

TOWN OF BETHANY BEACH, DELAWARE

FINANCIAL REPORT

MARCH 31, 2014

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INDEPENDENT AUDITORS' REPORT

Town of Bethany Beach, Delaware
Bethany Beach, Delaware

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Bethany Beach, Delaware (the "Town") as of and for the year ended March 31, 2014, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town as of March 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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 basic financial statements. 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 relates directly to the underlying accounting and other records used to

prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2014, 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 "JSM Group LLC". The signature is written in a cursive, flowing style.

Salisbury, Maryland
July 14, 2014

**Town of Bethany Beach
Management's Discussion and Analysis
March 31, 2014**

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, 2014. 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 2014

The assets of the Town of Bethany Beach exceed its liabilities at the end of fiscal year 2014 by \$23,469,588 (net position). Of this amount, \$7,737,845 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors. The remaining \$15,338,678 in net position is invested in capital assets, net of related debt and \$393,065 is restricted for specific uses.

The Town's total net position increased by \$1,210,263 (5.4%) in fiscal year 2014. The net position of governmental activities increased by \$800,334 (5.3%) while net assets of business-type activities increased by \$409,929 (5.7%)

The increase in net position 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 2014, the Town's governmental funds reported an ending fund balance of \$5,607,549. Of this amount, \$87,303 is nonspendable prepaid balances. In the General Fund, restricted funds include \$51,502 in post-employment benefits, \$59,846 in Cultural & Historic funds, \$54,033 in Fourth of July Parade Funds, and \$110 in Nature Center funds. Committed funds are \$1,229,000 for capital purchases in fiscal year 2015, and \$3,603,000 for future capital projects.

This leaves \$522,718 as unassigned in the general fund at the end of fiscal year 2014. The unassigned fund balance for the general fund represents 10.4% of the general fund operating expenditure budget for fiscal year 2015 of \$5,049,000.

The Town's bonds and notes payable increased by \$1,315,659 (161.6%), from adding \$1,643,893 to the water tower project loan while paying regular, scheduled payments on other debt. Of the Town's \$2,129,649 in total bonds and notes payable, \$700,848 (32.9%) 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 position presents information on all of the Town's assets and liabilities with the difference reported as net position. Increases or decreases in net position 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 position changed during this fiscal year. All changes in net position 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 governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town has four governmental funds: the General Fund, the Capital Projects Fund, the Special Revenue Fund and the Ambulance Fund. The Special Revenue Fund is used to account for State and Federal grants. 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, the Town's net position may serve over time as a useful indicator of a government's financial situation. The Town's combined net position (government and business-type activities) totaled \$23,469,588 at the end of fiscal year 2014, compared to \$22,259,325 at the end of fiscal year 2013, an increase of \$1,210,263 (5.4%).

The largest portion of the Town's net position, \$15,338,678 (65.4%) 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, 2014, the Town held \$1,783,089 in cash and cash equivalents and \$6,107,558 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 37, 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 2015, operating reserves are \$757,000 in the general fund, \$111,000 in the sanitation fund and \$140,000 in the water fund. Total town-wide operating reserves are \$1,008,000.

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 2015, capital replacement fund balances committed are \$3,603,000 in the general fund, \$603,000 in the sanitation fund and \$794,000 in the water fund. Total town-wide capital reserves are \$5,000,000.

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, 2014, \$206,046 was held in a separate bank account to fund this benefit, which is 43.6% of the \$473,000 actuarial accrued liability. Further information on this obligation can be found on page 42, note 8.

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

Town of Bethany Beach Summary of Statement of Net Position March 31, 2014							
	Governmental Activities		Business-Type Activities		Total		% Change
	2013	2014	2013	2014	2013	2014	
Current Assets	4,982,811	5,613,708	3,303,968	3,328,658	8,286,779	8,942,366	7.9%
Capital Assets	10,610,244	10,584,971	4,608,772	6,793,948	15,219,016	17,378,919	14.2%
Other Assets	229,424	219,195	183,268	187,004	412,692	406,199	-1.6%
Total Assets	<u>15,822,479</u>	<u>16,417,874</u>	<u>8,096,008</u>	<u>10,309,610</u>	<u>23,918,487</u>	<u>26,727,484</u>	11.7%
Long-Term Liabilities	253,381	159,855	468,476	1,806,190	721,857	1,966,045	172.4%
Other Liabilities	464,662	353,249	472,643	938,602	937,305	1,291,851	37.8%
Total Liabilities	<u>718,043</u>	<u>513,104</u>	<u>941,119</u>	<u>2,744,792</u>	<u>1,659,162</u>	<u>3,257,896</u>	96.4%
Invested in capital assets, net of related debt	10,534,644	10,584,971	3,967,104	4,753,707	14,501,748	15,338,678	5.8%
Restricted	229,424	219,195	164,814	173,870	394,238	393,065	-0.3%
Unrestricted	4,340,368	5,100,604	3,022,971	2,637,241	7,363,339	7,737,845	5.1%
Total Net Position	<u>15,104,436</u>	<u>15,904,770</u>	<u>7,154,889</u>	<u>7,564,818</u>	<u>22,259,325</u>	<u>23,469,588</u>	5.4%

The balance of unrestricted net position, \$7,737,845, may be used to meet the government's ongoing obligations to citizens and creditors. Unrestricted net position increased \$374,508 (5.1%) during fiscal year 2014 while the amount invested in capital assets, net of related debt, increased \$836,930 (5.8%). This shows that the town continues to invest in capital projects, but not at the expense of reserves.

Current assets in total increased \$655,587 (7.9%). The current assets for Governmental Activities increased \$630,897 (12.7%), while current assets of Business-Type Activities increased \$24,690 (0.7%). The majority of the \$8,942,366 in total current assets is cash, cash equivalents and investments, most of which are held in reserves for future needs. Receivables, \$943,996 of the current assets, increased \$353,437 (59.8%). The increase is entirely because of \$516,459 due from the State for the water tower project loan as of the end of the fiscal year. The other main source of receivables is \$389,701 in water bills mailed in April 2014 for the previous six months of water use. Prepaid expenses were \$107,723 at the end of FY 2014, \$45,767 less than the prior year.

Capital Assets held by the Town increased \$2,159,903 (14.2%) to \$17,378,919 in fiscal year 2014 from capital projects and purchases. The increase is mainly due to the water tower and related capital projects in the Water Fund. Long-term liabilities increased \$1,244,188 (172.4%) from adding \$1,643,893 to the water tower project loan while paying regular, scheduled payments on other debt. Other liabilities increased \$354,544 (37.8%) from invoices in the process of being paid for the water tower and related capital projects.

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, Nature Center and ambulance services. In business-type activities, the restricted category includes funds for post-employment health care, water 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, 2014

	Governmental Activities		Business-Type Activities		Total		%
	2013	2014	2013	2014	2013	2014	Change
Revenues:							
Program Revenues							
Charges for services	2,451,100	2,543,386	1,818,669	1,880,739	4,269,769	4,424,125	3.6%
Assessments & impact fees			327,265	394,413	327,265	394,413	20.5%
Operating grants	135,372	81,604		17,325	135,372	98,929	-26.9%
Capital grants	183,263	186,550		12,485	183,263	199,035	8.6%
General Revenues							
Property taxes	1,678,185	1,684,712			1,678,185	1,684,712	0.4%
Rental real estate taxes	1,014,946	1,045,656			1,014,946	1,045,656	3.0%
Transfer taxes	645,691	760,558			645,691	760,558	17.8%
Other	291,898	70,090	15,380	12,967	307,278	83,057	-73.0%
Total Revenues	6,400,455	6,372,556	2,161,314	2,317,929	8,561,769	8,690,485	1.5%
Expenses:							
General and administration	910,320	1,011,372			910,320	1,011,372	11.1%
Licenses and inspections	201,687	207,841			201,687	207,841	3.1%
Public Safety							
Police and Alderman	1,602,560	1,503,617			1,602,560	1,503,617	-6.2%
Parking	417,884	384,085			417,884	384,085	-8.1%
Beach Patrol	438,833	443,174			438,833	443,174	1.0%
Ambulance	119,000	129,864			119,000	129,864	9.1%
Public Works							
Stormwater management	180,659	228,934			180,659	228,934	26.7%
Streets & Parks	1,091,249	1,058,408			1,091,249	1,058,408	-3.0%
Beach and boardwalk	389,404	335,641			389,404	335,641	-13.8%
Recreation - entertainment	186,700	222,009			186,700	222,009	18.9%
Cultural/Historic & Parade	14,896	47,277			14,896	47,277	217.4%
Sanitation Fund			807,915	804,247	807,915	804,247	-0.5%
Water Fund			1,101,814	1,103,753	1,101,814	1,103,753	0.2%
Total Expenses	5,553,192	5,572,222	1,909,729	1,908,000	7,462,921	7,480,222	0.2%
Change in Net Position	847,263	800,334	251,585	409,929	1,098,848	1,210,263	10.1%
Net Position, beginning	14,257,173	15,104,436	6,903,304	7,154,889	21,160,477	22,259,325	5.2%
Net Position, end	15,104,436	15,904,770	7,154,889	7,564,818	22,259,325	23,469,588	5.4%

The Town's total net position increased \$1,210,263 (10.1%). Approximately 40.2% of the Town's total revenue came from three types of taxes: property, rental and transfer. Total revenues increased \$128,716 (1.5%), while total expenses increased \$17,301 (0.2%).

Town-wide, total grant funding for this fiscal year was \$20,671 (6.5%) lower than the prior year. In Governmental Activities, grants decreased \$53,768 from a reduction in grants from the State of Delaware to our Police Department.

Governmental Activities

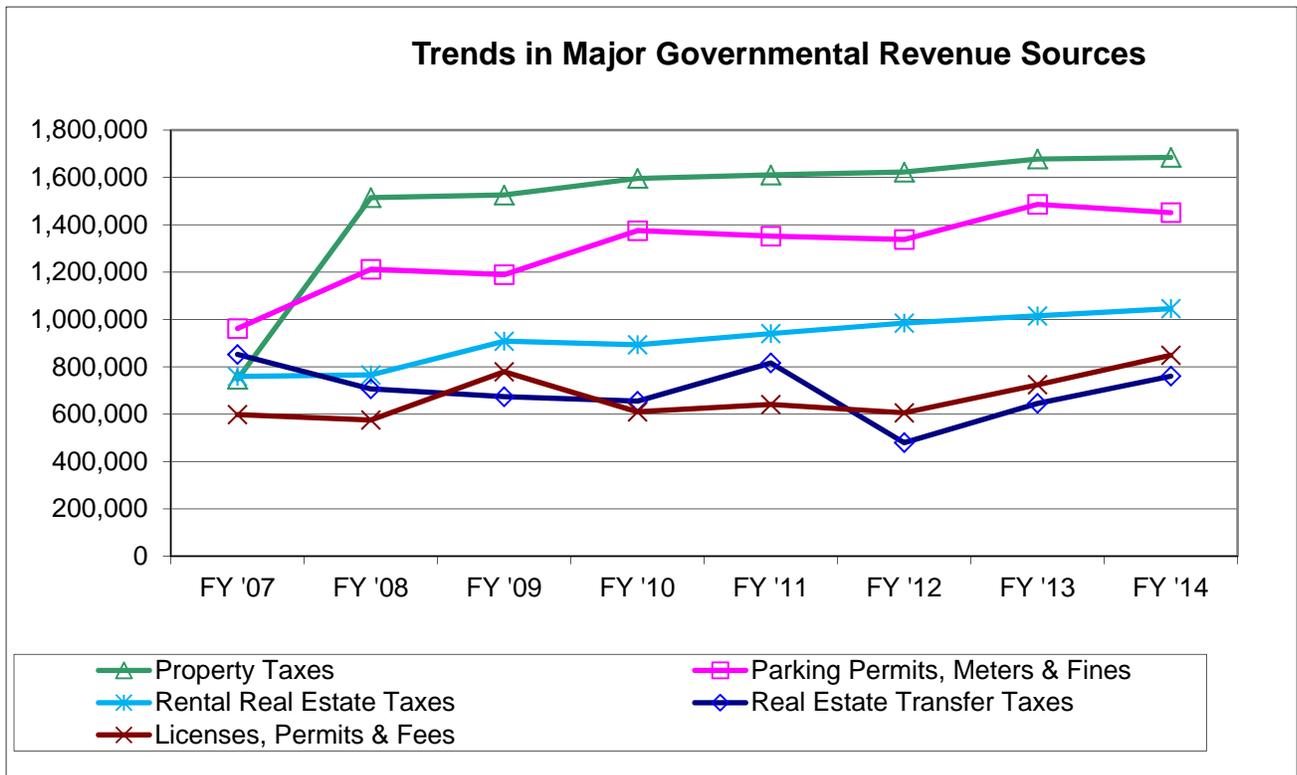
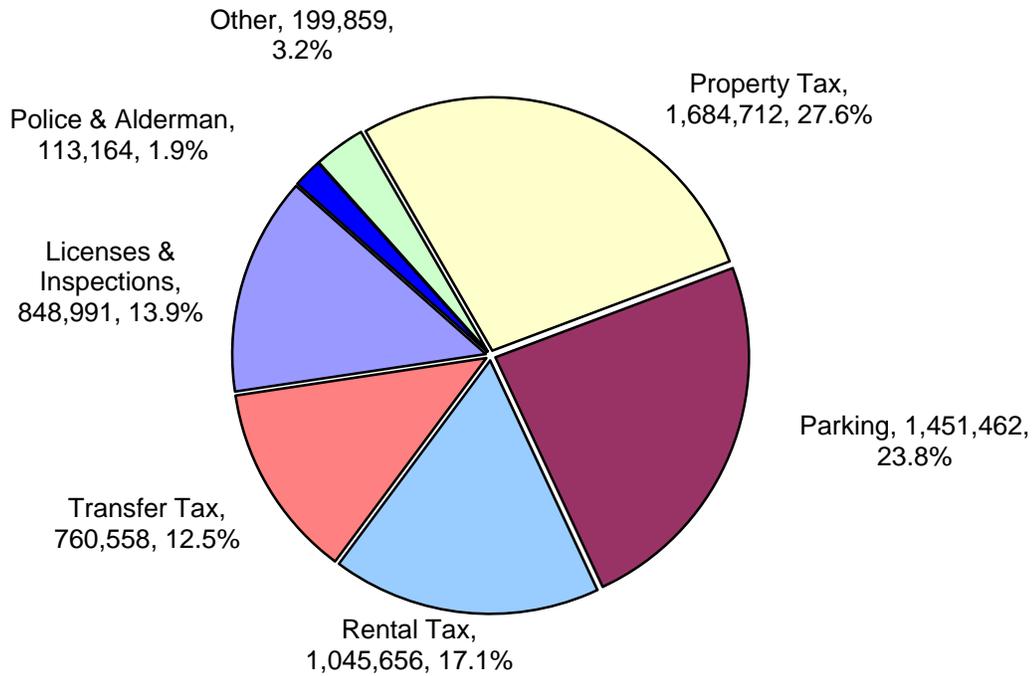
Total revenue for government activities decreased \$27,899 (0.4%) to \$6,372,556. The major revenue sources and key factors are as follows. Grant revenue is not included due to the variable nature of State and Federal grants.

1. Property Tax revenue totaled \$1,684,712 and was the Town's largest single source of funding. The assessed value of taxable properties as of May 2014 was \$985,914,405, which is 2,255,396 (0.2%) more than the prior year. The tax rate remained unchanged at \$0.17 per \$100 of assessed value. The most recent town-wide reassessment was completed in 2001. Total property tax revenue increased \$6,527 (0.4%). As a percentage of total governmental revenue, property tax remained the same as last year at 27.6%.
2. Revenues from parking fines, parking meters and parking permits totaled \$1,451,462 and were the Town's second largest revenue source. These revenues decreased \$35,148 (2.4%) from construction delaying the start of the season and a slight decline in summer visitors. As a percentage of governmental revenue, parking decreased slightly from 24.4% in fiscal year 2013 to 23.8% in fiscal year 2014.
3. Real estate rental taxes were the Town's third largest revenue source at \$1,045,656. These revenues increased \$30,710 (3.0%). As a percentage of total governmental revenue, rental taxes increased slightly from 16.7% in fiscal year 2013 to 17.1% in fiscal year 2014.
4. Licenses, permits and other fees were the fourth largest revenue source at \$848,991. These revenues increased \$124,751 (17.2%) 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 11.9% in fiscal year 2013 to 13.9% in fiscal year 2014.
5. Real estate transfer taxes were the Town's fifth largest revenue source at \$760,588. These revenues increased \$114,867 (17.8%). 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 10.6% in fiscal year 2013 to 12.5% in fiscal year 2014.
6. Other revenue showed a significant decrease of \$230,800. This revenue was unusually high in fiscal year 2013 from three one-time items. The fiscal year 2014 revenue in this category is more typical.

The Town budgets and sets fees with a goal of summer season revenues fully paying the cost of operations for the summer season. Summer season related revenue was approximately \$2.9 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 \$2.8 million in fiscal year 2014. 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, 2014, 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 2014 Governmental Revenue Sources
(excludes grant funds)



The Town's expense for all governmental activities combined was \$5,572,222. This covers a range of services and increased \$19,030 (0.3%) from fiscal year 2013 primarily due to the following:

1. General and Administration increased \$101,052 (11.1%). This increase was mainly caused by the purchase of a third trolley to help ensure uninterrupted service throughout the summer.
2. Police and alderman costs decreased \$98,943 (6.2%). The two main reasons are a decline in police department grants and decreased in hours worked by seasonal employees.
3. Beach, Boardwalk and Comfort Station costs decreased \$53,763 (13.8%) as the prior fiscal year had significant one-time costs related to the beach wifi system and installation of new signs.
4. Stormwater management costs increased \$48,275 (26.7%) mainly from engineering studies needed to plan future drainage improvement projects.

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 increased \$107,757 (14.8%). The primary cause of this was an increase in trash fees, which resulted in additional revenue of \$90,444 (12.5%). The secondary cause was the receipt of \$17,325 grant from the State of Delaware to purchase and install recycling dumpsters in order to finish implementing new State recycling regulations.

Sanitation department expenses decreased \$3,668 (0.5%).

Water department revenues increased \$49,755 (3.5%). Charges for water services decreased \$15,877 (1.5%) from decreased water use while impact fees paid on new construction projects increased \$67,116 (82.6%).

Water department expenses increased \$1,940 (0.2%).

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 2014, the Town's governmental fund balance increased \$672,935 (13.6%) to \$5,607,549 as reserves were generated. Funds committed for capital improvements budgeted in the coming year decreased \$86,000, from \$1,315,000 to \$1,229,000. Funds committed for future capital projects increased \$612,000 from \$2,991,000 to \$3,603,000 as funds were set aside for future use.

A significant portion of fund balance, \$5,138,499 (91.6%), is nonspendable, restricted or committed to indicate that it is not available for spending. Currently these designations are:

1. Nonspendable prepaid balances	\$87,303
2. Restricted for use on grant purposes	\$5,541
3. Restricted for payment of post-employment health care benefits	\$51,502
4. Restricted for uses determined by the Cultural & Historical Affairs Committee	\$59,846
5. Restricted for use on the Fourth of July Parade	\$54,033
6. Restricted for ambulance fees paid to the Bethany Beach Volunteer Fire Company	\$48,164
7. Committed for capital improvements in the coming fiscal year	\$1,229,000
8. Committed for future capital replacements	\$3,603,000

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 \$522,718 is 9.3% of the \$5,607,512 total fund balance and 11.4% of the \$4,566,585 in general fund operating expenditures for fiscal year 2014.

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.

The Net Position of the water department increased \$375,227 (6.6%) to \$6,025,909. Fiscal year 2014 resulted in a net operating loss of \$12,195. The water department had net operating income gains of \$48,294 in fiscal year 2013, \$97,313 in fiscal year 2012 and \$124,818 in fiscal year 2011. Non-operating revenues of \$374,988 were received mainly from water impact fees for capital projects and sinking fund fees for water department debt repayment. Now that the water department is operating at a loss it is likely that water rates will be increased in the near future. Water use rates were last adjusted for fiscal year 2009, taking effect in May of 2008.

The Net Position of the sanitation department increased \$34,652 (2.3%) to end the year at \$1,538,909. Fiscal year 2014 resulted in a net operating gain of \$13,682. The sanitation department had a net operating loss of \$80,418 in fiscal year 2013 and \$77,266 in fiscal year 2012 but a net operating income gain of \$74,401 in fiscal

year 2011. The operating losses in the prior two fiscal years led to a 12% increase in sanitation fees, which took effect April 1, 2014 and brought the sanitation fund back to just above break-even.

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 \$484,609 (8.8%). Page 12 of this report supplies detail on the largest revenues. Revenues from transfer taxes, building permits, and rental real estate taxes exceeded the budget, showing that housing construction and summer vacation rentals remain strong.

The Town Council may amend the budget during the year as purchase decisions are made and previously estimated amounts become known. In April 2014 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 \$173,415 (3.7%). Total revenues exceeded total expenditures by \$658,024, 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 2014 Additions
Beach and boardwalk	\$26,120
Machinery and equipment	\$51,132
Streets and parks	\$302,339
Vehicles	\$252,812
Total	\$632,403
Sanitation Fund	FY 2014 Additions
Vehicles	\$231,776
Water Fund	FY 2014 Additions
Water Plant & Distribution System	\$341,766
Vehicles & Equipment	\$14,658
Total	\$356,424

The Town Council made four amendments to the capital budget in governmental activities in November 2013. A total of \$73,000 was added to the budget to purchase a water irrigation reel, a used pickup truck, additional mats for beach access and an ATV for use on the beach.

In governmental activities, the largest area of capital expenditure in fiscal year 2014 was \$302,339 for maintenance, repairs, and improvements to streets, alleys, road shoulders and street lighting, \$111,500 of this was funded through the State's Municipal Street Aid grant. The second largest capital cost was \$252,812 in the category of Vehicles to purchase a third trolley, a police car, a truck, a van and an ATV. The third largest category was \$51,132 spent in machinery and equipment to replace the phone system in Town Hall and purchase a water irrigation reel and beach mats. The \$26,120 in Beach and boardwalk was used to reconstruct the Third Street access to the boardwalk.

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 and into capital assets being depreciated. In fiscal year 2014 \$130,619 was added to Construction in Process. Of this \$106,364 was for the continuing construction to improve North Pennsylvania Avenue and \$24,255 was spent preparing the ground at the Bethany Town Park for use.

As of the end of the fiscal year, \$318,991 remained in Construction in Process for three projects; \$33,465 for Atlantic Avenue sidewalk engineering, \$77,793 for development of Bethany Park and \$207,732 for utility relocation and improvements on North Pennsylvania Avenue.

In the sanitation department, \$180,946 was used to replace a side-loading trash truck and \$50,830 was used to purchase a diesel truck.

In the water department, \$356,424 in current year capital assets and projects were put into use, including \$165,941 for the mineral tank, \$92,370 for aerator alterations, \$22,427 for a salt water intrusion monitoring well, \$14,658 for an alarm system at the water plant and \$61,028 in other water distribution system work. \$111,709 of distribution system work that was previously classified as Construction in Progress was put into use.

At the end of the fiscal year \$2,118,797 was classified as Construction in Progress. Of this amount \$1,787,107 was for 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 \$297,096 for a new pump station and \$35,594 for electrical and distribution system work related to the water tower but not funded through the State loan.

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, 2014, the Town had \$2,129,649 in outstanding debt. In the general fund, \$89,408 is owed for the final payment to the State of Delaware Office of Pensions. In the water fund, \$253,134 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 \$1,787,107 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 \$2,129,649 total outstanding debt of the Town, \$700,848 (32.9%) is payable within five years.

Acquiring new debt for construction of the water tower was approved by referendum in September 2013. The Town drew loan funds of \$143,214 in fiscal year 2013 and \$1,643,894 in fiscal year 2014 giving the total current loan total of \$1,787,107. The Town anticipates drawing at least \$500,000 more in loan funds during fiscal year 2015. 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 2013 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 or fees for early repayment of this loan.

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 2014 as reported in these financial statements with the following exceptions:

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 \$500,000 to \$800,000 in fiscal year 2015. The Town chooses to budget near the conservative end of this range. 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 2015 budget was approved in March 2014. The operating budget for all town activities combined is \$6,723,000. This is \$357,000 (5.6%) more than the fiscal year 2014 operating budget. Budgeted operating costs increased 6.5% in the general fund, 0.1% in the sanitation fund and 5.3% in the water fund.

The property tax rate was increased in the fiscal year 2015 budget from \$0.17 to \$0.175 per \$100 of assessed property value. This 3.0% increase should generate an additional \$50,000 in revenue and took effect on April 1, 2014.

Capital projects for fiscal year 2015 include:

- \$200,000 for street maintenance
- \$190,000 for equipment and vehicle replacement
- \$170,000 for purchase of a rear loading trash truck
- \$100,000 for storm water drainage improvements
- \$100,000 for water system repairs and equipment replacement as needed
- \$30,000 for repairs to the boardwalk and beach access

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 POSITION

March 31, 2014

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,395,057	\$ 388,032	\$ 1,783,089
Investments	4,106,796	2,000,762	6,107,558
Receivables:			
Taxes - real and personal property	9,449	-	9,449
Sanitation fees	-	6,977	6,977
Water charges	-	389,701	389,701
Interest	6,417	6,307	12,724
Other	8,686	516,459	525,145
Prepaid expenses	87,303	20,420	107,723
Total current assets	5,613,708	3,328,658	8,942,366
Noncurrent assets			
Restricted cash and cash equivalents	219,195	173,870	393,065
Capital assets at cost	16,546,747	10,807,558	27,354,305
Less accumulated depreciation	(5,961,776)	(4,013,610)	(9,975,386)
Bond issue cost, net of amortization	-	13,134	13,134
Total noncurrent assets	10,804,166	6,980,952	17,785,118
Total assets	\$ 16,417,874	\$ 10,309,610	\$ 26,727,484
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	\$ 64,786	\$ 430,047	\$ 494,833
Employee withholdings and payroll taxes	82,713	166,068	248,781
Internal balances	(30,509)	30,509	-
Accrued interest	6,557	-	6,557
Deferred revenue	137,468	3,365	140,833
Notes payable	89,408	307,329	396,737
Compensated absences liability	2,826	1,284	4,110
Total current liabilities	353,249	938,602	1,291,851
Noncurrent liabilities			
Notes payable	-	1,732,912	1,732,912
Compensated absences liability	159,855	73,278	233,133
Total noncurrent liabilities	159,855	1,806,190	1,966,045
Total liabilities	513,104	2,744,792	3,257,896
NET POSITION			
Net investment in capital assets	10,584,971	4,753,707	15,338,678
Restricted	219,195	173,870	393,065
Unrestricted	5,100,604	2,637,241	7,737,845
Total net position	\$ 15,904,770	\$ 7,564,818	\$ 23,469,588

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

TOWN OF BETHANY BEACH, DELAWARE

**STATEMENT OF ACTIVITIES
Year Ended March 31, 2014**

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Contributions, and Interest	Capital Grants, Contributions, and Interest	Primary Government		
					Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES							
General and administration	\$ 1,011,372	\$ -	\$ -	\$ -	\$ (1,011,372)	\$ -	\$ (1,011,372)
Licenses and inspections	207,841	848,991	-	-	641,150	-	641,150
Public Safety							
Police and Alderman fines and revenue	1,500,769	113,164	78,756	25,000	(1,283,849)	-	(1,283,849)
Parking	384,085	1,451,462	-	-	1,067,377	-	1,067,377
Beach Patrol	443,174	-	-	-	(443,174)	-	(443,174)
Ambulance	129,864	129,769	-	-	(95)	-	(95)
Public works							
Stormwater management	228,934	-	-	-	(228,934)	-	(228,934)
Streets and parks	1,061,256	-	2,848	161,550	(896,858)	-	(896,858)
Beach and boardwalk	335,641	-	-	-	(335,641)	-	(335,641)
Recreation - entertainment	222,009	-	-	-	(222,009)	-	(222,009)
Cultural, historical & parade	47,277	-	-	-	(47,277)	-	(47,277)
Total Governmental Activities	5,572,222	2,543,386	81,604	186,550	(2,760,682)	-	(2,760,682)
BUSINESS-TYPE ACTIVITIES							
Water	1,103,753	1,062,810	394,413	12,485	-	365,955	365,955
Sanitation	804,247	817,929	17,325	-	-	31,007	31,007
Total Business-Type Activities	1,908,000	1,880,739	411,738	12,485	-	396,962	396,962
Total Primary Government	\$ 7,480,222	\$ 4,424,125	\$ 493,342	\$ 199,035	\$ (2,760,682)	\$ 396,962	\$ (2,363,720)
General Revenues							
Taxes:							
Property					1,684,712	-	1,684,712
Rental real estate					1,045,656	-	1,045,656
Transfer					760,558	-	760,558
Interest					18,644	12,967	31,611
Other					51,446	-	51,446
Total General Revenues					3,561,016	12,967	3,573,983
Change in Net Position					800,334	409,929	1,210,263
Net Position Beginning of Year					15,104,436	7,154,889	22,259,325
Net Position End of Year					\$ 15,904,770	\$ 7,564,818	\$ 23,469,588

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

TOWN OF BETHANY BEACH, DELAWARE
BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2014

	<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	\$ 1,395,057	\$ -	\$ -	\$ -	\$ 1,395,057
Investments	4,106,796	-	-	-	4,106,796
Receivables:					
Taxes - real and personal property	9,449	-	-	-	9,449
Interest	6,417	-	-	-	6,417
Other	7,521	-	-	1,165	8,686
Prepaid expenses	87,303	-	-	-	87,303
Due from other funds	15,472	15,037	-	-	30,509
Restricted Assets:					
Cash and cash equivalents	165,491	-	5,541	48,163	219,195
Total assets	\$ 5,793,506	\$ 15,037	\$ 5,541	\$ 49,328	\$ 5,863,412
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued expenses	\$ 56,169	\$ 8,480	\$ 137	\$ -	\$ 64,786
Employee withholdings and payroll taxes	44,226	-	-	-	44,226
Accrued interest	-	6,557	-	-	6,557
Deferred revenue	82,773	-	5,367	49,328	137,468
Compensated absences liability	2,826	-	-	-	2,826
Total liabilities	185,994	15,037	5,504	49,328	255,863
FUND BALANCES					
Nonspendable	87,303	-	-	-	87,303
Restricted	165,491	-	5,541	48,163	219,195
Committed for:					
Capital improvements	1,229,000	-	-	-	1,229,000
Future capital replacements	3,603,000	-	-	-	3,603,000
Unassigned	522,718	-	(5,504)	(48,163)	469,051
Total fund balances	5,607,512	-	37	-	5,607,549
Total liabilities and fund balances	\$ 5,793,506	\$ 15,037	\$ 5,541	\$ 49,328	\$ 5,863,412

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

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
March 31, 2014**

Total fund balances, governmental funds		\$ 5,607,549
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.		10,584,971
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 Position. Those liabilities consist of:		
Bonds and notes payable	(89,408)	
Other post-employment benefit obligation	(38,487)	
Compensated absences	(159,855)	
Total long-term liabilities		(287,750)
Net position of governmental activities in the Statement of Net Position		\$ 15,904,770

TOWN OF BETHANY BEACH, DELAWARE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended March 31, 2014

	<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>			
REVENUES:					
Taxes:					
Property	\$ 1,684,712	\$ -	\$ -	\$ -	\$ 1,684,712
Rental real estate	1,045,656	-	-	-	1,045,656
Transfer	760,558	-	-	-	760,558
Parking revenues	1,451,462	-	-	-	1,451,462
Licenses, permits and fees	848,991	-	-	-	848,991
Police and Alderman fines and revenue	113,164	-	-	-	113,164
Interest	23,620	-	34	95	23,749
Service receipts	-	-	-	129,769	129,769
Intergovernmental revenues: State	-	-	268,123	-	268,123
Contributions	34,693	-	-	-	34,693
Miscellaneous	16,753	-	-	-	16,753
Total revenues	5,979,609	-	268,157	129,864	6,377,630
Expenditures:					
General and administration	912,861	-	-	-	912,861
Licenses and inspections	216,045	-	-	-	216,045
Public safety:					
Police	1,281,388	-	78,756	-	1,360,144
Alderman	49,987	-	-	-	49,987
Parking	354,153	-	-	-	354,153
Beach Patrol	443,174	-	-	-	443,174
Ambulance	-	-	-	129,864	129,864
Public works:					
Stormwater management	156,176	-	-	-	156,176
Streets and parks	709,990	-	2,848	-	712,838
Beach and boardwalk	220,171	-	-	-	220,171
Recreation - entertainment	182,089	-	-	-	182,089
Cultural, historical & parade	40,551	-	-	-	40,551
Debt service:					
Principal	-	158,515	-	-	158,515
Interest	-	5,105	-	-	5,105
Capital outlay	-	576,472	186,550	-	763,022
Total expenditures	4,566,585	740,092	268,154	129,864	5,704,695
Excess (deficiency) of revenues over expenditures	1,413,024	(740,092)	3	-	672,935
Other financing (uses) sources					
Transfer (out) in	(740,092)	740,092	-	-	-
Total other financing (uses) sources	(740,092)	740,092	-	-	-
Net change in fund balances	672,932	-	3	-	672,935
Fund balances, beginning	4,934,580	-	34	-	4,934,614
Fund balances, end of year	\$ 5,607,512	\$ -	\$ 37	\$ -	\$ 5,607,549

**RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
Year Ended March 31, 2014**

Net change in fund balances, governmental funds \$ 672,935

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	763,022	
Depreciation expense	<u>(788,295)</u>	
Excess of depreciation expense over capital outlay		(25,273)

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. 158,515

Some items reported in the Statement of Activities do not require the use of current
financial resources and therefore are not reported as expenditures in governmental
funds. These activities consist of:

Increase in other post-employment benefits obligation	(9,960)	
Decrease in compensated absences	<u>4,117</u>	

Change in net position of governmental activities \$ 800,334

TOWN OF BETHANY BEACH, DELAWARE

**STATEMENT OF FUND NET POSITION
BUSINESS-TYPE ACTIVITIES**

March 31, 2014

	Enterprise Fund		
	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 7,141	\$ 380,891	\$ 388,032
Investments	1,483,852	516,910	2,000,762
Receivables:			
Water charges	389,701	-	389,701
Sanitation	-	6,977	6,977
Interest	2,085	4,222	6,307
Other	516,459	-	516,459
Prepaid expenses	13,137	7,283	20,420
Total current assets	2,412,375	916,283	3,328,658
Noncurrent assets			
Restricted cash and cash equivalents	173,870	-	173,870
Capital assets, at cost	9,414,167	1,393,391	10,807,558
Less accumulated depreciation	(3,288,443)	(725,167)	(4,013,610)
Bond issue costs, net of amortization	13,134	-	13,134
Total noncurrent assets	6,312,728	668,224	6,980,952
Total assets	\$ 8,725,103	\$ 1,584,507	\$ 10,309,610
LIABILITIES AND NET POSITION			
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	\$ 419,642	\$ 10,405	\$ 430,047
Employee withholdings and payroll taxes	160,981	5,087	166,068
Due to other funds	29,766	743	30,509
Deferred revenues	3,365	-	3,365
Long-term liabilities due within one year:			
General obligation bonds	307,329	-	307,329
Compensated absences liability	1,090	194	1,284
Total current liabilities	922,173	16,429	938,602
Noncurrent liabilities			
General obligation bonds	1,732,912	-	1,732,912
Compensated absences liability	44,109	29,169	73,278
Total noncurrent liabilities	1,777,021	29,169	1,806,190
Total liabilities	2,699,194	45,598	2,744,792
NET POSITION			
Net investment in capital assets	4,085,483	668,224	4,753,707
Restricted	173,870	-	173,870
Unrestricted	1,766,556	870,685	2,637,241
Total	\$ 6,025,909	\$ 1,538,909	\$ 7,564,818

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 POSITION
BUSINESS-TYPE ACTIVITIES
Year Ended March 31, 2014**

	Enterprise Fund		
	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
OPERATING REVENUE			
Charges for services:			
Water	\$ 1,029,431	\$ -	\$ 1,029,431
Sanitation	-	817,929	817,929
Other operating	33,379	-	33,379
Total operating revenues	1,062,810	817,929	1,880,739
OPERATING EXPENSES			
Water	824,712	-	824,712
Sanitation	-	685,198	685,198
Depreciation and amortization	250,294	119,049	369,343
Total operating expenses	1,075,006	804,247	1,879,253
Net operating (loss) income	(12,196)	13,682	1,486
NON-OPERATING REVENUE (EXPENSES)			
Non-operating revenue	394,413	-	394,413
Amortization of bond issue cost	(5,320)	-	(5,320)
Grant revenues	12,485	17,325	29,810
Financial expense, net	(14,105)	3,645	(10,460)
Total non-operating revenue	387,473	20,970	408,443
Change in net position	375,277	34,652	409,929
Total net position, beginning	5,650,632	1,504,257	7,154,889
Total net position, ending	\$ 6,025,909	\$ 1,538,909	\$ 7,564,818

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, 2014**

	Enterprise Fund		
	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 1,064,021	\$ 816,979	\$ 1,881,000
Payments to suppliers	(306,524)	(324,856)	(631,380)
Payments to employees	(446,504)	(352,686)	(799,190)
Net cash (used) provided by operating activities	310,993	139,437	450,430
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Non-operating revenue	394,413	-	394,413
Advances to (from) general fund, net	29,451	(138)	29,313
Net cash provided by (used in) noncapital financing activities	423,864	(138)	423,726
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets	(2,005,463)	(231,776)	(2,237,239)
Receipt of capital grants	12,485	17,325	29,810
Proceeds for capital debt	1,270,648	-	1,270,648
Principal paid on long-term debt	(245,320)	-	(245,320)
Interest paid on long-term debt	(23,427)	-	(23,427)
Net cash used in capital and related financing activities	(991,077)	(214,451)	(1,205,528)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments	(72,068)	(25,142)	(97,210)
Interest income	9,322	3,645	12,967
Net cash used in investing activities	(62,746)	(21,497)	(84,243)
Net decrease in cash and cash equivalents	(318,966)	(96,649)	(415,615)
Cash and cash equivalents, beginning of year	499,977	477,540	977,517
Cash and cash equivalents, end of year	\$ 181,011	\$ 380,891	\$ 561,902
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating (loss) income	\$ (12,196)	\$ 13,682	\$ 1,486
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:			
Depreciation and amortization expense	250,294	119,049	369,343
Changes in assets and liabilities:			
Receivables, net	3,269	(580)	2,689
Prepaid expenses	12,216	6,189	18,405
Deferred revenue	(2,058)	(370)	(2,428)
Accounts and other payables	57,945	1,258	59,203
Compensated absences liability	1,523	209	1,732
Net cash (used) provided by operating activities	\$ 310,993	\$ 139,437	\$ 450,430

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 position 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 position 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 position 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 fund is presented in a separate 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.

The remaining governmental funds which are non-major consist of the following:

The Special Revenue – Grants Fund is used to account for the proceeds of specific revenue sources. The Ambulance Fund is used to account for the proceeds and expenditures of ambulance fees.

PROPRIETARY FUNDS

Proprietary funds focus on the determination of changes in net position, 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 position and changes in net position. 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 position.

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 governmental 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 position. The statement of changes in fund net position 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.

H. Receivables

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

I. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position 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 position 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 \$10,000. 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 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 \$137,468 consist of permits and fees collected in advance.

M. Compensated Absences

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

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, 2014.

P. Net Position

Net position represents the difference between assets and liabilities. Government-wide and proprietary fund net position is divided into three components:

Net position invested in capital assets – 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 position – consists of net position that is 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 position – all remaining balances.

The Town applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is 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 through 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, 2014. 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 goods or services that are 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 position. The only interfund balances which remain on the government-wide statement of net position are those between governmental and business-type activities. These amounts are reflected as “Internal Balances.”

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.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

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 \$73,000 for the year ended March 31, 2014.

Note 3. Real Estate Taxes

The tax on real estate in the Town area for the fiscal year ended March 31, 2014 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 is as follows:

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

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, 2014:

Description	Financial Institution Balances			Totals	Carrying Amounts
	1	2	3		
Cash & Cash Equivalents:					
Unrestricted	\$ 362,755	\$ 1,546,833	\$ -	\$ 1,909,588	\$ 1,783,089
Restricted	-	393,065	-	393,065	393,065
Totals	\$ 362,755	\$ 1,939,898	\$ -	\$ 2,302,653	\$ 2,176,154

NOTES TO FINANCIAL STATEMENTS

Note 4. Cash and Investments (continued)

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, 2014, the Town's investments consist of the following:

Description	Category	Amounts	
		Market	Carrying
Certificates of Deposit	1, 2	\$ 6,107,558	\$ 6,107,558
Investments:			
Unrestricted		\$ 6,107,558	\$ 6,107,558
Total Investments		\$ 6,107,558	\$ 6,107,558

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. Capital Assets

The following is a summary of changes in capital assets for the year ended March 31, 2014:

	March 31, 2013	Additions	Deletions/ Transfers	March 31, 2014
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated:				
Land	\$ 3,391,767	\$ -	\$ -	\$ 3,391,767
Construction in progress	188,374	130,619	-	318,993
Total capital assets, not being depreciated	<u>3,580,141</u>	<u>130,619</u>	<u>-</u>	<u>3,710,760</u>
Capital assets, being depreciated				
Beach and boardwalk	1,452,648	26,120	(410,799)	1,067,969
Building and improvements	3,917,518	-	-	3,917,518
Land improvements	643,162	-	-	643,162
Machinery and equipment	1,489,537	51,132	(155,861)	1,384,808
Stormwater	1,253,093	-	-	1,253,093
Streets and parks	3,408,308	302,339	(163,279)	3,547,368
Vehicles	825,344	252,812	(56,087)	1,022,069
Total capital assets, being depreciated	<u>12,989,610</u>	<u>632,403</u>	<u>(786,026)</u>	<u>12,835,987</u>
Less accumulated depreciation:				
Beach and boardwalk	695,531	55,194	(410,799)	339,926
Building and improvements	1,819,730	176,835	-	1,996,565
Land improvements	286,162	39,845	-	326,007
Machinery and equipment	1,051,025	112,101	(155,861)	1,007,265
Stormwater	578,112	71,944	-	650,056
Streets and parks	801,459	264,786	(163,279)	902,966
Vehicles	727,488	67,590	(56,087)	738,991
Total accumulated depreciation	<u>5,959,507</u>	<u>788,295</u>	<u>(786,026)</u>	<u>5,961,776</u>
Total capital assets, being depreciated, net	<u>7,030,103</u>	<u>(155,892)</u>	<u>-</u>	<u>6,874,211</u>
Governmental activities capital assets, net	<u>\$ 10,610,244</u>	<u>\$ (25,273)</u>	<u>\$ -</u>	<u>\$ 10,584,971</u>

Depreciation expense was charged to governmental functions as follows:

General, administrative and park development	\$ 89,668
Police and Alderman	89,704
Parking	29,069
Public works	
Stormwater management	72,401
Streets and parks	345,315
Beach and boardwalk	115,095
Recreation - entertainment	40,317
Historical/Cultural	<u>6,726</u>
	<u>\$ 788,295</u>

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets (continued)

	March 31, 2013	Additions	Deletions/ Transfers	March 31, 2014
BUSINESS-TYPE ACTIVITIES				
Water Fund				
Capital assets, not being depreciated:				
Construction in progress	\$ 264,187	\$ 1,966,319	\$ (111,709)	\$ 2,118,797
Total capital assets, not being depreciated	264,187	1,966,319	(111,709)	2,118,797
Capital assets, being depreciated:				
Plant and water distribution system	6,578,536	341,766	(25,335)	6,894,967
Vehicles and equipment	559,350	14,658	(173,605)	400,403
Total capital assets, being depreciated	7,137,886	356,424	(198,940)	7,295,370
Total accumulated depreciation	3,348,798	250,294	(310,649)	3,288,443
Total capital assets, being depreciated, net	3,789,088	106,130	111,709	4,006,927
Water capital assets, net	\$ 4,053,275	\$ 2,072,449	\$ -	\$ 6,125,724
Sanitation Fund				
Capital assets, being depreciated:				
Vehicles and equipment	\$ 1,161,615	\$ 231,776	\$ -	\$ 1,393,391
Total capital assets, being depreciated	1,161,615	231,776	-	1,393,391
Total accumulated depreciation	606,118	119,049	-	725,167
Total capital assets, being depreciated, net	555,497	112,727	-	668,224
Sanitation capital assets, net	555,497	112,727	-	668,224
Business-type activities capital assets, net	\$ 4,608,772	\$ 2,185,176	\$ -	\$ 6,793,948

NOTES TO FINANCIAL STATEMENTS

Note 6. Bonds and Notes Payable – Business-type Activities

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

	Interest Rate	Maturity Date	Balances March 31, 2013	Additions	Retirements and Repayments	Balances March 31, 2014	Amount Due in One Year
Compensated absences			\$ 72,830	\$ 1,732	\$ -	\$ 74,562	\$ 1,284
General Obligation Bonds:							
Series 1994			\$490,000	\$ -	\$ 240,000	\$ 250,000	\$250,000
Bond Premium			36,211	-	22,735	13,476	13,476
Refunding Deferral							
Series 1994, net	5.30%	2014	(27,757)	17,415	-	(10,342)	(10,342)
			498,454	17,415	262,735	253,134	253,134
Series 2012-SRF	2.13%	2034	143,214	1,643,893	-	1,787,107	54,195
			641,668	1,661,308	262,735	2,040,241	307,329
Total Business-type Activities							
Long-Term Debt			\$714,498	\$ 1,663,040	\$ 262,735	\$ 2,114,803	\$308,613

Total annual requirements to amortize all business-type activities debt outstanding as of March 31, 2014 are as follows:

Fiscal Year Ending March 31,	Principal	Interest	Total
2015	\$ 307,329	\$ 41,415	\$ 348,744
2016	73,618	36,195	109,813
2017	75,202	34,612	109,814
2018	76,819	32,994	109,813
2019	78,472	31,342	109,814
2020 - 2024	418,414	130,653	549,067
2025 - 2029	465,391	83,677	549,068
2030 - 2034	517,641	31,426	549,067
2035	27,355	97	27,452
	\$ 2,040,241	\$ 422,411	\$ 2,462,652

Interest expense in the business-type activities for the year ended March 31, 2014 totaled \$23,427. 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 7. 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, 2013	Additions	Retirements and Repayments	Balances March 31, 2014	Amount Due in One Year
Compensated absences			\$170,635	\$ -	\$ 7,954	\$ 162,681	\$ 2,826
State of Delaware Pension	8.00%	2014	172,322	-	82,914	89,408	89,408
Total Governmental Activities Long-Term Debt			\$342,957	\$ -	\$ 90,868	\$ 252,089	\$ 92,234

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

Fiscal Year Ending March 31,	Principal	Interest	Total
2015	\$ 89,408	\$ 7,153	\$ 96,561
	\$ 89,408	\$ 7,153	\$ 96,561

Interest expense in the governmental activities for the year ended March 31, 2014 totaled \$5,105.

Note 8. 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, 2014, the cost of healthcare benefits for these employees and their families was approximately \$5,000.

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.

NOTES TO FINANCIAL STATEMENTS

Note 8. Post-Employment Healthcare Benefits (continued)

Annual OPEB Cost and Net OPEB Obligation (continued)

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	(5,000)
Change in Net OPEB Obligation (NOO)	33,000
Net OPEB Obligation (NOO) - Beginning of Year	160,000
Net OPEB Obligation (NOO) - End of Year	\$ 193,000

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 March, 31	Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
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
2014	38,000	5,000	13.16%	193,000

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)
3/31/2011	\$ 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%
3/31/2014	206,000	473,000	267,000	43.55%	61,000	437.70%

NOTES TO FINANCIAL STATEMENTS

Note 8. Post-Employment Healthcare Benefits (continued)

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 3.0%, plan asset return of 2.0%, employer asset return of 2.0%, and an annual healthcare cost trend of 8.0% initially, reduced to an ultimate rate of 4.7% after ten years.

The unfunded accrued actuarial liability is being amortized as a level percentage of projected payroll over a 10-year period. The remaining amortization period at March 31, 2014 was 5 years.

Note 9. Pension and Retirement Plans

Effective on June 30, 2006, the Town entered into the State of Delaware County & Municipal Employees Pension Plan and State of Delaware County and Municipal Police and Firefighters Pension Plan. 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 Pension Plan and State of Delaware Police and Firefighters Pension Plan was \$91,585 and \$82,898 for the fiscal year, respectively.

Plan Description

All regular employees of the Town participate in the State of Delaware County & Municipal Employees Pension Plan. Police officers participate in the State of Delaware County and Municipal Police and Firefighters Pension 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.

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

Plan Description (continued)

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, 2014, the Town was required to contribute 6.62% of total compensation for general employees and 15.52% 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.

As of June 30, 2013, the most recent State Pension Office financial statements, the State's Police plan was 98.1% funded and the Municipal Employees plan was 93.8% funded. Based on the number of participants, we estimate the Town may be responsible for between \$100,000 to \$150,000 of the State's unfunded actuarially accrued liability. This relatively small shortfall may result in an increase in the Town's future contribution rate.

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, 2014, 2013, and 2012 are as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Creditable wages	\$ 1,912,686	\$ 1,853,041	\$ 1,755,374
Contributions paid:			
General employees	91,585	88,208	84,448
Police officers	82,898	81,052	64,978

Note 10. 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.

NOTES TO FINANCIAL STATEMENTS

Note 11. 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 purchases 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, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Taxes:				
Property	\$ 1,677,000	\$ 1,677,000	\$ 1,684,712	\$ 7,712
Rental real estate	1,000,000	1,000,000	1,045,656	45,656
Transfer	550,000	550,000	760,558	210,558
Parking revenues	1,530,000	1,530,000	1,451,462	(78,538)
Licenses, permits and fees	557,000	557,000	848,991	291,991
Police and Alderman fines and revenue	116,000	116,000	113,164	(2,836)
Interest	25,000	25,000	23,620	(1,380)
Contributions	30,000	30,000	34,693	4,693
Miscellaneous	10,000	10,000	16,753	6,753
Total revenues	5,495,000	5,495,000	5,979,609	484,609
EXPENDITURES:				
General and administration	923,000	923,000	912,861	10,139
Licenses and inspections	203,000	218,000	216,045	1,955
Public safety:				
Police	1,379,000	1,354,000	1,281,388	72,612
Alderman	50,000	50,000	49,987	13
Parking	422,000	402,000	354,153	47,847
Beach Patrol	451,000	451,000	443,174	7,826
Public works:				
Stormwater management	134,000	159,000	156,176	2,824
Streets and parks	713,000	713,000	709,990	3,010
Beach and boardwalk	237,000	237,000	220,171	16,829
Recreation - entertainment	178,000	183,000	182,089	911
Cultural, historical & parade	50,000	50,000	40,551	9,449
Total expenditures	4,740,000	4,740,000	4,566,585	173,415
Excess of revenues over expenditures	755,000	755,000	1,413,024	658,024
OTHER FINANCING USES:				
Transfer out	(1,272,000)	(1,557,000)	(740,092)	816,908
Fund balance appropriated	517,000	802,000	-	(802,000)
Total other financing uses	(755,000)	(755,000)	(740,092)	14,908
Net change in fund balance	\$ -	\$ -	672,932	\$ 672,932
Fund balance - beginning			4,934,580	
Fund balance - ending			<u>\$ 5,607,512</u>	

TOWN OF BETHANY BEACH, DELAWARE

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended March 31, 2014

**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>
3/31/2011	\$ 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%
3/31/2014	206,000	473,000	267,000	43.55%	61,000	437.70%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended March, 31</u>	<u>Annual OPEB Cost</u>	<u>Age Adjusted Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
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
2014	38,000	5,000	13.16%	193,000

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, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable <u>(Unfavorable)</u>
EXPENDITURES:				
General and administration	\$ 90,000	\$ 281,000	\$ 208,788	\$ 72,212
Public safety:				
Parking	30,000	30,000	22,561	7,439
Beach patrol	-	15,000	14,281	719
Public works:				
Streets and parks	953,000	1,013,000	286,129	726,871
Beach and boardwalk	30,000	49,000	44,713	4,287
Debt service:				
Principal	161,000	161,000	158,515	2,485
Interest	8,000	8,000	5,105	2,895
Total expenditures	1,272,000	1,557,000	740,092	816,908
OTHER FINANCING SOURCES:				
Transfers in	1,272,000	1,557,000	740,092	(816,908)
Total other financing sources	1,272,000	1,557,000	740,092	(816,908)
Net change in fund balance	\$ -	\$ -	-	\$ -
Fund balance - beginning			-	
Fund balance - ending			<u>\$ -</u>	

TOWN OF BETHANY BEACH, DELAWARE

**ADDITIONAL SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND
Year Ended March 31, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Intergovernmental revenues:				
State and County	\$ 246,000	\$ 273,522	\$ 268,123	\$ (5,399)
Interest income	-	-	34	34
Total revenues	246,000	273,522	268,157	(5,365)
EXPENDITURES:				
Public safety:				
Police	159,000	161,972	156,604	5,368
Public works:				
Streets and parks	87,000	111,550	111,550	-
Total expenditures	246,000	273,522	268,154	5,368
Excess of revenues over expenditures	-	-	3	3
Net change in fund balance	\$ -	\$ -	3	\$ 3
Fund balance - beginning			34	
Fund balance - ending			<u>\$ 37</u>	

TOWN OF BETHANY BEACH, DELAWARE

INCOME AND EXPENSE DETAIL

WATER FUND

Year Ended March 31, 2014

WATER SERVICE:

Operating revenues:

Charges for services	\$ 1,029,431
Other service fees	32,644
Miscellaneous	735

Total operating revenues	1,062,810
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Operating expenses:

Salaries and wages	306,868
Payroll taxes	23,363
Employee benefits	117,796
Administrative fees	2,332
Contract services	29,595
Insurance	49,229
Telephone	5,547
Utilities	49,812
Repairs and maintenance	15,111
Sewer service charge	983
Plant maintenance	57,972
Distribution system maintenance	50,216
Office supplies	5,120
Miscellaneous	22,779
Supplies	17,118
Chemicals	69,975
Uniforms	896
Depreciation	250,294

Total operating expenses	1,075,006
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Net operating income	(12,196)
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Non-operating revenue (expenses):

Taxes and assessments	246,057
Grant revenues	12,485
Impact fees	148,356
Interest income	9,322
Amortization on bond issue costs	(5,320)
Interest expense	(23,427)

Net non-operating revenues	387,473
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NET INCOME	\$ 375,277
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TOWN OF BETHANY BEACH, DELAWARE

INCOME AND EXPENSE DETAIL

SANITATION FUND

Year Ended March 31, 2014

SANITATION SERVICE:

Operating revenues:

Charges for services \$ 817,929

Total operating revenues 817,929

Operating expenses:

Salaries and wages 243,544

Payroll taxes 18,513

Employee benefits 90,838

Disposal fees 164,985

Fuel 37,244

Insurance 26,344

Telephone 1,901

Utilities 12,144

Repairs and maintenance 55,291

Office supplies 8,125

Miscellaneous 26,269

Depreciation 119,049

Total operating expenses 804,247

Net operating income 13,682

Non-operating revenues:

Grant revenues 17,325

Interest income 3,645

Net non-operating revenues 20,970

NET INCOME \$ 34,652
