

TOWN OF BETHANY BEACH, DELAWARE

FINANCIAL REPORT

MARCH 31, 2013

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INDEPENDENT AUDITORS' REPORT

Town of Bethany Beach, Delaware
Bethany Beach, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Bethany Beach, Delaware (the "Town") as of and for the year ended March 31, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the

955 Mt. Hermon Road | Salisbury, MD 21804 | 410-742-1328 | 1-888-546-1574 | FAX 410-742-6855

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financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town as of March 31, 2013, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Other Information

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 is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2013, 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* in considering the Town of Bethany Beach, Delaware's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "JHM Group LLC". The signature is written in a cursive, flowing style.

Salisbury, Maryland
July 11, 2013

**Town of Bethany Beach
Management's Discussion and Analysis
March 31, 2013**

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 ending March 31, 2013. 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 2013

The assets of the Town of Bethany Beach exceed its liabilities at the end of fiscal year 2013 by \$22,259,325 (net assets). Of this amount, \$7,363,339 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors. The remaining \$14,501,748 in net assets is invested in capital assets, net of related debt and \$394,238 is restricted for specific uses.

The Town's total net assets increased by \$1,098,848 (5.2%) in fiscal year 2013. Net assets of governmental activities increased by \$847,263 (5.9%), while net assets of business-type activities increased by \$251,585 (3.6%).

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.

As of the close of fiscal year 2013, the Town's governmental funds reported an ending fund balance of \$4,934,614. Of this amount, \$114,665 is nonspendable prepaid balances. In the General Fund, restricted funds include \$51,502 in post-employment benefits, \$55,291 in Cultural & Historic funds and \$68,062 in Fourth of July Parade Funds. Committed funds are \$1,315,000 for capital purchases in fiscal year 2014, and \$2,991,000 for future capital projects.

This leaves \$339,060 as unassigned in the general fund at the end of fiscal year 2013. The unassigned fund balance for the general fund represents 7.2% of the general fund operating expenditure budget for fiscal year 2014 of \$4,740,000.

The Town's bonds and notes payable decreased by \$330,210 (28.9%) as a result of regular, scheduled payments on current debt less \$143,214 in new loan funds for the water tower project. Of the Town's \$813,990 in total bonds and notes payable, \$693,202 (85.2%) is due within the next five years.

Overall, the Town is in good financial condition and was only mildly affected by the economic downturn. The Town's policies and focus on planning for the future has helped keep the town in good fiscal shape.

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.

Government-Wide Financial Statements

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

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

The statement of activities presents information showing how the Town's net assets changed during this fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave).

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

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

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

The government-wide financial statements can be found on pages 21-22 of this report.

Fund financial statements

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

Governmental funds – Most of the basic services provided by the Town are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

These statements provide a detailed short-term view of the Town's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Town. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the government fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town has four governmental funds: the General Fund, the Capital Projects Fund, the Special Revenue Fund (used to account for State and Federal grants), and the Ambulance Fund. Fees collected for ambulance services are used only to pay the charges of the Bethany Beach Volunteer Fire Company.

The basic governmental fund financial statements can be found on pages 23-26 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 27-29 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 30-46 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 \$22,259,325 at the end of fiscal year 2013, compared to \$21,160,477 at the end of fiscal year 2012, an increase of \$1,098,848 (5.2%).

The largest portion of the Town's net assets, \$14,501,748 (65.1%), 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, 2013, the Town held \$2,065,120 in cash and cash equivalents and \$5,477,609 in investments. The investments were entirely certificates of deposit. The Town follows a written Investment Policy, which is reviewed annually. The primary objective of Town investments in priority order are safety, liquidity and then return on investment. The Town seeks investments that are diverse by type, institution and maturity date. All investments must be FDIC insured or collateralized. Authorized investments include United States government securities, certificates of deposit, money market accounts in commercial banks and commercial bank saving accounts. Currently, all certificates of deposit held by the town are for amounts under the FDIC limit of \$250,000 per institution to provide greater security of funds while improving interest earnings. Further information on cash and investments can be found on page 38, note 4.

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. All of the Town's funds continue to hold reserves above the minimums recommended in the policy, a good indicator of the Town's financial strength.

The Fund Balance Policy recommends maintaining an Operating Reserve of 15% to 30% of budgeted operating costs. In the budget for the current fiscal year 2014, operating reserves are \$711,000 in the general fund, \$111,000 in the sanitation fund and \$133,000 in the water fund.

Capital replacement committed fund balance recommendations are based on the cost and useful lives of assets currently in use by the Town. For fiscal year 2014, capital replacement fund balances committed were \$2,991,000 in the general fund, \$631,000 in the sanitation fund and \$767,000 in the water fund.

The Town has agreed to pay the cost of post-employment health care insurance for three retirees and their families. The town has elected to amortize the liability over ten years rather than the allowable thirty years. As of March 31, 2013, \$182,982 was held in a separate bank account to fund this benefit, which is 38.7% of the \$473,000 actuarial accrued liability. Further information on this obligation can be found on page 43, note 10.

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

Town of Bethany Beach
Summary of Statement of Net Assets
March 31, 2013

	Governmental Activities		Business-Type Activities		Total		% Change
	2012	2013	2012	2013	2012	2013	
Current Assets	4,689,097	4,982,811	3,240,780	3,303,968	7,929,877	8,286,779	4.5%
Capital Assets	10,575,718	10,610,244	4,321,211	4,608,772	14,896,929	15,219,016	2.2%
Other Assets	31,791	229,424	265,956	183,268	297,747	412,692	38.6%
Total Assets	15,296,606	15,822,479	7,827,947	8,096,008	23,124,553	23,918,487	3.4%
Long-Term Liabilities	381,331	253,381	569,111	468,476	950,442	721,857	-24.1%
Other Liabilities	658,102	464,662	355,532	472,643	1,013,634	937,305	-7.5%
Total Liabilities	1,039,433	718,043	924,643	941,119	1,964,076	1,659,162	-15.5%
Invested in capital assets, net of related debt	10,446,118	10,534,644	3,592,437	3,967,104	14,038,555	14,501,748	3.3%
Restricted	31,791	229,424	242,182	164,814	273,973	394,238	43.9%
Unrestricted	3,779,264	4,340,368	3,068,685	3,022,971	6,847,949	7,363,339	7.5%
Total Net Assets	14,257,173	15,104,436	6,903,304	7,154,889	21,160,477	22,259,325	5.2%

The remaining balance of unrestricted net assets, \$7,363,339, may be used to meet the government's ongoing obligations to citizens and creditors. Unrestricted net assets increased \$515,390 (7.5%) during fiscal year 2013 while the amount invested in capital assets, net of related debt, increased \$463,193 (3.3%).

Current assets in total increased \$356,902 (4.5%). The current assets for Governmental Activities increased \$293,714 (6.3%) while current assets of Business-Type Activities increased \$63,188 (1.9%). This increased reserves for future needs.

The majority of the \$8,286,779 in total current assets is cash, cash equivalents and investments, most of which are held in reserves for future needs. Receivables, \$590,559 of the current assets, increased \$90,487 (18.1%). The increase is entirely due to \$143,214 due from the State for the water tower project loan, while \$392,624 of the receivables relate to water bills mailed in April 2013. Prepaid expenses were \$153,490 at the end of FY 2013, \$44,126 less than the prior year.

Capital Assets held by the Town increased \$322,087 (2.2%) to \$15,219,016 in fiscal year 2013 from capital projects and purchases. Long-term liabilities decreased \$228,585 (24.1%) from scheduled debt payments less \$143,214 in new debt for the water tower. Other liabilities decreased \$76,329 (7.5%).

Restricted assets in governmental activities include funds set aside for post-employment health care, grant funding received in advance of grant spending and funds set aside for the Cultural & Historic Affairs Committee, the Fourth of July Parade and ambulance services. In business-type activities, the restricted category includes funds for post-employment health care, impact fees collected for capital projects and sinking fund fees collected for debt service.

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

Town of Bethany Beach
Summary of Statement of Activities
March 31, 2013

	Governmental Activities		Business-Type Activities		Total		% Change
	2012	2013	2012	2013	2012	2013	
Revenues:							
Program Revenues							
Charges for services	2,173,858	2,451,100	1,802,231	1,818,669	3,976,089	4,269,769	7.4%
Assessments & impact fees			303,011	327,265	303,011	327,265	8.0%
Operating grants	90,168	135,372	86,161	-	176,329	135,372	-23.2%
Capital grants	345,877	183,263	164,216	-	510,093	183,263	-64.1%
General Revenues							
Property taxes	1,622,491	1,678,185	-	-	1,622,491	1,678,185	3.4%
Rental real estate taxes	984,667	1,014,946	-	-	984,667	1,014,946	3.1%
Transfer taxes	479,558	645,691	-	-	479,558	645,691	34.6%
Other	34,933	291,898	18,191	15,380	53,124	307,278	478.4%
Total Revenues	5,731,552	6,400,455	2,373,810	2,161,314	8,105,362	8,561,769	5.6%
Expenses:							
General and administration	1,040,473	910,320	-	-	1,040,473	910,320	-12.5%
Licenses and inspections	199,038	201,690	-	-	199,038	201,687	1.3%
Public Safety							
Police and Alderman	1,367,601	1,602,560	-	-	1,367,601	1,602,560	17.2%
Parking	461,937	417,884	-	-	461,937	417,884	-9.5%
Beach Patrol	385,599	438,833	-	-	385,599	438,833	13.8%
Ambulance	114,800	119,000	-	-	114,800	119,000	3.7%
Public Works							
Stormwater management	240,995	180,659	-	-	240,995	180,659	-25.0%
Streets & Parks	904,359	1,091,249	-	-	904,359	1,091,249	20.7%
Beach and boardwalk	327,469	389,404	-	-	327,469	389,404	18.9%
Recreation - entertainment	148,822	186,700	-	-	148,822	186,700	25.5%
Cultural/Historic & Parade	10,939	14,896	-	-	10,939	14,896	36.2%
Sanitation Fund			808,760	807,915	808,760	807,915	-0.1%
Water Fund		-	1,018,010	1,101,814	1,018,010	1,101,814	8.2%
Total Expenses	5,202,032	5,553,192	1,826,770	1,909,729	7,028,802	7,462,921	6.2%
Change in Net Assets	529,520	847,263	547,040	251,585	1,076,560	1,098,848	2.1%
Net Assets, beginning of year	13,727,653	14,257,173	6,356,264	6,903,304	20,083,917	21,160,477	5.4%
Net Assets, end of year	14,257,173	15,104,436	6,903,304	7,154,889	21,160,477	22,259,325	5.2%

The Town's total net assets increased \$1,098,848 (2.1%). Approximately 39.0% of the Town's total revenue came from three types of taxes: property, rental and transfer. Total revenues increased \$456,407 (5.6%), while total expenses increased \$434,119 (6.2%).

Total grant funding for this fiscal year was \$367,789 (53.6%) lower than the prior year. In Governmental Activities, grants decreased \$117,412 because the one-time American Recovery and Reinvestment Act energy efficiency grant ended. Grant funding in Business-Type Activities decreased \$250,377 as no more funds were received from the State of Delaware for recycling implementation.

Governmental Activities

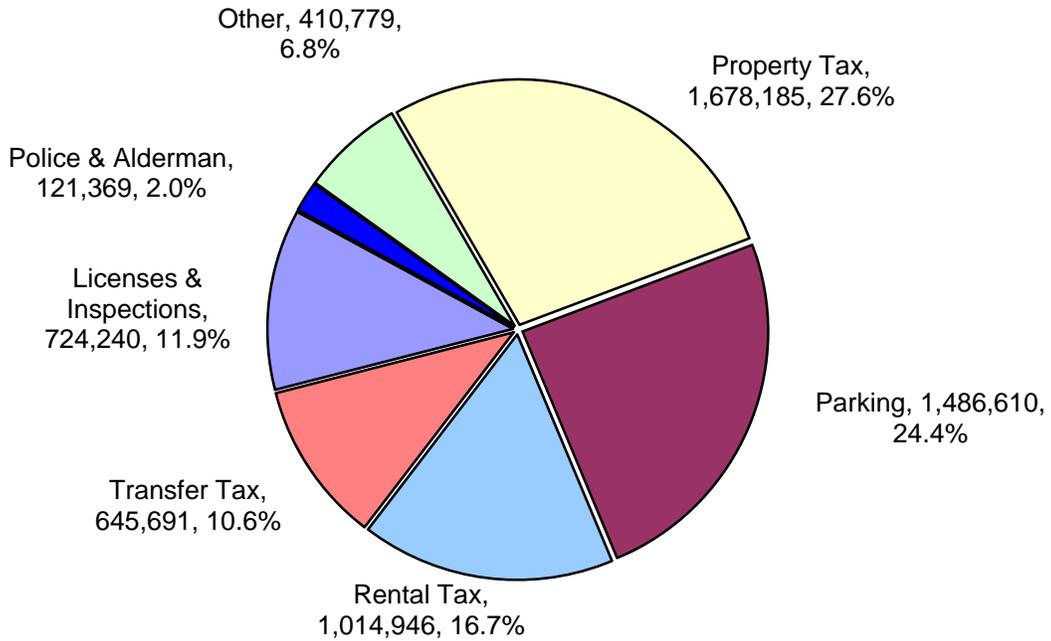
Total revenue for government activities increased \$668,901 (11.7%) to \$6,400,455. The major revenue sources and key factors are as follows. Grant revenue is not included due to the variable nature of State and Federal grants.

1. Property Tax revenue totaled \$1,678,185 and was the Town's largest single source of funding. The assessed value of taxable properties as of May 2012 was \$983,659,009, which is \$5,174,504 (0.5%) more than the prior year. The tax rate increased 3.0%, from \$0.165 to \$0.17 per \$100 of assessed value. The most recent town-wide reassessment was completed in 2001. Total property tax revenue increased \$55,694 (3.4%). As a percentage of total governmental revenue, property tax decreased from 30.6% in fiscal year 2012 to 27.6% in fiscal year 2013.
2. Revenues from parking fines, parking meters and parking permits totaled \$1,486,610 and were the Town's second largest revenue source. These revenues increased \$148,831 (11.1%) from the addition of a \$0.25 parking pay station fee and an increase in seasonal visitors. As a percentage of governmental revenue, parking decreased from 25.3% in fiscal year 2012 to 24.4% in fiscal year 2013.
3. Real estate rental taxes were the Town's third largest revenue source at \$1,014,946. These revenues increased \$30,279 (3.1%). As a percentage of total governmental revenue, rental taxes decreased from 18.6% in fiscal year 2012 to 16.7% in fiscal year 2013.
4. Licenses, permits and other fees were the fourth largest revenue source at \$724,240. These revenues increased \$118,668 (19.6%) mainly from an increase in building permits issued. Other revenues in this category include business licenses, rental licenses, franchise fees, concession fees, shuttle bus fees and trolley fees. As a percentage of governmental revenue, licenses, permits and other fees increased from 11.4% in fiscal year 2012 to 11.9% in fiscal year 2013.
5. Real estate transfer taxes were the Town's fifth largest revenue source at \$645,691. These revenues increased \$166,133 (34.6%), which brings this revenue back to a more typical level after the decline in real estate purchases we saw in the prior year. The Town uses transfer tax revenue only for funding capital projects and not for day-to-day operational costs. As a percentage of governmental revenue, transfer taxes increased from 9.1% in fiscal year 2012 to 10.6% in fiscal year 2013.
6. Other revenue showed a significant increase of \$253,951 to \$291,898 from three one-time items:
 - a. \$134,357 was a return of prior year costs related to the Garfield Utility Relocation Project. In June of 2010, the Town paid a deposit to Verizon based on a cost estimate of \$381,297. In October 2012, Verizon returned the unused portion.
 - b. \$68,228 was transferred to the Town from the Fourth of July Parade Committee. This committee previously acted as a separate entity, but has now transferred financial responsibility to the Town, which intends to keep the parade fundamentally the same.
 - c. \$43,203 was a return of prior year costs related to the one-time American Recovery and Reinvestment Act energy efficiency grant. The State of Delaware determined it had additional funding available and so offered to increase the previously approved grant to cover additional costs that the Town incurred in fiscal year 2012.

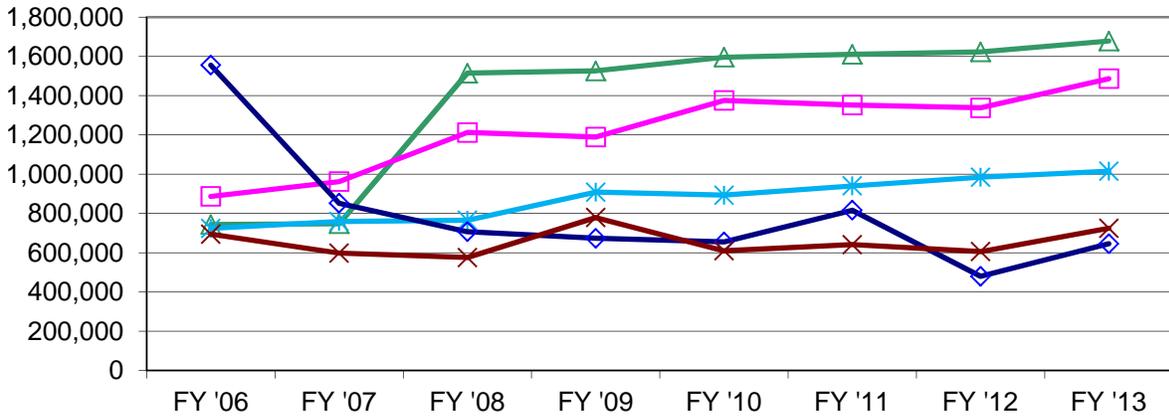
The Town budgets and sets fees with a goal of summer season revenues fully paying the cost of operations for the summer season. Summer season related revenue was approximately \$3.0 million. This revenue includes parking, rental taxes, business licenses, beach concessions and other fines and fees. The operating cost for the summer season, including the depreciation of capital assets, was estimated at \$2.7 million in fiscal year 2013. Property tax revenue is used only for year round operations, mainly funding for the police department.

The following two charts show the Town's general fund revenues for the fiscal year ending March 31, 2013, and the trend of our six largest, recurring 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 2013 Governmental Revenue Sources (excludes grant funds)



Trends in Major Governmental Revenue Sources



The Town's expense for all governmental activities combined was \$5,553,192. This covers a range of services and increased \$351,160 (6.8%) from fiscal year 2012 primarily due to the following:

1. Police and alderman costs increased \$234,959 (17.2%). Top reasons for the increase are:
 - a. \$148,698 from increases in personnel costs from adding one full-time uniformed officer, increasing training of seasonal hires to meet requirements of the Commission on Accreditation for Law Enforcement Agencies and increasing pay rates to stay competitive with other employers in the surrounding area.
 - b. \$29,158 in additional grant funds.
 - c. \$14,490 in capital asset purchases.
2. Streets and Parks costs increased \$186,890 (20.7%). This increase is entirely from capital projects and depreciation on capital projects, specifically the Garfield Parkway Utility relocation project and the start of the North Pennsylvania Avenue project.
3. Beach Patrol costs increased \$53,234 (13.8%). \$39,523 of this is from increases in personnel costs related to an increase in hourly pay rates to keep competitive with other employers in the surrounding area.
4. Cost decreases were seen in other departments, mainly in Administration and Parking.

Business-type activities

Sanitation and water departments are the Town's business-type activities and are accounted for in their own funds. The Town segregates funds so that sanitation and water fees are used only to support sanitation and water needs, respectively. The sanitation and water funds are each entirely self-supporting.

Sanitation department revenues decreased \$257,252 (26.0%). This was a result of the \$250,377 grant in the prior fiscal year from the State of Delaware for implementation of new recycling regulations. This was a one-time grant used to purchase an additional trash truck for recycling, as well as recycling carts and dumpsters.

Sanitation department expenses decreased \$845 (0.1%). This is a result of an \$86,161 decrease in grant spending countered by a \$35,172 increase in personnel costs, a \$12,206 increase in dumpster purchases and a \$19,248 increase in capital purchases, all related to new regulations on recycling and yard waste.

Water department revenues increased \$44,756 (3.2%). Charges for water services increased \$20,435 (1.9%) from slightly increased water use while impact fees paid on new construction projects increased \$24,291.

Water department expenses increased \$83,804 (8.2%). The full amount of this increase relates to preliminary work on several capital projects at the water plant, most notably the construction of the new water tower.

Financial Analysis of the Town's Funds

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

Governmental Funds

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

During fiscal year 2013, the Town's governmental fund balance increased \$543,332 (12.4%) to \$4,934,614 as reserves were generated. Funds committed for capital improvements budgeted in the coming year increased \$523,000 from \$792,000 to \$1,315,000. Funds committed for future capital projects decreased \$206,000 from \$3,197,000 to \$2,991,000 as funds were used on specific capital projects.

A significant portion of fund balance, \$4,650,089 (94.2%), is nonspendable, restricted or committed to indicate that it is not available for spending. Currently these designations are:

1. Nonspendable prepaid balances	\$114,665
2. Restricted for use on grant purposes	\$5,121
3. Restricted for payment of post-employment health care benefits	\$51,502
4. Restricted for uses determined by the Cultural & Historical Affairs Committee	\$55,291
5. Restricted for use on the Fourth of July Parade	\$68,062
6. Restricted for ambulance fees paid to the Bethany Beach Volunteer Fire Company	\$49,448
7. Committed for capital improvements in the coming fiscal year	\$1,315,000
8. Committed for future capital replacements	\$2,991,000

The general fund is the main operating fund of the Town and accounts for major functions of the government including police, lifeguards, streets, parks, stormwater drainage, parking, recreation and general administrative services. As a measure of the general fund's liquidity, it may be useful to compare the unassigned fund balance to the general fund's total fund balance and operating expenditures. The general fund's unassigned fund balance of \$339,060 is 6.9% of the \$4,934,580 total fund balance and 7.7% of the \$4,404,040 in general fund operating expenditures for fiscal year 2013.

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 27-29 of this report.

Net assets for the water department increased \$327,461 (6.2%) to \$5,650,632. Fiscal year 2013 resulted in net operating income of \$48,294. The water department had net operating income of \$97,313 in fiscal year 2012 and \$124,818 in fiscal year 2011. Non-operating revenues of \$279,167 were received mainly from water impact fees for capital projects and sinking fund fees for water department debt repayment. These gains provide funding for future capital needs.

Net assets for the sanitation department decreased \$75,876 (4.8%) to end the year at \$1,504,257. Fiscal year 2013 resulted in a net operating loss of \$80,418. The sanitation department had a net operating loss of \$77,266 in fiscal year 2012 and a net operating income of \$74,401 in fiscal year 2011. The operating losses in the most recent two fiscal years led to a 12% increase in sanitation fees, which took effect April 1, 2013. This rate increase should generate an additional \$80,000 in revenues for fiscal year 2014.

General Fund Budgetary Highlights

The budgetary comparison schedule for the general fund can be found on page 48 of this report.

General fund revenues exceeded the amount budgeted by \$711,638 (13.5%). Page 12 of this report supplies detail on the largest revenues. Revenues from parking, building permits, and rental real estate taxes exceeded the budget, showing that housing construction and summer vacation rentals remain strong.

It is important to note that \$245,788 of the revenue received this fiscal year came from three one-time transactions that were not budgeted for and will not be repeated in future years. These three items are included in the Contribution and Refunds lines of page 48 and explained in detail in point 6 of page 12.

The Town Council may amend the budget during the year as purchase decisions are made and previously estimated amounts become known. In April 2013 the General Fund Operating Budget was retroactively reallocated between departments; additional funds were needed in some departments while others had funds to spare.

General fund expenditures as a whole were under the amended budget by \$128,960 (2.8%). Total revenues exceeded total expenditures by \$840,598, providing funding for purchase of capital assets and for capital improvement projects.

Capital Assets

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

Governmental Activities	FY 2013 Additions
Beach and boardwalk	\$244,282
Buildings and improvements	\$87,019
Machinery and equipment	\$46,499
Streets and parks	\$311,173
Vehicles	\$44,490
Total	\$733,463
Sanitation Fund	FY 2013 Additions
Vehicles	\$183,464
Water Fund	FY 2013 Additions
Water Plant & Distribution System	\$113,248
Vehicles & Equipment	\$33,699
Total	\$146,947

The Town Council made two amendments to the capital budget in governmental activities. In January 2013 \$130,000 was reallocated from the Garfield Parkway Utility Relocation Project to the North Pennsylvania Avenue Project, and \$167,000 was added to the budget to purchase a third trolley.

In governmental activities, the largest area of capital expenditure in fiscal year 2013 was \$311,173 for maintenance, repairs, and improvements to streets, alleys, road shoulders and street lighting, \$109,000 of this was funded through the Municipal Street Aid grant. The second largest capital cost was \$244,282 in the category of Beach and boardwalk, \$220,992 of this was for replacing the third and final portion of the boardwalk with long-lasting Kebony boards. The third largest category was \$87,019 spent in Buildings and improvements for renovations to the Comfort Station, installation of a fire alarm system at the Public Works

shop and the grant funded energy efficiency project. The \$46,499 in Machinery and equipment was used to purchase three more parking pay stations and the inflatable screen for showing movies on the beach. There were \$44,490 in capital additions for vehicles, including an ATV for use on the beach, equipment for a police vehicle, a new police car purchased with Sussex County grant funds and a used HMMWV given to the town by the Delaware Emergency Management Agency.

When capital projects are not completed by the end of the fiscal year they are classified as Construction in Progress, then when the project is complete it is transferred from Construction in Progress into capital assets being depreciated. In fiscal year 2013 \$1,480,580 was transferred out of Construction in Progress. Of this \$1,576,793 related to the Garfield Parkway Utility Relocation Project, reduced by the \$134,357 refund received from Verizon. The other \$38,144 transferred out of Construction in Progress was for building improvements related to the energy efficiency grant.

As of the end of the fiscal year, \$188,374 remained in Construction in Progress for three projects; \$33,465 for Atlantic Avenue sidewalk engineering, \$53,538 for development of Bethany Park and \$101,368 for utility relocation and improvements on North Pennsylvania Avenue.

In the sanitation department, \$158,644 was used to replace a rear-loading trash truck and \$24,820 was used to purchase a leaf vacuum.

In the water department, \$146,947 in current year capital assets and projects were put into use, including \$33,699 for replacement of a work truck, \$20,784 for redevelopment of a well and \$92,464 for preliminary engineering work on reorganization of the water plant property that was needed prior to starting several capital projects. \$35,797 of distribution system work that was previously classified as Construction in Progress was put into use.

At the end of the fiscal year \$264,187 was classified as Construction in Progress. Of this amount \$143,214 was for engineering on the water tower project and is part of the new loan from the Drinking Water State Revolving Fund. Other projects still in progress at year end include \$108,853 for replacing the mineral pond with a mineral tank, \$9,265 for engineering of a new pump station and \$2,855 for engineering modifications to the current aerator.

The Water Fund Capital and Debt Budget was amended in February 2013. The amendment added \$2,600,000 for the loan funded water tower project and \$26,000 for the related 1% loan origination fee. An additional \$1,100,000 was added to the budget for projects needed prior to or in conjunction with the elevated storage tank project, including installation of a mineral tank, construction of a pump station and modifications to the aerator. This \$1,100,000 was previously committed for the water storage project. Since loan funds became available at a favorable rate for tower construction the Town Council opted to use these funds on the related projects.

Capital asset records are reviewed annually for accuracy and completeness. Assets that have been sold, scrapped or are no longer in use are deleted from the capital asset inventory. Further information on capital projects and purchases can be found on pages 39 and 40 of this report.

Debt Administration

As of March 31, 2013, the Town had \$813,990 in outstanding debt. In the general fund, \$172,322 is owed for payments to the State of Delaware Office of Pensions. In the water fund, \$498,454 in bonds payable remain for debt originally issued in 1989 and refinanced in 1994 for construction of the water plant and water distribution system. The remaining \$143,214 is new debt in the Water Fund for the loan from the Drinking Water State Revolving Fund for the construction of a water tower. Of the \$813,990 total outstanding debt of the Town, \$693,202 (85.2%) is payable within five years.

Acquiring new debt for construction of the water tower was approved by referendum in September 2012. The State of Delaware loans money originally supplied by the Environmental Protection Agency through the Drinking Water State Revolving Fund program. This loan closed in December 2012 and allows the town to borrow up to \$2,600,000 for a maximum term of 20 years at an interest rate of 2.13%. Payments for this loan will be made with revenue from the Town's current Sinking Fund fee, in effect extending the sinking fund for more years but not increasing the annual fee. While the loan term is 20 years the Town Council has expressed its intention to repay this loan in 10 to 12 years. There are no penalties of fees for early repayment of this loan.

The town has one capital lease, for the purchase of 35 parking pay stations. This lease began in 2010 and the remaining balance of \$75,600 will be paid in fiscal year 2014.

Additional information on town debt can be found on pages 41 and 42.

Economic Factors

We expect revenues for the coming fiscal year to be similar to those of fiscal year 2013 as reported in these financial statements with the following exceptions:

Seasonal visitors to the Town may increase in the summer of 2013 due to the detrimental effect that Superstorm Sandy had on other beach towns. This may cause an increase in operational costs, as well as an increase in revenue.

The Town may be significantly affected by unpredictable events such as hurricanes and nor'easters. The Town takes a proactive approach to pending storms by activating our disaster plan, evacuating people and relocating assets when feasible. The future economic performance of the Town could be greatly affected by weather events, particularly if they occur during the peak summer season.

Real estate transfer tax revenue is very unpredictable and dependent on the housing market. We expect to receive anywhere from \$400,000 to \$800,000 in fiscal year 2014. The variable nature of this revenue is one reason that the town uses these funds for capital purchases and projects and not for operational costs.

The fiscal year 2014 budget was approved in March 2013. The operating budget for all town activities combined is \$6,366,000. This is \$208,000 (3.4%) more than the fiscal year 2013 operating budget. Budgeted operating costs increased 4.6% in the general fund, decreased 2.9% in the sanitation fund and increased 2.7% in the water fund.

The approved budget included changes to several fees. The parking pay station transaction fee increased from \$0.25 to \$0.50, which is expected to generate an additional \$48,000 to cover summer season costs. Sanitation fees for residential and commercial properties were increased approximately 12% to generate an additional \$80,000 to help cover cost increases related to new State regulations on recycling and yard waste. The Ambulance fee that the Town collects for the Bethany Beach Volunteer Fire Company increased from \$41 to \$44. These changes took effect on April 1, 2013.

Capital projects for fiscal year 2014 include:

- \$500,000 for purchase of land and construction of a storage building and workshop
- \$200,000 for street maintenance
- \$125,000 for the North Pennsylvania Avenue project
- \$103,000 for park development
- \$190,000 for purchase of a side loading trash truck

Requests for Information

This report is designed to provide an overview of the Town of Bethany Beach's finances. 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, 2013

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,252,418	\$ 812,703	\$ 2,065,120
Investments	3,574,057	1,903,552	5,477,609
Receivables:			
Taxes - real and personal property	7,575	-	7,575
Sanitation fees	-	6,273	6,273
Water charges	-	392,624	392,624
Interest	7,768	6,777	14,545
Other	26,328	143,214	169,542
Prepaid expenses	114,665	38,825	153,490
Total current assets	4,982,811	3,303,968	8,286,778
Noncurrent assets			
Restricted cash and cash equivalents	229,424	164,814	394,238
Capital assets at cost	16,569,751	8,563,688	25,133,439
Less accumulated depreciation	(5,959,507)	(3,954,916)	(9,914,423)
Bond issue cost, net of amortization	-	18,454	18,454
Total noncurrent assets	10,839,668	4,792,040	15,631,708
Total assets	\$ 15,822,479	\$ 8,096,008	\$ 23,918,487
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	\$ 92,733	\$ 78,764	\$ 171,497
Employee withholdings and payroll taxes	54,544	140,868	195,412
Internal balances	(1,196)	1,196	-
Accrued interest	12,637	-	12,637
Deferred revenue	140,768	5,793	146,561
Notes payable	82,914	245,320	328,234
Lease purchase obligation	75,600	-	75,600
Compensated absences liability	6,662	702	7,364
Total current liabilities	464,662	472,643	937,305
Noncurrent liabilities			
Notes payable	89,408	396,348	485,756
Compensated absences liability	163,973	72,128	236,101
Total noncurrent liabilities	253,381	468,476	721,857
Total liabilities	718,043	941,119	1,659,162
NET ASSETS			
Invested in capital assets, net of related debt	10,534,644	3,967,104	14,501,748
Restricted	229,424	164,814	394,238
Unrestricted	4,340,368	3,022,971	7,363,339
Total net assets	\$ 15,104,436	\$ 7,154,889	\$ 22,259,325

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

TOWN OF BETHANY BEACH, DELAWARE

**STATEMENT OF ACTIVITIES
Year Ended March 31, 2013**

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Interest	Capital Grants, Contributions, and Interest	Primary Government		
					Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES							
General and administration	\$ 910,320	\$ -	\$ -	\$ 44,263	\$ (866,057)	\$ -	\$ (866,057)
Licenses and inspections	201,690	724,240	-	-	522,550	-	522,550
Public Safety							
Police and Alderman fines and revenue	1,602,560	121,369	135,372	30,000	(1,315,819)	-	(1,315,819)
Parking	417,884	1,486,610	-	-	1,068,726	-	1,068,726
Beach Patrol	438,833	-	-	-	(438,833)	-	(438,833)
Ambulance	119,000	118,881	-	-	(119)	-	(119)
Public works							
Stormwater management	180,659	-	-	-	(180,659)	-	(180,659)
Streets and parks	1,091,246	-	-	109,000	(982,246)	-	(982,246)
Beach and boardwalk	389,404	-	-	-	(389,404)	-	(389,404)
Recreation - entertainment	186,700	-	-	-	(186,700)	-	(186,700)
Historical/Cultural	14,896	-	-	-	(14,896)	-	(14,896)
Total Governmental Activities	5,553,192	2,451,100	135,372	183,263	(2,783,457)	-	(2,783,457)
BUSINESS-TYPE ACTIVITIES							
Water	1,101,814	1,091,172	327,265	-	-	316,623	316,623
Sanitation	807,915	727,497	-	-	-	(80,418)	(80,418)
Total Business-Type Activities	1,909,729	1,818,669	327,265	-	-	236,205	236,205
Total Primary Government	\$7,462,921	\$ 4,269,769	\$ 462,637	\$ 183,263	\$ (2,783,457)	\$ 236,205	\$ (2,547,252)
General Revenues							
Taxes:							
Property					1,678,185	-	1,678,185
Rental real estate					1,014,946	-	1,014,946
Transfer					645,691	-	645,691
Interest					9,652	15,380	25,032
Other					282,246	-	282,246
Total General Revenues					3,630,720	15,380	3,646,100
Change in Net Assets					847,263	251,585	1,098,848
Net Assets Beginning of Year					14,257,173	6,903,304	21,160,477
Net Assets End of Year					\$ 15,104,436	\$ 7,154,889	\$ 22,259,325

TOWN OF BETHANY BEACH, DELAWARE
BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2013

	<u>Major Fund</u>		Special Revenue <u>Fund</u>	Ambulance <u>Fund</u>	Total Governmental <u>Funds</u>
	<u>General Fund</u>	<u>Capital Projects</u>			
ASSETS					
Cash and cash equivalents	\$ 1,252,418	\$ -	\$ -	\$ -	\$ 1,252,418
Investments	3,574,057	-	-	-	3,574,057
Receivables:					
Taxes - real and personal property	7,575	-	-	-	7,575
Interest	7,768	-	-	-	7,768
Other	10,553	-	15,156	619	26,328
Prepaid expenses	114,665	-	-	-	114,665
Due from other funds	-	27,904	-	-	27,904
Restricted Assets:					
Cash and cash equivalents	174,855	-	5,121	49,448	229,424
Total assets	\$ 5,141,891	\$ 27,904	\$ 20,277	\$ 50,067	\$ 5,240,139
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued expenses	\$ 73,666	\$ 15,267	\$ 3,800	\$ -	\$ 92,733
Employee withholdings and payroll taxes	26,017	-	-	-	26,017
Accrued interest	-	12,637	-	-	12,637
Deferred revenue	89,370	-	1,331	50,067	140,768
Due to other funds	11,596	-	15,112	-	26,708
Compensated absences liability	6,662	-	-	-	6,662
Total liabilities	207,311	27,904	20,243	50,067	305,525
FUND BALANCES					
Nonspendable	114,665	-	-	-	114,665
Restricted	174,855	-	5,121	49,448	229,424
Committed for:					
Capital improvements	1,315,000	-	-	-	1,315,000
Future capital replacements	2,991,000	-	-	-	2,991,000
Unassigned	339,060	-	(5,087)	(49,448)	284,525
Total fund balances	4,934,580	-	34	-	4,934,614
Total liabilities and fund balances	\$ 5,141,891	\$ 27,904	\$ 20,277	\$ 50,067	\$ 5,240,139

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, 2013**

Total fund balances, governmental funds	\$ 4,934,614	
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets.	10,610,244	
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	(172,322)	
Lease purchase obligation	(75,600)	
Other post-employment benefit obligation	(28,527)	
Compensated absences	<u>(163,973)</u>	
Total long-term liabilities	<u>(440,422)</u>	
Net assets of governmental activities in the Statement of Net Assets	<u>\$ 15,104,436</u>	

TOWN OF BETHANY BEACH, DELAWARE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended March 31, 2013

	<u>Major Fund</u>		Special Revenue Fund	Ambulance Fund	Total Governmental Funds
	General Fund	Capital Projects			
REVENUES:					
Taxes:					
Property	\$ 1,678,185	\$ -	\$ -	\$ -	\$ 1,678,185
Rental real estate	1,014,946	-	-	-	1,014,946
Transfer	645,691	-	-	-	645,691
Parking revenues	1,486,610	-	-	-	1,486,610
Licenses, permits and fees	724,240	-	-	-	724,240
Police and Alderman fines and revenue	121,369	-	-	-	121,369
Interest	24,351	-	46	119	24,516
Service receipts	-	-	-	118,881	118,881
Intergovernmental revenues: State	-	-	318,535	-	318,535
Contributions	85,673	-	-	-	85,673
Refunds	177,560	-	-	-	177,560 *
Miscellaneous	19,013	-	-	-	19,013
Total revenues	5,977,638	-	318,581	119,000	6,415,219
Expenditures:					
General and administration	840,915	-	-	-	840,915
Licenses and inspections	197,541	-	-	-	197,541
Public safety:					
Police	1,315,332	-	135,372	-	1,450,704
Alderman	49,878	-	-	-	49,878
Parking	377,525	-	-	-	377,525
Beach Patrol	438,735	-	-	-	438,735
Ambulance	-	-	-	119,000	119,000
Public works:					
Stormwater management	108,512	-	-	-	108,512
Streets and parks	646,160	134,354	-	-	780,514
Beach and boardwalk	279,083	-	-	-	279,083
Recreation - entertainment	142,189	-	-	-	142,189
Historical/Cultural	8,170	-	-	-	8,170
Debt service:					
Principal	-	297,104	-	-	297,104
Interest	-	14,864	-	-	14,864
Capital outlay	-	583,890	183,263	-	767,153
Total expenditures	4,404,040	1,030,212	318,635	119,000	5,871,887
Excess (deficiency) of revenues over expenditures	1,573,598	(1,030,212)	(54)	-	543,332
Other financing (uses) sources					
Transfer (out) in	(1,030,212)	1,030,212	-	-	-
Total other financing (uses) sources	(1,030,212)	1,030,212	-	-	-
Net change in fund balances	543,386	-	(54)	-	543,332
Fund balances, beginning	4,391,194	-	88	-	4,391,282
Fund balances, end of year	\$ 4,934,580	\$ -	\$ 34	\$ -	\$ 4,934,614

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

* The Town received two refunds of costs from prior fiscal years, see page 12 for more information.

**RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
Year Ended March 31, 2013**

Net change in fund balances, governmental funds \$ 543,332

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	767,153	
Depreciation expense	<u>(732,627)</u>	
 Excess of capital outlay over depreciation expense		 34,526

Governmental funds report repayment of capital leases and debt principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.	297,104
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Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in other post-employment benefits obligation	2,865	
Increase in compensated absences	<u>(30,564)</u>	

Change in net assets of governmental activities	<u>\$ 847,263</u>
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TOWN OF BETHANY BEACH, DELAWARE

STATEMENT OF FUND NET ASSETS

BUSINESS-TYPE ACTIVITIES

March 31, 2013

	Enterprise Fund		
	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 335,163	\$ 477,540	\$ 812,703
Investments	1,411,784	491,768	1,903,552
Receivables:			
Water charges	392,624	-	392,624
Sanitation	-	6,273	6,273
Interest	2,431	4,346	6,777
Other	143,214	-	143,214
Prepaid expenses	25,353	13,472	38,825
Total current assets	2,310,569	993,399	3,303,968
Noncurrent assets			
Restricted cash and cash equivalents	164,814	-	164,814
Capital assets, at cost	7,402,073	1,161,615	8,563,688
Less accumulated depreciation	(3,348,798)	(606,118)	(3,954,916)
Bond issue costs, net of amortization	18,454	-	18,454
Total noncurrent assets	4,236,543	555,497	4,792,040
Total assets	\$ 6,547,112	\$ 1,548,896	\$ 8,096,008
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	\$ 68,677	\$ 10,087	\$ 78,764
Employee withholdings and payroll taxes	136,721	4,147	140,868
Due to other funds	315	881	1,196
Deferred revenues	5,423	370	5,793
Long-term liabilities due within one year:			
General obligation bonds	245,320	-	245,320
Compensated absences liability	-	702	702
Total current liabilities	456,456	16,187	472,643
Noncurrent liabilities			
General obligation bonds	396,348	-	396,348
Compensated absences liability	43,676	28,452	72,128
Total noncurrent liabilities	440,024	28,452	468,476
Total liabilities	896,480	44,639	941,119
NET ASSETS			
Invested in capital assets, net of related debt	3,411,607	555,497	3,967,104
Restricted	164,814	-	164,814
Unrestricted	2,074,211	948,760	3,022,971
Total	\$ 5,650,632	\$ 1,504,257	\$ 7,154,889

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, 2013**

	Enterprise Fund		
	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
OPERATING REVENUE			
Charges for services:			
Water	\$ 1,069,050	\$ -	\$ 1,069,050
Sanitation	-	727,497	727,497
Other operating	22,122	-	22,122
<hr/>			
Total operating revenues	1,091,172	727,497	1,818,669
<hr/>			
OPERATING EXPENSES			
Water	824,004	-	824,004
Sanitation	-	719,751	719,751
Depreciation and amortization	218,874	88,164	307,038
<hr/>			
Total operating expenses	1,042,878	807,915	1,850,793
<hr/>			
Net operating income (loss)	48,294	(80,418)	(32,124)
<hr/>			
NON-OPERATING REVENUE (EXPENSES)			
Non-operating revenue	327,265	-	327,265
Amortization of bond issue cost	(5,320)	-	(5,320)
Financial expense, net	(42,778)	4,542	(38,236)
<hr/>			
Total non-operating revenue	279,167	4,542	283,709
<hr/>			
Change in net assets	327,461	(75,876)	251,585
<hr/>			
Total net assets, beginning	5,323,171	1,580,133	6,903,304
<hr/>			
Total net assets, ending	\$ 5,650,632	\$ 1,504,257	\$ 7,154,889
<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, 2013

	Enterprise Fund		
	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 1,081,507	\$ 729,442	\$ 1,810,949
Payments to suppliers	(293,198)	(335,169)	(628,367)
Payments to employees	(435,457)	(377,991)	(813,448)
Net cash provided by operating activities	352,852	16,282	369,134
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Non-operating revenue	327,265	-	327,265
Advances to general fund, net	4,375	3,236	7,611
Net cash provided by noncapital financing activities	331,640	3,236	334,876
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets	(411,135)	(183,464)	(594,599)
Proceeds for capital debt	(143,214)	-	(143,214)
Principal paid on long-term debt	(87,106)	-	(87,106)
Interest paid on long-term debt	(53,616)	-	(53,616)
Net cash used in capital and related financing activities	(695,071)	(183,464)	(878,535)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments	69,990	24,409	94,399
Interest income	10,838	4,542	15,380
Net cash provided by investing activities	80,828	28,951	109,779
Net increase (decrease) in cash and cash equivalents	70,249	(134,995)	(64,746)
Cash and cash equivalents, beginning of year	429,728	612,535	1,042,263
Cash and cash equivalents, end of year	\$ 499,977	\$ 477,540	\$ 977,517
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 48,294	\$ (80,418)	\$ (32,124)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization expense	218,874	88,164	307,038
Changes in assets and liabilities:			
Receivables, net	(11,599)	1,775	(9,824)
Prepaid expenses	771	887	1,658
Deferred revenue	1,934	170	2,104
Accounts and other payables	94,068	4,227	98,295
Compensated absences liability	510	1,477	1,987
Net cash provided by operating activities	\$ 352,852	\$ 16,282	\$ 369,134

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

NOTES TO FINANCIAL STATEMENTS

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

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

A. Financial Reporting Entity

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

Note 2. Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

A. Basis of Presentation (continued)

FUND FINANCIAL STATEMENTS

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

PROPRIETARY FUNDS

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

FIDUCIARY FUNDS

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

C. Measurement Focus

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

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

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

D. Basis of Accounting

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

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

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

E. Budgetary Process

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

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

F. Cash Equivalents

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

G. Investments

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

H. Receivables

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

I. Capital Assets

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

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

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

J. Restricted Assets

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

K. Bond Issue Costs

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

L. Deferred Revenues

Deferred revenues represent funds received in advance, which will be recognized in future years when the revenue recognition criteria are met. In the governmental funds, deferred revenues of \$140,768 consist of permits and fees collected in advance.

M. Compensated Absences

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

M. Compensated Absences (continued)

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

N. Accrued Liabilities and Long-Term Obligations

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

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

O. Interest Capitalization

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

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

The amount of interest expense to be capitalized is based on the weighted-average amount of accumulated expenditures for the period multiplied by the interest rate for the obligation incurred specifically to finance the construction of capital assets. There was no capitalization of interest expense during the fiscal year ended March 31, 2013.

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, 2013. The purpose for committed funds is indicated on the face of the balance sheet. Restricted funds are grant monies from other governments or agencies that are to be spent for specific purposes. Nonspendable fund balances consist of prepaid amounts.

R. Operating Revenues and Expenses

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

S. Estimates

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

T. Interfund Receivables/Payables

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

U. Interfund Transfers In/Out

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

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

V. Reclassifications

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

W. Operating Leases

The Town has several parking lot lease agreements with various lease terms, renewable annually. Rent expense totaled approximately \$71,000 for the year ended March 31, 2013.

Note 3. Real Estate Taxes

The tax on real estate in the Town area for the fiscal year ended March 31, 2013 was \$0.170 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 as follows:

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, 2013 are as follows:

Description	Financial Institution Balances			Totals	Carrying Amounts
	1	2	3		
Cash & Cash Equivalents:					
Unrestricted	\$ 620,626	\$ 1,654,296	\$ 2,943	\$ 2,277,865	\$ 2,065,120
Restricted	-	394,238	-	394,238	394,238
Totals	\$ 620,626	\$ 2,048,534	\$ 2,943	\$ 2,672,103	\$ 2,459,358

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, 2013, the Town's investments consist of the following:

Description	Category	Amounts	
		Market	Carrying
Certificates of Deposit	1, 2	\$ 5,477,609	\$ 5,477,609
Investments:			
Unrestricted		\$ 5,477,609	\$ 5,477,609
Total Investments		\$ 5,477,609	\$ 5,477,609

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, 2013, are as follows:

Description	Special Revenue
State of Delaware	\$ 15,112

Note 6. Capital Assets

The following is a summary of changes in capital assets for the year ended March 31, 2013:

	March 31, 2012	Additions	Deletions/ Transfers	March 31, 2013
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated:				
Land	\$ 3,391,767	\$ -	\$ -	\$ 3,391,767
Construction in progress	1,635,268	33,686	(1,480,580)	188,374
Total capital assets, not being depreciated	5,027,035	33,686	(1,480,580)	3,580,141
Capital assets, being depreciated				
Beach and boardwalk	1,208,366	244,282	-	1,452,648
Building and improvements	3,792,355	87,023	38,140	3,917,518
Land improvements	643,162	-	-	643,162
Machinery and equipment	1,514,587	46,499	(71,549)	1,489,537
Stormwater	1,253,093	-	-	1,253,093
Streets and parks	2,015,218	311,173	1,081,917	3,408,308
Vehicles	818,591	44,490	(37,737)	825,344
Total capital assets, being depreciated	11,245,372	733,467	1,010,771	12,989,610
Less accumulated depreciation:				
Beach and boardwalk	639,590	55,941	-	695,531
Building and improvements	1,650,632	169,098	-	1,819,730
Land improvements	246,317	39,845	-	286,162
Machinery and equipment	993,847	128,727	(71,549)	1,051,025
Stormwater	506,168	71,944	-	578,112
Streets and parks	935,627	226,355	(360,523)	801,459
Vehicles	724,508	40,717	(37,737)	727,488
Total accumulated depreciation	5,696,689	732,627	(469,809)	5,959,507
Total capital assets, being depreciated, net	5,548,683	840	1,480,580	7,030,103
Governmental activities capital assets, net	\$ 10,575,718	\$ 34,526	\$ -	\$ 10,610,244

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

General, administrative and park development	\$	67,707
Police and Alderman		92,082
Parking		28,155
Public works		
Stormwater management		72,401
Streets and parks		310,957
Beach and boardwalk		110,088
Recreation - entertainment		44,511
Historical/Cultural		6,726
	\$	732,627

	March 31, 2012	Additions	Deletions/ Transfers	March 31, 2013
BUSINESS-TYPE ACTIVITIES				
Water Fund				
Capital assets, not being depreciated:				
Construction in progress	\$ 35,796	\$ 264,188	\$ (35,797)	\$ 264,187
Total capital assets, not being depreciated	35,796	264,188	(35,797)	264,187
Capital assets, being depreciated:				
Plant and water distribution system	6,442,797	113,248	22,491	6,578,536
Vehicles and equipment	530,651	33,699	(5,000)	559,350
Total capital assets, being depreciated	6,973,448	146,947	17,491	7,137,886
Total accumulated depreciation	3,148,230	218,874	(18,306)	3,348,798
Total capital assets, being depreciated, net	3,825,218	(71,927)	35,797	3,789,088
Water capital assets, net	\$ 3,861,014	\$ 192,261	\$ -	\$ 4,053,275
Sanitation Fund				
Capital assets, being depreciated:				
Vehicles and equipment	\$ 978,151	\$ 183,464	\$ -	\$ 1,161,615
Total capital assets, being depreciated	978,151	183,464	-	1,161,615
Total accumulated depreciation	517,954	88,164	-	606,118
Total capital assets, being depreciated, net	460,197	95,300	-	555,497
Sanitation capital assets, net	\$ 460,197	\$ 95,300	\$ -	\$ 555,497
Business-type activities capital assets, net	\$ 4,321,211	\$ 287,561	\$ -	\$ 4,608,772

NOTES TO FINANCIAL STATEMENTS

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

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

	Interest Rate	Maturity Date	Balances		Retirements and Repayments	Balances March 31, 2013	Amount Due in One Year
			March 31, 2012	Additions			
Compensated absences			\$ 70,843	\$ 1,987	\$ -	\$ 72,830	\$ 702
General Obligation Bonds:							
Series 1994			\$ 715,000	\$ -	\$ 225,000	\$ 490,000	\$ 240,000
Bond Premium			58,946	-	22,735	36,211	22,735
Refunding Deferral							
Series 2012-SRF			-	143,214	-	143,214	-
Series 1994, net	5.30%	2014	(45,172)	17,415	-	(27,757)	(17,415)
			728,774	160,629	247,735	641,668	245,320
Total Business-type Activities							
Long-Term Debt			\$ 799,617	\$ 162,616	\$ 247,735	\$ 714,498	\$246,022

Total annual requirements to amortize all business-type activities debt outstanding as of March 31, 2013 are as follows:

Fiscal Year Ending March 31,	Principal	Interest	Total
2014	\$ 245,320	\$ 29,020	\$ 274,340
2015	257,477	15,507	272,984
2016	5,900	2,901	8,801
2017	6,027	2,774	8,801
2018	6,156	2,644	8,800
2019 - 2023	32,825	11,176	44,001
2024 - 2028	36,510	7,491	44,001
2029 - 2033	40,609	3,392	44,001
2034 - 2035	10,844	155	10,999
	\$ 641,668	\$ 75,060	\$ 716,728

Interest expense in the business-type activities for the year ended March 31, 2013 totaled \$32,936. The above amortization schedule assumes repayment of the Series 2012-SRF loan over the maximum loan term of twenty years. The Town Council currently intends to repay this loan over a term of 10 to 12 years. Early repayment of this loan will not result in a prepayment penalty.

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, 2012	Additions	Retirements and Repayments	Balances March 31, 2013	Amount Due in One Year
Compensated absences			\$ 147,301	\$ 23,334	\$ -	\$ 170,635	\$ 6,662
Cash settlement employees	0.00%	2013	81,430	-	81,430	-	-
State of Delaware Pension	8.00%	2014	333,996	-	161,674	172,322	82,914
			415,426	-	243,104	172,322	82,914
Total Governmental Activities							

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

Fiscal Year Ending March 31,	Principal	Interest	Total
2014	\$ 82,914	\$ 13,786	\$ 96,700
2015	89,408	7,153	96,561
	\$ 172,322	\$ 20,939	\$ 193,261

Interest expense in the governmental activities for the year ended March 31, 2013 totaled \$27,883.

Note 9. Capital Leases

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

The capital lease obligation of \$75,600 at March 31, 2013 consisted of a parking pay station lease, payable in one remaining annual installment of \$75,600 during 2014; no interest.

Original cost of assets acquired under these capital leases for the capital projects fund is \$183,600 with accumulated depreciated of \$43,605 as of March 31, 2013.

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

Fiscal Year Ending March 31,	Principal	Interest	Total
2014	\$ 75,600	\$ -	\$ 75,600

NOTES TO FINANCIAL STATEMENTS

Note 10. Post-Employment Healthcare Benefits

Plan Description

The Town administers a single-employer defined benefit healthcare plan (the "Plan") for employees hired prior to June 1, 1999 with at least 7 years of service who have not opted out of this benefit. Currently two retirees and their families are eligible for these benefits and one is 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, 2013 the cost of healthcare benefits for these employees and their families was approximately \$8,000.

Annual OPEB Cost and Net OPEB Obligation

The Town's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined using the alternative measurement method provided for in GASB 45. The town has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The Town pays post-employment retirement benefits (normal cost) from the general and water funds.

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

Annual Required Contribution (ARC)	\$	38,000
Interest on Net OPEB Obligation (NOO)		-
Adjustment to Annual Required Contribution (ARC)		-
Annual OPEB cost		38,000
Contributions made		(8,000)
Change in Net OPEB Obligation (NOO)		30,000
Net OPEB Obligation (NOO) - Beginning of Year		130,000
Net OPEB Obligation (NOO) - End of Year	\$	160,000

NOTES TO FINANCIAL STATEMENTS

Note 10. Post-Employment Healthcare Benefits (continued)

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

Year Ended 31-Mar	Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 62,000	\$ 26,000	41.94%	\$ 36,000
2011	62,000	15,000	24.19%	83,000
2012	62,000	15,000	24.19%	130,000
2013	38,000	8,000	21.05%	160,000

Funding Status and Funding Progress

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
3/31/2010	\$ 35,000	\$ 545,000	\$ 510,000	6.42%	\$ 58,000	879.31%
3/31/2011	84,000	545,000	461,000	15.41%	59,000	781.36%
3/31/2012	130,000	545,000	415,000	23.85%	57,000	728.07%
3/31/2013	183,000	473,000	290,000	38.69%	60,000	483.33%

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 68, RP 2000 mortality table for males and females projected 10 years, standard turnover assumptions as per GASB 45 paragraph 35b, a discount rate of 2.0%, projected salary increases of 3%, plan asset return of 2%, employer asset return of 2% and an annual healthcare cost trend of 8.0% initially, reduced to an ultimate rate of 4.7% after ten years.

NOTES TO FINANCIAL STATEMENTS

Note 10. Post-Employment Healthcare Benefits (continued)

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, 2013 was 6 years.

Note 11. Pension and Retirement Plans

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

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

The Town's contribution to the State of Delaware County & Municipal Employees Plan and State of Delaware Police and Firefighters Plan was \$88,208 and \$81,052 for the fiscal year, respectively.

Plan Description

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

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

Funding Policy

The State Office of Pensions requires active members to contribute to the System at rates determined annually by actuarial valuations. For the State fiscal year ending June 30, 2013 the Town was required to contribute 6.84% of total compensation for general employees and 14.75% of regular salary for police officers. Employee contributions are done through payroll withholding in the amount of 3% for general employees and 7% for police officers.

NOTES TO FINANCIAL STATEMENTS

Note 11. Pension and Retirement Plans (continued)

Employer's Payroll and Contributions Under the Plan

The Town joined the State of Delaware pension plans on June 30, 2006. Contributions paid for the years ended March 31, 2013, 2012, and 2011 are as follows:

	2013	2012	2011
Creditable wages	\$ 1,853,041	\$ 1,755,374	\$ 1,641,128
Contributions paid:			
General employees	88,208	84,448	73,272
Police officers	81,052	64,978	63,352

Note 12. Risk Management

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

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

Note 13. Commitments, Contingencies and Subsequent Events

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF BETHANY BEACH, DELAWARE
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year Ended March 31, 2013

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable <u>(Unfavorable)</u>
REVENUES:				
Taxes:				
Property	\$ 1,672,000	\$ 1,672,000	\$ 1,678,185	\$ 6,185
Rental real estate	960,000	960,000	1,014,946	54,946
Transfer	450,000	450,000	645,691	195,691
Parking Revenues	1,455,000	1,455,000	1,486,610	31,610
Licenses, permits and fees	547,000	547,000	724,240	177,240
Police and Alderman fines and revenue	106,000	106,000	121,369	15,369
Interest	50,000	50,000	24,351	(25,649)
Contributions	17,000	17,000	85,673	68,673
Refunds	-	-	177,560	177,560 *
Miscellaneous	9,000	9,000	19,013	10,013
Total revenues	5,266,000	5,266,000	5,977,638	711,638
EXPENDITURES:				
General and administration	898,000	853,000	840,915	12,085
Licenses and inspections	202,000	202,000	197,541	4,459
Public safety:				
Police	1,316,000	1,316,000	1,315,332	668
Alderman	60,000	60,000	49,878	10,122
Parking	431,000	406,000	377,525	28,475
Beach Patrol	448,000	448,000	438,735	9,265
Public works:				
Stormwater management	134,000	134,000	108,512	25,488
Streets and parks	667,000	667,000	646,160	20,840
Beach and boardwalk	234,000	284,000	279,083	4,917
Recreation - entertainment	123,000	143,000	142,189	811
Historical/Cultural and parade	20,000	20,000	8,170	11,830
Total expenditures	4,533,000	4,533,000	4,404,040	128,960
Excess of revenues over expenditures	733,000	733,000	1,573,598	840,598
OTHER FINANCING USES:				
Transfer out	(914,000)	(1,409,000)	(1,030,212)	378,788
Fund balance appropriated	181,000	676,000	-	(676,000)
Total other financing uses	(733,000)	(733,000)	(1,030,212)	(297,212)
Net change in fund balance	\$ -	\$ -	543,386	\$ 543,386
Fund balance - beginning			4,391,194	
Fund balance - ending			<u>\$ 4,934,580</u>	

* The Town received two refunds of costs from prior fiscal years, see page 12 for more information.

TOWN OF BETHANY BEACH, DELAWARE

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended March 31, 2013

**EMPLOYEE POST-EMPLOYMENT HEALTHCARE BENEFIT
SCHEDULE OF FUNDING PROGRESS BY VALUATION DATE**

<u>Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
3/31/2010	\$ 35,000	\$ 545,000	\$ 510,000	6.42%	\$ 58,000	879.31%
3/31/2011	84,000	545,000	461,000	15.41%	59,000	781.36%
3/31/2012	130,000	545,000	415,000	23.85%	57,000	728.07%
3/31/2013	183,000	473,000	290,000	38.69%	60,000	483.33%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended 31-Mar</u>	<u>Annual OPEB Cost</u>	<u>Age Adjusted Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 62,000	\$ 26,000	41.94%	\$ 36,000
2011	62,000	15,000	24.19%	83,000
2012	62,000	15,000	24.19%	130,000
2013	38,000	8,000	21.05%	160,000

TOWN OF BETHANY BEACH, DELAWARE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1. Budgetary Basis

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

ADDITIONAL SUPPLEMENTARY INFORMATION

TOWN OF BETHANY BEACH, DELAWARE

**ADDITIONAL SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - CAPITAL PROJECTS FUND
Year Ended March 31, 2013**

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Budget</u>	<u>Budget</u>		
EXPENDITURES:				
General and administration	\$ -	\$ 188,000	\$ 825	\$ 187,175
Public safety:				
Police	15,000	15,000	14,490	510
Parking	33,000	33,000	32,100	900
Public works:				
Stormwater management	-	64,000	-	64,000
Streets and parks	220,000	463,000	396,347	66,653
Beach and boardwalk	330,000	330,000	274,482	55,518
Debt service:				
Principal	300,000	300,000	297,104	2,896
Interest	16,000	16,000	14,864	1,136
<hr/>				
Total expenditures	914,000	1,409,000	1,030,212	378,788
<hr/>				
OTHER FINANCING SOURCES:				
Transfers in	914,000	1,409,000	1,030,212	(378,788)
<hr/>				
Total other financing sources	914,000	1,409,000	1,030,212	(378,788)
<hr/>				
Net change in fund balance	\$ -	\$ -	\$ -	\$ -
<hr/>				
Fund balance - beginning			<hr/>	-
Fund balance - ending			<hr/>	\$ -

TOWN OF BETHANY BEACH, DELAWARE
REQUIRED SUPPLEMENTARY SCHEDULE
BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND
Year Ended March 31, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Intergovernmental revenues:				
State and County	\$ 168,000	\$ 319,966	\$ 318,535	\$ (1,431)
Interest income	-	-	46	46
Total revenues	168,000	319,966	318,581	(1,385)
EXPENDITURES:				
General and administration	-	44,263	44,263	-
Public safety:				
Police	81,000	166,703	165,372	1,331
Public works:				
Streets and parks	87,000	109,000	109,000	-
Total expenditures	168,000	319,966	318,635	1,331
Excess of expenditures over revenues	-	-	(54)	(54)
Net change in fund balance	\$ -	\$ -	(54)	\$ (54)
Fund balance - beginning			<u>88</u>	
Fund balance - ending			<u>\$ 34</u>	

TOWN OF BETHANY BEACH, DELAWARE

**INCOME AND EXPENSE DETAIL
WATER FUND**

Year Ended March 31, 2013

WATER SERVICE:

Operating revenues:	
Charges for services	\$ 1,069,050
Other service fees	21,822
Miscellaneous	300
<hr/>	
Total operating revenues	1,091,172
<hr/>	
Operating expenses:	
Salaries and wages	295,111
Payroll taxes	21,824
Employee benefits	119,032
Administrative fees	2,332
Contract services	54,241
Insurance	40,943
Telephone	6,803
Utilities	49,426
Repairs and maintenance	16,411
Engineering	27,595
Sewer service charge	582
Plant maintenance	32,238
Distribution system maintenance	47,105
Office supplies	7,014
Miscellaneous	8,260
Supplies	20,690
Chemicals	73,166
Uniforms	1,231
Depreciation	218,874
<hr/>	
Total operating expenses	1,042,878
<hr/>	
Net operating income	48,294
<hr/>	
Non-operating revenue (expenses):	
Taxes and assessments	246,025
Impact fees	81,240
Interest income	10,838
Amortization on bond issue costs	(5,320)
Interest expense	(53,616)
<hr/>	
Net non-operating revenues	279,167
<hr/>	
NET INCOME	\$ 327,461

TOWN OF BETHANY BEACH, DELAWARE

INCOME AND EXPENSE DETAIL

SANITATION FUND

Year Ended March 31, 2013

SANITATION SERVICE:

Operating revenues:	
Charges for services	\$ 727,497
<hr/>	
Total operating revenues	727,497
<hr/>	
Operating expenses:	
Salaries and wages	272,250
Payroll taxes	18,971
Employee benefits	88,247
Disposal fees	163,778
Fuel	38,574
Insurance	20,538
Telephone	2,175
Utilities	10,468
Repairs and maintenance	61,414
Office supplies	13,058
Miscellaneous	30,278
Depreciation	88,164
<hr/>	
Total operating expenses	807,915
<hr/>	
Net operating loss	(80,418)
<hr/>	
Non-operating revenues:	
Interest income	4,542
<hr/>	
Net non-operating revenues	4,542
<hr/>	
NET LOSS	\$ (75,876)



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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Bethany Beach, Delaware (the “Town”) as of and for the year ended March 31, 2013, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements and have issued our report thereon dated July 11, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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.

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

955 Mt. Hermon Road | Salisbury, MD 21804 | 410-742-1328 | 1-888-546-1574 | FAX 410-742-6855

www.tgmgroupllc.com

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

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

A handwritten signature in black ink that reads "JSM Group LLC". The signature is written in a cursive, flowing style.

Salisbury, Maryland
July 11, 2013