

TOWN OF BETHANY BEACH, DELAWARE

FINANCIAL REPORT

MARCH 31, 2012

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## INDEPENDENT AUDITORS' REPORT

Town of Bethany Beach, Delaware  
Bethany Beach, Delaware

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 Town of Bethany Beach, Delaware (the "Town") as of and for the year ended March 31, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town as of March 31, 2012, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2012, on our consideration of the Town'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 the internal control over financial reporting or on

compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's financial statements as a whole. The additional supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in red ink, appearing to read "J.M. Group LLC".

Salisbury, Maryland

June 11, 2012

**Town of Bethany Beach  
Management's Discussion and Analysis  
March 31, 2012**

As management of the Town of Bethany Beach, Delaware (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended March 31, 2012. We encourage readers to consider this information in conjunction with the additional information that we have furnished in the Town's financial statements that follow this section.

**Financial Highlights for Fiscal Year 2012**

The assets of the Town of Bethany Beach exceed its liabilities at the end of the fiscal year on March 31, 2012 by \$21,160,477 (net assets). Of this amount, \$6,847,949 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.

The Town's total net assets increased by \$1,076,560 (5.4%) in fiscal year 2012. Net assets of governmental activities increased by \$529,520 (3.9%), while net assets of business-type activities increased by \$547,040 (8.6%).

As of the close of fiscal year 2012, the Town's governmental funds reported an ending fund balance of \$4,391,282. Of this amount, \$128,433 is nonspendable prepaid balances, \$31,455 is restricted for retiree benefits, \$336 is restricted grant funding, \$792,000 is committed for capital purchases in fiscal year 2013, and \$3,197,000 is committed for future capital replacements.

This leaves \$242,058 as unassigned in the general fund at the end of fiscal year 2012. The unassigned fund balance for the general fund represents 5.3% of the general fund operating expenditure budget for fiscal year 2013.

The Town's bonds and notes payable decreased by \$483,926 (29.7%) as a result of regular, scheduled payments on current debt. Of the Town's total bonds and notes payable of \$1,144,200 (100%), is payable within the next five years.

## **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances in a manner similar to private-sector business. The statements provide both short-term and long-term information, which assists in assessing the Town's financial position.

The statement of net assets presents information on all of the Town's assets and liabilities with the difference reported as net assets. Increases or decreases in net assets over time may serve as an indicator of whether the Town's financial position is improving or deteriorating.

The statement of activities presents information showing how the Town's net assets changed during this fiscal year. All changes in net assets are reported when 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 not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave).

Both of the above financial statements have separate sections for two different types of programs or activities. These two types of activities are:

**Governmental Activities** – The activities in this section are mostly supported by taxes, fees, parking revenue and grants from Federal, State and other sources. Most services normally associated with municipal government fall into this category, including general government, public safety, street maintenance, economic development and recreational activities.

**Business-Type Activities** – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The business-type activities of the Town are the water and sanitation departments, which operate with minimal assistance from the governmental activities of the Town.

The government-wide financial statements can be found on pages 17-18 of this report.

### **Fund financial statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds** – Most of the basic services provided by the Town are financed through 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 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 financing requirements.

These statements provide a detailed short-term view of the Town's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Town. 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 government 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 Town has four governmental funds: the General Fund, the Capital Projects Fund, the Special Revenue Fund (used to account for State and Federal grants), and the Ambulance Fund. Fees collected for Ambulance services are used only to pay the charges of the Bethany Beach Volunteer Fire Company.

The basic governmental fund financial statements can be found on pages 19-22 of this report.

**Proprietary funds** – These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers they are also known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements. The Town has two proprietary funds, the water and sanitation departments.

The basic proprietary fund financial statements can be found on pages 23–25 of this report.

#### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Specifically, Note 2 summarizes the Town's significant accounting policies and provides definitions for many of the terms used throughout this report.

The notes to the financial statements can be found on pages 26–42 of this report.

#### **Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's combined net assets (government and business-type activities) totaled \$21,160,477 at the end of fiscal year 2012, compared to \$20,083,917 at the end of fiscal year 2011, an increase of \$1,076,560 (5.4%).

The largest portion of the Town's net assets, \$14,038,555 (66.3%), reflects its investment in capital assets such as land, buildings, equipment and infrastructure, less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

On March 31, 2012, the Town held \$1,962,176 in cash and cash equivalents and \$5,270,013 in investments. The investments were entirely certificates of deposit. The Town follows a written Investment Policy, which is reviewed annually. The primary objective of Town investments in priority order are safety, liquidity and then return on investment. The Town seeks investments that are diverse by type, institution and maturity date. All investments must be FDIC insured or collateralized. Authorized investments include United States government securities, certificates of deposit, money market accounts in commercial banks and commercial bank saving accounts.

The Town uses a written Fund Balance Policy to establish recommendations for minimum and maximum levels of reserves held for operating and capital needs. This policy is intended to increase the long-term financial stability of the town while decreasing the need for long-term borrowing.

The Fund Balance Policy recommends maintaining an Operating Reserve of 15% to 30% of budgeted operating costs. For fiscal year 2013, operating reserves are \$680,000 in the general fund, \$114,000 in the sanitation fund and \$130,000 in the water fund.

Capital replacement committed fund balances recommendations are based on the cost and useful lives of assets currently in use by the Town. For fiscal year 2013, capital replacement fund balances committed were \$3,197,000 in the general fund, \$551,000 in the sanitation fund and \$621,000 in the water fund. An additional \$1,100,000 of water funds is committed for the construction of a water tower or other method of water storage.

The Town has agreed to pay the cost of post employment health care insurance for three retirees and their families. The town has elected to amortize the liability over ten years rather than the allowable thirty years. As of March 31, 2012, \$130,065 was held to fund this benefit. Further information on this obligation can be found on page 39, note 10.

The following table is a summary of the government-wide statement of net assets compared to the prior year:

Town of Bethany Beach  
Summary of Statement of Net Assets  
March 31, 2012

	Governmental Activities		Business-Type Activities		Total		% Change
	2012	2011	2012	2011	2012	2011	
Current Assets	4,689,097	5,403,902	3,240,780	2,892,637	7,929,877	8,296,539	-4.4%
Capital Assets	10,575,718	9,469,779	4,321,211	4,364,848	14,896,929	13,834,627	7.7%
Other Assets	31,791	53,398	265,956	262,936	297,747	316,334	-5.9%
<b>Total Assets</b>	<b>15,296,606</b>	<b>14,927,079</b>	<b>7,827,947</b>	<b>7,520,421</b>	<b>23,124,553</b>	<b>22,447,500</b>	<b>3.0%</b>
Long-Term Liabilities	381,331	645,174	569,111	792,142	950,442	1,437,316	-33.9%
Other Liabilities	658,102	554,252	355,532	372,015	1,013,634	926,267	9.4%
<b>Total Liabilities</b>	<b>1,039,433</b>	<b>1,199,426</b>	<b>924,643</b>	<b>1,164,157</b>	<b>1,964,076</b>	<b>2,363,583</b>	<b>-16.9%</b>
Invested in capital assets, net of related debt	10,446,118	9,469,779	3,592,437	3,415,754	14,038,555	12,885,533	8.9%
Restricted	31,791	53,398	242,182	233,842	273,973	287,240	-4.6%
Unrestricted	3,779,264	4,204,476	3,068,685	2,706,668	6,847,949	6,911,144	-0.9%
<b>Total Net Assets</b>	<b>14,257,173</b>	<b>13,727,653</b>	<b>6,903,304</b>	<b>6,356,264</b>	<b>21,160,477</b>	<b>20,083,917</b>	<b>5.4%</b>

The remaining balance of unrestricted net assets, \$6,847,949, may be used to meet the government's ongoing obligations to citizens and creditors. Unrestricted net assets decreased \$63,195 (0.9%) during fiscal year 2012 as capital assets increased \$1,062,302 (7.7%).

Current assets in total decreased \$366,662 (4.4%). The current assets for Governmental Activities decreased \$714,805 from use of cash for capital projects such as the relocation of utility lines on Garfield parkway. The current assets of Business-Type Activities increased \$348,143 as reserves were generated. The majority of the \$7,929,877 in total current assets is cash, cash equivalents, and investments, most of which are held in reserves for future needs. Receivables are \$500,072 of the current assets and increased \$11,283 (2.3%). Prepaid expenses were \$197,616 at the end of FY 2012.

The Town's investment in capital assets increased \$1,062,302 (7.7%) to \$14,896,929 in fiscal year 2012 from capital projects and purchases. Long-term liabilities decreased \$486,874 (33.9%) from scheduled payments

while other liabilities increased \$87,367 (9.4%). The town funded all capital asset purchases without incurring new debt.

Restricted assets in governmental activities include funds set aside for retiree benefits and grant funding received in advance of grant spending. In business-type activities, the restricted category includes funds for retiree benefits, impact fees collected for capital projects and sinking fund fees collected for debt service.

The following table is a summary of the government-wide statement of activities compared to the prior year:

Town of Bethany Beach Summary of Statement of Activities March 31, 2012							
	Governmental Activities		Business-Type Activities		Total		%
	2012	2011	2012	2011	2012	2011	Change
<b>Revenues:</b>							
Program Revenues							
Charges for services	2,173,858	2,186,926	1,802,231	1,791,288	3,976,089	3,978,214	-0.1%
Assessments & impact fees	-	-	303,011	334,212	303,011	334,212	-9.3%
Operating grants	90,168	86,658	86,161	-	176,329	86,658	103.5%
Capital grants	345,877	151,411	164,216	-	510,093	151,411	236.9%
General Revenues							
Property taxes	1,622,491	1,610,488	-	-	1,622,491	1,610,488	0.7%
Rental real estate taxes	984,667	940,288	-	-	984,667	940,288	4.7%
Transfer taxes	479,558	816,463	-	-	479,558	816,463	-41.3%
Other	34,933	40,974	18,191	28,308	53,124	69,282	-23.3%
<b>Total Revenues</b>	<b>5,731,552</b>	<b>5,833,208</b>	<b>2,373,810</b>	<b>2,153,808</b>	<b>8,105,362</b>	<b>7,987,016</b>	<b>1.5%</b>
<b>Expenses:</b>							
General and administration	1,040,473	1,009,240	-	-	1,040,473	1,009,240	3.1%
Licenses and inspections	199,038	188,165	-	-	199,038	188,165	5.8%
Public Safety							
Police and Alderman	1,367,601	1,480,235	-	-	1,367,601	1,480,235	-7.6%
Parking	461,937	342,928	-	-	461,937	342,928	34.7%
Beach Patrol	385,599	408,443	-	-	385,599	408,443	-5.6%
Ambulance	114,800	91,700	-	-	114,800	91,700	25.2%
Public Works							
Stormwater management	240,995	212,793	-	-	240,995	212,793	13.3%
Streets	904,359	879,140	-	-	904,359	879,140	2.9%
Beach and boardwalk	327,469	313,872	-	-	327,469	313,872	4.3%
Recreation - entertainment	148,822	152,014	-	-	148,822	152,014	-2.1%
Cultural and Historical	10,939	10,420	-	-	10,939	10,420	5.0%
Sanitation Fund	-	-	808,760	599,858	808,760	599,858	34.8%
Water Fund	-	-	1,018,010	1,047,709	1,018,010	1,047,709	-2.8%
<b>Total Expenses</b>	<b>5,202,032</b>	<b>5,088,950</b>	<b>1,826,770</b>	<b>1,647,567</b>	<b>7,028,802</b>	<b>6,736,517</b>	<b>4.3%</b>
Change in Net Assets	529,520	744,258	547,040	506,241	1,076,560	1,250,499	-13.9%
Net Assets, beginning of year	13,727,653	12,983,395	6,356,264	5,850,023	20,083,917	18,833,418	6.6%
Net Assets, end of year	14,257,173	13,727,653	6,903,304	6,356,264	21,160,477	20,083,917	5.4%

The Town's total net assets increased \$1,076,560 (5.4%). Approximately 38.1% of the Town's total revenue came from taxes. Real Estate Transfer Tax revenue decreased \$336,905 (41.3%) from a decline in housing sales. Total revenues increased \$118,346 (1.5%) while total expenses increased \$292,285 (4.3%).

Grant funding in Governmental Activities increased \$197,976, predominately from an American Recovery and Reinvestment Act energy efficiency grant. Grant funding in Business-Type Activities increased \$250,377 from a State of Delaware grant for implementation of new recycling regulations in the Sanitation Fund.

The increase in net assets is a direct result of Town Council and Budget and Finance Committee efforts to provide adequate funding for the financial needs of the Town for the next five to ten years. This long-term

focus and the maintenance of sufficient reserves has proven very beneficial to the town, as shown by how well the town weathered the recent nationwide recession.

### **Governmental activities**

Total revenue for government activities decreased \$101,656 (1.7%). The major revenue sources and key factors are as follows. Grant revenue is not included due to the variable nature of State and Federal grants.

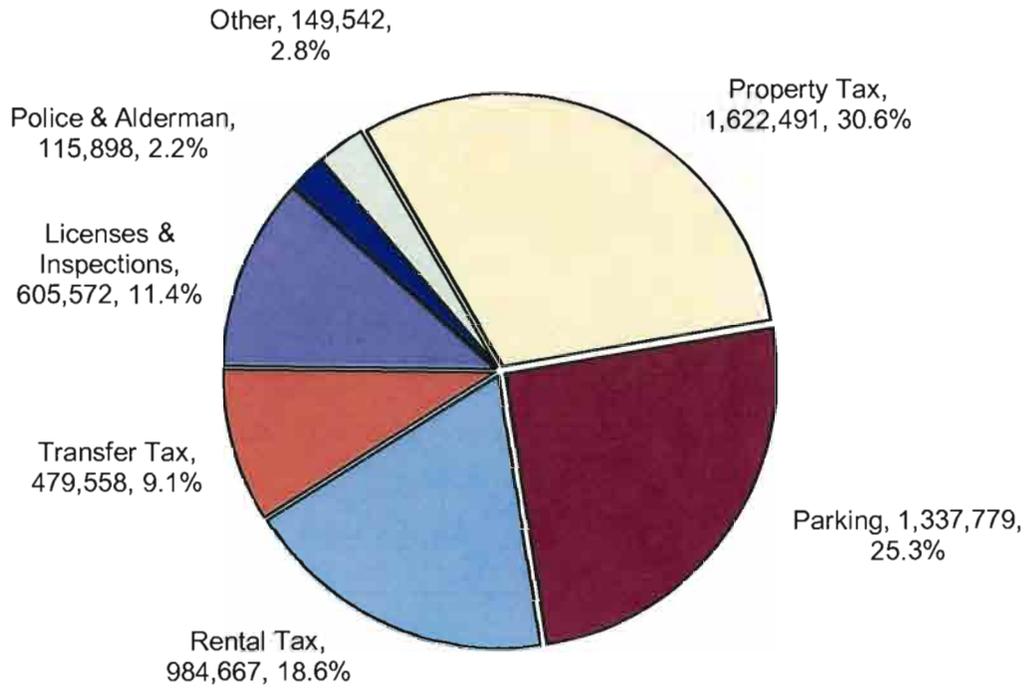
1. Property Tax revenue totaled \$1,622,491 and was the Town's largest single source of funding. The assessed value of taxable properties as of May 2011 was \$978,484,505 and the tax rate was \$0.165 per \$100 of assessed value. These revenues increased \$12,003 (0.7%). As a percentage of governmental revenue, property tax increased from 28.8% in fiscal year 2011 to 30.6% in fiscal year 2012.
2. Revenues from parking fines, parking meters, and parking permits totaled \$1,337,779 and were the Town's second largest revenue source. These revenues decreased \$14,156 (1.0%). As a percentage of governmental revenue, parking increased from 24.2% in fiscal year 2011 to 25.3% in fiscal year 2012.
3. Real estate rental taxes were the Town's third largest revenue source at \$984,667. These revenues increased \$44,379 (4.7%). As a percentage of total governmental revenue, rental taxes increased from 16.8% in fiscal year 2011 to 18.6% in fiscal year 2012.
4. Licenses, permits and other fees were the fourth largest revenue source at \$605,572. These revenues decreased \$35,181 (5.5%). As a percentage of governmental revenue, licenses, permits and other fees decreased from 11.5% in fiscal year 2011 to 11.4% in fiscal year 2012.
5. Real estate transfer taxes were the Town's fifth largest revenue source at \$479,558. These revenues decreased \$336,905 (41.3%) as housing sales declined. As a percentage of governmental revenue, transfer taxes decreased from 14.6% in fiscal year 2011 to 9.1% in fiscal year 2012.

The Town budgets and sets fees with a goal of summer season revenues fully paying the cost of operations for the summer season. Summer season related revenue was approximately \$2.7 million. This revenue includes parking, rental taxes, business licenses, beach concessions and other fines and fees. The operating cost for the summer season, including the depreciation of capital assets, is estimated at \$2.6 million. Property tax revenue is used only for year round operations, mainly funding the police department.

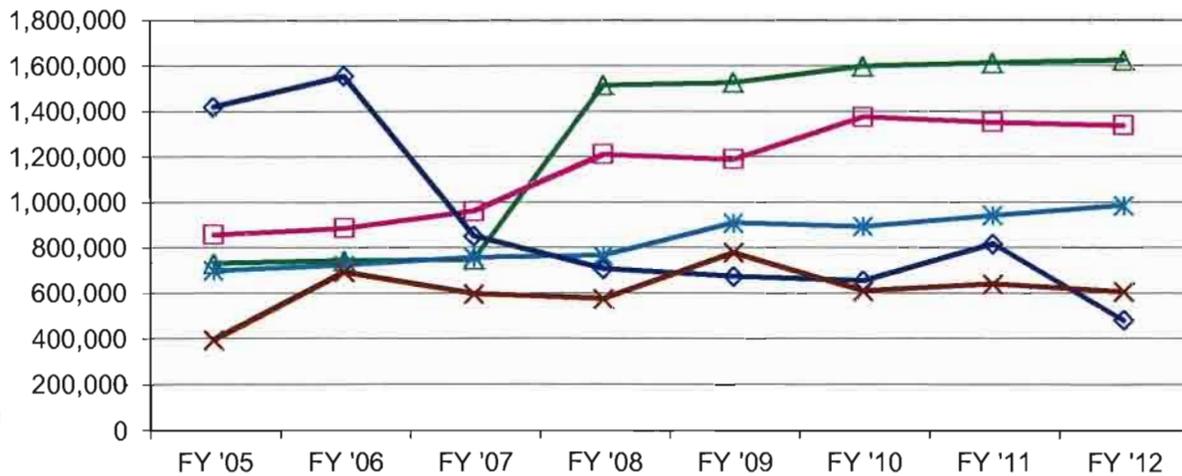
The following two charts show the Town's general fund revenues for the fiscal year ended March 31, 2012 and the trend of our six largest revenue sources over the past eight fiscal years. Special fund revenue is not included in these charts due to the variable nature of State and Federal grants.

### FY 2012 Governmental Revenue Sources

(excludes grant funds)



### Trends in Major Governmental Revenue Sources



- ▲ Property Taxes
- ✱ Rental Real Estate Taxes
- ✕ Licenses, Permits & Fees
- ◻ Parking Permits, Meters & Fines
- ◆ Real Estate Transfer Taxes

The Town's expenses for all governmental activities combined cover a range of services and increased \$113,082 (2.2%) from fiscal year 2011 primarily due to the following:

1. Total grants funding increased by \$197,976 (83.2%) from \$238,069 in fiscal year 2011 to \$436,045 in fiscal year 2012. The main cause of this increase was \$190,534 in American Recovery and Reinvestment Act energy efficiency grant funds used during fiscal year 2012, which is shown in the General and administration line.
2. Parking costs increased \$119,009 (34.7%) from \$342,928 in fiscal year 2011 to \$461,937 in fiscal year 2012. Three new parking areas were prepared for use, one with a \$28,000 annual lease and two with revenue sharing arrangements. Cost increases also relate to expenses for signs and to manage new parking pay stations.
3. Ambulance expenses increased \$23,100 (25.2%) from \$91,700 to \$114,800 as the Bethany Beach Volunteer Fire Company increased fees in order to create a capital reserve fund.

### **Business-type activities**

Sanitation and water departments are the Town's business-type activities and are accounted for in their own funds.

Sanitation department revenues increased \$302,982 (44.1%). This increase was a result of a \$250,377 grant from a State of Delaware grant for implementation of new recycling regulations.

Sanitation department expenses increased \$208,902 (34.8%). This main cause of this cost increase is the State mandated recycling and yard waste collection programs. The \$250,377 in State grant funds were used to purchase an additional trash truck for recycling as well as recycling carts and dumpsters.

Water department revenues decreased \$82,980 (5.7%). A \$46,292 decrease in charges for water services from lower town-wide water use and a \$31,079 decline in water impact fees charged from a decline in construction on previously unimproved properties were the two main causes.

Water department expenses decreased \$29,699 (2.8%) from general cost reduction efforts.

## Financial Analysis of the Town's Funds

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

### Governmental Funds

Governmental fund accounting provides information on available or spendable resources. This information is useful in assessing the Town's financing requirements for operations. The amount of unassigned fund balance may serve as a useful measure of the Town's net resources available for spending and for future needs. Unassigned fund balance provides a reserve for emergencies and provides working capital to pay the Town's bills.

During fiscal year 2012, the Town's governmental fund balance decreased \$818,325 (15.7%) to \$4,391,282 as cash was used for capital projects, such as the relocation of utilities on Garfield Parkway. Funds committed for capital improvements budgeted in the coming year decreased \$712,000 from \$1,504,000 to \$792,000. Funds committed for future capital replacements decreased \$95,000 from \$3,292,000 to \$3,197,000.

A significant portion of fund balance, \$4,149,224 (94.5%), is nonspendable, restricted or committed to indicate that it is not available for spending. Currently these designations are:

1. Nonspendable prepaid balances	\$128,433
2. Restricted funds for grants	\$336
3. Restricted funds for retiree benefits	\$31,455
4. Committed for capital improvements in the coming fiscal year	\$792,000
5. Committed for future capital replacements	\$3,197,000

The general fund is the main operating fund of the Town and accounts for major functions of the government including public safety, streets, storm water drainage, solid waste disposal, parks, recreation and general administrative services. As a measure of the general fund's liquidity, it may be useful to compare the unassigned fund balance to the general fund's total fund balance and operating expenditures. The general fund's unassigned fund balance of \$242,306 is 5.5% of the \$4,391,194 total fund balance and 5.6% of the \$4,344,817 in general fund operating expenditures for fiscal year 2012.

### Proprietary Funds

The Town's proprietary fund financial statements provide the same sort of information as the entity-wide statements and are found on pages 23-25 of this report.

Net assets for the water department increased \$366,509 to \$5,323,171. Fiscal year 2012 resulted in a net operating income gain of \$97,313. The water department had net operating income gains of \$124,818 in fiscal year 2011 and \$58,564 in fiscal year 2010. These gains provide funding for future capital needs. The water department has increased the amount held in reserve for a water tower from \$1,000,000 to \$1,100,000.

Net assets for the sanitation department increased \$180,531 to end the year at \$1,580,133. Fiscal year 2012 resulted in a net operating loss of \$77,266. The sanitation department had net operating income gains of \$74,401 in fiscal year 2011 and \$30,219 in fiscal year 2010.

The sanitation fund's change from a net operating gain of \$74,401 in the prior year to a net operating loss of \$77,266 this year is mainly a result of new State of Delaware regulations on recycling and yard waste. Total operating expenses increased \$208,902 (34.8%) from the prior year. An estimated \$147,000 of the increase was directly caused by the new State regulations and \$38,000 was from an increase in disposal fees charged by the Delaware Solid Waste Authority. Of the estimated \$147,000 cost increase related to recycling and yard

waste collections, \$86,161 was funded by a State grant for the purchase of recycling carts and dumpsters, leaving approximately \$61,000 in additional costs to be absorbed by the town and property owners.

Recycling grant revenue of \$250,377 is classified as non-operating revenue while the \$86,161 of the grant funds used to purchase recycling carts and dumpsters is classified as an operating cost. It is important to note that if the effect of the recycling grant is excluded, the sanitation fund would show a net operating gain of \$8,895 rather than a loss of \$77,266.

### **General Fund Budgetary Highlights**

The budgetary comparison schedule for the general fund can be found on page 44 of this report.

General fund revenues exceeded the amount budgeted by \$39,581 (0.8%). Revenues from building permits and rental real estate taxes exceeded the budget, showing that housing construction and summer vacation rentals remain strong. Parking ticketing declined from staffing shortages and a reduction in violators as a result of the installation of new pay stations. Investment interest and transfer taxes also ended the year slightly under budget.

The Town Council amended the expenditure budget several times throughout the year as purchase decisions were made amounts became known. In June, \$28,000 was added in the parking department to rent a parking area from the Christian Church to increase the number of available public spaces. In February, \$55,000 was added to the Stormwater department to fund matching requirements for an Army Corps of Engineer feasibility study of the drainage problem on North Pennsylvania Avenue. In March, previously budgeted funds were reallocated between departments as additional funds were needed in some departments while others departments had funds to spare.

General fund expenditures as a whole were under the amended budget by \$71,183 (1.6%). Total revenues exceeded total expenditures by \$863,764, providing funding for replacement of capital assets and capital improvement projects.

## Capital Assets

The Town's investment in capital assets increased as follows:

<b>Governmental Activities</b>	<b>FY 2012 Additions</b>
Beach and boardwalk	\$221,042
Buildings and improvements	\$197,301
Machinery and equipment	\$210,077
Stormwater	\$60,745
Streets and parks	\$330,958
Vehicles	\$22,500
Total	<u>\$1,042,623</u>

<b>Sanitation Fund</b>	<b>FY 2012 Additions</b>
Vehicles	\$164,216

<b>Water Fund</b>	<b>FY 2012 Additions</b>
Water Plant & Distribution System	\$430,011
Vehicles & Equipment	\$12,119
Total	<u>\$442,130</u>

The Town Council made two amendments to the capital budget in governmental activities. In April, \$55,000 was added for matching funds on the energy efficiency grant. In May, \$52,000 was added for the purchase of additional MobiMats to improve the walking surface of sand ramps leading to the beach.

In governmental activities, the largest area of capital expenditure in fiscal year 2012 was \$330,958 for maintenance and repairs of streets, alleys and road shoulders, of which \$109,300 was funded through the Municipal Street Aid grant. Second largest was \$186,633 in American Recovery and Reinvestment Act energy grant funds for solar panels at the Nature Center, solar panels on Town Hall and new HVAC equipment in Town Hall. A second of three sections of the boardwalk was replaced with long-lasting Kebony boards at a cost of \$221,042. An additional 19 parking pay stations were installed for \$103,000. Drainage was improved in Lake Bethany for \$60,745. Additional Mobi-Mats were purchased for \$51,693. A State grant provided \$23,544 for police equipment. Sussex County grants of \$22,500 were used for the purchase of a police vehicle. A total of \$42,478 in town funds was used for other machinery and equipment purchases.

Several projects in governmental activities were classified as In Progress at the end of fiscal year 2012. The Garfield Parkway utility relocation project added \$673,190 to the prior year balance of \$903,607 to end the fiscal year at \$1,576,797. Energy grant matching funds of \$38,144 for efficiency improvements to Town Hall and \$20,328 in engineering of Atlantic Avenue sidewalks remained In Progress at the end of the fiscal year. All three of these projects are expected to be completed in fiscal year 2013.

In the sanitation department; \$164,216 in State recycling grant funds were used for a rear-loading trash truck.

In the water department; \$430,011 was used for drilling the new well and \$12,119 was spent on GPS equipment.

Two capital projects in the water fund were classified as In Progress at the end of fiscal year 2012. \$28,413 was spent on a project to cap and re-pipe an old well at Town Hall and \$7,384 was spent on replacing a flow meter. Both of these projects are expected to be completed in fiscal year 2013.

### **Debt Administration**

As of March 31, 2012 the Town had \$1,144,200 in outstanding debt. In the general fund, \$415,426 is owed for payments to the State of Delaware Office of Pensions and to employees for settlement of post employment benefits. In the water fund, \$728,774 in bonds payable remain for debt originally issued in 1989 and refinanced in 1994 for construction of the water plant and water distribution system. Refinancing of the 1994 bond issue was considered several times and found that it would not result in significant savings. A capital lease obligation in the amount of \$129,600 remains for the purchase of parking pay stations. Currently, all debt of the town is payable within five years.

### **Economic Factors**

We expect revenues for the coming fiscal year to be similar to those of fiscal year 2012 as reported in these financial statements with the following exceptions.

Real estate transfer tax revenue is very unpredictable and dependant on the housing market. We expect to receive anywhere from \$400,000 to \$800,000 in fiscal year 2013.

The property tax rate was increased in the fiscal year 2013 budget from \$0.165 to \$0.17 per \$100 of assessed property value. This 3.0% increase should generate an additional \$49,000 in revenue.

The fiscal year 2013 budget was approved in March of 2012. The operating budget for all town activities combined is \$6,158,000. This is \$91,000 (1.5%) more than the fiscal year 2012 operating budget. Budgeted operating costs increased 2.6% in the general fund, decreased 5.3% in the sanitation fund and increased 2.0% in the water fund.

Capital projects for fiscal year 2013 include:

- \$250,000 for replacement of a final section of the boardwalk with Kebony boards.
- \$200,000 for street maintenance.
- \$185,000 for purchase of a rear loading trash truck.

### **Requests for Information**

This report is designed to provide an overview of the Town of Bethany Beach's finances for those interested. Questions concerning any of the information found in this report, or requests for additional information should be directed to the Town Manager's Office, Town of Bethany Beach, P.O. Box 109, Bethany Beach, DE 19930.

**TOWN OF BETHANY BEACH, DELAWARE**

**STATEMENT OF NET ASSETS**

**March 31, 2012**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 1,162,095	\$ 800,081	\$ 1,962,176
Investments	3,272,062	1,997,951	5,270,013
Receivables:			
Taxes - real and personal property	9,028	-	9,028
Sanitation fees	-	7,005	7,005
Water charges	-	378,062	378,062
Interest	15,065	10,783	25,848
Other	80,129	-	80,129
Prepaid expenses	157,133	40,483	197,616
Internal balances	(6,415)	6,415	-
<b>Total current assets</b>	<b>4,689,097</b>	<b>3,240,780</b>	<b>7,929,877</b>
Noncurrent assets			
Restricted cash and cash equivalents	31,791	242,182	273,973
Capital assets at cost	16,272,407	7,987,395	24,259,802
Less accumulated depreciation	(5,696,689)	(3,666,184)	(9,362,873)
Bond issue cost, net of amortization	-	23,774	23,774
<b>Total noncurrent assets</b>	<b>10,607,509</b>	<b>4,587,167</b>	<b>15,194,676</b>
<b>Total assets</b>	<b>\$ 15,296,606</b>	<b>\$ 7,827,947</b>	<b>\$ 23,124,553</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued expenses	\$ 131,404	\$ 12,557	\$ 143,961
Employee withholdings and payroll taxes	58,965	108,780	167,745
Accrued interest	24,493	-	24,493
Deferred revenue	132,244	3,689	135,933
Bonds and notes payable	243,104	230,320	473,424
Lease purchase obligation	54,000	-	54,000
Compensated absences liability	13,892	186	14,078
<b>Total current liabilities</b>	<b>658,102</b>	<b>355,532</b>	<b>1,013,634</b>
Noncurrent liabilities			
Bonds and notes payable	172,322	498,454	670,776
Lease purchase obligation	75,600	-	75,600
Compensated absences liability	133,409	70,657	204,066
<b>Total noncurrent liabilities</b>	<b>381,331</b>	<b>569,111</b>	<b>950,442</b>
<b>Total liabilities</b>	<b>1,039,433</b>	<b>924,643</b>	<b>1,964,076</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	10,446,118	3,592,437	14,038,555
Restricted	31,791	242,182	273,973
Unrestricted	3,779,264	3,068,685	6,847,949
<b>Total net assets</b>	<b>\$ 14,257,173</b>	<b>\$ 6,903,304</b>	<b>\$ 21,160,477</b>

*The Notes to Financial Statements are an integral part of this statement.*

**TOWN OF BETHANY BEACH, DELAWARE**

**STATEMENT OF ACTIVITIES  
Year Ended March 31, 2012**

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<b>GOVERNMENTAL ACTIVITIES</b>							
General and administration	\$ 1,040,473	\$ -	\$ -	\$ 190,534	\$ (849,939)	\$ -	\$ (849,939)
Licenses and inspections	199,038	605,572	-	-	406,534	-	406,534
Public Safety							
Police and Alderman fines and revenue	1,367,601	115,898	90,168	46,045	(1,115,490)	-	(1,115,490)
Parking	461,937	1,337,779	-	-	875,842	-	875,842
Beach Patrol	385,599	-	-	-	(385,599)	-	(385,599)
Ambulance	114,800	114,609	-	-	(191)	-	(191)
Public works							
Stormwater management	240,995	-	-	-	(240,995)	-	(240,995)
Streets and parks	904,359	-	-	109,298	(795,061)	-	(795,061)
Beach and boardwalk	327,469	-	-	-	(327,469)	-	(327,469)
Recreation - entertainment	148,822	-	-	-	(148,822)	-	(148,822)
Historical/Cultural	10,939	-	-	-	(10,939)	-	(10,939)
<b>Total Governmental Activities</b>	<b>5,202,032</b>	<b>2,173,858</b>	<b>90,168</b>	<b>345,877</b>	<b>(2,592,129)</b>	<b>-</b>	<b>(2,592,129)</b>
<b>BUSINESS-TYPE ACTIVITIES</b>							
Water	1,018,010	1,070,737	303,011	-	-	355,738	355,738
Sanitation	808,760	731,494	86,161	164,216	-	173,111	173,111
<b>Total Business-Type Activities</b>	<b>1,826,770</b>	<b>1,802,231</b>	<b>389,172</b>	<b>164,216</b>	<b>-</b>	<b>528,849</b>	<b>528,849</b>
<b>Total Primary Government</b>	<b>\$7,028,802</b>	<b>\$ 3,976,089</b>	<b>\$ 479,340</b>	<b>\$ 510,093</b>	<b>\$ (2,592,129)</b>	<b>\$ 528,849</b>	<b>\$ (2,063,280)</b>
<b>General Revenues</b>							
Taxes:							
Property					1,622,491	-	1,622,491
Rental real estate					984,667	-	984,667
Transfer					479,558	-	479,558
Interest					6,638	18,191	24,829
Other					28,295	-	28,295
<b>Total General Revenues</b>					<b>3,121,649</b>	<b>18,191</b>	<b>3,139,840</b>
Change in Net Assets					529,520	547,040	1,076,560
Net Assets Beginning of Year					13,727,653	6,356,264	20,083,917
Net Assets End of Year					<b>\$ 14,257,173</b>	<b>\$ 6,903,304</b>	<b>\$ 21,160,477</b>

*The Notes to Financial Statements are an integral part of this statement.*

**TOWN OF BETHANY BEACH, DELAWARE**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**March 31, 2012**

	<u>Major Fund</u>				Total Governmental Funds
	<u>General Fund</u>	<u>Capital Projects</u>	<u>Special Revenue Fund</u>	<u>Ambulance Fund</u>	
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,142,208	\$ -	\$ -	\$ 19,887	\$ 1,162,095
Investments	3,272,062	-	-	-	3,272,062
Receivables:					
Taxes - real and personal property	9,028	-	-	-	9,028
Interest	15,065	-	-	-	15,065
Other	4,972	-	74,417	740	80,129
Prepaid expenses	128,433	-	-	28,700	157,133
Due from other funds	(35,183)	69,797	-	-	34,614
Restricted Assets:					
Cash and cash equivalents	31,455	-	336	-	31,791
<b>Total assets</b>	<b>\$ 4,568,040</b>	<b>\$ 69,797</b>	<b>\$ 74,753</b>	<b>\$ 49,327</b>	<b>\$ 4,761,917</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable and accrued expenses	\$ 52,464	\$ 45,304	\$ 33,636	\$ -	\$ 131,404
Employee withholdings and payroll taxes	27,573	-	-	-	27,573
Accrued interest	-	24,493	-	-	24,493
Deferred revenue	82,917	-	-	49,327	132,244
Due to other funds	-	-	41,029	-	41,029
Compensated absences liability	13,892	-	-	-	13,892
<b>Total liabilities</b>	<b>176,846</b>	<b>69,797</b>	<b>74,665</b>	<b>49,327</b>	<b>370,635</b>
<b>FUND BALANCES</b>					
Nonspendable	128,433	-	-	-	128,433
Restricted	31,455	-	336	-	31,791
Committed for:					
Capital improvements	792,000	-	-	-	792,000
Future capital replacements	3,197,000	-	-	-	3,197,000
Unassigned	242,306	-	(248)	-	242,058
<b>Total fund balances</b>	<b>4,391,194</b>	<b>-</b>	<b>88</b>	<b>-</b>	<b>4,391,282</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,568,040</b>	<b>\$ 69,797</b>	<b>\$ 74,753</b>	<b>\$ 49,327</b>	<b>\$ 4,761,917</b>

*The Notes to Financial Statements are an integral part of this statement.*

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
March 31, 2012**

Total fund balances, governmental funds		\$ 4,391,282
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets.		10,575,718
Some liabilities are not due and payable in the current period and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets. Those liabilities consist of:		
Bonds and notes payable	(415,426)	
Lease purchase obligation	(129,600)	
Other post-employment benefit obligation	(31,392)	
Compensated absences	<u>(133,409)</u>	
Total long-term liabilities		<u>(709,827)</u>
Net assets of governmental activities in the Statement of Net Assets		<u>\$ 14,257,173</u>

**TOWN OF BETHANY BEACH, DELAWARE**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**Year Ended March 31, 2012**

	<u>Major Fund</u>				
	General <u>Fund</u>	Capital <u>Projects</u>	Special Revenue <u>Fund</u>	Ambulance <u>Fund</u>	Total Governmental <u>Funds</u>
<b>REVENUES:</b>					
Taxes:					
Property	\$ 1,622,491	\$ -	\$ -	\$ -	\$ 1,622,491
Rental real estate	984,667	-	-	-	984,667
Transfer	479,558	-	-	-	479,558
Parking revenues	1,337,779	-	-	-	1,337,779
Licenses, permits and fees	605,572	-	-	-	605,572
Police and Alderman fines and revenue	115,898	-	-	-	115,898
Interest	34,321	-	52	191	34,564
Service receipts	-	-	-	114,609	114,609
Intergovernmental revenues: State	-	-	436,045	-	436,045
Contributions	17,930	-	-	-	17,930
Miscellaneous	10,365	-	-	-	10,365
<b>Total revenues</b>	<b>5,208,581</b>	<b>-</b>	<b>436,097</b>	<b>114,800</b>	<b>5,759,478</b>
<b>Expenditures:</b>					
General and administration	967,730	-	-	-	967,730
Licenses and inspections	194,768	-	-	-	194,768
Public safety:					
Police	1,140,988	-	90,170	-	1,231,158
Alderman	44,453	-	-	-	44,453
Parking	453,150	-	-	-	453,150
Beach Patrol	385,599	-	-	-	385,599
Ambulance	-	-	-	114,800	114,800
Public works:					
Stormwater management	169,294	-	-	-	169,294
Streets and parks	663,106	-	-	-	663,106
Beach and boardwalk	215,491	-	-	-	215,491
Recreation - entertainment	106,025	-	-	-	106,025
Historical/Cultural	4,213	-	-	-	4,213
Debt service:					
Principal	-	317,606	-	-	317,606
Interest	-	27,926	-	-	27,926
Capital outlay	-	1,428,407	345,877	-	1,774,284
<b>Total expenditures</b>	<b>4,344,817</b>	<b>1,773,939</b>	<b>436,047</b>	<b>114,800</b>	<b>6,669,603</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>863,764</b>	<b>(1,773,939)</b>	<b>50</b>	<b>-</b>	<b>(910,125)</b>
Other financing sources (uses)					
Proceeds from capital lease	-	91,800	-	-	91,800
Transfer (out) in	(1,682,139)	1,682,139	-	-	-
<b>Total other financing (uses) sources</b>	<b>(1,682,139)</b>	<b>1,773,939</b>	<b>-</b>	<b>-</b>	<b>91,800</b>
<b>Net change in fund balances</b>	<b>(818,375)</b>	<b>-</b>	<b>50</b>	<b>-</b>	<b>(818,325)</b>
<b>Fund balances, beginning</b>	<b>5,209,569</b>	<b>-</b>	<b>38</b>	<b>-</b>	<b>5,209,607</b>
<b>Fund balances, end of year</b>	<b>\$ 4,391,194</b>	<b>\$ -</b>	<b>\$ 88</b>	<b>\$ -</b>	<b>\$ 4,391,282</b>

*The Notes to Financial Statements are an integral part of this statement.*

**RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
Year Ended March 31, 2012**

Net change in fund balances, governmental funds \$ (818,325)

Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement  
of Activities, the cost of those assets is allocated over their estimated useful lives and  
reported as depreciation expense. In the current period, these amounts are:

Capital outlay	1,774,284	
Depreciation expense	<u>(668,345)</u>	
Excess of capital outlay over depreciation expense		1,105,939

Governmental funds report repayment of capital leases and debt principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.	317,606
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Proceeds from capital leases are revenues in the governmental funds but increase liabilities in the Statement of Net Assets.	(91,800)
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Some items 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. These activities consist of:

Increase in other post-employment benefits obligation	(14,689)	
Decrease in compensated absences	<u>30,789</u>	

Change in net assets of governmental activities	<u>\$ 529,520</u>
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**TOWN OF BETHANY BEACH, DELAWARE**  
**STATEMENT OF FUND NET ASSETS**  
**BUSINESS-TYPE ACTIVITIES**  
**March 31, 2012**

	<b>Enterprise Fund</b>		
	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 187,546	\$ 612,535	\$ 800,081
Investments	1,481,774	516,177	1,997,951
Receivables:			
Water charges	378,062	-	378,062
Sanitation	-	7,005	7,005
Interest	5,394	5,389	10,783
Prepaid expenses	26,124	14,359	40,483
Due from other funds	4,060	2,355	6,415
<b>Total current assets</b>	<b>2,082,960</b>	<b>1,157,820</b>	<b>3,240,780</b>
Noncurrent assets			
Restricted cash and cash equivalents	242,182	-	242,182
Capital assets, at cost	7,009,244	978,151	7,987,395
Less accumulated depreciation	(3,148,230)	(517,954)	(3,666,184)
Bond issue costs, net of amortization	23,774	-	23,774
<b>Total noncurrent assets</b>	<b>4,126,970</b>	<b>460,197</b>	<b>4,587,167</b>
<b>Total assets</b>	<b>\$ 6,209,930</b>	<b>\$ 1,618,017</b>	<b>\$ 7,827,947</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued expenses	\$ 6,574	\$ 5,983	\$ 12,557
Employee withholdings and payroll taxes	104,756	4,024	108,780
Deferred revenues	3,489	200	3,689
Long-term liabilities due within one year:			
General obligation bonds	230,320	-	230,320
Compensated absences liability	-	186	186
<b>Total current liabilities</b>	<b>345,139</b>	<b>10,393</b>	<b>355,532</b>
Noncurrent liabilities			
General obligation bonds	498,454	-	498,454
Compensated absences liability	43,166	27,491	70,657
<b>Total noncurrent liabilities</b>	<b>541,620</b>	<b>27,491</b>	<b>569,111</b>
<b>Total liabilities</b>	<b>886,759</b>	<b>37,884</b>	<b>924,643</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	3,132,240	460,197	3,592,437
Restricted	242,182	-	242,182
Unrestricted	1,948,749	1,119,936	3,068,685
<b>Total</b>	<b>\$ 5,323,171</b>	<b>\$ 1,580,133</b>	<b>\$ 6,903,304</b>

*The Notes to Financial Statements are an integral part of this statement.*

**TOWN OF BETHANY BEACH, DELAWARE**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
FUND NET ASSETS  
BUSINESS-TYPE ACTIVITIES  
Year Ended March 31, 2012**

	<b>Enterprise Fund</b>		
	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
<b>OPERATING REVENUE</b>			
Charges for services:			
Water	\$ 1,047,601	\$ -	\$ 1,047,601
Sanitation	-	731,494	731,494
Other operating	23,136	-	23,136
<hr/>			
Total operating revenues	1,070,737	731,494	1,802,231
<hr/>			
<b>OPERATING EXPENSES</b>			
Water	763,615	-	763,615
Sanitation	-	734,588	734,588
Depreciation and amortization	209,809	74,172	283,981
<hr/>			
Total operating expenses	973,424	808,760	1,782,184
<hr/>			
Net operating income (loss)	97,313	(77,266)	20,047
<hr/>			
<b>NON-OPERATING REVENUE (EXPENSES)</b>			
Non-operating revenue	303,011	250,377	553,388
Amortization of bond issue cost	(5,320)	-	(5,320)
Financial expense, net	(28,495)	7,420	(21,075)
<hr/>			
Total non-operating revenue	269,196	257,797	526,993
<hr/>			
Change in net assets	366,509	180,531	547,040
<hr/>			
Total net assets, beginning	4,956,662	1,399,602	6,356,264
<hr/>			
Total net assets, ending	\$ 5,323,171	\$ 1,580,133	\$ 6,903,304
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*The Notes to Financial Statements are an integral part of this statement.*

**TOWN OF BETHANY BEACH, DELAWARE**  
**STATEMENT OF CASH FLOWS**  
**BUSINESS-TYPE ACTIVITIES**  
**Year Ended March 31, 2012**

	<b>Enterprise Fund</b>		
	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers	\$ 1,099,221	\$ 752,082	\$ 1,851,303
Payments to suppliers	(359,078)	(394,906)	(753,984)
Payments to employees	(428,658)	(340,873)	(769,531)
Net cash provided by operating activities	311,485	16,303	327,788
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Non-operating revenue	303,011	250,377	553,388
Advances to (from) general fund, net	43,227	(3,289)	39,938
Net cash provided by noncapital financing activities	346,238	247,088	593,326
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition of capital assets	(76,128)	(164,216)	(240,344)
Principal paid on long-term debt	(220,320)	-	(220,320)
Interest paid on long-term debt	(39,266)	-	(39,266)
Net cash used in capital and related financing activities	(335,714)	(164,216)	(499,930)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of investments	(449,281)	-	(449,281)
Proceeds from investments	-	307,920	307,920
Interest income	10,771	7,420	18,191
Net cash (used) provided by investing activities	(438,510)	315,340	(123,170)
<b>Net (decrease) increase in cash and cash equivalents</b>	(116,501)	414,515	298,014
<b>Cash and cash equivalents, beginning of year</b>	546,229	198,020	744,249
<b>Cash and cash equivalents, end of year</b>	\$ 429,728	\$ 612,535	\$ 1,042,263
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ 97,313	\$ (77,266)	\$ 20,047
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization expense	209,809	74,172	283,981
Changes in assets and liabilities:			
Receivables, net	29,672	20,527	50,199
Prepaid expenses	(3,327)	(3,918)	(7,245)
Deferred revenue	(1,188)	61	(1,127)
Accounts and other payables	(22,027)	(695)	(22,722)
Compensated absences liability	1,233	3,422	4,655
<b>Net cash provided by operating activities</b>	\$ 311,485	\$ 16,303	\$ 327,788

*The Notes to Financial Statements are an integral part of this statement.*

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Description of the Town of Bethany Beach, Delaware

The Town of Bethany Beach, Delaware (“the Town”) was incorporated in 1901 under the provisions of the State of Delaware, and was reincorporated in 1986. The Town operates under a Council-Manager form of government. The Town directly provides all basic local governmental services.

#### A. Financial Reporting Entity

In evaluating how to define the Town, for financial reporting purposes, management has considered all potential component units. The decision of whether to include a potential component unit was made by applying the criteria set forth in the GASB standards related to component units. The basis-but not the only-criterion for including a potential component unit is the exercise of oversight responsibility by the Town’s elected officials. Based upon the application of these criteria, there are no component units accompanying these statements.

### Note 2. Summary of Significant Accounting Policies

The financial statements of the Town have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Town has elected not to follow subsequent private-sector guidance. The most significant of the Town’s accounting policies are described below.

#### A. Basis of Presentation

The Town’s basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

### GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities display information about the Town as a whole. These statements include the financial activities of the Town. The statements distinguish between those activities of the Town that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the Town at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Town’s governmental activities and for business-type activities of the Town. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues, which are not classified as program revenues are presented as general revenues of the Town, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from general revenues of the Town.

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (continued)

#### A. Basis of Presentation (continued)

##### FUND FINANCIAL STATEMENTS

During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at a more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type. There are no fiduciary funds.

#### B. Fund Accounting

The Town uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

##### GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Town's major governmental funds:

General Fund - The general fund is the general operating fund of the Town. All general revenues and other receipts that are not allocated by law or contractual agreement to another fund and general operating expenditures are accounted for in this fund.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities that are not financed by proprietary funds.

Special Revenue Fund - The Special Revenue Fund is used to account for the proceeds for specific revenue sources that are legally restricted to expenditures for specific purposes.

##### PROPRIETARY FUNDS

Proprietary funds focus on the determination of changes in net assets, financial position and cash flows and are classified as enterprise funds.

Enterprise funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The Town's enterprise funds are:

Water Fund - The water fund is used to account for all financial transactions, including the acquisition or construction of major capital facilities, related to the operation of the Town's water services.

Sanitation Fund - The sanitation fund is used to account for all financial transactions, including capital outlays, related to the operation of the Town's sanitation services.

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (continued)

#### B. Fund Accounting (continued)

##### FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The Town does not have any fiduciary funds.

#### C. Measurement Focus

Government-wide financial statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Town are included on the statement of net assets.

Fund financial statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for government funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Town finances and meets the cash flow needs of its proprietary activities.

#### D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Town, available is defined as collected within 60 days of the fiscal year end.

Non-exchange transactions, in which the Town receives value without directly giving equal value in return, include primarily grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Town must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Town on a reimbursable basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (continued)

#### D. Basis of Accounting (continued)

Deferred revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

On governmental fund financial statements, receivables that were not collected within the available period have been reported as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated assets during the year is reported in the operating statement as an expense with a like amount reported as donated revenue. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

#### E. Budgetary Process

The Town Council follows these procedures in establishing the budgetary data reflected within the financial statements:

1. The Budget Committee submits to the Town Council a proposed operating budget for the ensuing fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. Council meets in open session to review the proposed operating budget.
3. Not before the public meeting and prior to the end of the preceding fiscal year, the budget is legally enacted.
4. Formal budgetary integration is employed as a management control device during the year for all the operating funds.
5. The budget for the general fund is adopted on a basis consistent with GAAP as applicable to governments.
6. The budgets for the special revenue fund are approved on a program-by-program basis by the funding agencies.
7. The Town Council may amend the approved budget periodically throughout the year.

#### F. Cash Equivalents

For purposes of the statement of cash flows, the enterprise funds consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

#### G. Investments

Investments consist of certificates of deposit and are carried at cost, which approximates fair market value.

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (continued)

#### H. Receivables

Anticipated bad debts are considered to be negligible by the Town management and, accordingly, no provision for bad debts has been included in the financial statements.

#### I. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical costs) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Town maintains a capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value to the asset or materially extend an asset's life are not.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over estimated useful lives of the assets, ranging from 4 to 50 years.

#### J. Restricted Assets

Restricted assets consist of cash and equivalents, and investments restricted for specified projects and/or purposes.

#### K. Bond Issue Costs

Bond issue costs are a result of the refinancing of the 1989 general obligation bonds. These costs are being amortized over the respective lives of the bonds using the straight-line method.

#### L. Deferred Revenues

Deferred revenues represent funds received in advance, which will be recognized in future years when the revenue recognition criteria is met. In the governmental funds, deferred revenues of \$132,244 consist of permits and fees collected in advance.

#### M. Compensated Absences

An employee may accumulate 24 days of vacation pay. No sick days are accumulated until an individual's term of employment has exceeded 3 years. Then, an employee may accumulate up to 20 days of sick leave. The Town accrues a liability for compensated absences, which meet the following criteria:

- The Town's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
- The obligation relates to rights that vest or accumulate.
- Payment of the compensation is probable.
- The amount can be reasonably estimated.

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (continued)

#### M. Compensated Absences (continued)

In accordance with the above criteria, the Town has accrued a liability for vacation pay and sick leave, which has been earned but not taken by Town employees. The entire compensated absences liability is reported on the government-wide financial statements. For governmental funds the long-term portion of the liability for compensated absences is not recorded since it is anticipated that none of the liability will be liquidated with expendable available financial resources. The liability for compensated absences of the proprietary fund type is recorded within the fund as an accrued liability in accordance with U.S. GAAP.

#### N. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

#### O. Interest Capitalization

Interest costs incurred for the acquisition and/or construction of capital assets are capitalized in accordance with U.S. GAAP. The interest capitalization period begins when the following conditions are present:

- Expenditures for the capital asset have been made.
- Activities that are necessary to get the capital asset ready for its intended use are in progress.
- Interest expense is being incurred.

The amount of interest expense to be capitalized is based on the weighted-average amount of accumulated expenditures for the period multiplied by the interest rate for the obligation incurred specifically to finance the construction of capital assets. There was no capitalization of interest expense during the fiscal year ended March 31, 2012.

#### P. Net Assets

Net assets represent the difference between assets and liabilities. Government-wide and proprietary fund net assets are divided into three components:

Net assets invested in capital assets, net of related debt - consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.

Restricted net assets - consist of net assets that are restricted due to limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by grantors, creditors or laws or regulations of other governments.

Unrestricted net assets - all remaining other net assets.

The Town applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (continued)

#### Q. Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of the Town charter or code, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – Amounts that can be used only for specific purposes determined by formal action by the Town Council ordinance or resolution.

Assigned – Amounts that are designated by the Council or management with intent to be used for specific purposes, but are neither restricted or committed by ordinance or resolution.

Unassigned – Amounts not included in other spendable classifications.

The Town did not have any assigned fund balances at March 31, 2012. The purpose for committed funds is indicated on the face of the balance sheet. Restricted funds are grant monies from other governments or agencies that are to be spent for specific purposes. Nonspendable fund balances consist of prepaid amounts.

#### R. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Town, these revenues are charges for services for water and sanitation activities. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues not meeting these definitions are reported as non-operating.

#### S. Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

#### T. Interfund Receivables/Payables

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables." Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets. The only interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances."

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (continued)

#### U. Interfund Transfers In/Out

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flow of cash or goods from one fund to another without a requirement for repayment are reported as Interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in enterprise funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

#### V. Reclassifications

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

#### W. Operating Leases

The Town has several parking lot lease agreements with various lease terms, renewable annually. Rent expense totaled approximately \$61,000 for the year ended March 31, 2012.

### Note 3. Real Estate Taxes

The tax on real estate in the Town area for the fiscal year ended March 31, 2012 was \$0.165 per \$100 of assessed valuation as levied by the Town Council. The Town bills and collects its own real estate taxes. Delinquent taxes are levied by the Town. The schedule of real estate taxes levied for the fiscal year are:

- June 1 - Levy Date (effective date of enforceable lien)
- September 1 - 2% Penalty for each subsequent month not paid

## NOTES TO FINANCIAL STATEMENTS

### Note 4. Cash and Investments

The deposit and investment policy of the Town adheres to business practices of Delaware municipalities. Town deposits are held in federally regulated financial institutions whose deposits are covered by the Federal Deposit Insurance Corporation (FDIC), or are collateralized with securities held by the pledging financial institution, therefore minimizing custodial credit risk.

#### Cash and Cash Equivalents

The following summary represents the Town deposits which are (Category 1) fully insured or collateralized with securities held by the Town or its agent in the Town's name, (Category 2) those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent(s) in the Town's name, and (Category 3) those deposits which are not collateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Town's name at March 31, 2012 are as follows:

Description	Financial Institution Balances			Totals	Carrying Amounts
	1	2	3		
Cash & Cash Equivalents:					
Unrestricted	\$ 388,322	\$ 1,841,613	\$ -	\$ 2,229,935	\$ 1,962,176
Restricted	-	273,973	-	273,973	273,973
<b>Totals</b>	<b>\$ 388,322</b>	<b>\$ 2,115,586</b>	<b>\$ -</b>	<b>\$ 2,503,908</b>	<b>\$ 2,236,149</b>

#### Investments

The Town's investments are categorized according to the level of credit risk assumed as of the balance sheet date. Category 1 includes investments that are insured, registered or are held by the Town's agent in the Town's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the Town's name. Category 3 includes uninsured and unregistered investments held by the counterparty, its trust department or its agent but not in the Town's name. At March 31, 2012, the Town's investments consist of the following:

Description	Category	Amounts	
		Market	Carrying
Certificates of Deposit	1, 2	\$ 5,270,013	\$ 5,270,013
Investments:			
Unrestricted		\$ 5,270,013	\$ 5,270,013
<b>Total Investments</b>		<b>\$ 5,270,013</b>	<b>\$ 5,270,013</b>

The Town's exposure to investment rate and credit risk is minimal, as most investments are in cash or certificates of deposits and are thus precluded from having to sell below original cost.

## NOTES TO FINANCIAL STATEMENTS

### Note 5. Intergovernmental Receivables

Amount due from other governmental units represents receivables for revenues earned by the Town or collections made by another governmental unit on behalf of the Town. The intergovernmental receivables as of March 31, 2012, are as follows:

Description	Special Revenue
State of Delaware	\$ 74,417

### Note 6. Capital Assets

The following is a summary of changes in capital assets for the year ended March 31, 2012:

	March 31, 2011	Additions	Deletions/ Transfers	March 31, 2012
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets, not being depreciated:				
Land	\$ 3,391,767	\$ -	\$ -	\$ 3,391,767
Construction in progress	903,607	731,661	-	1,635,268
Total capital assets, not being depreciated	4,295,374	731,661	-	5,027,035
Capital assets, being depreciated				
Beach and boardwalk	1,081,819	221,042	(94,495)	1,208,366
Building and improvements	3,621,474	197,301	(26,420)	3,792,355
Land improvements	643,162	-	-	643,162
Machinery and equipment	1,308,110	210,077	(3,600)	1,514,587
Stormwater	1,192,348	60,745	-	1,253,093
Streets and parks	2,882,897	330,958	(1,198,637)	2,015,218
Vehicles	821,091	22,500	(25,000)	818,591
Total capital assets, being depreciated	11,550,901	1,042,623	(1,348,152)	11,245,372
Less accumulated depreciation:				
Beach and boardwalk	670,928	63,157	(94,495)	639,590
Building and improvements	1,530,210	146,842	(26,420)	1,650,632
Land improvements	206,472	39,845	-	246,317
Machinery and equipment	862,113	135,334	(3,600)	993,847
Stormwater	434,899	71,269	-	506,168
Streets and parks	1,984,013	150,251	(1,198,637)	935,627
Vehicles	687,861	61,647	(25,000)	724,508
Total accumulated depreciation	6,376,496	668,345	(1,348,152)	5,696,689
Total capital assets, being depreciated, net	5,174,405	374,278	-	5,548,683
Governmental activities capital assets, net	\$ 9,469,779	\$ 1,105,939	\$ -	\$ 10,575,718

## NOTES TO FINANCIAL STATEMENTS

### Note 6. Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

General, administrative and park development	\$ 66,850
Police and Alderman	98,348
Parking	31,527
Public works	
Stormwater management	71,726
Streets and parks	238,222
Beach and boardwalk	112,149
Recreation - entertainment	42,797
Historical/Cultural	6,726
	<u>\$ 668,345</u>

	March 31, 2011	Additions	Deletions/ Transfers	March 31, 2012
<b>BUSINESS-TYPE ACTIVITIES</b>				
<b>Water Fund</b>				
Capital assets, not being depreciated:				
Construction in progress	\$ 401,798	\$ 35,797	\$ (401,799)	\$ 35,796
Total capital assets, not being depreciated	401,798	35,797	(401,799)	35,796
Capital assets, being depreciated:				
Plant and water distribution system	6,058,406	430,011	(45,620)	6,442,797
Vehicles and equipment	560,116	12,119	(41,584)	530,651
Total capital assets, being depreciated	6,618,522	442,130	(87,204)	6,973,448
Total accumulated depreciation	3,025,625	209,809	(87,204)	3,148,230
Total capital assets, being depreciated, net	3,592,897	232,321	-	3,825,218
<b>Water capital assets, net</b>	<b>\$ 3,994,695</b>	<b>\$ 268,118</b>	<b>\$ (401,799)</b>	<b>\$ 3,861,014</b>
<b>Sanitation Fund</b>				
Capital assets, being depreciated:				
Vehicles and equipment	\$ 813,935	\$ 164,216	\$ -	\$ 978,151
Total capital assets, being depreciated	813,935	164,216	-	978,151
Total accumulated depreciation	443,782	74,172	-	517,954
Total capital assets, being depreciated, net	370,153	90,044	-	460,197
<b>Sanitation capital assets, net</b>	<b>\$ 370,153</b>	<b>\$ 90,044</b>	<b>\$ -</b>	<b>\$ 460,197</b>
<b>Business-type activities capital assets, net</b>	<b>\$ 4,364,848</b>	<b>\$ 358,162</b>	<b>\$ (401,799)</b>	<b>\$ 4,321,211</b>

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Bonds and Notes Payable – Business-type Activities

The following is a summary of the changes in the business-type activities long-term debt obligations:

	Interest Rate	Maturity Date	Balances		Retirements and Repayments	Balances March 31, 2012	Amount Due in One Year
			March 31, 2011	Additions			
Compensated absences			\$ 66,188	\$ 4,655	\$ -	\$ 70,843	\$ 186
General Obligation Bonds:							
Series 1994			\$ 930,000	\$ -	\$ 215,000	\$ 715,000	\$ 225,000
Bond Premium			81,681	-	22,735	58,946	22,735
Refunding Deferral							
Series 1994, net	5.30%	2014	(62,587)	17,415	-	(45,172)	(17,415)
			949,094	17,415	237,735	728,774	230,320
Total Business-type Activities Long-Term Debt			\$ 1,015,282	\$ 22,070	\$ 237,735	\$ 799,617	\$ 230,506

Total annual requirements to amortize all business-type activities debt outstanding as of March 31, 2012 are as follows:

Fiscal Year Ending March 31,	Principal	Interest	Total
2013	\$ 230,320	\$ 37,895	\$ 268,215
2014	245,320	25,970	271,290
2015	253,134	13,250	266,384
	\$ 728,774	\$ 77,115	\$ 805,889

Interest expense in the business-type activities for the year ended March 31, 2012 totaled \$39,266.

## NOTES TO FINANCIAL STATEMENTS

### Note 8. Bonds and Notes Payable – Governmental Activities

The following is a summary of the changes in the governmental activities long-term debt obligations:

	Interest Rate	Maturity Date	Balances		Retirements and Repayments	Balances		Amount Due in One Year
			March 31, 2011	Additions		March 31, 2012		
Compensated absences			\$ 170,617	\$ -	\$ 23,316	\$ 147,301	\$ 13,892	
Cash settlement employees	0.00%	2013	173,758	-	92,328	81,430	81,430	
State of Delaware Pension	8.00%	2014	505,274	-	171,278	333,996	161,674	
			679,032	-	263,606	415,426	243,104	
<b>Total Governmental Activities Long-Term Debt</b>			<b>\$ 849,649</b>	<b>\$ -</b>	<b>\$ 286,922</b>	<b>\$ 562,727</b>	<b>\$ 256,996</b>	

The following is a schedule of annual principal maturities for all governmental activities long-term debt:

<u>Fiscal Year Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 243,104	\$ 26,720	\$ 269,824
2014	82,914	13,786	96,700
2015	89,408	7,153	96,561
	<b>\$ 415,426</b>	<b>\$ 47,659</b>	<b>\$ 463,085</b>

Interest expense in the governmental activities for the year ended March 31, 2012 totaled \$40,422.

### Note 9. Capital Leases

The Town has entered into a lease for the acquisition of machinery and equipment, which is classified as a capital lease. Accordingly, the present value of future minimum lease payments and the related assets have been recorded in the appropriate fund.

The capital lease obligation of \$129,600 at March 31, 2012 consisted of a parking pay station lease, payable in annual installments of \$54,000 and \$75,600, through 2013 and 2014, respectively; no interest.

Original cost of assets acquired under these capital leases for the capital projects fund is \$183,600 with accumulated depreciated of \$25,245 as of March 31, 2012.

The following is a summary of total future minimum lease payments for all capital leases:

<u>Fiscal Year Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 54,000	\$ -	\$ 54,000
2014	75,600	-	75,600
	<b>\$ 129,600</b>	<b>\$ -</b>	<b>\$ 129,600</b>

## NOTES TO FINANCIAL STATEMENTS

### Note 10. Post-Employment Healthcare Benefits

#### Plan Description

The Town administers a single-employer defined benefit healthcare plan (the "Plan") for employees hired prior to June 1, 1999 with at least 7 years of service who have not opted out of this benefit. Currently two retirees and their families are eligible for these benefits and all are receiving such benefits. The Town also provides healthcare benefits for one individual based upon an agreement made during the time of employment. The Plan does not issue a publicly available financial report.

#### Funding Policy

During the fiscal year ended March 31, 2012 the cost of healthcare benefits for these employees and their families was approximately \$15,000.

#### Annual OPEB Cost and Net OPEB Obligation

The Town's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined using the alternative measurement method provided for in GASB 45. The town has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. 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 Town pays post-employment retirement benefits (normal cost) from the general and water funds.

The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB Obligation.

Annual Required Contribution (ARC)	\$	62,000
Interest on Net OPEB Obligation (NOO)		-
Adjustment to Annual Required Contribution (ARC)		-
Annual OPEB cost		62,000
Contributions made		(15,000)
Change in Net OPEB Obligation (NOO)		47,000
Net OPEB Obligation (NOO) - Beginning of Year		83,000
Net OPEB Obligation (NOO) - End of Year	\$	130,000

## NOTES TO FINANCIAL STATEMENTS

### Note 10. Post-Employment Healthcare Benefits (continued)

The following presents the Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation:

Year Ended 31-Mar	Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 62,000	\$ 26,000	41.94%	\$ 36,000
2011	62,000	15,000	24.19%	83,000
2012	62,000	15,000	24.19%	130,000

### Funding Status and Funding Progress

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
3/31/2010	\$ 35,000	\$ 545,000	\$ 510,000	6.42%	\$ 58,000	879.31%
3/31/2011	84,000	545,000	461,000	15.41%	59,000	781.36%
3/31/2012	130,000	545,000	415,000	23.85%	57,000	728.07%

Actuarial valuations of an ongoing plan involve 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. The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the 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.

In determining its actuarial valuation of OPEB costs and liabilities, the Town used the entry age actuarial cost method and the level percentage of payroll amortization method using certain assumptions and default values provided for under the alternative measurement method in GASB 45. Additionally, other assumptions were used based on comparable plans to include: an average retirement age of 65, RP 2000 mortality table for males and females projected 10 years, standard turnover assumptions as per GASB 45 paragraph 35b, a discount rate of 3.0%, projected salary increases of 3%, plan asset return of 0%, employer asset return of 3% and an annual healthcare cost trend of 9.0% initially, reduced to an ultimate rate of 4.7% after ten years. The unfunded accrued actuarial liability is being amortized as a level percentage of projected payroll over a 10 year period. The remaining amortization period at March 31, 2012 was 7 years.

## NOTES TO FINANCIAL STATEMENTS

### Note 11. Pension and Retirement Plans

Effective on June 30, 2006, the Town entered into the State of Delaware County & Municipal Employees Plan and State of Delaware Police and Firefighters Plan. In May 2007, the Town opted to incur a special actuarial liability of \$558,300, which was based on the demographics of the employees and the well funded status of the two Delaware plans. Starting in fiscal year 2008, the Town was required to make 5 annual payments of \$115,000 with a final payment of \$91,694 in May 2012 to satisfy the liability.

In November 2008, six employees signed Agreements and Releases waiving their claim on post employment health care benefits which would have been covered under GASB No. 45. Instead of the post employment health care benefits the Town bought 100% of their past service into the State of Delaware County & Municipal Employees Plan. The Town's liability for the buy-in of past service is \$482,700. Starting in fiscal year 2010, the Town was required to make 5 annual payments of \$96,700 with a final payment of \$96,560 in May 2014 to satisfy the liability.

The Town's contribution to the State of Delaware County & Municipal Employees Plan and State of Delaware Police and Firefighters Plan was \$84,448 and \$64,978 for the fiscal year, respectively.

#### Plan Description

All regular employees of the Town participate in the State of Delaware County and Municipal Other Employees' Pension Plan. Police officers participate in the State of Delaware County and Municipal Police and Firefighters' Plan. Both plans are cost sharing multiple employer public retirement systems included in the Delaware Public Employees Retirement System and administered by the State of Delaware Board of Pension Trustees. The plans are outlined in the Delaware State Code sections Title 29 chapters 55A and Title 11 chapter 88. The Delaware Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the Office of Pensions, McArdle Building, 860 Silver Lake Blvd., Suite #1, Dover, DE 19904-2402 or on their website.

General participants in the System may retire with full benefits after thirty years of service regardless of age or at various ages with specified years of eligible service for reduced benefits. Police officers may retire with full benefits after twenty years of service regardless of age or earlier at reduced benefits. Annual service retirement allowances are paid monthly to retired members in accordance with allowance options selected based on average final compensation. Participants terminating in the retirement system prior to vesting in the plans are refunded their accumulated contributions plus earned interest. Employees are vested in the plans after 5 years of service. Participants and their beneficiaries may also be eligible for disability and death benefits based on years of credible service and final average compensation.

#### Funding Policy

The State Office of Pensions requires active members to contribute to the System at rates determined annually by actuarial valuations. For the State fiscal year ending June 30, 2012 the Town was required to contribute 6.55% of total compensation for general employees and 14.53% of regular salary for police officers. Employee contributions are done through payroll withholding in the amount of 3% for general employees and 7% for police officers.

## NOTES TO FINANCIAL STATEMENTS

### Note 11. Pension and Retirement Plans (continued)

#### Employer's Payroll and Contributions Under the Plan

The Town joined the State of Delaware pension plans on June 30, 2006. Contributions paid for the years ended March 31, 2012, 2011, and 2010 are as follows:

	2012	2011	2010
Creditable wages	\$ 1,755,374	\$ 1,641,128	\$ 1,561,259
Contributions paid:			
General employees	84,448	73,272	69,924
Police officers	64,978	63,352	59,817

### Note 12. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town's risk financing techniques include the purchase of commercial insurance.

The Town is fully insured for workers' compensation, employee health, and accident insurance through commercial insurance, and employees are bonded to limit the loss to the Town in the event of employees committing acts of embezzlement or theft. There has been no significant reduction in insurance coverage from the prior year by major categories of risk, and amounts of settlements have not exceeded insurance coverage for each of the past three fiscal years.

### Note 13. Commitments, Contingencies and Subsequent Events

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The Town does not anticipate losses as a result of these transactions.

In the normal course of operations, the Town receives grant funds from various Federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement, which may arise as the result of these audits is not believed to be material.

The Town is a defendant in several lawsuits. After considering all relevant facts and the opinion of legal counsel, it is management's opinion that such litigation will not, in the aggregate, have a material adverse effect on the financial position of the Town.

REQUIRED SUPPLEMENTARY INFORMATION

**TOWN OF BETHANY BEACH, DELAWARE**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

**Year Ended March 31, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES:</b>				
Taxes:				
Property	\$ 1,613,000	\$ 1,613,000	\$ 1,622,491	\$ 9,491
Rental real estate	940,000	940,000	984,667	44,667
Transfer	500,000	500,000	479,558	(20,442)
Parking Revenues	1,382,000	1,382,000	1,337,779	(44,221)
Licenses, permits and fees	542,000	542,000	605,572	63,572
Police and Alderman fines and revenue	106,000	106,000	115,898	9,898
Interest	60,000	60,000	34,321	(25,679)
Contributions	17,000	17,000	17,930	930
Miscellaneous	9,000	9,000	10,365	1,365
<b>Total revenues</b>	<b>5,169,000</b>	<b>5,169,000</b>	<b>5,208,581</b>	<b>39,581</b>
<b>EXPENDITURES:</b>				
General and administration	915,000	975,000	967,730	7,270
Licenses and inspections	199,000	199,000	194,768	4,232
Public safety:				
Police	1,210,000	1,150,000	1,140,988	9,012
Alderman	59,000	49,000	44,453	4,547
Parking	386,000	454,000	453,150	850
Beach Patrol	420,000	390,000	385,599	4,401
Public works:				
Stormwater management	133,000	178,000	169,294	8,706
Streets and parks	652,000	672,000	663,106	8,894
Beach and boardwalk	221,000	221,000	215,491	5,509
Recreation - entertainment	118,000	108,000	106,025	1,975
Historical/Cultural	20,000	20,000	4,213	15,787
<b>Total expenditures</b>	<b>4,333,000</b>	<b>4,416,000</b>	<b>4,344,817</b>	<b>71,183</b>
<b>Excess of revenues over expenditures</b>	<b>836,000</b>	<b>753,000</b>	<b>863,764</b>	<b>110,764</b>
<b>OTHER FINANCING USES:</b>				
Transfer out	(945,000)	(1,969,000)	(1,682,139)	286,861
Fund balance appropriated	109,000	1,216,000	-	(1,216,000)
<b>Total other financing uses</b>	<b>(836,000)</b>	<b>(753,000)</b>	<b>(1,682,139)</b>	<b>(929,139)</b>
<b>Net change in fund balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(818,375)</b>	<b>\$ (818,375)</b>
Fund balance - beginning			<u>5,209,569</u>	
Fund balance - ending			<u>\$ 4,391,194</u>	

**TOWN OF BETHANY BEACH, DELAWARE**  
**REQUIRED SUPPLEMENTARY SCHEDULE**  
**BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND**  
**Year Ended March 31, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES:</b>				
Intergovernmental revenues:				
State and County	\$ 142,000	\$ 471,684	\$ 436,045	\$ (35,639)
Interest income	-	-	52	52
<b>Total revenues</b>	<b>142,000</b>	<b>471,684</b>	<b>436,097</b>	<b>(35,587)</b>
<b>EXPENDITURES:</b>				
General and administration	-	234,357	190,534	43,823
Public safety:				
Police	55,000	128,027	136,213	(8,186)
Public works:				
Streets and parks	87,000	109,300	109,300	-
<b>Total expenditures</b>	<b>142,000</b>	<b>471,684</b>	<b>436,047</b>	<b>35,637</b>
Excess of revenues over expenditures	-	-	50	50
Net change in fund balance	\$ -	\$ -	50	\$ 50
Fund balance - beginning			<u>38</u>	
Fund balance - ending			<u>\$ 88</u>	

**TOWN OF BETHANY BEACH, DELAWARE**

**REQUIRED SUPPLEMENTARY INFORMATION**

**Year Ended March 31, 2012**

**SCHEDULE OF FUNDING PROGRESS BY VALUATION DATE**

<u>Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
3/31/2010	\$ 35,000	\$ 545,000	\$ 510,000	6.42%	\$ 58,000	879.31%
3/31/2011	84,000	545,000	461,000	15.41%	59,000	781.36%
3/31/2012	130,000	545,000	415,000	23.85%	57,000	728.07%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

<u>Year Ended 31-Mar</u>	<u>Annual OPEB Cost</u>	<u>Age Adjusted Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 62,000	\$ 26,000	41.94%	\$ 36,000
2011	62,000	15,000	24.19%	83,000
2012	62,000	15,000	24.19%	130,000

**TOWN OF BETHANY BEACH, DELAWARE**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**Note 1. Budgetary Basis**

Required supplementary information includes financial information and disclosures that are required by the Governmental Accounting Standards Board but are not considered part of the basic financial statements. The budgetary information is prepared and adopted on a basis that is consistent with generally accepted accounting principles.

ADDITIONAL SUPPLEMENTARY INFORMATION

**TOWN OF BETHANY BEACH, DELAWARE**

**ADDITIONAL SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - CAPITAL PROJECTS FUND  
Year Ended March 31, 2012**

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance with</u> <u>Final Budget</u> <u>Favorable</u> <u>(Unfavorable)</u>
<b>EXPENDITURES:</b>				
General and administration	\$ -	\$ 55,000	\$ 34,273	\$ 20,727
Public safety:				
Parking	104,000	104,000	108,431	(4,431)
Public works:				
Stormwater management	-	125,000	60,745	64,255
Streets and parks	258,000	1,039,000	941,585	97,415
Beach and boardwalk	225,000	288,000	283,373	4,627
Debt service:				
Principal	321,000	321,000	317,606	3,394
Interest	37,000	37,000	27,926	9,074
<hr/>				
Total expenditures	945,000	1,969,000	1,773,939	195,061
<hr/>				
<b>OTHER FINANCING SOURCES:</b>				
Proceeds from capital lease	-	-	91,800	91,800
Transfers in	945,000	1,969,000	1,682,139	(286,861)
<hr/>				
Total other financing sources	945,000	1,969,000	1,773,939	(195,061)
<hr/>				
Net change in fund balance	\$ -	\$ -	-	\$ -
<hr/>				
Fund balance - beginning			-	
Fund balance - ending			\$ -	

**TOWN OF BETHANY BEACH, DELAWARE**

**INCOME AND EXPENSE DETAIL**

**WATER FUND**

**Year Ended March 31, 2012**

**WATER SERVICE:**

Operating revenues:	
Charges for services	\$ 1,047,601
Other service fees	20,735
Miscellaneous	2,401
<hr/>	
Total operating revenues	1,070,737
<hr/>	
Operating expenses:	
Salaries and wages	287,560
Payroll taxes	21,547
Employee benefits	120,784
Administrative fees	2,332
Contract services	39,488
Insurance	34,489
Telephone	5,522
Utilities	44,405
Repairs and maintenance	15,597
Engineering	12,419
Sewer service charge	421
Plant maintenance	40,426
Distribution system maintenance	48,247
Office supplies	4,918
Miscellaneous	1,996
Supplies	12,205
Chemicals	70,222
Uniforms	1,037
Depreciation	209,809
<hr/>	
Total operating expenses	973,424
<hr/>	
Net operating income	97,313
<hr/>	
Non-operating revenue (expenses):	
Taxes and assessments	246,062
Impact fees	56,949
Interest income	10,771
Amortization on bond issue costs	(5,320)
Interest expense	(39,266)
<hr/>	
Net non-operating revenues	269,196
<hr/>	
<b>NET INCOME</b>	<b>\$ 366,509</b>

**TOWN OF BETHANY BEACH, DELAWARE**

**INCOME AND EXPENSE DETAIL**

**SANITATION FUND**

**Year Ended March 31, 2012**

**SANITATION SERVICE:**

Operating revenues:	
Charges for services	\$ 731,494
<hr/>	
Total operating revenues	731,494
<hr/>	
Operating expenses:	
Salaries and wages	242,488
Payroll taxes	17,329
Employee benefits	84,478
Disposal fees	158,328
Fuel	32,356
Insurance	19,294
Telephone	1,800
Utilities	7,267
Repairs and maintenance	65,356
Office supplies	5,037
Carts and dumpsters	86,161 *
Miscellaneous	14,694
Depreciation	74,172
<hr/>	
Total operating expenses	808,760
<hr/>	
Net operating loss	(77,266) *
<hr/>	
Non-operating revenues:	
Grant revenue	250,377 *
Interest income	7,420
<hr/>	
Net non-operating revenues	257,797
<hr/>	
<b>NET INCOME</b>	<b>\$ 180,531</b>

\* Recycling carts and dumpsters were purchased with non-operating State grant revenue, see page 14 for more information



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*

Town of Bethany Beach, Delaware  
Bethany Beach, Delaware

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Bethany Beach, Delaware (the "Town") as of and for the year ended March 31, 2012, which collectively comprise the Town's basic financial statements and have issued our report thereon dated June 11, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all

deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the entity, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Salisbury, Maryland

June 11, 2012