



## Financial Statements and Supplementary Information

*Fiscal Year Ended September 30, 2013*



# **I. INTRODUCTORY SECTION**

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CITY OF MILTON, FLORIDA

Financial Statements and  
Supplementary Information

September 30, 2013

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## **II. FINANCIAL SECTION**



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Honorable Mayor and City Council Members  
City of Milton, Florida

## INDEPENDENT AUDITOR'S REPORT

### **Report on the Financial Statements**

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milton, Florida, as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3-16, the Schedule of Funding Progress - Unaudited on page 64, and the Schedule of Contributions from the Employer and Other Contributing Entities - Unaudited on page 65, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Milton, Florida's basic financial statements. The Combining and Individual Non-Major Fund Financial Statements is presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards and State Financial Assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.550, *Rules of the Auditor General*, and is also not a required part of the basic financial statements. The Combining and Individual Non-Major Fund Financial Statements and the Schedule of Expenditures of Federal Awards and 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining and Individual Non-Major Fund Financial Statements and the Schedule of Expenditures of Federal Awards and State Financial Assistance are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2014, on our consideration of the City of Milton, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Milton, Florida's internal control over financial reporting and compliance.

*Warren Averett, LLC*

Fort Walton Beach, Florida  
February 18, 2014

## **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, 2013.

### **FINANCIAL HIGHLIGHTS**

- The assets of the City exceeded its liabilities by approximately \$35.98 million (net position), which represents an increase of \$484.31 thousand (or 1%) from the prior year. Of this amount, \$23.46 million represents investments in capital assets, net of related debt (e.g. land, infrastructure, building, machinery and equipment), \$3.99 million is restricted for future obligations, and \$8.53 million is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- The net position of the business-type activities of the City decreased by \$857.65 thousand (or 3.79%) from the prior year. The decrease is primarily attributable to increased amounts transferred out to governmental-type activities.
- The net position of the governmental-type activities of the City increased by \$1.34 million (or 10.45%) from the prior year, attributable to increased amounts transferred from business-type activities.
- The City's governmental funds reported combined ending fund balances of \$3.84 million, a decrease of \$42.37 thousand.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2.97 million, or approximately five 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 Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. 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 position may serve as a useful indicator of the financial position of the City.

The Statement of Changes in Net Position presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash 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), economic environment, 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 natural gas, water and sewer, sanitation, Sundial utilities, and the non-major funds (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 19-24 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, and for the Capital Projects Fund. Data from the other four governmental funds (Police Special Investigation Fund, Downtown Redevelopment Fund, Red Light Camera 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 66-67 in the report.

The City adopts an annual appropriated budget for its General Fund and Capital Projects Fund. A budgetary comparison statement is provided for the fund to demonstrate compliance with the budget, which is found on page 23 - 24 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, Sundial utilities, 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 25-28 of this report are the basic proprietary fund financial statements.

### **FIDUCIARY FUNDS**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The City's fiduciary funds include the Pension Trust Funds (general employees, firefighters, 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 29-30 of this report are the basic fiduciary fund financial statements.

### **NOTES TO FINANCIAL STATEMENTS**

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

## **OTHER INFORMATION**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Found on pages 64-65 of this report is the required supplementary information.

The combining statements referred to earlier in connection with non-major governmental and proprietary funds are presented immediately following the required supplementary information on pensions. Found on pages 66-72 of this report are the Combining and Individual Fund Statements.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$35.98 million (net position) for the fiscal year ended 2013, as reported in Table 1. As reported in Table 2, the overall increase in the City's net position was \$484.31 thousand (or 1%) during fiscal year 2013.

By far the largest portion of the City's net position, \$23.46 million (or 65%) 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 position \$3.99 million (or 11.09%) represents resources that are subject to external restrictions on how they may be used.

The remaining balance of unrestricted net position, \$8.53 million, may be used to meet the government's ongoing obligations to citizens and creditors.

**Table 1**  
**City of Milton**  
**STATEMENTS OF NET POSITION**  
**AS OF SEPTEMBER 30, 2013 AND 2012**  
**(In Thousands of Dollars\*)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 4,743	\$ 4,686	\$ 10,156	\$ 10,223	\$ 14,899	\$ 14,909
Capital assets	11,945	10,808	29,271	27,287	41,216	38,095
<b>Total assets</b>	<b><u>16,688</u></b>	<b><u>15,494</u></b>	<b><u>39,427</u></b>	<b><u>37,510</u></b>	<b><u>56,115</u></b>	<b><u>53,004</u></b>
Long-term liabilities outstanding	1,876	2,132	16,992	14,402	18,868	16,534
Other liabilities	626	519	642	457	1,268	976
<b>Total liabilities</b>	<b><u>2,502</u></b>	<b><u>2,651</u></b>	<b><u>17,634</u></b>	<b><u>14,859</u></b>	<b><u>20,136</u></b>	<b><u>17,510</u></b>
Net position						
Invested in capital assets net of related debt	10,475	9,078	12,985	13,367	23,460	22,445
Restricted	701	477	3,289	3,402	3,990	3,879
Unrestricted	3,010	3,288	5,519	5,882	8,529	9,170
<b>Total net position</b>	<b><u>\$ 14,186</u></b>	<b><u>\$ 12,843</u></b>	<b><u>\$ 21,793</u></b>	<b><u>\$ 22,651</u></b>	<b><u>\$ 35,979</u></b>	<b><u>\$ 35,494</u></b>

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

## GOVERNMENTAL ACTIVITIES

Governmental activities increased the City's net position by \$1.34 million. Reported in Table 2 are the key elements of this increase.

**Table 2**  
**City of Milton**  
**STATEMENTS OF CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

	<u>Governmental</u>		<u>Business-Type</u>		<u>Primary Government</u>	
	<u>Activities</u>		<u>Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>REVENUES</b>						
<b>Program revenues</b>						
Charges for services	\$ 1,070,277	\$ 1,121,733	\$ 10,789,573	\$ 10,422,834	\$ 11,859,850	\$ 11,544,567
Capital grants and contributions	1,240,393	735,832	943,592	1,071,645	2,183,985	1,807,477
<b>General revenues</b>						
Property taxes	922,419	935,372	-	-	922,419	935,372
Other taxes	1,379,048	1,395,047	-	-	1,379,048	1,395,047
Other revenue	1,020,825	1,122,371	220,240	225,233	1,241,065	1,347,604
<b>TOTAL REVENUES</b>	<b><u>5,632,962</u></b>	<b><u>5,310,355</u></b>	<b><u>11,953,405</u></b>	<b><u>11,719,712</u></b>	<b><u>17,586,367</u></b>	<b><u>17,030,067</u></b>
<b>EXPENSES</b>						
<b>Primary government</b>						
General government	2,603,550	2,350,700	-	-	2,603,550	2,350,700
Public safety	3,810,647	3,819,518	-	-	3,810,647	3,819,518
Transportation	1,095,169	1,354,615	-	-	1,095,169	1,354,615
Economic environment	32,279	33,348	-	-	32,279	33,348
Culture and recreation	1,175,008	744,704	-	-	1,175,008	744,704
Debt service interest	58,404	58,324	-	-	58,404	58,324
<b>Business-type activities</b>						
Natural gas	-	-	2,414,198	2,288,237	2,414,198	2,288,237
Water and sewer	-	-	4,787,238	4,679,805	4,787,238	4,679,805
Sanitation	-	-	863,439	898,445	863,439	898,445
Sundial utilities	-	-	141,502	-	141,502	-
Non-major proprietary funds	-	-	120,628	103,641	120,628	103,641
<b>TOTAL EXPENSES</b>	<b><u>8,775,057</u></b>	<b><u>8,361,209</u></b>	<b><u>8,327,005</u></b>	<b><u>7,970,128</u></b>	<b><u>17,102,062</u></b>	<b><u>16,331,337</u></b>
Increase (decrease) in net position before transfers	(3,142,095)	(3,050,854)	3,626,400	3,749,584	484,305	698,730
Transfers	4,484,053	4,367,920	(4,484,053)	(4,367,920)	-	-
<b>Increase (decrease) in net position</b>	<b>1,341,958</b>	<b>1,317,066</b>	<b>(857,653)</b>	<b>(618,336)</b>	<b>484,305</b>	<b>698,730</b>
<b>NET POSITION - BEGINNING OF YEAR</b>	<b><u>12,843,379</u></b>	<b><u>11,526,313</u></b>	<b><u>22,651,095</u></b>	<b><u>23,269,431</u></b>	<b><u>35,494,474</u></b>	<b><u>34,795,744</u></b>
<b>NET POSITION - ENDING OF YEAR</b>	<b><u>\$ 14,185,337</u></b>	<b><u>\$ 12,843,379</u></b>	<b><u>\$ 21,793,442</u></b>	<b><u>\$ 22,651,095</u></b>	<b><u>\$ 35,978,779</u></b>	<b><u>\$ 35,494,474</u></b>

## **FINANCIAL IMPACTS**

### **NORMAL IMPACTS**

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

#### ***Revenues***

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

#### ***Expenses***

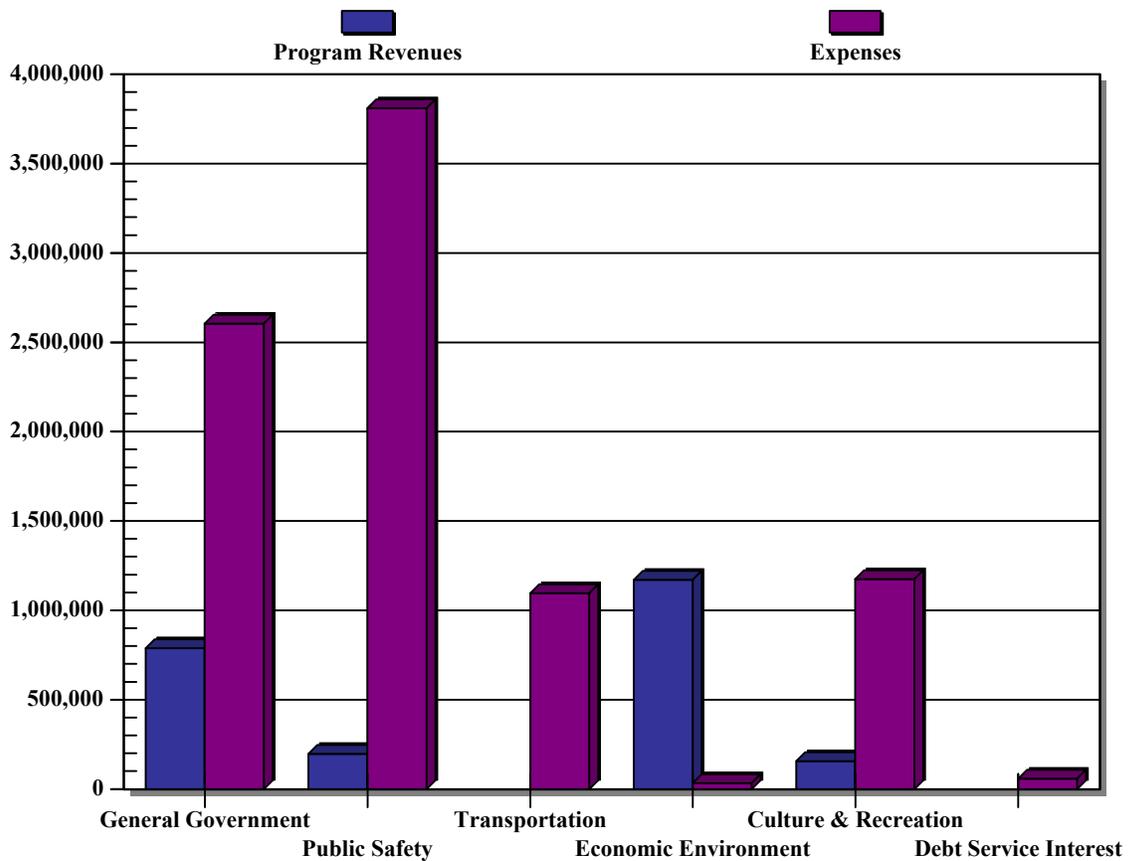
- **Introduction of New Programs:** Within functional expense categories (police, fire, public works, parks and recreation, etc.), individual programs may be added or deleted to meet changing community needs.
- **Authorized Position Adjustments:** Changes in service demand may cause the City Council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

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

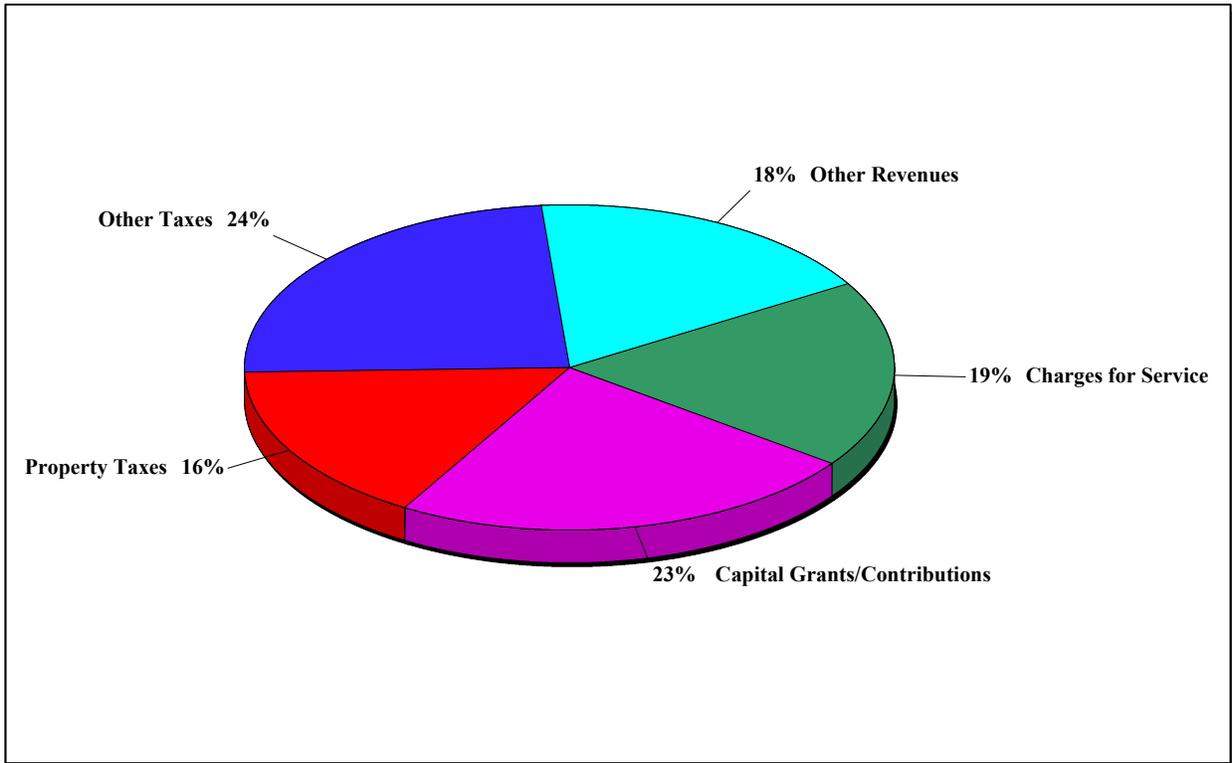
- Capital grants and contributions increased \$505 thousand as a result of grant proceeds received for the Sanders Street drainage improvements and Canal Street disaster mitigation projects.
- Other revenue decreased \$102 thousand primarily as a result of insurance proceeds received in the prior year.

- General government expenses increased \$253 thousand as a result of increased staffing and increased depreciation expense as a result of capital asset purchases in fiscal year 2012.
- Transportation expenses decreased \$259 thousand and culture and recreation expenses increased \$430 thousand primarily as a result of the reestablishment of the City's landscaping department whose activities are now accounted for in the City's culture and recreation function. In addition, two additional employees were hired in the landscaping department.
- Transfers out of the business-type activities into the governmental-type activities increased by \$116 thousand compared to the prior year based on increased budgeted transfers.

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



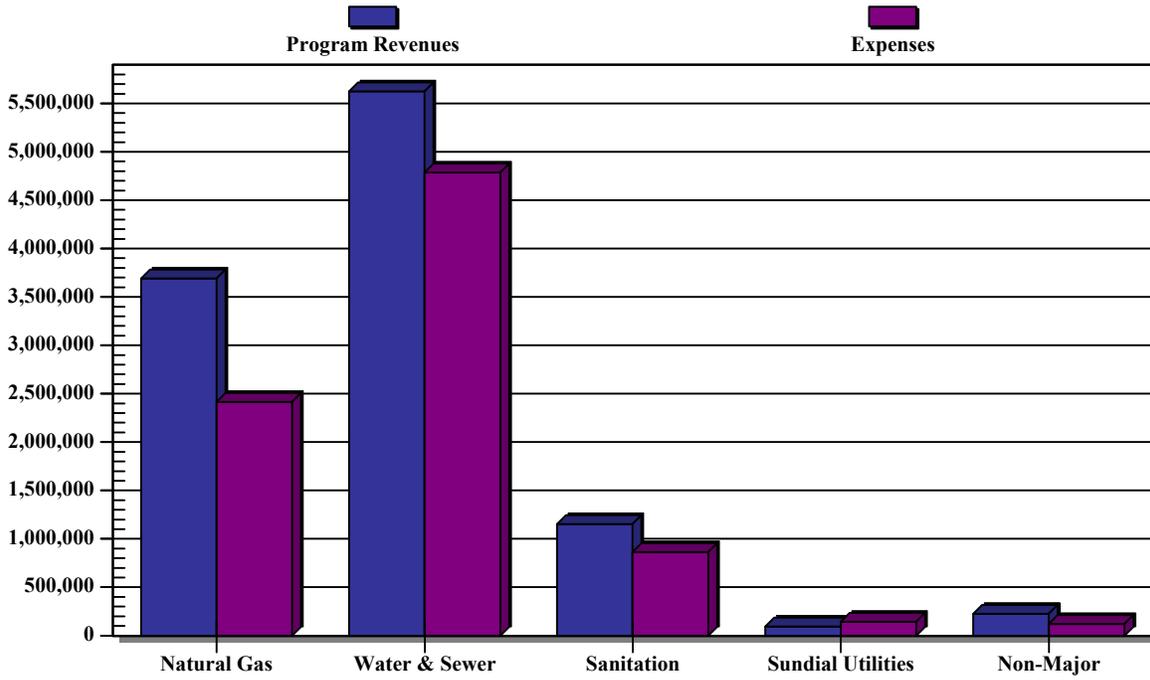
**Chart 2**  
**Revenues by Source**  
*Governmental Activities*



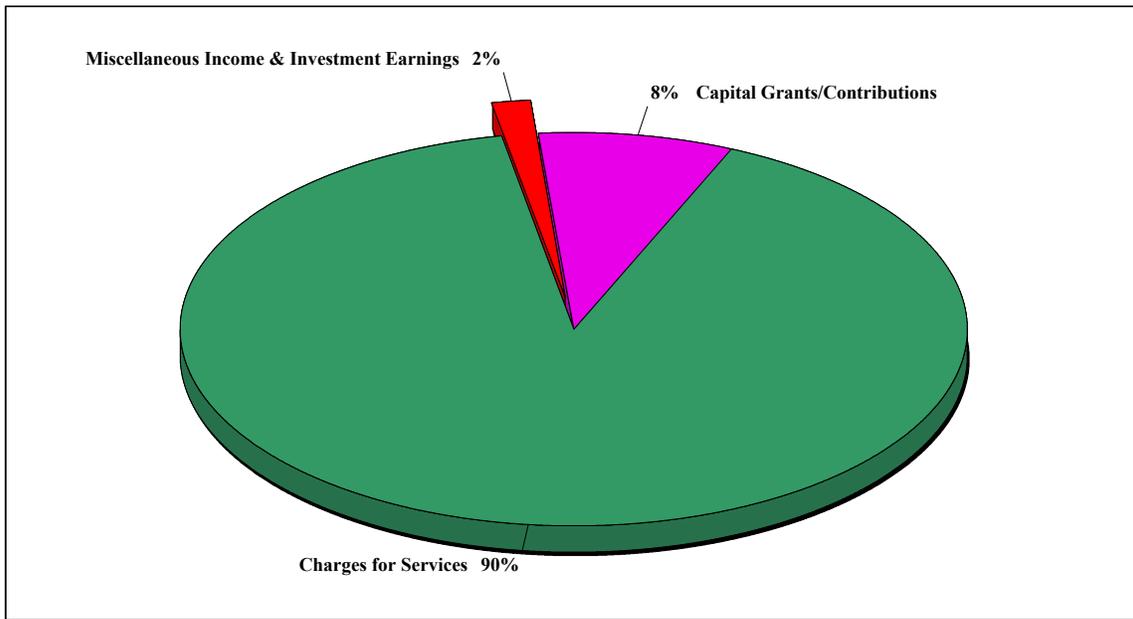
***Business-Type Activities***

- The net position from business-type activities decreased by \$858 thousand (or 3.79%) during fiscal year 2013, primarily as a result of increased transfers from the business-type activities into the governmental activities.
- Overall revenues increased \$234 thousand due to increased natural gas charges, resulting from increased usage by customers compared to fiscal year 2012, and customer charges generated from the addition of the Sundial Utilities Fund. Additionally, the Natural Gas Fund expenses increased \$126 thousand due to the increase in purchased gas. The new addition of the Sundial Utilities Fund resulted in \$142 thousand of incurred expenses.

**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 \$3.84 million, a decrease of \$42 thousand from the prior year. \$2.58 million constitutes 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, unassigned fund balance of the General Fund was \$2.97 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total expenditures. Unassigned fund balance represents approximately five months of the General Fund expenditures.

During the current fiscal year, the fund balance of the City's General Fund increased by \$25 thousand. Key reasons are consistent revenues and increased transfers in from the Natural Gas Fund.

### **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 position of the proprietary funds totaled \$5.52 million at the end of the year. Proprietary funds net position decreased by \$858 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 \$137 thousand, budgeted revenues were increased by \$58 thousand, and budgeted net transfers decreased by \$226 thousand, as presented in the final amended budget. The majority of the General Fund budget adjustment was to account for additional intergovernmental revenues for capital project expenditures. An additional \$32 thousand was added to intergovernmental revenues, and \$54 thousand was added for capital outlay costs.

Actual results, when compared to the final budget, show a variance of \$551 thousand. Intergovernmental revenues were under budget due to revenues being recognized in the Capital Projects Fund, the fund that is recognizing the project costs and revenues. Accordingly, transfers out were under budget. The other key factor in this variance is the public safety and culture and recreation expenditures were under budget by approximately \$215 thousand and \$226 thousand, respectively.

## 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, 2013, amounts to \$41.22 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, water, wastewater and drainage system improvements, machinery and equipment, park facilities, roads and highways, etc. The overall increase in the City's investment in capital assets, for the current fiscal year, was \$3.12 million. The overall increase of the City's capital assets is essentially attributable to current year construction in progress related to the Sanders Street drainage improvements and Canal Street disaster mitigation projects.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	\$ 1,733,818	\$ 1,622,054	\$ 979,313	\$ 526,313	\$ 2,713,131	\$ 2,148,367
Buildings	4,184,682	4,665,881	71,767	53,500	4,256,449	4,719,381
Improvements other than buildings	2,587,727	2,898,273	22,361,008	21,350,616	24,948,735	24,248,889
Machinery and equipment	1,264,418	1,407,832	3,916,371	3,940,564	5,180,789	5,348,396
Construction in progress	<u>2,174,111</u>	<u>214,393</u>	<u>1,942,172</u>	<u>1,416,499</u>	<u>4,116,283</u>	<u>1,630,892</u>
<b>Total</b>	<b><u>\$ 11,944,756</u></b>	<b><u>\$ 10,808,433</u></b>	<b><u>\$ 29,270,631</u></b>	<b><u>\$ 27,287,492</u></b>	<b><u>\$ 41,215,387</u></b>	<b><u>\$ 38,095,925</u></b>

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

## OUTSTANDING DEBT

At the end of the current fiscal year, the City had total debt outstanding of \$18.34 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**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Revenue notes payable, net	\$ 1,137,099	\$ 1,321,214	\$ 4,104,050	\$ 1,269,563	\$ 5,241,149	\$ 2,590,777
Note payable	-	-	327,485	346,252	327,485	346,252
Capital leases	332,533	409,248	-	-	332,533	409,248
State revolving loan	-	-	11,854,075	12,137,328	11,854,075	12,137,328
Compensated absences	406,582	401,617	181,075	171,339	587,657	572,956
<b>Total</b>	<b>\$ 1,876,214</b>	<b>\$ 2,132,079</b>	<b>\$ 16,466,685</b>	<b>\$ 13,924,482</b>	<b>\$ 18,342,899</b>	<b>\$ 16,056,561</b>

The City's total debt increased \$2.29 million during the 2013 fiscal year, which is primarily attributable to the issuance of a revenue note related to the acquisition of Sundial Utility Systems, Inc. Regular debt service payments during the 2013 fiscal year offset a portion of the increase.

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 2013-2014 budget for the City:

- The local unemployment rate was 5.8%, which represents an approximate 1.8% decrease from 2012. The State of Florida's unemployment rate was 6.8%. 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 2014 budgeting process, the projected revenues, for the most part, remained consistent with fiscal year 2013 actual appropriations.
- Decreases in property tax revenues are anticipated by most regional municipalities. For the 2014 fiscal year, the City decreased budgeted property tax revenues by 1%.
- For the 2014 fiscal year, the City budgeted \$329,563 of existing fund balance, which has been included in the assigned classification of the September 30, 2013 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](http://www.ci.milton.fl.us). Inquiries may also be sent via email to the Finance Department at [chiefaccountant@mymiltonflorida.com](mailto:chiefaccountant@mymiltonflorida.com).

**City of Milton, Florida**  
**STATEMENT OF NET POSITION**  
**September 30, 2013**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,479,129	\$ 4,707,834	\$ 8,186,963
Receivables, net	414,005	994,995	1,409,000
Internal balances	(400,000)	400,000	-
Due from other governments	372,644	-	372,644
Inventory, at cost	126,599	167,776	294,375
Prepaid items	47,267	59,071	106,338
Restricted assets			
Cash and cash equivalents	430,638	3,826,518	4,257,156
Capital assets			
Non-depreciable	3,907,929	2,921,485	6,829,414
Depreciable, net	8,036,827	26,349,146	34,385,973
Other assets			
Net pension asset	272,892	-	272,892
<b>TOTAL ASSETS</b>	<b><u>16,687,930</u></b>	<b><u>39,426,825</u></b>	<b><u>56,114,755</u></b>
<b>LIABILITIES</b>			
Accounts payable	227,889	489,319	717,208
Accrued liabilities	282,773	110,017	392,790
Due to other governments	2,407	-	2,407
Unearned revenues	113,310	42,374	155,684
Compensated absences	359,352	163,725	523,077
Note payable	-	19,631	19,631
Revenue notes payable	190,535	301,264	491,799
State revolving loan payable	-	817,597	817,597
Capital lease payable	79,200	-	79,200
Payable from restricted assets			
Customer deposits	-	524,988	524,988
Non-current liabilities			
Compensated absences	47,230	17,350	64,580
Note payable	-	307,854	307,854
Revenue notes payable	946,564	3,802,786	4,749,350
State revolving loan payable	-	11,036,478	11,036,478
Capital lease payable	253,333	-	253,333
<b>TOTAL LIABILITIES</b>	<b><u>2,502,593</u></b>	<b><u>17,633,383</u></b>	<b><u>20,135,976</u></b>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	10,475,124	12,985,021	23,460,145
Restricted			
Debt service	-	1,165,835	1,165,835
Public safety	15,294	-	15,294
Downtown redevelopment	49,152	-	49,152
Retirement funding	272,892	-	272,892
Capital projects	363,339	2,123,202	2,486,541
Unrestricted	3,009,536	5,519,384	8,528,920
<b>TOTAL NET POSITION</b>	<b><u>\$ 14,185,337</u></b>	<b><u>\$ 21,793,442</u></b>	<b><u>\$ 35,978,779</u></b>

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

**City of Milton, Florida**  
**STATEMENT OF ACTIVITIES**  
**Year Ended September 30, 2013**

				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Program Revenues			Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b><i>Function/program activities</i></b>							
Government activities							
General government	\$ 2,603,550	\$ 751,405	\$ -	\$ 37,177	\$ (1,814,968)	\$ -	\$ (1,814,968)
Public safety	3,810,647	194,275	-	2,098	(3,614,274)	-	(3,614,274)
Transportation	1,095,169	-	-	-	(1,095,169)	-	(1,095,169)
Economic environment	32,279	-	-	1,170,648	1,138,369	-	1,138,369
Culture and recreation	1,175,008	124,597	-	30,470	(1,019,941)	-	(1,019,941)
Debt service interest	58,404	-	-	-	(58,404)	-	(58,404)
Total government activities	<u>8,775,057</u>	<u>1,070,277</u>	<u>-</u>	<u>1,240,393</u>	<u>(6,464,387)</u>	<u>-</u>	<u>(6,464,387)</u>
Business-type activities							
Natural gas	2,414,198	3,691,014	-	-	-	1,276,816	1,276,816
Water and sewer	4,787,238	5,626,012	-	943,592	-	1,782,366	1,782,366
Sanitation	863,439	1,151,398	-	-	-	287,959	287,959
Sundial utilities	141,502	95,097	-	-	-	(46,405)	(46,405)
Non-major proprietary funds	120,628	226,052	-	-	-	105,424	105,424
Total business-type activities	<u>8,327,005</u>	<u>10,789,573</u>	<u>-</u>	<u>943,592</u>	<u>-</u>	<u>3,406,160</u>	<u>3,406,160</u>
Total primary government	<u>\$ 17,102,062</u>	<u>\$ 11,859,850</u>	<u>\$ -</u>	<u>\$ 2,183,985</u>	<u>\$ (6,464,387)</u>	<u>\$ 3,406,160</u>	<u>\$ (3,058,227)</u>
<b><i>General revenues</i></b>							
Taxes							
Property taxes				\$ 922,419	\$ -	\$ 922,419	
Sales taxes				276,612	-	276,612	
Utility service taxes				1,102,436	-	1,102,436	
Municipal revenue sharing				895,227	34,888	930,115	
Gain on sale of assets				11,134	2,427	13,561	
Investment earnings				13,262	30,882	44,144	
Miscellaneous				101,202	152,043	253,245	
Transfers				4,484,053	(4,484,053)	-	
Total general revenues and interfund activity				<u>7,806,345</u>	<u>(4,263,813)</u>	<u>3,542,532</u>	
Change in net position				1,341,958	(857,653)	484,305	
Net position - beginning of year				<u>12,843,379</u>	<u>22,651,095</u>	<u>35,494,474</u>	
Net position - end of year				<u>\$ 14,185,337</u>	<u>\$ 21,793,442</u>	<u>\$ 35,978,779</u>	

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

**City of Milton, Florida**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**September 30, 2013**

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,144,424	\$ -	\$ 334,705	\$ 3,479,129
Receivables	225,450	188,055	500	414,005
Due from other governments	372,644	-	-	372,644
Inventory, at cost	126,599	-	-	126,599
Prepaid items	47,267	-	-	47,267
Restricted assets				
Cash and cash equivalents	<u>128,654</u>	<u>234,685</u>	<u>67,299</u>	<u>430,638</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 4,045,038</b></u>	<u><b>\$ 422,740</b></u>	<u><b>\$ 402,504</b></u>	<u><b>\$ 4,870,282</b></u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>Liabilities</b>				
Accounts payable	\$ 46,951	\$ 179,992	\$ 946	\$ 227,889
Accrued liabilities	282,773	-	-	282,773
Due to other funds	-	400,000	-	400,000
Due to other governments	-	-	2,407	2,407
Unearned revenue	<u>113,310</u>	<u>-</u>	<u>-</u>	<u>113,310</u>
<b>Total liabilities</b>	<u><b>443,034</b></u>	<u><b>579,992</b></u>	<u><b>3,353</b></u>	<u><b>1,026,379</b></u>
<b>Fund balance</b>				
<b>Non-spendable</b>				
Inventory	126,599	-	-	126,599
Prepaid items	47,267	-	-	47,267
<b>Restricted</b>				
Capital projects	128,654	234,685	-	363,339
Public safety	-	-	15,294	15,294
Downtown redevelopment	-	-	49,152	49,152
Assigned	329,563	-	334,705	664,268
Unassigned	<u>2,969,921</u>	<u>(391,937)</u>	<u>-</u>	<u>2,577,984</u>
<b>Total fund balance</b>	<u><b>3,602,004</b></u>	<u><b>(157,252)</b></u>	<u><b>399,151</b></u>	<u><b>3,843,903</b></u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><b>\$ 4,045,038</b></u>	<u><b>\$ 422,740</b></u>	<u><b>\$ 402,504</b></u>	<u><b>\$ 4,870,282</b></u>

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

**City of Milton, Florida**  
**GOVERNMENTAL FUNDS**  
**RECONCILIATION OF THE BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**September 30, 2013**

Fund balances - total governmental funds (page 19)		\$ 3,843,903
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental non-depreciable assets	3,907,929	
Governmental depreciable assets	18,427,272	
Less accumulated depreciation	<u>(10,390,445)</u>	
		11,944,756
Other assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.		
Net pension asset		272,892
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Notes payable	(1,137,099)	
Capital leases	(332,533)	
Compensated absences	<u>(406,582)</u>	
		<u>(1,876,214)</u>
Net position of governmental activities (page 17)		<u>\$ 14,185,337</u>

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

**City of Milton, Florida**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**Year Ended September 30, 2013**

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes	\$ 2,301,468	\$ -	\$ -	\$ 2,301,468
Licenses, fees, and permits	721,631	-	-	721,631
Intergovernmental	916,410	1,157,030	36,562	2,110,002
Charges for services	129,822	-	-	129,822
Fines and forfeits	20,492	-	183,354	203,846
Miscellaneous	<u>130,848</u>	<u>35,167</u>	<u>178</u>	<u>166,193</u>
<b>TOTAL REVENUES</b>	<u>4,220,671</u>	<u>1,192,197</u>	<u>220,094</u>	<u>5,632,962</u>
<b>EXPENDITURES</b>				
<b>Current</b>				
General governmental services	2,093,291	-	-	2,093,291
Public safety	3,390,208	-	182,936	3,573,144
Economic environment	-	-	61,281	61,281
Transportation	1,074,963	-	-	1,074,963
Culture and recreation	896,061	-	-	896,061
<b>Capital outlay</b>				
General governmental services	7,322	-	-	7,322
Public safety	35,520	-	-	35,520
Economic environment	-	-	111,764	111,764
Transportation	-	1,684,199	-	1,684,199
Culture and recreation	17,907	284,695	-	302,602
<b>Debt service</b>				
Principal	-	-	260,830	260,830
Interest	<u>-</u>	<u>-</u>	<u>58,404</u>	<u>58,404</u>
<b>TOTAL EXPENDITURES</b>	<u>7,515,272</u>	<u>1,968,894</u>	<u>675,215</u>	<u>10,159,381</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(3,294,601)</u>	<u>(776,697)</u>	<u>(455,121)</u>	<u>(4,526,419)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	4,031,597	711,429	452,889	5,195,915
Transfers out	<u>(711,862)</u>	<u>-</u>	<u>-</u>	<u>(711,862)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>3,319,735</u>	<u>711,429</u>	<u>452,889</u>	<u>4,484,053</u>
<b>NET CHANGE IN FUND BALANCE</b>	25,134	(65,268)	(2,232)	(42,366)
<b>FUND BALANCE (DEFICIT) - BEGINNING OF YEAR</b>	<u>3,576,870</u>	<u>(91,984)</u>	<u>401,383</u>	<u>3,886,269</u>
<b>FUND BALANCE (DEFICIT) - END OF YEAR</b>	<u>\$ 3,602,004</u>	<u>\$ (157,252)</u>	<u>\$ 399,151</u>	<u>\$ 3,843,903</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, 2013**

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Net change in fund balances - total governmental funds (page 21) \$ (42,366)

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	2,141,407	
Less current year depreciation	<u>(1,005,084)</u>	
		1,136,323

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		260,830
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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	(7,864)	
Change in long-term compensated absences	<u>(4,965)</u>	
		<u>(12,829)</u>

Change in net position of governmental activities (page 18) \$ 1,341,958

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, 2013**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 2,144,714	\$ 2,144,714	\$ 2,301,468	\$ 156,754
Licenses, fees, and permits	664,250	664,250	721,631	57,381
Intergovernmental	1,529,486	1,561,841	916,410	(645,431)
Charges for services	214,300	208,950	129,822	(79,128)
Fines and forfeits	28,250	28,250	20,492	(7,758)
Miscellaneous	<u>153,644</u>	<u>184,333</u>	<u>130,848</u>	<u>(53,485)</u>
TOTAL REVENUES	<u>4,734,644</u>	<u>4,792,338</u>	<u>4,220,671</u>	<u>(571,667)</u>
EXPENDITURES				
Current				
General government services	2,184,189	2,255,623	2,093,291	162,332
Public safety	3,591,032	3,605,040	3,390,208	214,832
Transportation	1,072,034	1,084,375	1,074,963	9,412
Culture and recreation	1,130,087	1,121,937	896,061	225,876
Capital outlay				
General government services	17,224	22,074	7,322	14,752
Public safety	-	37,135	35,520	1,615
Culture and recreation	-	11,525	17,907	(6,382)
Debt service	<u>15,800</u>	<u>9,850</u>	<u>-</u>	<u>9,850</u>
TOTAL EXPENDITURES	<u>8,010,366</u>	<u>8,147,559</u>	<u>7,515,272</u>	<u>632,287</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(3,275,722)</u>	<u>(3,355,221)</u>	<u>(3,294,601)</u>	<u>60,620</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	4,371,597	4,371,597	4,031,597	(340,000)
Transfers out	<u>(1,315,850)</u>	<u>(1,541,859)</u>	<u>(711,862)</u>	<u>829,997</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>3,055,747</u>	<u>2,829,738</u>	<u>3,319,735</u>	<u>489,997</u>
NET CHANGE IN FUND BALANCE	(219,975)	(525,483)	25,134	550,617
FUND BALANCE - BEGINNING OF YEAR	<u>219,975</u>	<u>525,483</u>	<u>3,576,870</u>	<u>3,051,387</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,602,004</u>	<u>\$ 3,602,004</u>

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

**City of Milton, Florida**  
**CAPITAL PROJECTS FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCE - BUDGET AND ACTUAL**  
**Year Ended September 30, 2013**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental	\$ -	\$ 1,000,000	\$ 1,157,030	\$ 157,030
Miscellaneous	-	<u>34,877</u>	<u>35,167</u>	<u>290</u>
TOTAL REVENUES	<u>-</u>	<u>1,034,877</u>	<u>1,192,197</u>	<u>157,320</u>
EXPENDITURES				
Capital outlay				
Transportation	796,904	2,331,094	1,684,199	646,895
Culture and recreation	<u>230,000</u>	<u>342,744</u>	<u>284,695</u>	<u>58,049</u>
TOTAL EXPENDITURES	<u>1,026,904</u>	<u>2,673,838</u>	<u>1,968,894</u>	<u>704,944</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,026,904)</u>	<u>(1,638,961)</u>	<u>(776,697)</u>	<u>862,264</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>974,724</u>	<u>1,580,913</u>	<u>711,429</u>	<u>(869,484)</u>
NET CHANGE IN FUND BALANCE	(52,180)	(58,048)	(65,268)	(7,220)
FUND BALANCE (DEFICIT) - BEGINNING OF YEAR	<u>52,180</u>	<u>58,048</u>	<u>(91,984)</u>	<u>(150,032)</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (157,252)</u>	<u>\$ (157,252)</u>

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

**City of Milton, Florida**  
**PROPRIETARY FUNDS**  
**STATEMENT OF NET POSITION**  
**September 30, 2013**

	Natural Gas Fund	Water and Sewer Fund	Sanitation Fund	Sundial Utilities Fund	Non-Major Fund	Total
<b>ASSETS</b>						
Current assets						
Cash and cash equivalents	\$ 1,296,867	\$ 2,945,732	\$ 335,357	\$ 28,793	\$ 101,085	\$ 4,707,834
Receivables, net	190,972	637,676	106,534	21,863	37,950	994,995
Due from other funds	-	400,000	-	-	-	400,000
Prepaid items	10,441	30,182	6,477	2,820	9,151	59,071
Inventory, at cost	167,776	-	-	-	-	167,776
Restricted assets						
Cash and cash equivalents	<u>285,729</u>	<u>3,314,355</u>	<u>-</u>	<u>226,434</u>	<u>-</u>	<u>3,826,518</u>
Total current assets	<u>1,951,785</u>	<u>7,327,945</u>	<u>448,368</u>	<u>279,910</u>	<u>148,186</u>	<u>10,156,194</u>
Capital assets						
Non-depreciable	5,575	2,027,910	-	450,000	438,000	2,921,485
Depreciable, net	<u>827,451</u>	<u>22,570,782</u>	<u>242,241</u>	<u>2,447,689</u>	<u>260,983</u>	<u>26,349,146</u>
Total capital assets	<u>833,026</u>	<u>24,598,692</u>	<u>242,241</u>	<u>2,897,689</u>	<u>698,983</u>	<u>29,270,631</u>
<b>TOTAL ASSETS</b>	<u>2,784,811</u>	<u>31,926,637</u>	<u>690,609</u>	<u>3,177,599</u>	<u>847,169</u>	<u>39,426,825</u>
<b>LIABILITIES</b>						
Current liabilities						
Accounts payable	138,122	321,642	25,301	2,666	1,588	489,319
Accrued liabilities						
Compensated absences	49,677	98,969	15,079	-	-	163,725
Wages	40,896	53,914	15,207	-	-	110,017
Revenue notes payable	19,036	154,017	-	128,211	-	301,264
Note payable	-	-	-	-	19,631	19,631
State revolving loans payable	-	817,597	-	-	-	817,597
Unearned revenues	-	42,374	-	-	-	42,374
Payable from restricted assets						
Customer deposits	<u>180,795</u>	<u>310,094</u>	<u>-</u>	<u>34,099</u>	<u>-</u>	<u>524,988</u>
Total current liabilities	<u>428,526</u>	<u>1,798,607</u>	<u>55,587</u>	<u>164,976</u>	<u>21,219</u>	<u>2,468,915</u>
Non-current liabilities						
Compensated absences	4,876	11,530	944	-	-	17,350
Note payable	-	-	-	-	307,854	307,854
Revenue notes payable	102,410	828,587	-	2,871,789	-	3,802,786
State revolving loan payable	<u>-</u>	<u>11,036,478</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,036,478</u>
Total non-current liabilities	<u>107,286</u>	<u>11,876,595</u>	<u>944</u>	<u>2,871,789</u>	<u>307,854</u>	<u>15,164,468</u>
<b>TOTAL LIABILITIES</b>	<u>535,812</u>	<u>13,675,202</u>	<u>56,531</u>	<u>3,036,765</u>	<u>329,073</u>	<u>17,633,383</u>
<b>NET POSITION</b>						
Invested in capital assets, net of related debt	711,580	11,762,013	242,241	(102,311)	371,498	12,985,021
Restricted						
Debt service	-	989,024	-	176,811	-	1,165,835
Capital projects	104,934	2,015,237	-	3,031	-	2,123,202
Unrestricted	<u>1,432,485</u>	<u>3,485,161</u>	<u>391,837</u>	<u>63,303</u>	<u>146,598</u>	<u>5,519,384</u>
<b>TOTAL NET POSITION</b>	<u>\$ 2,248,999</u>	<u>\$ 18,251,435</u>	<u>\$ 634,078</u>	<u>\$ 140,834</u>	<u>\$ 518,096</u>	<u>\$ 21,793,442</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 FUND NET POSITION**  
**Year Ended September 30, 2013**

	<u>Natural Gas Fund</u>	<u>Water and Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Sundial Utilities Fund</u>	<u>Non-Major Fund</u>	<u>Total</u>
<b>OPERATING REVENUES</b>						
Charges for services	<u>\$ 3,691,014</u>	<u>\$ 5,626,012</u>	<u>\$1,151,398</u>	<u>\$ 95,097</u>	<u>\$ 226,052</u>	<u>\$10,789,573</u>
<b>OPERATING EXPENSES</b>						
Personal services	614,813	1,402,841	376,536	-	-	2,394,190
Operating	1,620,036	1,218,488	468,599	30,497	74,403	3,412,023
Depreciation	<u>174,931</u>	<u>1,868,770</u>	<u>18,304</u>	<u>87,311</u>	<u>31,028</u>	<u>2,180,344</u>
Total operating expenses	<u>2,409,780</u>	<u>4,490,099</u>	<u>863,439</u>	<u>117,808</u>	<u>105,431</u>	<u>7,986,557</u>
<b>OPERATING INCOME (LOSS)</b>	<u>1,281,234</u>	<u>1,135,913</u>	<u>287,959</u>	<u>(22,711)</u>	<u>120,621</u>	<u>2,803,016</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>						
Intergovernmental	-	-	-	-	34,888	34,888
Tower leases	-	126,331	-	-	-	126,331
Interest expense	(4,418)	(297,139)	-	(23,694)	(15,197)	(340,448)
Gain (loss) on disposal of fixed assets	-	-	-	910	-	910
Interest income	1,170	29,506	-	-	206	30,882
Miscellaneous	<u>18,452</u>	<u>7,048</u>	<u>1,716</u>	<u>13</u>	<u>-</u>	<u>27,229</u>
Total non-operating revenues (expenses)	<u>15,204</u>	<u>(134,254)</u>	<u>1,716</u>	<u>(22,771)</u>	<u>19,897</u>	<u>(120,208)</u>
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS AND CAPITAL CONTRIBUTIONS</b>	<u>1,296,438</u>	<u>1,001,659</u>	<u>289,675</u>	<u>(45,482)</u>	<u>140,518</u>	<u>2,682,808</u>
Capital contributions	-	943,592	-	-	-	943,592
Transfers in	417	16,662	882	202,226	37,000	257,187
Transfers out	<u>(1,418,451)</u>	<u>(2,765,497)</u>	<u>(181,632)</u>	<u>(15,910)</u>	<u>(359,750)</u>	<u>(4,741,240)</u>
Total transfers and capital contributions	<u>(1,418,034)</u>	<u>(1,805,243)</u>	<u>(180,750)</u>	<u>186,316</u>	<u>(322,750)</u>	<u>(3,540,461)</u>
<b>CHANGE IN NET POSITION</b>	(121,596)	(803,584)	108,925	140,834	(182,232)	(857,653)
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>2,370,595</u>	<u>19,055,019</u>	<u>525,153</u>	<u>-</u>	<u>700,328</u>	<u>22,651,095</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 2,248,999</u>	<u>\$ 18,251,435</u>	<u>\$ 634,078</u>	<u>\$ 140,834</u>	<u>\$ 518,096</u>	<u>\$21,793,442</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, 2013**

	Natural Gas Fund	Water and Sewer Fund	Sanitation Fund	Sundial Utilities Fund	Non-Major Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from customers and users	\$ 3,698,414	\$ 5,546,770	\$ 1,163,784	\$ 107,333	\$ 223,226	\$ 10,739,527
Payments to suppliers	(1,640,418)	(943,621)	(467,090)	(30,651)	(82,275)	(3,164,055)
Payments to employees	(602,009)	(1,396,648)	(385,461)	-	-	(2,384,118)
Miscellaneous income	18,452	7,048	1,716	13	-	27,229
Tower leases	-	126,331	-	-	-	126,331
Net cash provided (used) by operating activities	<u>1,474,439</u>	<u>3,339,880</u>	<u>312,949</u>	<u>76,695</u>	<u>140,951</u>	<u>5,344,914</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>						
Due from other funds	-	(400,000)	-	-	-	(400,000)
Transfers in	417	16,662	882	202,226	37,000	257,187
Transfers out	<u>(1,418,451)</u>	<u>(2,765,497)</u>	<u>(181,632)</u>	<u>(15,910)</u>	<u>(359,750)</u>	<u>(4,741,240)</u>
Net cash provided (used) by non-capital financing activities	<u>(1,418,034)</u>	<u>(3,148,835)</u>	<u>(180,750)</u>	<u>186,316</u>	<u>(322,750)</u>	<u>(4,884,053)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Acquisitions of capital assets	(28,983)	(1,029,440)	-	(3,000,000)	(120,060)	(4,178,483)
Capital contributions	-	943,592	-	-	-	943,592
Intergovernmental revenues	-	-	-	-	34,888	34,888
Proceeds from disposal of fixed assets	-	-	-	15,910	-	-
Proceeds received from revenue notes payable and note payable	-	514,682	-	3,000,000	-	3,514,682
Principal paid on note payable, revenue notes payable, and state revolving loans	(18,206)	(945,242)	-	-	(18,768)	(982,216)
Interest paid on note payable, revenue notes payable, and state revolving loans	<u>(4,418)</u>	<u>(297,139)</u>	<u>-</u>	<u>(23,694)</u>	<u>(15,195)</u>	<u>(340,446)</u>
Net cash provided (used) by capital and related financing activities	<u>(51,607)</u>	<u>(813,547)</u>	<u>-</u>	<u>(7,784)</u>	<u>(119,135)</u>	<u>(1,007,983)</u>
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Interest income	<u>1,170</u>	<u>29,506</u>	<u>-</u>	<u>-</u>	<u>206</u>	<u>30,882</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>						
	5,968	(592,996)	132,199	255,227	(300,728)	(516,240)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>						
	<u>1,576,628</u>	<u>6,853,083</u>	<u>203,158</u>	<u>-</u>	<u>401,813</u>	<u>9,034,682</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>						
	<u>\$ 1,582,596</u>	<u>\$ 6,260,087</u>	<u>\$ 335,357</u>	<u>\$ 255,227</u>	<u>\$ 101,085</u>	<u>\$ 8,534,352</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, 2013**

	<u>Natural Gas Fund</u>	<u>Water and Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Sundial Utilities Fund</u>	<u>Non-Major Fund</u>	<u>Total</u>
<b>CASH AND CASH EQUIVALENTS</b>						
<b>AT END OF YEAR CONSIST OF</b>						
Current assets	\$ 1,296,867	\$ 2,945,732	\$ 335,357	\$ 28,793	\$ 101,085	\$ 4,707,834
Restricted assets	<u>285,729</u>	<u>3,314,355</u>	<u>-</u>	<u>226,434</u>	<u>-</u>	<u>3,826,518</u>
Total cash and cash equivalents	<u>\$ 1,582,596</u>	<u>\$ 6,260,087</u>	<u>\$ 335,357</u>	<u>\$ 255,227</u>	<u>\$ 101,085</u>	<u>\$ 8,534,352</u>
<b>RECONCILIATION OF</b>						
<b>OPERATING INCOME (LOSS) TO</b>						
<b>NET CASH PROVIDED (USED)</b>						
<b>BY OPERATING ACTIVITIES</b>						
Operating income	\$ 1,281,234	\$ 1,135,913	\$ 287,959	\$ (22,711)	\$ 120,621	\$ 2,803,016
Adjustments to reconcile operating						
income (loss) to net cash provided						
(used) by operating activities						
Depreciation	174,931	1,868,770	18,304	87,311	31,028	2,180,344
Tower lease income	-	126,331	-	-	-	126,331
Miscellaneous revenue	18,452	7,048	1,716	13	-	27,229
Decrease (increase) in assets						
Accounts receivable	8,045	(95,351)	12,386	(21,863)	(2,826)	(99,609)
Inventory	77,867	-	-	-	-	77,867
Prepaid items	366	1,072	(1,506)	(2,820)	(9,151)	(12,039)
Increase (decrease) in liabilities						
Accounts payable	64,327	273,795	3,015	2,666	1,279	345,082
Compensated absences payable	4,621	10,553	(5,438)	-	-	9,736
Wages	8,183	(4,360)	(3,487)	-	-	336
Other accrued liabilities	(162,942)	-	-	-	-	(162,942)
Customer deposits	(645)	13,810	-	34,099	-	47,264
Deferred revenues	<u>-</u>	<u>2,299</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,299</u>
Net cash provided (used) by	<u>\$ 1,474,439</u>	<u>\$ 3,339,880</u>	<u>\$ 312,949</u>	<u>\$ 76,695</u>	<u>\$ 140,951</u>	<u>\$ 5,344,914</u>
operating activities						

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

**City of Milton, Florida**  
**FIDUCIARY FUNDS**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**September 30, 2013**

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	<u>Pension Trust Funds</u>	<u>Retired Employees' Insurance Trust Fund</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ -	\$ 67,952
Investments, at market	21,351,055	1,175,341
Due from State of Florida	<u>11,980</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>\$ 21,363,035</u>	<u>\$ 1,243,293</u>
<b>FIDUCIARY NET POSITION</b>		
Held in trust for pension and employee retirement benefits	<u>\$ 21,363,035</u>	<u>\$ 1,243,292</u>

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

**City of Milton, Florida**  
**FIDUCIARY FUNDS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**Year Ended September 30, 2013**

	<u>Pension Trust Funds</u>	<u>Retired Employees' Insurance Trust Fund</u>
<b>ADDITIONS</b>		
Contributions		
Employer	\$ 848,155	\$ 239,984
Plan members	303,081	-
State of Florida	<u>165,903</u>	<u>-</u>
Total contributions	<u>1,317,139</u>	<u>239,984</u>
Investment income (loss)	2,362,450	112,645
Less investment expense	<u>(224,767)</u>	<u>-</u>
Net investment income (loss)	<u>2,137,683</u>	<u>112,645</u>
<b>TOTAL ADDITIONS (DEDUCTIONS)</b>	<u><b>3,454,822</b></u>	<u><b>352,629</b></u>
<b>DEDUCTIONS</b>		
Benefits and refunds paid		
Retirement payments	1,194,438	20,612
Insurance premiums	<u>-</u>	<u>8,044</u>
Total benefits and refunds paid	<u>1,194,438</u>	<u>28,656</u>
Administrative expenses - other	<u>-</u>	<u>21,401</u>
<b>TOTAL DEDUCTIONS</b>	<u><b>1,194,438</b></u>	<u><b>50,057</b></u>
<b>NET INCREASE (DECREASE) IN FIDUCIARY NET POSITION</b>	<b>2,260,384</b>	<b>302,572</b>
<b>FIDUCIARY NET POSITION HELD IN TRUST FOR PENSION AND OTHER RETIREMENT BENEFITS - BEGINNING OF YEAR</b>	<u><b>19,102,651</b></u>	<u><b>940,720</b></u>
<b>FIDUCIARY NET POSITION HELD IN TRUST FOR PENSION AND OTHER RETIREMENT BENEFITS - END OF YEAR</b>	<u><b>\$ 21,363,035</b></u>	<u><b>\$ 1,243,292</b></u>

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

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2013**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

**A. The Reporting Entity**

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

As required by GAAP in the United States, these financial statements present the City as the primary government. In evaluating the City as a reporting entity, management has considered all potential component units for which the City may or may not be financially accountable and, as such, be included within the City's financial statements. Management utilized criteria set forth in GASB Statement No. 61 for determining financial accountability of potential component units in evaluating all potential component units. In accordance with GASB Statement No. 61, 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, 2013**

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

**A. The Reporting Entity (Continued)**

The Milton Community Redevelopment Agency (the Agency) was established by the City as a separate legal entity in accordance with Florida Statute 163, Section III. The Agency oversees the redevelopment of the downtown area. The Community Redevelopment Advisory Board is appointed by the City Council of Milton, Florida through a City ordinance. The Mayor, City Manager, and one City Council member sit on the Advisory Board. In addition, City employees manage the Agency's assets. The Agency is reported in the financial statements of the primary government as a "blended component unit" as defined by GASB Statement No. 61. 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 Position 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, 2013**

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

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

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

**C. Measurement Focus and Basis of Accounting**

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

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

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

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, 2013**

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**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, 2013
Levy Date	November 1, 2013
Due Date	November 1, 2013
Delinquent Date	April 1, 2014

Discounts of 1% for each month taxes are paid prior to March 2014 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 2014 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, 2013**

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

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

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

***Proprietary***

Proprietary funds focus on the determination of net income, changes in net position, 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, 2013**

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

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

***Proprietary (Continued)***

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

*Sundial Utilities Fund* - Accounts for wastewater services provided to residents of certain subdivisions around the Bagdad, Florida, area.

***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 Position or Equity**

***Cash and Cash Equivalents***

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

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2013**

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

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

*Deposits and Investments*

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

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

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

*Receivables and Payables*

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

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2013**

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

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

***Receivables and Payables (Continued)***

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

All proprietary fund receivables are shown net of an allowance for uncollectibles.

***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 included as non-spendable in the fund financial statements to indicate that it is not available for appropriation.

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

***Restricted Assets***

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

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

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

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2013**

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

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

*Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, curbs and sidewalks, drainage systems, lighting systems and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City was in Phase III of the required implementation time of GASB Statement No. 34; accordingly, they were not required to retroactively record infrastructure assets. Therefore, purchases of infrastructure assets subsequent to October 1, 2003, will be reported in the government-wide financial statements. Capital assets are defined by the City as assets with an initial cost more than the following:

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

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

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

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

Assets	<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

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2013**

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

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

***Compensated Absences***

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

*Annual Leave*

Years of Employment	<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.

*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.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2013**

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

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

***Compensated Absences (Continued)***

Termination Policy

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

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

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

***Long-Term Obligations***

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. 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.

**F. Governmental Fund Balances**

In accordance with GASBS No. 54, the City classifies fund balances in the governmental funds as follows:

*Nonspendable fund balances* - cannot be spent either because they are not in spendable form or because of legal or contractually required to be maintained intact.

*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.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2013**

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

**F. Governmental Fund Balances (Continued)**

*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. These commitments can only be overturned by a like action.

*Assigned fund balances* - can only be used for specific purposes, but which do not meet the more formal criterion to be considered either restricted or committed. Fund balances may be assigned by the City Council, City Manager, or City Clerk for specific purposes through the budget process or agenda items. The assigned designation may be reversed by the City Council at any public meeting.

*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.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources (committed, assigned, and unassigned) as they are needed. When unrestricted resources (committed, assigned, and unassigned) are available for use in the General Fund, it is the City's policy to use unassigned resources first, then assigned, and then committed as needed. When unrestricted resources (committed, assigned, and unassigned) are available for use in any other governmental fund, it is the City's policy to use committed resources first, then assigned, and then unassigned as needed.

The City does not have a formal minimum fund balance requirement.

**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. Subsequent Events**

Subsequent events were evaluated through February 18, 2014, which is the date the financial statements were available to be issued.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2013**

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**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 mileages, and establishes dates for tentative and final public budget hearings as prescribed by Florida Statutes.

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

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

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.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2013**

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**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, 2013, were entirely covered by federal depository insurance or pooled collateral held by the State Treasurer and, therefore, have no custodial risk.

**Investments**

As of September 30, 2013, 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 45% domestic equity securities, 15% international equity securities, and 40% core fixed income securities.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2013**

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

**Investments (Continued)**

*Pension Plans (Continued)*

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.

As of September 30, 2013, 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	\$ 5,564,514	\$ 73,627	\$3,167,597	\$2,156,511	\$ 6,037	\$ 33,901	\$ 39,199	\$ 5,574	\$ 82,068
U.S. Government CMOs	306,794	-	4,991	5,984	85,526	16,360	29,928	164,005	-
Non-Government CMOs	126,051	-	2,262	14,921	14,737	9,275	14,976	9,616	60,264
US Treasury	2,540,848	280,087	1,962,125	264,000	-	-	-	34,636	-
	<u>8,538,207</u>	<u>353,714</u>	<u>5,136,975</u>	<u>2,441,416</u>	<u>106,300</u>	<u>59,536</u>	<u>84,103</u>	<u>213,831</u>	<u>142,332</u>
Investments not subject to interest rate risk									
Money market funds	1,059,291								
Equity securities	11,753,557								
Mutual funds	<u>1,175,341</u>								
Total	<u>\$22,526,396</u>								

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2013**

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

**Investments (Continued)**

*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 60 issues that were graded below the minimum grade of A by Standard and Poor's rating service as of September 30, 2013.

*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 roughly 1% of the market value of the total fixed income portfolio as of September 30, 2013.

**NOTE 4 - RECEIVABLES**

Receivables at September 30, 2013, were as follows:

	Governmental Activities			Business-Type Activities					Total
	General	Capital Projects	Non-Major	Natural Gas	Water and Sewer	Sanitation	Sundial Utilities	Non-Major	
Utility taxes and franchise fees	\$ 225,450	\$ 188,055	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 413,505
Accounts, less allowance for doubtful accounts	-	-	-	190,972	637,676	106,534	21,863	37,950	994,995
Other	-	-	500	-	-	-	-	-	500
<b>Total receivables</b>	<b>\$ 225,450</b>	<b>\$ 188,055</b>	<b>\$ 500</b>	<b>\$ 190,972</b>	<b>\$ 637,676</b>	<b>\$ 106,534</b>	<b>\$ 21,863</b>	<b>\$ 37,950</b>	<b>\$1,409,000</b>

As of September 30, 2013, the City has estimated \$66,000 as an allowance for uncollectible accounts related to business-type activities.

**Due from Other Governments**

The City's receivables from other governments for governmental activities as of September 30, 2013, are \$372,644. The receivables consist of amounts due from the State of Florida relating to intergovernmental revenues.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2013**

**NOTE 5 - CHANGES IN CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Transfers</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 1,622,054	\$ 111,764	\$ -	\$ 1,733,818
Construction in progress	<u>214,393</u>	<u>1,964,801</u>	<u>(5,083)</u>	<u>2,174,111</u>
Total capital assets not being depreciated	<u>1,836,447</u>	<u>2,076,565</u>	<u>(5,083)</u>	<u>3,907,929</u>
Capital assets being depreciated				
Buildings	9,733,617	3,547	-	9,737,164
Improvements other than buildings	4,091,847	12,019	-	4,103,866
Machinery and equipment	<u>4,581,334</u>	<u>49,276</u>	<u>(44,368)</u>	<u>4,586,242</u>
Total capital assets being depreciated	<u>18,406,798</u>	<u>64,842</u>	<u>(44,368)</u>	<u>18,427,272</u>
Less accumulated depreciation				
Buildings	(5,067,736)	(484,746)	-	(5,552,482)
Improvements other than buildings	(1,193,574)	(322,565)	-	(1,516,139)
Machinery and equipment	<u>(3,173,502)</u>	<u>(197,773)</u>	<u>49,451</u>	<u>(3,321,824)</u>
Total accumulated depreciation	<u>(9,434,812)</u>	<u>(1,005,084)</u>	<u>49,451</u>	<u>(10,390,445)</u>
Total capital assets being depreciated, net	<u>8,971,986</u>	<u>(940,242)</u>	<u>-</u>	<u>8,036,827</u>
<b>Governmental activities, net</b>	<u>\$ 10,808,433</u>	<u>\$ 1,136,323</u>	<u>\$ -</u>	<u>\$ 11,944,756</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Transfers</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 526,313	\$ 453,000	\$ -	\$ 979,313
Construction in progress	<u>1,416,499</u>	<u>857,477</u>	<u>(331,804)</u>	<u>1,942,172</u>
Total capital assets not being depreciated	<u>1,942,812</u>	<u>1,310,477</u>	<u>(331,804)</u>	<u>2,921,485</u>
Capital assets being depreciated				
Buildings	60,000	26,000	-	86,000
Improvements other than buildings	41,315,633	2,736,410	331,804	44,383,847
Machinery and equipment	<u>6,109,636</u>	<u>105,596</u>	<u>(15,473)</u>	<u>6,199,759</u>
Total capital assets being depreciated	<u>47,485,269</u>	<u>2,868,006</u>	<u>316,331</u>	<u>50,669,606</u>
Less accumulated depreciation				
Buildings	(6,500)	(7,733)	-	(14,233)
Improvements other than buildings	(19,965,017)	(2,057,822)	-	(22,022,839)
Machinery and equipment	<u>(2,169,072)</u>	<u>(114,789)</u>	<u>473</u>	<u>(2,283,388)</u>
Total accumulated depreciation	<u>(22,140,589)</u>	<u>(2,180,344)</u>	<u>473</u>	<u>(24,320,460)</u>
Total capital assets being depreciated, net	<u>25,344,680</u>	<u>687,662</u>	<u>316,804</u>	<u>26,349,146</u>
<b>Business-type activities, net</b>	<u>\$ 27,287,492</u>	<u>\$ 1,998,139</u>	<u>\$ (15,000)</u>	<u>\$ 29,270,631</u>

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2013**

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

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

<b>Governmental activities</b>	
General government	\$ 496,679
Public safety	209,252
Transportation	20,206
Culture and recreation	<u>278,947</u>
Total depreciation expense - governmental activities	<u>\$ 1,005,084</u>
<b>Business-type activities</b>	
Natural gas	\$ 174,931
Water and sewer	1,868,770
Sanitation	18,304
Sundial utilities	87,311
Non-major	<u>31,028</u>
Total depreciation expense - business-type activities	<u>\$ 2,180,344</u>

Construction Commitments

The City has active construction projects as of September 30, 2013:

Projects	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
Canal Street (Phase I and II)	\$ 810,941	\$ 27,083
Sanders Street	1,039,681	1,074,032
Tennis Courts Upgrades	316,841	50,899
Highway Beautification	6,648	305,352
Business Type Activities		
East Milton Wastewater Treatment Plant Engineering	1,268,122	339,881
Glover Lane	16,136	146,235
Ward Basin Force Main Project	641,801	681,960
N. Airport Sewer	16,113	6,286
Hamilton Bridge (Gas Main Upgrade)	-	25,000
SR87 Gas Line to I-10 Industrial Park	-	<u>50,000</u>
	<u>\$ 4,116,283</u>	<u>\$ 2,706,728</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.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2013**

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

**A. Basis of Accounting and Method Used to Value Investments**

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

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

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

**B. Plan Descriptions**

Membership of each plan consisted of the following at October 1, 2012, the date of the latest actuarial valuation:

	<u>GERP</u>	<u>PORP</u>	<u>FRP</u>
Retirees receiving benefits	25	6	9
Terminated plan members entitled to but not yet receiving benefits	5	2	-
Beneficiaries receiving benefits	3	2	2
Disabled participants	3	-	1
Deferred retirement option members	7	1	2
Active plan members	<u>64</u>	<u>16</u>	<u>14</u>
Total	<u>107</u>	<u>27</u>	<u>28</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.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2013**

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

**B. Plan Descriptions (Continued)**

***Police Officers' Retirement Plan (PORP) - Plan Description***

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

***Firefighters' Retirement Plan (FRP) - Plan Description***

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

**C. Contributions, Funding Policy and Annual Pension Cost**

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

The plan does not address maximum contribution rates.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2013**

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

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

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

	<u>GERP</u>	<u>PORP</u>	<u>FRP</u>
Contribution rates (percentage of covered payroll)			
City (and State for FRP)	15.6 %	28.0 %	43.8 %
Plan members	10.0 %	6.0 %	6.5 %
Annual pension cost	\$ 358,691	\$ 247,474	\$ 279,128
Contributions made			
Employer	\$ 350,068	\$ 165,823	\$ 188,126
Employees	\$ 224,403	\$ 52,933	\$ 41,551
Other sources	\$ -	\$ 82,512	\$ 92,339
Net pension obligation (asset)	\$ (221,416)	\$ (10,156)	\$ (41,320)
Actuarial valuation date	10/1/2012	10/1/2012	10/1/2012
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	25 Years	25 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 %	7.8 %
Projected salary increases <sup>#</sup>	5.5 %	7.5 %	6.0 %
Post retirement COLA	- %	1.0 %	- %
<sup>#</sup> Includes inflation rate at	3.0 %	3.0 %	3.0 %

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2013**

**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	9/30/2012	\$ 358,691	98 %	\$ (221,416)
	9/30/2011	\$ 277,888	95 %	\$ (230,039)
	9/30/2010	\$ 228,206	93 %	\$ (244,734)
PORP	9/30/2012	\$ 247,474	100 %	\$ (10,156)
	9/30/2011	\$ 142,566	99 %	\$ (10,608)
	9/30/2010	\$ 113,262	99 %	\$ (11,821)
FRP	9/30/2012	\$ 213,155	101 %	\$ (41,320)
	9/30/2011	\$ 150,506	98 %	\$ (40,109)
	9/30/2010	\$ 142,495	100 %	\$ (43,378)

The funded status of each plan as of October 1, 2012, 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	\$ 10,046,196	\$ 13,254,338	\$ 3,208,142	75.80 %	\$ 2,174,539	147.53 %
PORP	\$ 5,463,834	\$ 5,595,594	\$ 131,760	97.65 %	\$ 760,984	17.31 %
FRP	\$ 3,320,564	\$ 7,133,421	\$ 3,812,857	47.18 %	\$ 657,941	565.10 %

**D. Required Supplementary Information**

The schedule of funding progress and schedule of employer contributions can be found in the supplementary 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, 2013**

**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 \$602,359 at September 30, 2013. Contributions and distributions made during the fiscal year ended September 30, 2013, were \$66,866 and \$10,025, respectively. The Plan had net earnings of \$37,083.

**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, 2013:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<b>Governmental activities</b>					
Revenue note payable	\$ 1,321,214	\$ -	\$ (184,115)	\$ 1,137,099	\$ 190,535
Capital leases	409,248	-	(76,715)	332,533	79,200
Compensated absences	<u>401,617</u>	<u>432,312</u>	<u>(427,347)</u>	<u>406,582</u>	<u>359,352</u>
Total governmental activities	<u>\$ 2,132,079</u>	<u>\$ 432,312</u>	<u>\$ (688,177)</u>	<u>\$ 1,876,214</u>	<u>\$ 629,087</u>

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2013**

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

**Changes in Long-Term Debt Liabilities (Continued)**

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type activities</b>					
Note payable	\$ 346,252	\$ -	\$ (18,767)	\$ 327,485	\$ 19,631
Revenue notes payable	1,269,563	3,000,000	(165,513)	4,104,050	301,264
State revolving loans payable	12,137,328	514,682	(797,935)	11,854,075	817,597
Compensated absences	<u>171,339</u>	<u>172,572</u>	<u>(162,836)</u>	<u>181,075</u>	<u>163,725</u>
Total business-type activities	<u>\$13,924,482</u>	<u>\$ 3,687,254</u>	<u>\$(1,145,051)</u>	<u>\$ 16,466,685</u>	<u>\$ 1,302,217</u>

**Description of Long-Term Debt Outstanding**

	Current	Long-Term	Total
<b>GOVERNMENTAL ACTIVITIES</b>			
<b>Revenue Note Payable</b>			
Revenue note payable incurred for financing various capital projects, bearing interest at 3.56%. Principal and interest payments of \$57,237 are made quarterly, until maturity on March 15, 2019. Note is secured by pledged tax revenues.	<u>\$ 190,535</u>	<u>\$ 946,564</u>	<u>\$ 1,137,099</u>
<b>Capital Lease</b>			
Lease/purchase agreement bearing interest of 3.24% per annum. Principal and interest payments of \$89,974 beginning November 30, 2012, with an interest-only payment of \$6,335 due November 30, 2011. The principle and interest payments will be made on an annual basis until November 30, 2016. The lease is collateralized by a fire truck, which has been recorded in the general fixed asset account group at a cost of \$409,248.	<u>79,200</u>	<u>253,333</u>	<u>332,533</u>
<b>Compensated Absences</b>			
Total long-term portion of accumulated, vested annual and sick leave for governmental fund types.	<u>359,352</u>	<u>47,230</u>	<u>406,582</u>
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u>\$ 629,087</u>	<u>\$ 1,247,127</u>	<u>\$ 1,876,214</u>
<b>BUSINESS-TYPE ACTIVITIES</b>			
<b>Revenue Notes Payable</b>			
<b>Water and Sewer</b>			
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.	\$ 154,017	\$ 828,587	\$ 982,604

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2013**

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

**Description of Long-Term Debt Outstanding (Continued)**

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<b>BUSINESS-TYPE ACTIVITIES (CONTINUED)</b>			
<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.	19,036	102,410	121,446
 <u>Sundial Utilities</u>			
Revenue note payable incurred for the acquisition of Sundial Utilities, Inc. (utility system) in the Sundial Utilities Fund, bearing interest at 1.62%. Principal and interest payments will be made annually beginning June 15, 2014, until maturity on June 15, 2033. The note is secured by revenues generated from current and future customers of the acquired utility system.	128,211	2,871,789	3,000,000
<b>Total revenue notes payable</b>	<u>301,264</u>	<u>3,802,786</u>	<u>4,104,050</u>
 <b>State Revolving Loans Payable</b>			
<u>Water and Sewer</u>			
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.	817,597	9,385,441	10,203,038
State of Florida Department of Environmental Protection State Revolving Loan Fund, semi-annual payments, including capitalized interest; interest at 2.46% beginning January 15, 2015, through July 15, 2034. Total approved loan is for \$1,995,764, of which \$1,275,855 outstanding at September 30, 2013.	-	1,275,855	1,275,855
State of Florida Department of Environmental Protection State Revolving Loan Fund, semi-annual payments, including capitalized interest; interest at 2.46% beginning February 15, 2015, through February 15, 2020. Total approved loan is for \$1,307,961, of which \$375,182 outstanding at September 30, 2013.	<u>-</u>	<u>375,182</u>	<u>375,182</u>
<b>Total State Revolving Loans payable</b>	<u>817,597</u>	<u>11,036,478</u>	<u>11,854,075</u>

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2013**

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

**Description of Long-Term Debt Outstanding (Continued)**

	Current	Long-Term	Total
<b>BUSINESS-TYPE ACTIVITIES (CONTINUED)</b>			
<i>Note Payable</i>			
<u>Marina</u>			
Note payable incurred for the acquisition of the Marina, 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 Marina land and building.	19,631	307,854	327,485
<i>Accrued Compensated Absences</i>			
Accumulated, vested annual compensation for Proprietary Funds.	163,725	17,350	181,075
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>\$ 1,302,217</b>	<b>\$15,164,468</b>	<b>\$16,466,685</b>
<b>GRAND TOTAL LONG-TERM DEBT</b>			<b>\$18,342,899</b>

**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, 2013, are as follows:

**Governmental Activities**

Year Ending September 30	Note Payable		Capital Lease	
	Principal	Interest	Principal	Interest
2014	\$ 190,535	\$ 38,122	\$ 79,200	\$ 10,774
2015	197,732	31,216	81,766	8,208
2016	204,887	24,061	84,416	5,559
2017	212,301	16,647	87,151	2,824
2018	219,984	8,964	-	-
Thereafter	111,660	1,510	-	-
Total	<b>\$ 1,137,099</b>	<b>\$ 120,520</b>	<b>\$ 332,533</b>	<b>\$ 27,365</b>

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2013**

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

**Annual Requirements to Amortize Debt Outstanding (Continued)**

***Business-Type Activities***

Year Ending September 30	Note payable		State Revolving Loans		Revenue Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 19,631	\$ 14,335	\$ 817,597	\$ 265,429	\$ 301,264	\$ 81,752
2015	20,532	13,433	884,500	270,533	311,225	4,064
2016	287,322	8,434	920,183	317,273	321,576	66,087
2017	-	-	1,001,605	236,364	332,343	57,808
2018	-	-	1,025,929	254,483	343,534	49,215
2019-2023	-	-	5,273,543	598,604	873,841	168,950
2024-2028	-	-	1,399,806	171,849	777,604	106,452
2029-2033	-	-	371,259	38,355	842,663	41,392
2034	-	-	159,653	4,193	-	-
Total	<u>\$ 327,485</u>	<u>\$ 36,202</u>	<u>\$ 11,854,075</u>	<u>\$ 2,157,083</u>	<u>\$ 4,104,050</u>	<u>\$ 575,720</u>

For governmental and business-type activities, the total interest incurred and charged to expenditures/expense for the year ended September 30, 2013, was \$58,404 and \$340,448, respectively.

**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 less 1.5% (a total of 1.75% at September 30, 2013). 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, 2013.

**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 2014-2017. The rental income for the fiscal year ending September 30, 2013, was \$126,331.

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

2014	\$ 129,118
2015	109,393
2016	74,245
2017	<u>4,770</u>
Total	<u>\$ 317,526</u>

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2013**

**NOTE 12 - CAPITAL CONTRIBUTIONS**

For the year ended September 30, 2013, the Water and Sewer Fund had \$943,592 of capital contributions, which included approximately \$193,592 of impact fees, and \$750,000 in capital grants related to the wastewater treatment plant and the expansion of service to the prison.

**NOTE 13 - UNEARNED REVENUE**

At September 30, 2013, the Water and Sewer Fund had \$42,374 related to rental income from the above mentioned cell tower leases received in fiscal year 2013, but to be earned in fiscal year 2014. At September 30, 2013, the General Fund had \$113,310 in unearned revenue which consisted of \$93,904 relating to 2014 occupational licenses purchased in 2013 and \$19,406 relating to event fees for 2014, paid in 2013.

**NOTE 14 - INTERFUND BALANCES**

The composition of interfund balances as of September 30, 2013, is as follows:

	<b>Transfers In</b>								<b>Total</b>
	<b>General Fund</b>	<b>Capital Projects</b>	<b>Non-Major Governmental Funds</b>	<b>Natural Gas Fund</b>	<b>Water and Sewer Fund</b>	<b>Sanitation</b>	<b>Sundial Utilities Fund</b>	<b>Non-Major Proprietary Fund</b>	
<b>Transfers Out</b>									
General	\$ -	\$ 255,757	\$ 452,889	\$ 417	\$ 752	\$ 882	\$ 1,165	\$ -	\$ 711,862
Natural Gas	1,401,679	16,772	-	-	-	-	-	-	1,418,451
Water and Sewer	2,388,536	138,900	-	-	-	-	201,061	37,000	2,765,497
Sanitation	181,632	-	-	-	-	-	-	-	181,632
Sundial Utilities	-	-	-	-	15,910	-	-	-	15,910
Non-Major Proprietary	59,750	300,000	-	-	-	-	-	-	359,750
<b>Total</b>	<b>\$ 4,031,597</b>	<b>\$ 711,429</b>	<b>\$ 452,889</b>	<b>\$ 417</b>	<b>\$ 16,662</b>	<b>\$ 882</b>	<b>\$ 202,226</b>	<b>\$ 37,000</b>	<b>\$ 5,453,102</b>

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

\$400,000 is due from the Capital Projects Fund to the Water and Sewer Fund for payments made on behalf of the Capital Projects Fund for grant related expenditures which are expected to be paid back once reimbursement is received.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2013**

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**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, 2011.

**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. For employees hired subsequent to September 30, 2011, the City no longer provides the \$1 contribution towards the premiums; employees hired prior to that date will continue to receive the contribution. 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 \$203,436 for the current fiscal year, towards which the City made implied and actual contributions of \$177,236. The City has a net OPEB liability of \$127,444, 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>109</u>
Total	<u>122</u>
Participating employers	<u>1</u>

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2013**

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**NOTE 15 - POST-EMPLOYEE HEALTHCARE BENEFITS (CONTINUED)**

**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.

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>	\$ 203,436
Interest on net OPEB obligation	7,899
Adjustment to annual required contribution	<u>(5,396)</u>
Annual OPEB cost (expense) total	205,939
Employer contributions	<u>(177,236)</u>
Increase in net OPEB obligation	28,703
Net OPEB obligation - beginning of year	<u>98,741</u>
Net OPEB obligation - end of year	<u>\$ 127,444</u>

*(a) Includes Normal Cost of \$100,359 plus Amortized UAAL Cost of \$103,077*

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	\$ 205,939
Percentage of Annual OPEB cost contributed	86 %
Net OPEB obligation	\$ 127,444

**E. Funded Status and Funding Progress**

The unfunded actuarial accrued liability for benefits was \$1,591,520, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$4,331,517, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 36.7%.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2013**

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**NOTE 15 - POST-EMPLOYEE HEALTHCARE BENEFITS (CONTINUED)**

**E. Funded Status and Funding Progress (Continued)**

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.

**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 4.5% after five years. 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, 2013, is 27 years.

**City of Milton, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2013**

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**NOTE 16 - GOVERNMENTAL FUND BALANCES**

As of September 30, 2013, governmental fund balances consisted of the following:

<u><b>Nonspendable fund balances</b></u>	<u><b>9/30/2013</b></u>
Inventory	\$ 126,599
Prepaid items	47,267
	<u>\$ 173,866</u>
<u><b>Restricted fund balances</b></u>	
Capital projects	\$ 363,339
Public safety	15,294
Downtown redevelopment	49,152
	<u>\$ 427,785</u>
<u><b>Assigned fund balances</b></u>	
Parks and recreation	\$ 2,661
Debt service funding	334,705
2014 budget	326,902
	<u>\$ 664,268</u>
<u><b>Unassigned fund balances</b></u>	<u>\$ 2,577,984</u>

**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, 2013**

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**NOTE 18 - SUBSEQUENT EVENT**

**Land Purchase**

In October 2013, the City purchased 31 acres of property for \$250,000 with the intention of expanding the City's recreational fields. As of the date of this report, the project is in its planning stages and no commitments have been made with regards to the expansion.

**New GASB Pronouncements**

In June 2012, the GASB issued GASB Statement No. 67, *Financial Reporting for Pension Plans* - an amendment to Statement No. 25. This Statement enhances the financial reporting by state and local governmental pension plans. This Statement replaces the requirement of Statement No. 25 *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. Management believes GASB Statement No. 67 will not have a material effect on the financial position, changes in net position, or cash flows of the City.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment to Statement No. 27*. This Statement enhances the financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. The general employees', police officers', and firefighters' plans as of October 1, 2012 was funded at 75.80%, 97.65% and 46.55%, respectively.

### **III. REQUIRED SUPPLEMENTARY 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)
10/1/2012	\$ 10,046,196	\$ 13,254,338	\$ 3,208,142	75.80 %	\$ 2,174,539	147.53 %
10/1/2011	\$ 9,165,287	\$ 12,223,126	\$ 3,057,839	74.98 %	\$ 2,212,864	138.18 %
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)
10/1/2012	\$ 5,463,834	\$ 5,595,594	\$ 131,760	97.65 %	\$ 760,984	17.31 %
10/1/2011	\$ 5,036,276	\$ 5,352,791	\$ 316,515	94.09 %	\$ 853,431	37.09 %
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)%

***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)
10/1/2012	\$ 3,320,564	\$ 7,133,421	\$ 3,812,857	46.55 %	\$ 657,941	579.51 %
10/1/2011	\$ 3,211,819	\$ 6,630,352	\$ 3,418,533	48.44 %	\$ 655,402	521.59 %
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	63.65 %	\$ 728,150	313.78 %
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 %

***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)
10/1/2011	\$ 579,545	\$ 2,161,540	\$ 1,581,995	26.81 %	\$ 4,172,179	37.92 %
10/1/2010	\$ 501,150	\$ 2,000,539	\$ 1,499,389	25.05 %	\$ 4,649,815	32.25 %
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, 2012	\$ 350,068	\$ 350,068	100.00 %
September 30, 2011	\$ 263,193	\$ 263,193	100.00 %
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 %

***Police Officers' Retirement Fund***

	Annual Required Contribution	City Contribution	State Contribution	Percentage Contributed
September 30, 2012	\$ 247,022	\$ 165,823	\$ 81,199	100.00 %
September 30, 2011	\$ 228,650	\$ 141,353	\$ 87,297	100.00 %
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, 2012	\$ 214,366	\$ 154,000	\$ 60,366	100.00 %
September 30, 2011	\$ 203,499	\$ 147,237	\$ 56,262	100.00 %
September 30, 2010	\$ 203,450	\$ 142,495	\$ 60,954	108.94 %
September 30, 2009	\$ 97,209	\$ 26,364	\$ 79,535	106.84 %
September 30, 2008	\$ 102,006	\$ 24,822	\$ 84,164	100.00 %
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 %

***Retired Employees' Insurance Plan***

	Annual Required Contribution	City Contribution	Percentage Contributed
September 30, 2011	\$ 203,397	\$ 169,635	83.40 %
September 30, 2010	\$ 159,759	\$ 124,117	77.69 %
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.

## **IV. OTHER SUPPLEMENTARY INFORMATION**

# **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.

**City of Milton, Florida**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
**September 30, 2013**

	<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>	
<b>ASSETS</b>					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 334,705	\$ 334,705
Accounts receivable	-	-	500	-	500
Restricted cash	<u>14,794</u>	<u>49,152</u>	<u>3,353</u>	<u>-</u>	<u>67,299</u>
<b>TOTAL ASSETS</b>	<u>\$ 14,794</u>	<u>\$ 49,152</u>	<u>\$ 3,853</u>	<u>\$ 334,705</u>	<u>\$ 402,504</u>
<b>LIABILITIES AND FUND BALANCE</b>					
Accounts payable	\$ -	\$ -	\$ 946	\$ -	\$ 946
Due to other government unit	<u>-</u>	<u>-</u>	<u>2,407</u>	<u>-</u>	<u>2,407</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>3,353</u>	<u>-</u>	<u>3,353</u>
Fund balance					
Restricted					
Public safety	14,794	-	500	-	15,294
Downtown redevelopment	-	49,152	-	-	49,152
Assigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>334,705</u>	<u>334,705</u>
Total fund balance	<u>14,794</u>	<u>49,152</u>	<u>500</u>	<u>334,705</u>	<u>399,151</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 14,794</u>	<u>\$ 49,152</u>	<u>\$ 3,853</u>	<u>\$ 334,705</u>	<u>\$ 402,504</u>

**City of Milton, Florida**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**COMBINING STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE**  
**Year Ended September 30, 2013**

	<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>	
REVENUES					
Intergovernmental	\$ -	\$ 36,562	\$ -	\$ -	\$ 36,562
Fines and forfeits	417	-	182,937	-	183,354
Miscellaneous	-	23	9	146	178
Total revenues	<u>417</u>	<u>36,585</u>	<u>182,946</u>	<u>146</u>	<u>220,094</u>
EXPENDITURES					
Current					
Public safety	(10)	-	182,946	-	182,936
Economic environment	-	61,281	-	-	61,281
Capital outlay					
Economic environment	-	111,764	-	-	111,764
Debt service					
Principal	-	-	-	260,830	260,830
Interest	-	-	-	58,404	58,404
Total expenditures	<u>(10)</u>	<u>173,045</u>	<u>182,946</u>	<u>319,234</u>	<u>675,215</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>427</u>	<u>(136,460)</u>	<u>-</u>	<u>(319,088)</u>	<u>(455,121)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	133,343	-	319,546	452,889
NET CHANGE IN FUND BALANCE	427	(3,117)	-	458	(2,232)
FUND BALANCE - BEGINNING OF YEAR	<u>14,367</u>	<u>52,269</u>	<u>500</u>	<u>334,247</u>	<u>401,383</u>
FUND BALANCE - END OF YEAR	<u>\$ 14,794</u>	<u>\$ 49,152</u>	<u>\$ 500</u>	<u>\$ 334,705</u>	<u>\$ 399,151</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.

### *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**  
**NON-MAJOR PROPRIETARY FUNDS**  
**COMBINING STATEMENT OF NET POSITION**  
**September 30, 2013**

	Stormwater Fund	Marina Fund	Total Non-Major Funds
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 81,342	\$ 19,743	\$ 101,085
Receivables, net	37,950	-	37,950
Prepaid items	8,384	767	9,151
Total current assets	<u>127,676</u>	<u>20,510</u>	<u>148,186</u>
Capital assets			
Non-depreciable	3,000	435,000	438,000
Depreciable, net	174,590	86,393	260,983
Total capital assets	<u>177,590</u>	<u>521,393</u>	<u>698,983</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 305,266</u></u>	<u><u>\$ 541,903</u></u>	<u><u>\$ 847,169</u></u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	\$ 270	\$ 1,318	\$ 1,588
Notes payable	-	19,631	19,631
Total current liabilities	<u>270</u>	<u>20,949</u>	<u>21,219</u>
Non-current liabilities			
Notes payable	-	307,854	307,854
<b>TOTAL LIABILITIES</b>	<u>270</u>	<u>328,803</u>	<u>329,073</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	177,590	193,908	371,498
Unrestricted	127,406	19,192	146,598
<b>TOTAL NET POSITION</b>	<u><u>\$ 304,996</u></u>	<u><u>\$ 213,100</u></u>	<u><u>\$ 518,096</u></u>

**City of Milton, Florida**  
**NON-MAJOR PROPRIETARY FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET POSITION**  
**Year Ended September 30, 2013**

	Stormwater Fund	Marina Fund	Total Non-Major Funds
OPERATING REVENUES			
Charges for services	\$ 225,006	\$ 1,046	\$ 226,052
OPERATING EXPENSES			
Operating	54,230	20,173	74,403
Depreciation	17,802	13,226	31,028
Total operating expenses	72,032	33,399	105,431
OPERATING INCOME (LOSS)	152,974	(32,353)	120,621
NON-OPERATING REVENUES (EXPENSES)			
Intergovernmental	-	34,888	34,888
Interest expense	-	(15,197)	(15,197)
Interest	206	-	206
Total non-operating revenues (expenses)	206	19,691	19,897
INCOME (LOSS) BEFORE TRANSFERS	153,180	(12,662)	140,518
Transfers in	-	37,000	37,000
Transfer out	(359,750)	-	(359,750)
Total transfers	(359,750)	37,000	(322,750)
CHANGE IN NET POSITION	(206,570)	24,338	(182,232)
NET POSITION - BEGINNING OF YEAR	511,566	188,762	700,328
NET POSITION - END OF YEAR	\$ 304,996	\$ 213,100	\$ 518,096

**City of Milton, Florida**  
**NON-MAJOR PROPRIETARY FUNDS**  
**COMBINING STATEMENT OF CASH FLOWS**  
**Year Ended September 30, 2013**

	Stormwater Fund	Marina Fund	Total Non-Major Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers and users	\$ 222,180	\$ 1,046	\$ 223,226
Payments to suppliers	(62,614)	(19,661)	(82,275)
Net cash provided (used) by operating activities	<u>159,566</u>	<u>(18,615)</u>	<u>140,951</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>			
Transfers in	-	37,000	37,000
Transfers out	(359,750)	-	(359,750)
Net cash provided (used) by non-capital financing activities	<u>(359,750)</u>	<u>37,000</u>	<u>(322,750)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisitions of capital assets	(120,060)	-	(120,060)
Intergovernmental revenues received	-	34,888	34,888
Principal paid on notes payable	-	(18,768)	(18,768)
Interest paid on note payable	-	(15,195)	(15,195)
Net cash provided (used) by capital and related financing activities	<u>(120,060)</u>	<u>925</u>	<u>(119,135)</u>
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest income	<u>206</u>	<u>-</u>	<u>206</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(320,038)</b>	<b>19,310</b>	<b>(300,728)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b><u>401,380</u></b>	<b><u>433</u></b>	<b><u>401,813</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 81,342</u></b>	<b><u>\$ 19,743</u></b>	<b><u>\$ 101,085</u></b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 152,974	\$ (32,353)	\$ 120,621
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	17,802	13,226	31,028
Decrease (increase) in assets			
Accounts receivable	(2,826)	-	(2,826)
Prepaid items	(8,384)	(767)	(9,151)
Increase (decrease) in liabilities			
Accounts payable	-	1,279	1,279
Net cash provided (used) by operating activities	<u>\$ 159,566</u>	<u>\$ (18,615)</u>	<u>\$ 140,951</u>

## **FIDUCIARY FUNDS**

### **Pension Trust Funds**

The Pension Trust Funds are used to report resources that are held in trust for the members and beneficiaries of the City of Milton, 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 FIDUCIARY NET POSITION**  
**September 30, 2013**

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	<u>General Employees' Pension Fund</u>	<u>Police Officers' Pension Fund</u>	<u>Firefighters' Pension Fund</u>	<u>Total Employee Pension Funds</u>
<b>ASSETS</b>				
Investments, at market	\$ 11,520,524	\$ 6,274,037	\$ 3,556,494	\$ 21,351,055
Due from State of Florida	<u>1,443</u>	<u>700</u>	<u>9,837</u>	<u>11,980</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 11,521,967</u></b>	<b><u>\$ 6,274,737</u></b>	<b><u>\$ 3,566,331</u></b>	<b><u>\$ 21,363,035</u></b>
<b>FIDUCIARY NET POSITION</b>				
Held in trust for pension and employee retirement benefits	<b><u>\$ 11,521,967</u></b>	<b><u>\$ 6,274,737</u></b>	<b><u>\$ 3,566,331</u></b>	<b><u>\$ 21,363,035</u></b>

**City of Milton, Florida**  
**PENSION TRUST FUNDS**  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**Year Ended September 30, 2013**

	General Employees' <u>Pension Fund</u>	Police Officers' <u>Pension Fund</u>	Firefighters' <u>Pension Fund</u>	Total Employee <u>Pension Funds</u>
<b>ADDITIONS</b>				
Contributions				
Employer	\$ 451,208	\$ 183,261	\$ 213,686	\$ 848,155
Plan members	214,436	47,094	41,551	303,081
State of Florida	<u>-</u>	<u>82,512</u>	<u>83,391</u>	<u>165,903</u>
Total contributions	<u>665,644</u>	<u>312,867</u>	<u>338,628</u>	<u>1,317,139</u>
Investment income	1,342,174	734,138	286,138	2,362,450
Less investment expense	<u>(82,862)</u>	<u>(81,554)</u>	<u>(60,351)</u>	<u>(224,767)</u>
Net investment income	<u>1,259,312</u>	<u>652,584</u>	<u>225,787</u>	<u>2,137,683</u>
<b>TOTAL ADDITIONS</b>	<u>1,924,956</u>	<u>965,451</u>	<u>564,415</u>	<u>3,454,822</u>
<b>DEDUCTIONS</b>				
Benefits and refunds paid				
Retirement payments	<u>629,190</u>	<u>202,196</u>	<u>363,052</u>	<u>1,194,438</u>
Administrative expenses				
<b>TOTAL DEDUCTIONS</b>	<u>629,190</u>	<u>202,196</u>	<u>363,052</u>	<u>1,194,438</u>
<b>NET INCREASE</b>	<u>1,295,766</u>	<u>763,255</u>	<u>201,363</u>	<u>2,260,384</u>
<b>FIDUCIARY NET POSITION HELD IN TRUST FOR PENSION AND OTHER RETIREMENT BENEFITS - BEGINNING OF YEAR</b>				
	<u>10,226,201</u>	<u>5,511,482</u>	<u>3,364,968</u>	<u>19,102,651</u>
<b>FIDUCIARY NET POSITION HELD IN TRUST FOR PENSION AND OTHER RETIREMENT BENEFITS - END OF YEAR</b>				
	<u>\$ 11,521,967</u>	<u>\$ 6,274,737</u>	<u>\$ 3,566,331</u>	<u>\$ 21,363,035</u>

## **IV. COMPLIANCE SECTION**

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

**City of Milton, Florida**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE**  
**Year Ended September 30, 2013**

<b>Federal or State Agency Pass-Through Entity Program Title</b>	<b>CFDA/ CSFA Number</b>	<b>Contract/Grant Number</b>	<b>Expenditures</b>
<b>U.S. Department of Housing and Urban Development</b>			
Indirect Program			
Pass-Through from			
Florida Department of Community Affairs			
Community Development Block Grant - Canal Street	14.228	11DB-C5-01-67-02-C04	\$ 638,777
<b>U.S. Department of Justice</b>			
Indirect Program			
Pass-Through from			
State Department of Law Enforcement			
Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government	16.738	2013-JAGD-SANT-1-D8-037	2,098
<b>U.S. Department of Homeland Security - Federal Emergency Management Agency (FEMA)</b>			
Indirect Programs			
Pass-Through From			
State Department of Emergency Management			
Hazard Mitigation Grant (HMGP) - Sanders Street Drainage	97.039	13HM-2X-01-67-02-316	<u>706,530</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>\$ 1,347,405</u></b>
<b>Florida Department of Environmental Protection</b>			
Direct Programs			
Small County Wastewater Treatment Grants	37.039	SG625090	\$ 750,000
Wastewater Treatment Facility Construction	37.037	WW625110	<u>375,182</u>
<b>Total Florida Department of Environmental Protection</b>			<b><u>1,125,182</u></b>
<b>TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE</b>			<b><u>\$ 1,125,182</u></b>

The accompanying notes are an integral part of this schedule.

**City of Milton, Florida**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL**  
**AWARDS AND STATE FINANCIAL ASSISTANCE**  
**Year Ended September 30, 2013**

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**NOTE 1 - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance includes the federal and state grant activity of the City of Milton, Florida, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and Chapter 10.550, *Rules of the Auditor General*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Honorable Mayor and City Council Members  
City of Milton, Florida

**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, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milton, Florida, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Milton, Florida's basic financial statements and have issued our report thereon dated February 18, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Milton's internal control over financial reporting (Internal Control) to determine the audit procedures that are appropriate in the circumstances for the purposes 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. Accordingly, we do not express an opinion on the effectiveness of the City of Milton's Internal Control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in Internal Control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in Internal Control, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies (2010-01).

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*.

**City of Milton, Florida's Response to Findings**

City of Milton, Florida's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. City of Milton, Florida's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of Internal Control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's Internal Control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Warren Averett, LLC*

Fort Walton Beach, Florida  
February 18, 2014

Honorable Mayor and City Council Members  
City of Milton, Florida

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND PROJECT AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND  
CHAPTER 10.550, RULES OF THE AUDITOR GENERAL**

**Report on Compliance for Each Major Federal Program and State Project**

We have audited the City of Milton, Florida's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and 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 federal programs and state projects for the year ended September 30, 2013. The City's major federal programs and state projects are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs and state projects.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs and state projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, *Rules of the Auditor General*. Those standards, OMB Circular A-133, and Chapter 10.550, *Rules of the Auditor General* require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state project occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with each major federal program and state project. However, our audit does not provide a legal determination on the City's compliance.

**Opinion on Each Major Federal Program and State Project**

In our opinion, the City of Milton, Florida complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and state projects for the year ended September 30, 2013.

Honorable Mayor and City Council Members  
City of Milton, Florida  
Independent Auditor's Report on Compliance for Each  
Major Program and Project and on Internal Control  
over Compliance in Accordance with OMB Circular A-  
133 and Chapter 10.550, *Rules of the Auditor General*  
(Continued)

**Report on Internal Control over Compliance**

Management of the City of Milton, Florida is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program or state project to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and state project and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.550, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Milton's internal control over compliance.

*A 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 federal program or state project will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program or state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of Internal Control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and Chapter 10.550. Accordingly, this report is not suitable for any other purpose.

*Warren Averett, LLC*

Fort Walton Beach, Florida  
February 18, 2014



**City of Milton, Florida**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended September 30, 2013**

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**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, 2012, and 2013. We recommended that 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, 2013, and have issued our report thereon dated February 18, 2014.

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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, *Rules of the Florida Auditor General*. We have issued our 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*; Independent Auditor's Report on Compliance for Each Major Program and Project and on Internal Control over Compliance in Accordance with OMB Circular A-133 and 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 18, 2014, 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 corrective 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"). Comment 2008-1 has remained uncorrected and has been reported in both preceding audit reports.

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" and "Current Year Comments".

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5., *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, 2013. 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)6.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)6.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, 2013, 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, 2013. In connection with our audit, we determined that these reports are in agreement.

Pursuant to Sections 10.554(1)(i)6.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. *Comment 2008-1: 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)**

**1. *Comment 2008-1: EXTERNAL FINANCIAL REPORTING (CONTINUED)***

***Management's Response and Corrective Action Plan***

The City understands the benefits of training and will continue to explore training opportunities relevant to external financial reporting and accounting for local governments.

**2. *Comment 2009-1: PURCHASING***

***Prior Year Comment Summarized***

During 2009-2012 audits, 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 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***

During fiscal year 2012, the City's purchasing director retired and was replaced. In fiscal year 2013, the new purchasing director made significant updates to the City's purchasing policy. Our current year testing revealed findings under the old purchasing policy, but those instances would not have been findings had the City been under the updated purchasing policy. Thus, we consider this comment to be closed.

**3. *Comment 2012-1: FRAUD CONTROLS AND CONTROL RISK ASSESSMENTS***

***Prior Year Comment Summarized***

All organizations are subject to fraud risks and risks that controls over significant transaction cycles may not be working effectively. There is not a formalized policy governing such process, or a method of communicating corrective actions expected by all levels with the City if an incident is identified. We recommended the City adopt a formalized policy governing its risk assessment process, and to document those areas most susceptible for the City and any corrective actions expected in the event of breach.

***Status***

The City has formalized its current risk assessment process through adoption of a written policy. We consider this comment to be closed.

## CURRENT YEAR COMMENT

### 1. *Comment 2013-1: IMPROVE YEAR-END CLOSING PROCEDURES*

#### ***Observation***

This year's closing process was delayed because some important procedures were not performed on time. Some of those procedures are listed below:

- The year-end accounts receivable accruals were not completed which resulted in audit adjustments to record additional revenues in the general fund.
- The year-end accounts payable accruals were not completed which resulted in an audit adjustment to record additional expenditures in the capital projects fund.
- The entries to true up accrued payroll for the end of September 2013 were not made which resulted in audit adjustments resulting in additional expenditures/expenses among the general fund, natural gas fund, water and sewer fund, and sanitation fund.
- The Schedule of Federal Awards and State Financial Assistance provided to the auditors was incomplete due to the exclusion of certain state revolving loan draws. This resulted in additional time to complete the audit.
- Capital asset reconciliations for both the governmental and business-type activities were not completed timely (even after delaying fieldwork for the fiscal year 2013 audit), resulting in additional time to be put into the audit.

#### ***Recommendation***

We believe the year-end closing could proceed more quickly and effectively by developing a formal closing schedule that indicates who will perform each procedure and when completion of each procedure is due and accomplished. The timing of specific procedures could be coordinated with the timing of the auditor's need for the information. The due dates could be monitored to determine that they are being met. In addition, a thorough review and evaluation of transactions and proper year-end procedures would expedite the closing process and avoid additional audit time and fees.

#### ***Management's Response and Corrective Action Plan***

The City will review the year-end closing process and will develop a closing schedule that indicates who will perform each procedure and when completion of each procedure is due and accomplished.

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

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

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*

Fort Walton Beach, Florida  
February 18, 2014