

**TOWN OF BETHANY BEACH, DELAWARE**

**FINANCIAL REPORT**

**MARCH 31, 2011**

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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, 2011, 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, 2011, and the respective changes in financial position, and cash flows, where applicable, 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 21, 2011, 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 "H. M. Gray LLC".

Salisbury, Maryland

June 21, 2011

**Town of Bethany Beach  
Management's Discussion and Analysis  
March 31, 2011**

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, 2011. 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 2011**

The assets of the Town of Bethany Beach exceed its liabilities at the end of the fiscal year on March 31, 2011 by \$20,083,917 (net assets). Of this amount, \$6,911,144 (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 \$1,250,499 (6.6%) in fiscal year 2011. Net assets of governmental activities increased by \$744,258, while net assets of business-type activities increased by \$506,241.

As of the close of fiscal year 2011, the Town's governmental funds reported an ending fund balance of \$5,209,607. Of this amount, \$115,967 is nonspendable prepaid balances, \$34,909 is restricted grant funding, \$1,504,000 is committed for capital purchases in fiscal year 2012, \$18,500 is committed for retiree benefits, and \$3,292,000 is committed for future capital replacements.

This leaves \$289,052 as unassigned in the general fund at the end of fiscal year 2011. The unassigned fund balance for the general fund represents 6.7% of the general fund operating expenditure budget for fiscal year 2012.

The Town's bonds and notes payable decreased by \$386,465 (19.2%) as a result of regular, scheduled payments on current debt. Of the Town's total bonds and notes payable of \$1,628,126, 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 that 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 former Recycling Fund merged with the Sanitation proprietary fund in July of 2010 as the Town started handling the recycling services that were previously supplied by the Delaware Solid Waste Authority. 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 \$20,083,917 at the end of fiscal year 2011, compared to \$18,833,418 at the end of fiscal year 2010, an increase of \$1,250,499 or 6.6%.

The largest portion of the Town's net assets, \$12,885,533 (64.2%), 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, 2011, the Town held \$1,220,040 in cash and cash equivalents and \$6,438,505 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 collateralized and diverse by type, institution and maturity date. 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 2012, operating reserves are \$650,000 in the general fund, \$121,000 in the sanitation fund and \$127,000 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 2012, capital replacement fund balances committed were \$3,292,000 in the general fund, \$651,000 in the sanitation fund and \$677,000 in the water fund. An additional \$1,000,000 of water funds are 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 four 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, 2011, committed funds in the amount of \$84,246 were held to fund this benefit. Further information on this obligation can be found on page 39, note 9.

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, 2011

	Governmental Activities		Business-Type Activities		Total		% Change
	2011	2010	2011	2010	2011	2010	
Current Assets	5,403,902	5,634,528	2,892,637	2,732,231	8,296,539	8,366,759	-0.8%
Capital Assets	9,469,779	8,611,827	4,364,848	4,035,335	13,834,627	12,647,162	9.4%
Other Assets	53,398	15,417	262,936	379,647	316,334	395,064	-19.9%
Total Assets	<u>14,927,079</u>	<u>14,261,772</u>	<u>7,520,421</u>	<u>7,147,213</u>	<u>22,447,500</u>	<u>21,408,985</u>	4.9%
Long-Term Liabilities	645,174	781,768	792,142	1,004,075	1,437,316	1,785,843	-19.5%
Other Liabilities	554,252	496,609	372,015	293,115	926,267	789,724	17.3%
Total Liabilities	<u>1,199,426</u>	<u>1,278,377</u>	<u>1,164,157</u>	<u>1,297,190</u>	<u>2,363,583</u>	<u>2,575,567</u>	-8.2%
Invested in capital assets, net of related debt	9,469,779	8,611,827	3,415,754	2,880,921	12,885,533	11,492,748	12.1%
Restricted	53,398	-	233,842	-	287,240	-	100.0%
Unrestricted	<u>4,204,476</u>	<u>4,371,568</u>	<u>2,706,668</u>	<u>2,969,102</u>	<u>6,911,144</u>	<u>7,340,670</u>	-5.9%
Total Net Assets	<u>13,727,653</u>	<u>12,983,395</u>	<u>6,356,264</u>	<u>5,850,023</u>	<u>20,083,917</u>	<u>18,833,418</u>	6.6%

The remaining balance of unrestricted net assets \$6,911,144 may be used to meet the government's ongoing obligations to citizens and creditors. Unrestricted net assets decreased \$429,526 during fiscal year 2011 as capital assets increased \$1,187,465.

Current assets decreased \$70,220, or 0.8% to \$8,296,539 from use of cash for capital projects. The majority of this amount is cash and cash equivalents, most of which are held in reserves for future needs. Receivables are \$488,789 of the current assets and increased \$34,771, or 7.7%. \$21,730 of the increase in receivables is for sanitation fees from a mid-year billing adjustment, payments of this fee are not due until May 31, 2011.

The Town's investment in capital assets increased \$1,187,465 or 9.4% to \$13,834,627 in fiscal year 2011 from capital projects and purchases. Long-term liabilities decreased 19.5% (\$348,527) from scheduled payments while other liabilities increased 17.3% \$136,543. 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. In the prior fiscal year, restricted funds were not shown separately on this report.

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, 2011							
	Governmental Activities		Business-Type Activities		Total		%
	2011	2010	2011	2010	2011	2010	Change
<b>Revenues:</b>							
Program Revenues							
Charges for services	2,186,926	2,190,765	1,791,288	1,606,296	3,978,214	3,797,061	4.8%
Assessments & impact fees	-	-	334,212	467,177	334,212	467,177	-28.5%
Operating grants	86,658	66,874	-	-	86,658	66,874	29.6%
Capital grants	151,411	15,000	-	-	151,411	15,000	909.4%
General Revenues							
Property taxes	1,610,488	1,595,954	-	-	1,610,488	1,595,954	0.9%
Rental real estate taxes	940,288	892,977	-	-	940,288	892,977	5.3%
Transfer taxes	816,463	654,646	-	-	816,463	654,646	24.7%
Other	40,974	58,622	28,308	50,516	69,282	109,138	-36.5%
<b>Total Revenues</b>	<b>5,833,208</b>	<b>5,474,838</b>	<b>2,153,808</b>	<b>2,123,989</b>	<b>7,987,016</b>	<b>7,598,827</b>	<b>5.1%</b>
<b>Expenses:</b>							
General and administration	1,009,240	894,775	-	-	1,009,240	894,775	12.8%
Licenses and inspections	188,165	195,750	-	-	188,165	195,750	-3.9%
Public Safety							
Police and Alderman	1,480,235	1,352,918	-	-	1,480,235	1,352,918	9.4%
Parking	342,928	298,190	-	-	342,928	298,190	15.0%
Beach Patrol	408,443	402,231	-	-	408,443	402,231	1.5%
Ambulance	91,700	83,390	-	-	91,700	83,390	10.0%
Public Works							
Stormwater management	212,793	227,263	-	-	212,793	227,263	-6.4%
Streets	879,140	789,207	-	-	879,140	789,207	11.4%
Sanitation	-	-	599,858	552,776	599,858	552,776	8.5%
Beach and boardwalk	313,872	290,029	-	-	313,872	290,029	8.2%
Recycling	-	20,946	-	-	-	20,946	-100.0%
Recreation - entertainment	152,014	137,854	-	-	152,014	137,854	10.3%
Cultural and Historical	10,420	16,704	-	-	10,420	16,704	-37.6%
Water Department	-	-	1,047,709	1,030,679	1,047,709	1,030,679	1.7%
<b>Total Expenses</b>	<b>5,088,950</b>	<b>4,709,257</b>	<b>1,647,567</b>	<b>1,583,455</b>	<b>6,736,517</b>	<b>6,292,712</b>	<b>7.1%</b>
Change in Net Assets	744,258	765,581	506,241	540,534	1,250,499	1,306,115	-4.2%
Net Assets, beginning of year	12,983,395	12,217,814	5,850,023	5,309,489	18,833,418	17,527,303	7.5%
Net Assets, end of year	13,727,653	12,983,395	6,356,264	5,850,023	20,083,917	18,833,418	6.6%

The Town's total net assets increased \$1,250,499 or 6.6%. Approximately 42.2% of the Town's total revenue came from taxes. Total revenues increased \$388,189 or 5.1% while total expenses increased \$443,805 or 7.1%. An increase in grant funding is responsible for \$156,195 of the increase to both revenue and expenses.

In the prior year, recycling was recorded as a separate governmental fund but this year recycling was merged into the sanitation fund as the Town is now providing this service.

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

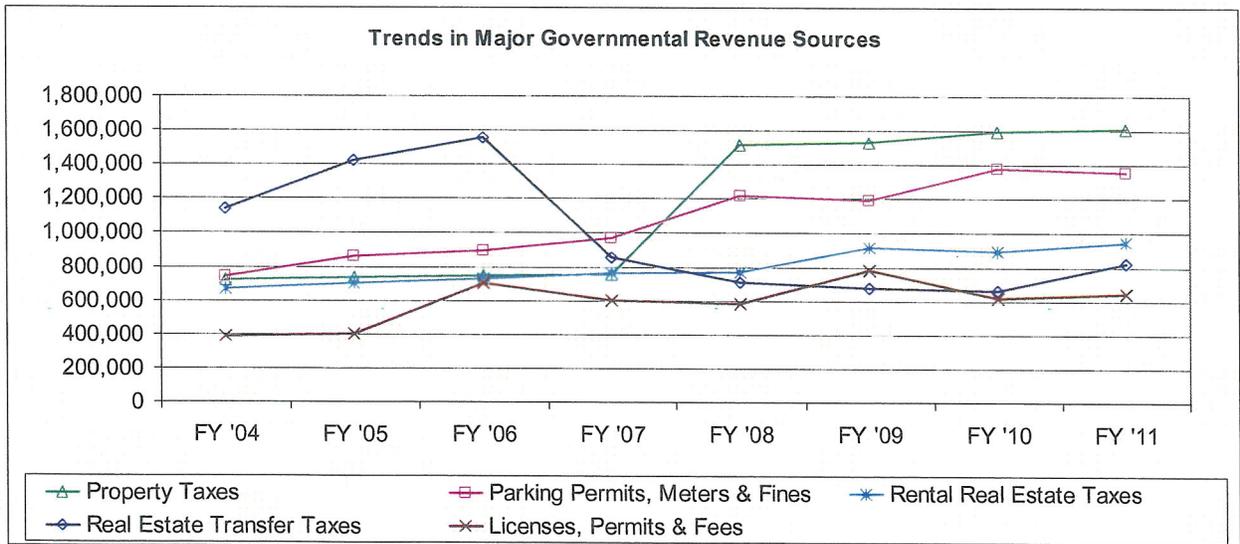
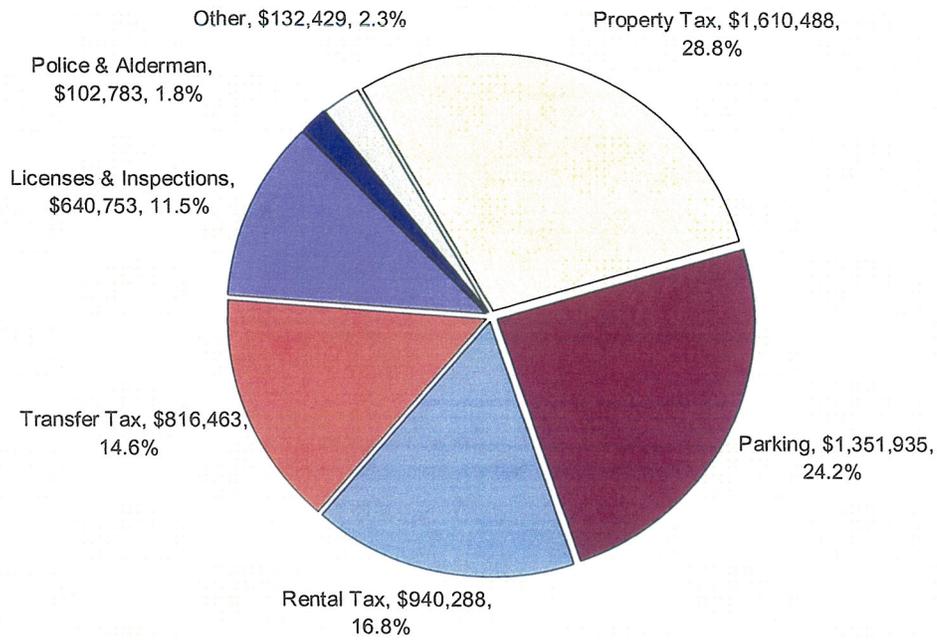
Total revenue for government activities increased \$358,370 (6.5%). The major revenue sources and key factors are as follows. Grant revenue is not included due to the variable nature of State and Federal grants.

1. Property Tax revenue totaled \$1,610,488 and was the Town's largest single source of funding. These revenues increased 0.9%, or \$14,534, since fiscal year 2010. As a percentage of governmental revenue, property tax decreased from 29.6% in fiscal year 2010 to 28.8% in fiscal year 2011.
2. Revenues from parking fines, parking meters, and parking permits totaled \$1,351,935 and were the Town's second largest revenue source. These revenues decreased 1.7%, or \$23,462. As a percentage of governmental revenue, parking decreased from 25.5% in fiscal year 2010 to 24.2% in fiscal year 2011.
3. Real estate rental taxes were the Town's third largest revenue source at \$940,288. These revenues increased 5.3% or \$47,311. As a percentage of total governmental revenue, rental taxes increased from 16.6% in fiscal year 2010 to 16.8% in fiscal year 2011.
4. Real estate transfer taxes were the Town's fourth largest revenue source at \$816,463. These revenues increased 24.7% or \$161,817 as housing sales improved. As a percentage of governmental revenue, transfer taxes increased from 12.1% in fiscal year 2010 to 14.6% in fiscal year 2011.
5. Licenses, permits and other fees were the fifth largest revenue source at \$640,753. These revenues increased 5.1% or \$30,952. As a percentage of governmental revenue, licenses, permits and other fees increased from 11.3% in fiscal year 2010 to 11.5% in fiscal year 2011.

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 exceeded \$2.6 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 as slightly over \$2.7 million. Most years, summer revenues exceed summer costs, however this year additional funds were used on summer related improvements that will last many years; such as parking pay stations, boardwalk replacement and the purchase of mats to improve beach access. 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, 2011 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 2011 Governmental Revenue Sources (excludes grant funds)



The Town's expenses for all governmental activities combined cover a range of services and increased 8.1%, or \$379,693 from fiscal year 2010 primarily due to the following:

1. Total grants funding increased by \$156,195 from \$81,874 in fiscal year 2010 to \$238,069 in fiscal year 2011. The State of Delaware reinstated funding of \$86,911 for Municipal Street Aid grants, which the Town uses for road maintenance. The State also provided \$44,500 toward the purchase of mats placed on beach access ramps.
2. In fiscal year 2010, the Town negotiated a change in benefits with current employees. Involved employees agreed to waive their right to post employment health care insurance in exchange for the purchase of additional prior service into the State of Delaware's Municipal Pension Plan and direct payments to employees. In fiscal year 2011, the Town increased the direct payments to employees by \$136,000.
3. Improvements were made to Town Hall for approximately \$50,000. This included replacement of shingles on the roof, exterior painting and replacement of external lighting.

### **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 13.7%, or \$82,881. This increase was a result of a mid-year increase in trash rates. Town Council voted in November 2010 to increase rates 25%. Supplemental bills were mailed to trash customers in January for six months worth of this increase.

Sanitation department expenses increased 8.5%, or \$47,082. This main cause of this cost increase is modifications to the recycling program. Prior to June 2010, the Town coordinated a voluntary curbside recycling program where recyclables were collected by the Delaware Solid Waste Authority. The Town took over responsibility for recycling collections in June of 2010, which led to increases in personnel and fuel costs. Additional cost increases will be seen in the next fiscal year as new State of Delaware regulations on recycling and yard waste take effect.

Water department revenues from charges for services and interest increased 7.6%, or \$79,903. The change in revenue is a result of an increase in gallons of water used in town. Water use in the prior two fiscal years was unusually low, so the increase seen in fiscal year 2011 is a return to more typical water volume.

Other program revenues for the Water department are generated from water impact and sinking fund fees, which are used for capital projects and for debt payments, respectively. These revenues decreased 28.5% or \$132,965 to \$334,212. The change was entirely in water impact fees because fees for an unusually large construction project were collected in the prior year and construction returned to a more normal level in the current year.

Water department expenses increased 1.7% or \$17,030. The change was from increases in personnel costs and water treatment chemicals.

## Financial Analysis of the Town's Funds

As noted previously, the Town used 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 2011, the Town's governmental fund balance decreased \$173,103 or 3.2% to \$5,209,569 as cash was used for capital projects. Funds committed for capital improvements budgeted in the coming year decreased \$394,000 to \$1,504,000. Funds committed for future capital replacements increased \$205,000 to \$3,292,000.

A significant portion of fund balance, \$4,920,517 or 94.4%, is nonspendable, restricted or committed to indicate that it is not available for spending. Currently these designations are:

1. Nonspendable prepaid balances	\$115,967
2. Restricted funds for grants	\$34,909
3. Committed for capital improvements in the coming fiscal year	\$1,504,000
4. Committed for retiree benefits	\$18,500
5. Committed for future capital replacements	\$3,292,000

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 both unassigned fund balance and total fund balance to governmental expenditures. The unassigned fund balance of \$289,052 is 5.6% of total fund balance and 4.6% of governmental expenditures.

### 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 \$419,790 to \$4,956,662. Fiscal year 2011 resulted in a net operating income gain of \$124,818. The water department had net operating income gains of \$58,564 in fiscal year 2010 and \$188,487 in fiscal year 2009. These gains provide funding for future capital needs. The water department has increased the amount held in reserve for a water tower or other water storage system from \$800,000 to \$1,000,000.

Net assets for the sanitation department increased \$86,451 to end the year at \$1,399,602. Fiscal year 2011 resulted in a net operating gain of \$74,401. The sanitation department had net operating income gains of \$30,219 in fiscal year 2010 and \$73,637 in fiscal year 2009. The increase in net assets will be used for replacement of trash trucks.

### **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 \$410,902 (8.0%). The main cause of this is real estate transfer taxes, which exceeded the amount budgeted by \$316,463 (63.3%). The budget for transfer tax revenue is very conservative at \$500,000 since property sales within town limits can vary widely from year to year. Parking revenues fell short of the amount budgeted by \$36,065 (2.6%) from a decline in ticketing that resulted from increased compliance with parking regulations through the use of parking pay stations instead of coin fed meters. Licenses, permits and fees exceeded the amount budgeted by \$105,753 (19.8%) from issuing more building permits than expected. Interest income was \$36,750 (40.8%) under budget due to the continued decline in interest rates.

The Town Council amended the expenditure budget mid-year, adding \$6,000 for a contribution to the Friends of the South Coastal Library and reallocating \$10,000 from Beach Patrol to Parking. The budget was also amended for payments made to employees to replace postemployment healthcare benefits in the amounts of \$43,000 for General & Administration and \$93,000 for Police.

General fund expenditures as a whole were under the amended budget by 4.7% or \$208,967. Total revenues exceeded total expenditures by \$1,349,869, 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 2011 Additions</b>
Beach and boardwalk	\$99,800
Machinery & Equipment	\$223,823
Streets and parks	\$238,601
Vehicles	\$41,047
Total	<u>\$603,271</u>

<b>Sanitation Fund</b>	<b>FY 2011 Additions</b>
Vehicles	\$180,547

<b>Water Fund</b>	<b>FY 2011 Additions</b>
Water Plant & Distribution System	\$78,053
Vehicles & Equipment	\$15,838
Total	<u>\$93,891</u>

The Town Council made several amendments to the capital budget. In the General Fund; \$9,000 was added for the purchase of two radar speed display signs, \$90,000 was added for the purchase of Mobi-Mats to improve beach access, \$91,000 was added to the debt service budget for the resolution of a portion of the post employment health benefit liability and \$535,000 was added for the Garfield Parkway utility relocation and streetscape project. In the Water Fund, \$150,000 was added to supplement the budget for a new well.

In governmental activities; the largest capital expenditure in fiscal year 2011 was \$238,601 for road resurfacing, \$87,000 of which was funded through the Municipal Street Aid grant. A portion of the boardwalk was replaced with long-lasting Kebony boards at a cost of \$99,800, 18 parking pay stations were installed for \$91,800, Mobi-Mats were purchased for \$89,988, two police cars were purchased for \$41,047 and \$42,035 was spent on additional machinery and equipment.

In the sanitation department, \$180,547 was spent on a side loading trash truck.

In the water department, \$78,053 was spent on water mains and \$15,838 was spent on clarifier refurbishment.

Two capital projects were classified as In Progress at the end of fiscal year 2011. In the General Fund, \$895,107 was spent on the Garfield Parkway utility relocation and streetscape project. In the Water Fund, \$313,619 was spent on drilling a new well.

## Debt Administration

As of March 31, 2011 the Town had \$1,628,126 in outstanding debt. In the general fund, \$679,032 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, \$949,094 in bonds payable remain for debt originally issued in 1989 and refinanced in 1994 for construction of the water plant and water distribution system. All current 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 2011 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 \$500,000 to \$800,000 in fiscal year 2012.

Two changes were made to fees during fiscal year 2011. Trash collection fees were increased 25% at the November 2010 Town Council meeting to cover the additional operational costs of recycling and yard waste collections. Ambulance fees were increased 37% at the January 2011 Town Council meeting to match the cost estimates of the Bethany Beach Volunteer Fire Department.

The fiscal year 2012 budget was approved in March of 2011. The operating budget for all town activities combined is \$5,984,000. This is \$309,000 (5.4%) more than the fiscal year 2011 operating budget. Budgeted operating costs in the General funds increased only 1.5% while the budget for the Water fund increased 4.7%.

The fiscal year 2012 Sanitation fund budget increased 34.4% or \$206,000 mainly because of two new State of Delaware regulations. In January 2011, a yard waste ban took effect that requires separate collection and transport of yard waste to a facility that will convert it into mulch and compost. New regulations on recycling require that the Town separately collect recyclables for all single-family homes and restaurants by September 15, 2011. Rules for recycling for multi-family units and commercial business will take effect in future years. Subsequent to approval of the budget, funding has become available through the State's Universal Recycling Grant and Low-Interest Loan Program, which will be used to offset some of the budgeted cost increases.

New capital projects for fiscal year 2012 include:

- \$225,000 for replacement of a second third of the boardwalk with Kebony boards.
- \$200,000 for street maintenance.
- \$170,000 for purchase of a rear loading trash truck
- \$98,000 for acquisition of 19 additional parking pay stations

## **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, 2011

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 709,633	\$ 510,407	\$ 1,220,040
Investments	4,581,915	1,856,590	6,438,505
Receivables:			
Taxes - real and personal property	9,409	-	9,409
Sanitation fees	-	25,180	25,180
Water charges	-	405,778	405,778
Interest	27,643	15,091	42,734
Other	5,688	-	5,688
Prepaid expenses	115,967	33,238	149,205
Internal balances	(46,353)	46,353	-
<b>Total current assets</b>	<b>5,403,902</b>	<b>2,892,637</b>	<b>8,296,539</b>
Noncurrent assets			
Restricted cash and cash equivalents	53,398	233,842	287,240
Capital assets at cost	15,846,275	7,834,255	23,680,530
Less accumulated depreciation	(6,376,496)	(3,469,407)	(9,845,903)
Bond issue cost, net of amortization	-	29,094	29,094
<b>Total noncurrent assets</b>	<b>9,523,177</b>	<b>4,627,784</b>	<b>14,150,961</b>
<b>Total assets</b>	<b>\$ 14,927,079</b>	<b>\$ 7,520,421</b>	<b>\$ 22,447,500</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued expenses	\$ 34,704	\$ 71,802	\$ 106,506
Employee withholdings and payroll taxes	36,195	72,257	108,452
Accrued interest	36,989	-	36,989
Deferred revenue	150,089	4,816	154,905
Bonds and notes payable	263,606	220,320	483,926
Lease purchase obligation	26,250	-	26,250
Compensated absences liability	6,419	2,820	9,239
<b>Total current liabilities</b>	<b>554,252</b>	<b>372,015</b>	<b>926,267</b>
Noncurrent liabilities			
Bonds and notes payable	415,426	728,774	1,144,200
Lease purchase obligation	65,550	-	65,550
Compensated absences liability	164,198	63,368	227,566
<b>Total noncurrent liabilities</b>	<b>645,174</b>	<b>792,142</b>	<b>1,437,316</b>
<b>Total liabilities</b>	<b>1,199,426</b>	<b>1,164,157</b>	<b>2,363,583</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	9,469,779	3,415,754	12,885,533
Restricted	53,398	233,842	287,240
Unrestricted	4,204,476	2,706,668	6,911,144
<b>Total net assets</b>	<b>\$ 13,727,653</b>	<b>\$ 6,356,264</b>	<b>\$ 20,083,917</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, 2011

Function/Program	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants Contributions, and Interest	Capital Grants, Contributions, and Interest	Governmental Activities	Business-Type Activities	Total
<b>GOVERNMENTAL ACTIVITIES</b>							
General and administration	\$ 1,009,240	\$ -	\$ -	\$ -	\$ (1,009,240)	\$ -	\$ (1,009,240)
Licenses and inspections	188,165	640,753	-	-	452,588	-	452,588
Public Safety							
Police and Alderman fines and revenue	1,480,235	102,783	73,196	20,000	(1,284,256)	-	(1,284,256)
Parking	342,928	1,351,935	-	-	1,009,007	-	1,009,007
Beach Patrol	408,443	-	-	-	(408,443)	-	(408,443)
Ambulance	91,700	91,455	-	-	(245)	-	(245)
Public works							
Stormwater management	212,793	-	-	-	(212,793)	-	(212,793)
Streets and parks	879,140	-	13,462	86,911	(778,767)	-	(778,767)
Beach and boardwalk	313,872	-	-	44,500	(269,372)	-	(269,372)
Recreation - entertainment	152,014	-	-	-	(152,014)	-	(152,014)
Historical/Cultural	10,420	-	-	-	(10,420)	-	(10,420)
Total Governmental Activities	5,088,950	2,186,926	86,658	151,411	(2,663,955)	-	(2,663,955)
<b>BUSINESS-TYPE ACTIVITIES</b>							
Water	1,047,709	1,117,029	334,212	-	-	403,532	403,532
Sanitation	599,858	674,259	-	-	-	74,401	74,401
Total Business-Type Activities	1,647,567	1,791,288	334,212	-	-	477,933	477,933
Total Primary Government	\$6,736,517	\$ 3,978,214	\$ 420,870	\$ 151,411	\$ (2,663,955)	\$ 477,933	\$ (2,186,022)
<b>General Revenues</b>							
Taxes:							
Property					1,610,488	-	1,610,488
Rental real estate					940,288	-	940,288
Transfer					816,463	-	816,463
Interest					12,032	28,308	40,340
Other					28,942	-	28,942
Total General Revenues					3,408,213	28,308	3,436,521
Change in Net Assets					744,258	506,241	1,250,499
Net Assets Beginning of Year					12,983,395	5,850,023	18,833,418
Net Assets End of Year					\$ 13,727,653	\$ 6,356,264	\$ 20,083,917

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

**TOWN OF BETHANY BEACH, DELAWARE**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**March 31, 2011**

	General Fund	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 666,261	\$ -	\$ 43,372	\$ 709,633
Investments	4,581,915	-	-	4,581,915
Receivables:				
Taxes - real and personal property	9,409	-	-	9,409
Interest	27,643	-	-	27,643
Other	5,019	-	669	5,688
Prepaid expenses	106,017	9,950	-	115,967
Due from other funds	-	29,076	-	29,076
Restricted Assets:				
Cash and cash equivalents	18,489	-	34,909	53,398
<b>Total assets</b>	<b>\$ 5,414,753</b>	<b>\$ 39,026</b>	<b>\$ 78,950</b>	<b>\$ 5,532,729</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	\$ 32,667	\$ 2,037	\$ -	\$ 34,704
Employee withholdings and payroll taxes	19,492	-	-	19,492
Accrued interest	-	36,989	-	36,989
Deferred revenue	71,337	-	78,752	150,089
Due to other funds	75,269	-	160	75,429
Compensated absences liability	6,419	-	-	6,419
<b>Total liabilities</b>	<b>205,184</b>	<b>39,026</b>	<b>78,912</b>	<b>323,122</b>
<b>FUND BALANCES</b>				
Nonspendable	106,017	9,950	-	115,967
Restricted	18,500	-	34,909	53,409
Committed for:				
Capital improvements	1,504,000	-	-	1,504,000
Future capital replacements	3,292,000	-	-	3,292,000
Unassigned	289,052	(9,950)	(34,871)	244,231
<b>Total fund balances</b>	<b>5,209,569</b>	<b>-</b>	<b>38</b>	<b>5,209,607</b>
<b>Total liabilities and fund balances</b>	<b>\$ 5,414,753</b>	<b>\$ 39,026</b>	<b>\$ 78,950</b>	<b>\$ 5,532,729</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, 2011**

Total fund balances, governmental funds		\$ 5,209,607
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.		9,469,779
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	(679,032)	
Lease purchase obligation	(91,800)	
Other post-employment benefit obligation	(16,703)	
Compensated absences	<u>(164,198)</u>	
Total long-term liabilities		<u>(951,733)</u>
Net assets of governmental activities in the Statement of Net Assets		<u>\$ 13,727,653</u>

**TOWN OF BETHANY BEACH, DELAWARE**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**Year Ended March 31, 2011**

	General Fund	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Taxes:				
Property	\$ 1,610,488	\$ -	\$ -	\$ 1,610,488
Rental real estate	940,288	-	-	940,288
Transfer	816,463	-	-	816,463
Parking revenues	1,351,935	-	-	1,351,935
Licenses, permits and fees	640,753	-	-	640,753
Police and Alderman fines and revenue	102,783	-	-	102,783
Interest	53,250	-	281	53,531
Service receipts	-	-	91,455	91,455
Intergovernmental revenues: State	-	-	238,069	238,069
Contributions	17,160	-	-	17,160
Miscellaneous	11,782	-	-	11,782
<b>Total revenues</b>	<b>5,544,902</b>	<b>-</b>	<b>329,805</b>	<b>5,874,707</b>
<b>Expenditures:</b>				
General and administration	933,182	-	-	933,182
Licenses and inspections	183,560	-	-	183,560
Public safety:				
Police	1,231,025	-	73,196	1,304,221
Alderman	47,670	-	-	47,670
Parking	323,490	-	-	323,490
Beach Patrol	408,443	-	-	408,443
Ambulance	-	-	91,700	91,700
Public works:				
Stormwater management	143,479	-	-	143,479
Streets and parks	592,513	45,250	13,462	651,225
Beach and boardwalk	218,760	-	-	218,760
Recreation - entertainment	109,217	-	-	109,217
Historical/Cultural	3,694	-	-	3,694
Debt service:				
Principal	-	317,278	-	317,278
Interest	-	41,499	-	41,499
Capital outlay	-	1,346,878	151,500	1,498,378
<b>Total expenditures</b>	<b>4,195,033</b>	<b>1,750,905</b>	<b>329,858</b>	<b>6,275,796</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>1,349,869</b>	<b>(1,750,905)</b>	<b>(53)</b>	<b>(401,089)</b>
Other financing sources (uses)				
Proceeds from loan	136,133	-	-	136,133
Proceeds from capital lease	-	91,800	-	91,800
Transfer (out) in	(1,659,105)	1,659,105	-	-
<b>Total other financing (uses) sources</b>	<b>(1,522,972)</b>	<b>1,750,905</b>	<b>-</b>	<b>227,933</b>
<b>Net change in fund balances</b>	<b>(173,103)</b>	<b>-</b>	<b>(53)</b>	<b>(173,156)</b>
<b>Fund balances, beginning</b>	<b>5,382,672</b>	<b>-</b>	<b>91</b>	<b>5,382,763</b>
<b>Fund balances, end of year</b>	<b>\$ 5,209,569</b>	<b>\$ -</b>	<b>\$ 38</b>	<b>\$ 5,209,607</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, 2011**

Net change in fund balances, governmental funds \$ (173,156)

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	1,498,378	
Depreciation expense	<u>(640,426)</u>	

Excess of capital outlay over depreciation expense		857,952
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Loan proceeds provide current financial resources to governmental funds, however,  
issuing debt increases long-term liabilities in the Statement of Net Assets. In the  
current period, loans of this amount were issued. (136,133)

Governmental funds report repayment of debt principal as an expenditure. In contrast,  
the Statement of Activities treats such repayments as a reduction in long-term liabilities. 317,278

Proceeds from capital leases are revenues in the governmental funds  
but increase liabilities in the Statement of Net Assets. (91,800)

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		(13,811)
Increase in compensated absences		<u>(16,072)</u>

Change in net assets of governmental activities		<u>\$ 744,258</u>
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**TOWN OF BETHANY BEACH, DELAWARE**

**STATEMENT OF FUND NET ASSETS**

**BUSINESS-TYPE ACTIVITIES**

**March 31, 2011**

	<b>Enterprise Fund</b>		
	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 312,387	\$ 198,020	\$ 510,407
Investments	1,032,493	824,097	1,856,590
Receivables:			
Water charges	405,778	-	405,778
Sanitation	-	25,180	25,180
Interest	7,350	7,741	15,091
Prepaid expenses	22,797	10,441	33,238
Due from other funds	47,287	-	47,287
<b>Total current assets</b>	<b>1,828,092</b>	<b>1,065,479</b>	<b>2,893,571</b>
<b>Noncurrent assets</b>			
Restricted cash and cash equivalents	233,842	-	233,842
Capital assets, at cost	7,020,320	813,935	7,834,255
Less accumulated depreciation	(3,025,625)	(443,782)	(3,469,407)
Bond issue costs, net of amortization	29,094	-	29,094
<b>Total noncurrent assets</b>	<b>4,257,631</b>	<b>370,153</b>	<b>4,627,784</b>
<b>Total assets</b>	<b>\$ 6,085,723</b>	<b>\$ 1,435,632</b>	<b>\$ 7,521,355</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued expenses	\$ 63,926	\$ 7,876	\$ 71,802
Employee withholdings and payroll taxes	69,431	2,826	72,257
Due to other funds	-	934	934
Deferred revenues	4,677	139	4,816
Long-term liabilities due within one year:			
General obligation bonds	220,320	-	220,320
Compensated absences liability	2,155	665	2,820
<b>Total current liabilities</b>	<b>360,509</b>	<b>12,440</b>	<b>372,949</b>
<b>Noncurrent liabilities</b>			
General obligation bonds	728,774	-	728,774
Compensated absences liability	39,778	23,590	63,368
<b>Total noncurrent liabilities</b>	<b>768,552</b>	<b>23,590</b>	<b>792,142</b>
<b>Total liabilities</b>	<b>1,129,061</b>	<b>36,030</b>	<b>1,165,091</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	3,045,601	370,153	3,415,754
Restricted	233,842	-	233,842
Unrestricted	1,677,219	1,029,449	2,706,668
<b>Total</b>	<b>\$ 4,956,662</b>	<b>\$ 1,399,602</b>	<b>\$ 6,356,264</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, 2011**

	<b>Enterprise Fund</b>		
	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
<b>OPERATING REVENUE</b>			
Charges for services:			
Water	\$ 1,093,277	\$ -	\$ 1,093,277
Sanitation	-	674,259	674,259
Other operating	23,752	-	23,752
<hr/>			
Total operating revenues	1,117,029	674,259	1,791,288
<hr/>			
<b>OPERATING EXPENSES</b>			
Water	790,591	-	790,591
Sanitation	-	542,934	542,934
Depreciation and amortization	201,620	56,924	258,544
<hr/>			
Total operating expenses	992,211	599,858	1,592,069
<hr/>			
Net operating income	124,818	74,401	199,219
<hr/>			
<b>NON-OPERATING REVENUE (EXPENSES)</b>			
Non-operating revenue	334,212	-	334,212
Amortization of bond issue cost	(5,320)	-	(5,320)
Financial expense, net	(33,920)	12,050	(21,870)
<hr/>			
Total non-operating revenue	294,972	12,050	307,022
<hr/>			
Change in net assets	419,790	86,451	506,241
<hr/>			
Total net assets, beginning	4,536,872	1,313,151	5,850,023
<hr/>			
Total net assets, ending	\$ 4,956,662	\$ 1,399,602	\$ 6,356,264
<hr/>			

*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, 2011**

	<u>Enterprise Fund</u>		
	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers	\$ 1,088,677	\$ 646,772	\$ 1,735,449
Payments to suppliers	(321,449)	(266,726)	(588,175)
Payments to employees	(408,546)	(277,263)	(685,809)
Net cash provided by operating activities	358,682	102,783	461,465
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Non-operating revenue	334,212	-	334,212
Advances from general fund, net	(22,821)	(263)	(23,084)
Net cash provided (used) by noncapital financing activities	311,391	(263)	311,128
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition of capital assets	(407,510)	(180,547)	(588,057)
Principal paid on long-term debt	(205,320)	-	(205,320)
Interest paid on long-term debt	(50,178)	-	(50,178)
Net cash used in capital and related financing activities	(663,008)	(180,547)	(843,555)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of investments	(11,305)	(4,681)	(15,986)
Interest income	16,258	12,050	28,308
Net cash provided by investing activities	4,953	7,369	12,322
Net increase (decrease) in cash and cash equivalents	12,018	(70,658)	(58,640)
Cash and cash equivalents, beginning of year	534,211	268,678	802,889
Cash and cash equivalents, end of year	\$ 546,229	\$ 198,020	\$ 744,249
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Operating income	\$ 124,818	\$ 74,401	\$ 199,219
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization expense	201,620	56,924	258,544
Changes in assets and liabilities:			
Receivables, net	(29,590)	(27,626)	(57,216)
Prepaid expenses	(7,224)	(4,145)	(11,369)
Deferred revenue	1,238	139	1,377
Accounts and other payables	65,514	(1,897)	63,617
Compensated absences liability	2,306	4,987	7,293
Net cash provided by operating activities	\$ 358,682	\$ 102,783	\$ 461,465

*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)

#### 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.

#### 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.

In prior years, recycling activities were recorded as a non-major governmental fund. During the current year all recycling activities were recorded in the sanitation fund.

#### FIDUCIARY FUNDS

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

## NOTES TO FINANCIAL STATEMENTS

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

#### 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.

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.

## NOTES TO FINANCIAL STATEMENTS

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

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.

#### 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.

## NOTES TO FINANCIAL STATEMENTS

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

#### 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 \$150,089 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.

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

## NOTES TO FINANCIAL STATEMENTS

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

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, 2011.

#### 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, 2011. 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.

### Note 3. Real Estate Taxes

The tax on real estate in the Town area for the fiscal year ended March 31, 2011 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, 2011 are as follows:

Description	Financial Institution Balances			Totals	Carrying Amounts
	1	2	3		
Cash & Cash Equivalents:					
Unrestricted	\$ 324,672	\$ 1,121,325	\$ -	\$ 1,445,997	\$ 1,220,040
Restricted	-	287,240	-	287,240	287,240
<b>Totals</b>	<b>\$ 324,672</b>	<b>\$ 1,408,565</b>	<b>\$ -</b>	<b>\$ 1,733,237</b>	<b>\$ 1,507,280</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, 2011, the Town's investments consist of the following:

Description	Category	Amounts	
		Market	Carrying
Certificates of Deposit	1, 2	\$ 6,438,505	\$ 6,438,505
Investments:			
Unrestricted		\$ 6,438,505	\$ 6,438,505
<b>Total Investments</b>		<b>\$ 6,438,505</b>	<b>\$ 6,438,505</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, 2011, are as follows:

Description	Special Revenue
State of Delaware	\$ 160

### Note 6. Capital Assets

The following is a summary of changes in capital assets for the year ended March 31, 2011:

	March 31, 2010	Additions	Deletions/ Transfers	March 31, 2011
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets, not being depreciated:				
Land	\$ 3,391,767	\$ -	\$ -	\$ 3,391,767
Construction in progress	8,500	895,107	-	903,607
Total capital assets, not being depreciated	3,400,267	895,107	-	4,295,374
Capital assets, being depreciated				
Beach and boardwalk	982,019	99,800	-	1,081,819
Building and improvements	3,621,474	-	-	3,621,474
Land improvements	643,162	-	-	643,162
Machinery and equipment	1,084,287	223,823	-	1,308,110
Stormwater	1,192,348	-	-	1,192,348
Streets and parks	2,644,296	238,601	-	2,882,897
Vehicles	843,446	41,047	(63,402)	821,091
Total capital assets, being depreciated	11,011,032	603,271	(63,402)	11,550,901
Less accumulated depreciation:				
Beach and boardwalk	615,805	55,123	-	670,928
Building and improvements	1,386,961	143,249	-	1,530,210
Land improvements	166,627	39,845	-	206,472
Machinery and equipment	739,971	122,142	-	862,113
Stormwater	367,004	67,895	-	434,899
Streets and parks	1,842,830	141,183	-	1,984,013
Vehicles	680,274	70,989	(63,402)	687,861
Total accumulated depreciation	5,799,472	640,426	(63,402)	6,376,496
Total capital assets, being depreciated, net	5,211,560	(37,155)	-	5,174,405
Governmental activities capital assets, net	\$ 8,611,827	\$ 857,952	\$ -	\$ 9,469,779

**NOTES TO FINANCIAL STATEMENTS**

**Note 6. Capital Assets (continued)**

Depreciation expense was charged to governmental functions as follows:

General, administrative and park development	\$ 73,637
Police and Alderman	105,198
Parking	19,747
Public works	
Stormwater management	72,059
Streets and parks	226,263
Beach and boardwalk	93,999
Recreation - entertainment	42,797
Historical/Cultural	6,726
	<u>\$ 640,426</u>

	March 31, 2010	Additions	Deletions/ Transfers	March 31, 2011
<b>BUSINESS-TYPE ACTIVITIES</b>				
<b>Water Fund</b>				
Capital assets, not being depreciated:				
Construction in progress	\$ 88,179	\$ 313,619	\$ -	\$ 401,798
Total capital assets, not being depreciated	88,179	313,619	-	401,798
Capital assets, being depreciated:				
Plant and water distribution system	5,980,353	78,053	-	6,058,406
Vehicles and equipment	544,278	15,838	-	560,116
Total capital assets, being depreciated	6,524,631	93,891	-	6,618,522
Total accumulated depreciation	2,824,005	201,620	-	3,025,625
Total capital assets, being depreciated, net	3,700,626	(107,729)	-	3,592,897
<b>Water capital assets, net</b>	<b>\$ 3,788,805</b>	<b>\$ 205,890</b>	<b>\$ -</b>	<b>\$ 3,994,695</b>
<b>Sanitation Fund</b>				
Capital assets, being depreciated:				
Vehicles and equipment	\$ 633,388	\$ 180,547	\$ -	\$ 813,935
Total capital assets, being depreciated	633,388	180,547	-	813,935
Total accumulated depreciation	386,858	56,924	-	443,782
Total capital assets, being depreciated, net	246,530	123,623	-	370,153
<b>Sanitation capital assets, net</b>	<b>\$ 246,530</b>	<b>\$ 123,623</b>	<b>\$ -</b>	<b>\$ 370,153</b>
<b>Business-type activities capital assets, net</b>	<b>\$ 4,035,335</b>	<b>\$ 329,513</b>	<b>\$ -</b>	<b>\$ 4,364,848</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 March 31, 2010	Additions	Retirements and Repayments	Balances March 31, 2011	Amount Due in One Year
Compensated absences			\$ 58,895	\$ 7,293	\$ -	\$ 66,188	\$ 2,820
General Obligation Bonds:							
Series 1994			\$ 1,130,000	\$ -	\$ 200,000	\$ 930,000	\$ 215,000
Bond Premium			104,416	-	22,735	81,681	22,735
Refunding Deferral	2.75-						
Series 1994, net	9.75%	2014	(80,002)	17,415	-	(62,587)	(17,415)
			1,154,414	17,415	222,735	949,094	220,320
Total Business-type Activities Long-Term Debt			\$ 1,213,309	\$ 24,708	\$ 222,735	\$ 1,015,282	\$ 223,140

Total annual requirements to amortize all business-type activities debt outstanding as of March 31, 2011 are as follows:

Fiscal Year Ending March 31,	Principal	Interest	Total
2012	\$ 220,320	\$ 49,290	\$ 269,610
2013	230,320	37,895	268,215
2014	245,320	25,970	271,290
2015	253,134	13,250	266,384
	\$ 949,094	\$ 126,405	\$ 1,075,499

Interest expense in the business-type activities for the year ended March 31, 2011 totaled \$50,178.

## 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 March 31, 2010	Additions	Retirements and Repayments	Balances March 31, 2011	Amount Due in One Year
Compensated absences			\$ 161,244	\$ 9,373	\$ -	\$ 170,617	\$ 6,419
Cash settlement employees	0.00%	2013	196,312	136,133	158,687	173,758	92,328
State of Delaware Pension	8.00%	2012	663,865	-	158,591	505,274	171,278
			860,177	136,133	317,278	679,032	263,606
<b>Total Governmental Activities Long-Term Debt</b>			<b>\$ 1,021,421</b>	<b>\$ 145,506</b>	<b>\$ 317,278</b>	<b>\$ 849,649</b>	<b>\$ 270,025</b>

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

Fiscal Year Ending March 31,	Principal	Interest	Total
2012	\$ 263,606	\$ 40,422	\$ 304,028
2013	243,104	26,720	269,824
2014	95,964	13,786	109,750
2015	76,358	7,153	83,511
	<b>\$ 679,032</b>	<b>\$ 88,081</b>	<b>\$ 767,113</b>

Interest expense in the governmental activities for the year ended March 31, 2011 totaled \$41,499.

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

Original cost of assets acquired under these capital leases for the capital projects fund is \$91,800 with accumulated depreciated of \$7,650 as of March 31, 2011.

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

Fiscal Year Ending March 31,	Principal	Interest	Total
2012	\$ 26,250	\$ -	\$ 26,250
2013	26,250	-	26,250
2014	26,250	-	26,250
2015	13,050	-	13,050
	<b>\$ 91,800</b>	<b>\$ -</b>	<b>\$ 91,800</b>

## NOTES TO FINANCIAL STATEMENTS

### Note 9. 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 three 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, 2011 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 net OPEB obligation at the beginning of the fiscal year was approximately \$36,000. 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 (Expense)		62,000
Age Adjusted Contributions Made		(15,000)
Change in Net OPEB Obligation (NOO)		47,000
Net OPEB Obligation (NOO) - Beginning of Year		36,000
Net OPEB Obligation (NOO) - End of Year	\$	83,000

## NOTES TO FINANCIAL STATEMENTS

### Note 9. 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

### 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	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%

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, 2011 was 8 years.

## NOTES TO FINANCIAL STATEMENTS

### Note 10. 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 \$73,272 and \$63,352 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, McArde 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, 2011 the Town was required to contribute 6.20% of total compensation for general employees and 13.90% 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 10. 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, 2011, 2010, and 2009 are as follows:

	2011	2010	2009
Creditable wages	\$ 1,641,128	\$ 1,561,259	\$ 1,549,436
Contributions paid:			
General employees	73,272	69,924	72,272
Police officers	63,352	59,817	57,576

### Note 11. 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 12. 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, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES:</b>				
Taxes:				
Property	\$ 1,596,000	\$ 1,596,000	\$ 1,610,488	\$ 14,488
Rental real estate	880,000	880,000	940,288	60,288
Transfer	500,000	500,000	816,463	316,463
Parking Revenues	1,388,000	1,388,000	1,351,935	(36,065)
Licenses, permits and fees	535,000	535,000	640,753	105,753
Police and Alderman fines and revenue	120,000	120,000	102,783	(17,217)
Interest	90,000	90,000	53,250	(36,750)
Contributions	17,000	17,000	17,160	160
Miscellaneous	8,000	8,000	11,782	3,782
<b>Total revenues</b>	<b>5,134,000</b>	<b>5,134,000</b>	<b>5,544,902</b>	<b>410,902</b>
<b>EXPENDITURES:</b>				
General and administration	888,000	937,000	933,182	3,818
Licenses and inspections	196,000	196,000	183,560	12,440
Public safety:				
Police	1,209,000	1,302,000	1,231,025	70,975
Alderman	59,000	59,000	47,670	11,330
Parking	314,000	324,000	323,490	510
Beach Patrol	430,000	420,000	408,443	11,557
Public works:				
Stormwater management	162,000	162,000	143,479	18,521
Streets and parks	608,000	608,000	592,513	15,487
Beach and boardwalk	258,000	258,000	218,760	39,240
Recreation - entertainment	118,000	118,000	109,217	8,783
Historical/Cultural	20,000	20,000	3,694	16,306
<b>Total expenditures</b>	<b>4,262,000</b>	<b>4,404,000</b>	<b>4,195,033</b>	<b>208,967</b>
<b>Excess of revenues over expenditures</b>	<b>872,000</b>	<b>730,000</b>	<b>1,349,869</b>	<b>619,869</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from loan	-	-	136,133	136,133
Transfer out	-	-	(1,659,105)	(1,659,105)
<b>Total other financing sources</b>	<b>-</b>	<b>-</b>	<b>(1,522,972)</b>	<b>(1,522,972)</b>
<b>Net change in fund balance</b>	<b>\$ 872,000</b>	<b>\$ 730,000</b>	<b>(173,103)</b>	<b>\$ (903,103)</b>
Fund balance - beginning			<u>5,382,672</u>	
Fund balance - ending			<u>\$ 5,209,569</u>	

**TOWN OF BETHANY BEACH, DELAWARE**

**REQUIRED SUPPLEMENTARY INFORMATION  
Year Ended March 31, 2011**

**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</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%

**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

**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. Such information includes budgetary comparison schedules for the general fund. 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, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
<b>EXPENDITURES:</b>				
General and administration	\$ 20,000	\$ 20,000	\$ 5,463	\$ 14,537
Public safety:				
Police	22,000	31,000	30,041	959
Parking	95,000	95,000	91,800	3,200
Public works:				
Stormwater management	125,000	125,000	-	125,000
Streets and parks	1,525,000	2,060,000	1,119,536	940,464
Beach and boardwalk	111,000	201,000	145,288	55,712
Debt service:				
Principal	231,000	322,000	317,278	4,722
Interest	42,000	42,000	41,499	501
<b>Total expenditures</b>	<b>2,171,000</b>	<b>2,896,000</b>	<b>1,750,905</b>	<b>1,145,095</b>
<b>OTHER FINANCING SOURCES:</b>				
Proceeds from capital lease	-	-	91,800	(91,800)
Operating transfers in	-	-	1,659,105	1,659,105
<b>Total other financing sources</b>	<b>-</b>	<b>-</b>	<b>1,750,905</b>	<b>1,567,305</b>
<b>Net change in fund balance</b>	<b>\$(2,171,000)</b>	<b>\$(2,896,000)</b>	<b>-</b>	<b>\$ 422,210</b>
Fund balance - beginning			-	
Fund balance - ending			\$ -	

**TOWN OF BETHANY BEACH, DELAWARE**

**ADDITIONAL SUPPLEMENTARY SCHEDULE  
BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND  
Year Ended March 31, 2011**

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b>REVENUES:</b>				
Intergovernmental revenues:				
State and County	\$ 50,000	\$ 50,000	\$ 238,069	\$ 188,069
Interest income	-	-	36	36
<hr/>				
Total revenues	50,000	50,000	238,105	188,105
<hr/>				
<b>EXPENDITURES:</b>				
Public safety:				
Police	50,000	50,000	93,196	(43,196)
Public works:				
Streets and parks	-	-	100,462	(100,462)
Beach and boardwalk	-	-	44,500	(44,500)
<hr/>				
Total expenditures	50,000	50,000	238,158	(188,158)
<hr/>				
Deficiency of revenues over expenditures	-	-	(53)	(53)
<hr/>				
Net change in fund balance	\$ -	\$ -	(53)	\$ (53)
<hr/>				
Fund balance - beginning			91	
Fund balance - ending			\$ 38	

**TOWN OF BETHANY BEACH, DELAWARE**

**INCOME AND EXPENSE DETAIL  
WATER FUND**

**Year Ended March 31, 2011**

**WATER SERVICE:**

Operating revenues:	
Charges for services	\$ 1,093,277
Other service fees	22,509
Miscellaneous	1,243
<hr/>	
Total operating revenues	1,117,029
<hr/>	
Operating expenses:	
Salaries and wages	271,549
Payroll taxes	20,480
Employee benefits	118,823
Administrative fees	2,332
Contract services	49,742
Insurance	31,087
Telephone	5,734
Utilities	48,008
Repairs and maintenance	14,038
Engineering	17,539
Sewer service charge	408
Plant maintenance	58,781
Distribution system maintenance	38,511
Office supplies	5,802
Miscellaneous	16,985
Supplies	16,231
Chemicals	73,348
Uniforms	1,193
Depreciation	201,620
<hr/>	
Total operating expenses	992,211
<hr/>	
Net operating income	124,818
<hr/>	
Non-operating revenue (expenses):	
Taxes and assessments	246,184
Impact fees	88,028
Interest income	16,258
Amortization on bond issue costs	(5,320)
Interest expense	(50,178)
<hr/>	
Net non-operating revenues	294,972
<hr/>	
<b>NET INCOME</b>	<b>\$ 419,790</b>

**TOWN OF BETHANY BEACH, DELAWARE**

**INCOME AND EXPENSE DETAIL**

**SANITATION FUND**

**Year Ended March 31, 2011**

**SANITATION SERVICE:**

Operating revenues:	
Charges for services	\$ 674,259
<hr/>	
Total operating revenues	674,259
<hr/>	
Operating expenses:	
Salaries and wages	201,758
Payroll taxes	14,960
Employee benefits	65,532
Disposal fees	149,051
Fuel	29,825
Insurance	14,288
Telephone	1,874
Utilities	8,948
Repairs and maintenance	41,958
Office supplies	5,960
Miscellaneous	8,780
Depreciation	56,924
<hr/>	
Total operating expenses	599,858
<hr/>	
Net operating income	74,401
<hr/>	
Non-operating revenues:	
Interest income	12,050
<hr/>	
Net non-operating revenues	12,050
<hr/>	
<b>NET INCOME</b>	<b>\$ 86,451</b>

**TOWN OF BETHANY BEACH, DELAWARE**  
**COMBINING BALANCE SHEET**  
**OTHER GOVERNMENTAL FUNDS**  
**March 31, 2011**

	Special Revenue	Ambulance	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 43,372	\$ 43,372
Receivables:			
Ambulance fees	-	509	509
Intergovernmental	160	-	160
Restricted Assets:			
Cash and cash equivalents	34,909	-	34,909
<b>Total assets</b>	<b>\$ 35,069</b>	<b>\$ 43,881</b>	<b>\$ 78,950</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Deferred revenue	\$ 34,871	\$ 43,881	\$ 78,752
Due to other funds	160	-	160
<b>Total liabilities</b>	<b>35,031</b>	<b>43,881</b>	<b>78,912</b>
<b>FUND BALANCES</b>			
Restricted	34,909	-	34,909
Unassigned	(34,871)	-	(34,871)
<b>Total fund balances</b>	<b>38</b>	<b>-</b>	<b>38</b>
<b>Total liabilities and fund balances</b>	<b>\$ 35,069</b>	<b>\$ 43,881</b>	<b>\$ 78,950</b>

**TOWN OF BETHANY BEACH, DELAWARE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**OTHER GOVERNMENTAL FUNDS**  
**Year Ended March 31, 2011**

	Special Revenue	Ambulance	Total
<b>REVENUES:</b>			
Interest	\$ 36	\$ 245	\$ 281
Ambulance receipts	-	91,455	91,455
Intergovernmental revenues:			
State	238,069	-	238,069
<hr/>			
Total revenues	238,105	91,700	329,805
<hr/>			
<b>Expenditures:</b>			
Public safety:			
Police	93,196	-	93,196
Ambulance	-	91,700	91,700
Public works:			
Streets and parks	100,462	-	100,462
Beach and boardwalk	44,500	-	44,500
<hr/>			
Total expenditures	238,158	91,700	329,858
<hr/>			
Deficiency of revenues over expenditures	(53)	-	(53)
<hr/>			
Net change in fund balances	(53)	-	(53)
<hr/>			
Fund balances, beginning	91	-	91
<hr/>			
Fund balances, end of year	\$ 38	\$ -	\$ 38

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, 2011, which collectively comprise the Town's basic financial statements and have issued our report thereon dated June 21, 2011. 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 21, 2011