

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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)
10/1/2010	\$ 9,373,310	\$ 12,150,571	\$ 2,777,261	77.14 %	\$ 2,310,954	120.18 %
10/1/2009	\$ 9,176,280	\$ 11,526,540	\$ 2,350,260	79.61 %	\$ 2,470,351	95.14 %
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)
10/1/2010	\$ 4,989,119	\$ 5,103,861	\$ 114,742	97.75 %	\$ 836,238	13.72 %
10/1/2009	\$ 4,818,940	\$ 4,816,918	\$ (2,022)	100.04 %	\$ 789,029	(0.26) %
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)
10/1/2010	\$ 3,359,575	\$ 6,105,598	\$ 2,746,023	55.02 %	\$ 739,015	371.58 %
10/1/2009	\$ 3,418,023	\$ 5,949,244	\$ 2,531,221	57.45 %	\$ 728,150	347.62 %
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 %

Retired Employees' Insurance 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)
10/1/2009	\$ 453,637	\$ 1,546,993	\$ 1,093,356	29.32 %	\$ 4,255,604	25.69 %
10/1/2008	\$ 387,595	\$ 1,480,720	\$ 1,093,125	26.18 %	\$ 4,065,821	26.89 %

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, 2010	\$ 212,522	\$ 212,522	100.00 %
September 30, 2009	\$ 146,590	\$ 182,014	124.17 %
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, 2010	\$ 190,324	\$ 112,105	\$ 78,219	100.00 %
September 30, 2009	\$ 114,610	\$ 27,799	\$ 86,811	100.00 %
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 %

Firefighters' Retirement Fund

	Annual Required Contribution	City Contribution	State Contribution	Percentage Contributed
September 30, 2010	\$ 203,450	\$ 142,495	\$ 60,954	100.00 %
September 30, 2009	\$ 97,209	\$ 26,364	\$ 79,535	108.94 %
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 %

Retired Employees' Insurance Plan

	Annual Required Contribution	City Contribution	Percentage Contributed
September 30, 2009	\$ 109,712	\$ 109,957	100.22 %
September 30, 2008	\$ 101,227	\$ 101,097	99.87 %

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

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.

Red Light Camera Fund

To account for funds received from the red light camera service contract. Expenditures in this fund are to be used for public safety expenditures associated with operation of the red light camera.

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.

Capital Projects Fund

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

City of Milton, Florida
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
September 30, 2011

	<u>Special Revenue Funds</u>					Total Non-Major Governmental Funds
	Police Special Investigation	Downtown Re- development	Red Light Camera	Debt Service	Capital Projects	
ASSETS						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 333,482	\$ -	\$ 333,482
Accounts receivable	-	-	500	-	-	500
Due from other funds	-	-	-	-	2,452	2,452
Restricted cash	<u>25,357</u>	<u>55,776</u>	<u>2,988</u>	<u>-</u>	<u>21,218</u>	<u>105,339</u>
TOTAL ASSETS	<u>\$ 25,357</u>	<u>\$ 55,776</u>	<u>\$ 3,488</u>	<u>\$ 333,482</u>	<u>\$ 23,670</u>	<u>\$ 441,773</u>
LIABILITIES AND FUND BALANCE						
Accounts payable	\$ -	\$ 4,195	\$ 340	\$ -	\$ 138,256	\$ 142,791
Due to other government unit	<u>-</u>	<u>-</u>	<u>2,988</u>	<u>-</u>	<u>-</u>	<u>2,988</u>
Total liabilities	<u>-</u>	<u>4,195</u>	<u>3,328</u>	<u>-</u>	<u>138,256</u>	<u>145,779</u>
Fund balance						
Restricted						
Public safety	25,357	-	160	-	-	25,517
Downtown redevelopment	-	51,581	-	-	-	51,581
Capital improvements	-	-	-	-	21,218	21,218
Unrestricted						
Assigned	-	-	-	333,482	-	333,482
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(135,804)</u>	<u>(135,804)</u>
Total fund balance	<u>25,357</u>	<u>51,581</u>	<u>160</u>	<u>333,482</u>	<u>(114,586)</u>	<u>295,994</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 25,357</u>	<u>\$ 55,776</u>	<u>\$ 3,488</u>	<u>\$ 333,482</u>	<u>\$ 23,670</u>	<u>\$ 441,773</u>

City of Milton, Florida
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended September 30, 2011

	<u>Special Revenue Funds</u>					Total Non-Major Governmental Funds
	<u>Police Special Investigation</u>	<u>Downtown Re- development</u>	<u>Red Light Camera</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
REVENUES						
Intergovernmental	\$ -	\$ 39,650	\$ -	\$ -	\$ 92,342	\$ 131,992
Fines and forfeits	350	-	17,243	-	-	17,593
Miscellaneous	<u>18</u>	<u>1,552</u>	<u>-</u>	<u>141</u>	<u>27</u>	<u>1,738</u>
Total revenues	<u>368</u>	<u>41,202</u>	<u>17,243</u>	<u>141</u>	<u>92,369</u>	<u>151,323</u>
EXPENDITURES						
Current						
Public safety	3,200	-	17,083	-	-	20,283
Economic environment	-	37,916	-	-	-	37,916
Capital outlay	-	41,991	-	-	561,513	603,504
Debt service						
Principal	-	-	-	171,953	-	171,953
Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,513</u>	<u>-</u>	<u>57,513</u>
Total expenditures	<u>3,200</u>	<u>79,907</u>	<u>17,083</u>	<u>229,466</u>	<u>561,513</u>	<u>891,169</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,832)</u>	<u>(38,705)</u>	<u>160</u>	<u>(229,325)</u>	<u>(469,144)</u>	<u>(739,846)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	<u>3,843</u>	<u>21,579</u>	<u>-</u>	<u>230,040</u>	<u>345,454</u>	<u>600,916</u>
NET CHANGE IN FUND BALANCE	1,011	(17,126)	160	715	(123,690)	(138,930)
FUND BALANCE - BEGINNING OF YEAR	<u>24,346</u>	<u>68,707</u>	<u>-</u>	<u>332,767</u>	<u>9,104</u>	<u>434,924</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ 25,357</u>	<u>\$ 51,581</u>	<u>\$ 160</u>	<u>\$ 333,482</u>	<u>\$ (114,586)</u>	<u>\$ 295,994</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.

Marina Fund

To account for the income and expenses related to the operation of the Marina.

City of Milton, Florida
COMBINING BALANCE SHEET
NON-MAJOR PROPRIETARY FUNDS
September 30, 2011

	<u>Sanitation Fund</u>	<u>Stormwater Fund</u>	<u>Marina Fund</u>	<u>Total Non-Major Funds</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 98,742	\$ 364,447	\$ -	\$ 463,189
Receivables, net	120,079	32,830	-	152,909
Prepaid items	<u>4,504</u>	<u>-</u>	<u>-</u>	<u>4,504</u>
Total current assets	<u>223,325</u>	<u>397,277</u>	<u>-</u>	<u>620,602</u>
Capital assets				
Non-depreciable	-	-	435,000	435,000
Depreciable, net	<u>266,976</u>	<u>75,841</u>	<u>89,250</u>	<u>432,067</u>
Total capital assets	<u>266,976</u>	<u>75,841</u>	<u>524,250</u>	<u>867,067</u>
TOTAL ASSETS	<u>\$ 490,301</u>	<u>\$ 473,118</u>	<u>\$ 524,250</u>	<u>\$ 1,487,669</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 2,233	\$ -	\$ 17	\$ 2,250
Accrued liabilities				
Compensated absences	21,277	-	-	21,277
Wages	14,617	-	-	14,617
Due to other funds	-	-	2,464	2,464
Notes payable	<u>-</u>	<u>-</u>	<u>17,944</u>	<u>17,944</u>
Total current liabilities	<u>38,127</u>	<u>-</u>	<u>20,425</u>	<u>58,552</u>
Non-current liabilities				
Compensated absences	23	-	-	23
Notes payable	<u>-</u>	<u>-</u>	<u>346,252</u>	<u>346,252</u>
Total non-current liabilities	<u>23</u>	<u>-</u>	<u>346,252</u>	<u>346,275</u>
TOTAL LIABILITIES	<u>38,150</u>	<u>-</u>	<u>366,677</u>	<u>404,827</u>
NET ASSETS				
Invested in capital assets, net of related debt	266,976	75,841	160,054	502,871
Unrestricted	<u>185,175</u>	<u>397,277</u>	<u>(2,481)</u>	<u>579,971</u>
TOTAL NET ASSETS	<u>\$ 452,151</u>	<u>\$ 473,118</u>	<u>\$ 157,573</u>	<u>\$ 1,082,842</u>

City of Milton, Florida
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
NON-MAJOR PROPRIETARY FUNDS
Year Ended September 30, 2011

	<u>Sanitation Fund</u>	<u>Stormwater Fund</u>	<u>Marina Fund</u>	<u>Total Non-Major Funds</u>
OPERATING REVENUES				
Charges for services	\$ 1,108,903	\$ 221,463	\$ 375	\$ 1,330,741
OPERATING EXPENSES				
Personal services	382,354	-	-	382,354
Operating	424,650	52,714	6,535	483,899
Depreciation	16,325	5,411	750	22,486
Total operating expenses	<u>823,329</u>	<u>58,125</u>	<u>7,285</u>	<u>888,739</u>
OPERATING INCOME (LOSS)	<u>285,574</u>	<u>163,338</u>	<u>(6,910)</u>	<u>442,002</u>
NON-OPERATING REVENUES (EXPENSES)				
Intergovernmental	-	-	155,000	155,000
Interest expense	-	-	(5,517)	(5,517)
Interest	-	543	-	543
Miscellaneous	308	-	-	308
Total non-operating revenues (expenses)	<u>308</u>	<u>543</u>	<u>149,483</u>	<u>150,334</u>
INCOME (LOSS) BEFORE TRANSFERS	285,882	163,881	142,573	592,336
Transfers in	-	-	15,000	15,000
Transfer out	(129,807)	(49,000)	-	(178,807)
Total transfers	<u>(129,807)</u>	<u>(49,000)</u>	<u>15,000</u>	<u>(163,807)</u>
CHANGE IN NET ASSETS	156,075	114,881	157,573	428,529
NET ASSETS - BEGINNING OF YEAR	<u>296,076</u>	<u>358,237</u>	<u>-</u>	<u>654,313</u>
NET ASSETS - END OF YEAR	<u>\$ 452,151</u>	<u>\$ 473,118</u>	<u>\$ 157,573</u>	<u>\$ 1,082,842</u>

City of Milton, Florida
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR PROPRIETARY FUNDS
Year Ended September 30, 2011

	Sanitation Fund	Stormwater Fund	Marina Fund	Total Non-Major Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 1,100,261	\$ 217,917	\$ 375	\$ 1,318,553
Payments to suppliers	(466,166)	(52,984)	(6,518)	(525,668)
Payments to employees	(376,333)	-	-	(376,333)
Miscellaneous income	308	-	-	308
Net cash provided (used) by operating activities	<u>258,070</u>	<u>164,933</u>	<u>(6,143)</u>	<u>416,860</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Borrowings (repayments)				
Due to other funds	(78,000)	-	-	(78,000)
Due from other funds	-	-	2,464	2,464
Transfers in	-	-	15,000	15,000
Transfers out	(129,807)	(49,000)	-	(178,807)
Net cash provided (used) by non-capital financing activities	<u>(207,807)</u>	<u>(49,000)</u>	<u>17,464</u>	<u>(239,343)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisitions of capital assets	-	(30,553)	(525,000)	(555,553)
Intergovernmental revenues received	-	-	155,000	155,000
Proceeds from note payable	-	-	370,000	370,000
Principal paid on notes payable	-	-	(5,804)	(5,804)
Interest paid on note payable	-	-	(5,517)	(5,517)
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>(30,553)</u>	<u>(11,321)</u>	<u>(41,874)</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	-	543	-	543
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	50,263	85,923	-	136,186
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
	<u>48,479</u>	<u>278,524</u>	<u>-</u>	<u>327,003</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR				
	<u>\$ 98,742</u>	<u>\$ 364,447</u>	<u>\$ -</u>	<u>\$ 463,189</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 285,574	\$ 163,338	\$ (6,910)	\$ 442,002
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	16,325	5,411	750	22,486
Miscellaneous revenue	308	-	-	308
Decrease (increase) in assets				
Accounts receivable	(8,642)	(3,546)	-	(12,188)
Prepaid items	(187)	-	-	(187)
Increase (decrease) in liabilities				
Accounts payable	(41,329)	(270)	17	(41,582)
Compensated absences payable	2,518	-	-	2,518
Wages	3,503	-	-	3,503
Net cash provided (used) by operating activities	<u>\$ 258,070</u>	<u>\$ 164,933</u>	<u>\$ (6,143)</u>	<u>\$ 416,860</u>

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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, Florida 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, 2011

	General Employees' Pension Fund	Police Officers' Pension Fund	Firefighters' Pension Fund	Total Employee Pension Funds
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ 957	\$ 957
Investments, at market	8,755,000	4,712,420	2,919,256	16,386,676
Due from State of Florida	-	-	12,867	12,867
TOTAL ASSETS	<u>\$ 8,755,000</u>	<u>\$ 4,712,420</u>	<u>\$ 2,933,080</u>	<u>\$ 16,400,500</u>
NET ASSETS				
Held in trust for pension and employee retirement benefits	<u>\$ 8,755,000</u>	<u>\$ 4,712,420</u>	<u>\$ 2,933,080</u>	<u>\$ 16,400,500</u>
TOTAL NET ASSETS	<u>\$ 8,755,000</u>	<u>\$ 4,712,420</u>	<u>\$ 2,933,080</u>	<u>\$ 16,400,500</u>

City of Milton, Florida
PENSION TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS
Year Ended September 30, 2011

	General Employees' <u>Pension Fund</u>	Police Officers' <u>Pension Fund</u>	Firefighters' <u>Pension Fund</u>	Total Employee <u>Pension Funds</u>
ADDITIONS				
Contributions				
Employer	\$ 253,772	\$ 160,003	\$ 136,961	\$ 550,736
Plan members	224,667	50,681	47,581	322,929
State of Florida	<u>-</u>	<u>87,297</u>	<u>59,672</u>	<u>146,969</u>
Total contributions	<u>478,439</u>	<u>297,981</u>	<u>244,214</u>	<u>1,020,634</u>
Investment income (loss)	78,956	43,880	(13,027)	109,809
Less investment expense	<u>(102,271)</u>	<u>(74,860)</u>	<u>(56,304)</u>	<u>(233,435)</u>
Net investment income (loss)	<u>(23,315)</u>	<u>(30,980)</u>	<u>(69,331)</u>	<u>(123,626)</u>
TOTAL ADDITIONS	<u>455,124</u>	<u>267,001</u>	<u>174,883</u>	<u>897,008</u>
DEDUCTIONS				
Benefits and refunds paid				
Retirement payments	<u>589,042</u>	<u>221,359</u>	<u>308,790</u>	<u>1,119,191</u>
Administrative expenses				
Other	<u>-</u>	<u>-</u>	<u>235</u>	<u>235</u>
TOTAL DEDUCTIONS	<u>589,042</u>	<u>221,359</u>	<u>309,025</u>	<u>1,119,426</u>
NET INCREASE (DECREASE)	<u>(133,918)</u>	<u>45,642</u>	<u>(134,142)</u>	<u>(222,418)</u>
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER RETIREMENT BENEFITS - BEGINNING OF YEAR				
	<u>8,888,918</u>	<u>4,666,778</u>	<u>3,067,222</u>	<u>16,622,918</u>
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER RETIREMENT BENEFITS - END OF YEAR				
	<u>\$ 8,755,000</u>	<u>\$ 4,712,420</u>	<u>\$ 2,933,080</u>	<u>\$ 16,400,500</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, 2011

State Agency Pass-Through Entity State Project	CSFA Number	Contract/Grant Number	Expenditures
Florida Department of Environmental Protection			
Direct Programs			
Small County Wastewater Treatment Grants	37.039	SG625090	<u>\$ 750,000</u>
Northwest Florida Water Management District			
Direct Programs			
Local Government Grant Agreement	37.022	10-046	<u>39,059</u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			<u>\$ 789,059</u>

The accompanying notes are an
integral part of this schedule.

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City of Milton, Florida
NOTES TO SCHEDULE OF EXPENDITURES OF STATE
FINANCIAL ASSISTANCE
Year Ended September 30, 2011

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 Chapter 10.550, *Rules of the Auditor General*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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Honorable Mayor and City Council Members
City of Milton, Florida

**INDEPENDENT AUDITOR'S 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, 2011, which collectively comprise the City of Milton, Florida's basic financial statements and have issued our report thereon dated February 9, 2012. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be a significant deficiency in internal control over financial reporting (2010-01). A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Honorable Mayor and City Council Members
City of Milton, Florida

Independent Auditor's 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)

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, 2012.

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.

Warren Averett, LLC
February 9, 2012

Honorable Mayor and City Council Members
City of Milton, Florida

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 City of Milton, Florida's (the City) compliance with the types of compliance requirements described in the Florida Department of Financial Services' State Projects Compliance Supplement that could have a direct and material effect on each of the City's major state projects for the year ended September 30, 2011. 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 federal program and state projects is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 compliance requirements referred to above that could have a direct and material effect on each of its major state projects for the year ended September 30, 2011.

Internal Control over Compliance

The management of the City of Milton, Florida is responsible for establishing and maintaining effective internal control over compliance with the 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 to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over 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.

Honorable Mayor and City Council Members
City of Milton, Florida

Independent Auditor's Report on Compliance with Requirements that
Could Have a Direct and Material Effect on 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 (Continued)

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program or state project on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material non-compliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. 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, federal and 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.

Warren Averett, LLC

February 9, 2012

City of Milton, Florida
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2011

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Non-compliance material to financial statements noted? _____ Yes X No

State Projects

Internal control over major programs:

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

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

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

Identification of major projects:

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

Dollar threshold used to distinguish between type A and type B programs for state projects? \$100,000

City of Milton, Florida
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2011

II. SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDING

Financial Statement Finding Number 2010-01: The pooled cash account reconciliation did not agree to the general ledger balance at September 30, 2010, and the same issue occurred at September 30, 2011. We recommended Management review the bank reconciliation process, and establish set procedures for monitoring and reconciling the pooled cash accounts on a timely basis. Our recommendation remains.

Corrective Action plan - The City will review current bank reconciliation procedures and discuss corrective actions to be made in the coming year.

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, 2011, and have issued our report thereon dated February 9, 2012.

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, 2012, 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.

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".

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) 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 be disclosed in the Management Letter, unless disclosed in the notes to the financial statements. 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, 2011. 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, 2011, 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, 2011. 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. EXTERNAL FINANCIAL REPORTING

Prior Year Comment Summarized

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.

PRIOR YEAR COMMENTS (CONTINUED)

2. PURCHASING

Prior Year Comment Summarized

During 2009 and 2010, we evaluated whether proper authorization and approval were maintained for purchasing, and if the transaction was supported by a requisition, purchase order, invoice, etc. Our testing revealed multiple 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. We recommended 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 recommended that all exceptions be approved by management.

Status

We continued to note inconsistencies between timing of and issuance of purchase orders. During our current year audit testing, we found three instances where the items were purchased before the purchase order was approved. Our recommendation remains.

3. PAYROLL APPROVAL

Prior Year Comment Summarized

We noted the City did not have a policy that required a secondary review of the payroll after processing. One individual was responsible for the input, processing, and payment of payroll. We recommended the City implement a secondary level of review of the finalized payroll register for each payroll run.

Status

The City implemented a second review over the processed payroll.

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.

Warren Averett, LLC

February 9, 2012

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