

TOWN OF BETHANY BEACH, DELAWARE

FINANCIAL REPORT

MARCH 31, 2016

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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, 2016, 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, 2016, 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.

Change in Accounting Principle

As discussed in Note 12 to the financial statements, during the year ended March 31, 2016 the Town adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

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.

The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 1, 2016, 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 "YSM Group LLC". The signature is written in a cursive, flowing style.

Salisbury, Maryland
July 1, 2016

**Town of Bethany Beach
Management's Discussion and Analysis
March 31, 2016**

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, 2016. 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 2016

The assets of the Town of Bethany Beach exceed its liabilities at the end of fiscal year 2016 by \$25,776,643 (net position). Of this amount, \$7,975,711 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors. \$17,282,550 of the remaining net position is invested in capital assets, net of related debt and \$518,382 is restricted for specific uses. The Town's total net position increased by \$828,233 (3.3%) during fiscal year 2016. The net position of governmental activities increased by \$541,651 (3.1%) while the net position of business-type activities increased by \$286,582 (3.6%).

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 of the close of fiscal year 2016, the Town's governmental funds reported an ending fund balance of \$6,673,819. Of this amount, \$80,209 is nonspendable prepaid balances. In the General Fund, restricted funds include \$51,502 in post-employment benefits, \$71,986 in Cultural & Historic funds, and \$23,168 in Fourth of July Parade Funds. Committed funds are \$1,150,000 for capital purchases in fiscal year 2017, \$4,016,000 for future capital projects and \$644,000 in the newly created Storm Emergency Relief Fund.

This leaves \$636,912 as unassigned in the general fund at the end of fiscal year 2016. The unassigned fund balance for the general fund represents 11.5% of the general fund operating expenditure budget for fiscal year 2017 of \$5,519,000.

The Town's bonds and notes payable increased by \$477,000 (20.8%). The debt of the General Fund increased \$675,000 for the purchase of land on Garfield Parkway being used as a parking lot while the debt of the Water Fund decreased by \$198,000 as payments were made on the water tower. Of the Town's total debt of \$2,769,685, \$1,162,789 (42.0%) is due within the next five years.

Overall, the Town is in good financial condition and has the policies and focus to stay in sound 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 30-52 of this report.

Government-Wide Financial Analysis

As noted earlier, the Town's net position may serve, over time, as a useful indicator of the government's financial situation. The Town's combined net position (government and business-type activities) totaled \$25,776,643 at the end of fiscal year 2016, compared to \$24,948,410 at the end of fiscal year 2015, an increase of \$828,233 (3.3%).

The largest portion of the Town's net position, \$17,282,550 (67.0%) 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, 2016, the Town held \$853,436 in cash and cash equivalents and \$7,675,000 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 savings accounts. Currently, all certificates of deposit held by the Town are for amounts under the FDIC limit of \$250,000 per institution to provide greater security of funds while improving interest earnings. Further information on cash and investments can be found on page 38, note 4.

The Town's Fund Balance Policy establishes 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 2017, operating reserves are \$828,000 in the general fund, \$116,000 in the sanitation fund and \$163,000 in the water fund. Total town-wide operating reserves are \$1,107,000, which is 15.0% of the FY 2017 operating budget.

The policy's recommendations for the amount of funds committed for capital replacement are based on the cost and useful lives of assets currently in use by the Town. For fiscal year 2017, capital replacement reserves are \$4,016,000 in the general fund, \$656,000 in the sanitation fund and \$1,011,000 in the water fund. An additional \$350,000 is held in reserve in the water fund for replacement of filter media in the water plant, which is expected to be needed within the next five years. Total town-wide capital reserves are \$6,033,000, which is 34.9% of the Town's net investment in capital assets.

In March of 2016 the Town Council made a revision to the Fund Balance Policy to add a section on the Storm Emergency Relief Fund (SERF), which was created to accumulate funds to aid the town in recovering from a hurricane, nor'easter or other storm event. The use of these reserve funds is restricted to debris cleanup, repair of infrastructure such as the boardwalk, replacement of equipment, and operating expenses that are needed as a result of revenue lost in the aftermath of a storm. Accessing the SERF reserve requires approval from a Supermajority, defined as at least five of seven Town Council members.

The SERF reserve is currently \$644,000, the source of this money is the transfer tax and building permit of the Bethany Ocean Suites hotel. In the FY 2017 budget the Town Council increased the rental tax rate and property tax rate to generate additional funds for this reserve, which is expected to exceed \$2,000,000 within five years.

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, beginning in fiscal year 2011. As of March 31, 2016, \$261,923 was held in a separate bank account to fund this benefit, which is 43.9% of the \$597,000 actuarial accrued liability. Further information on this obligation can be found on page 43, 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, 2016

| | Governmental Activities | | Business-Type Activities | | Total | | % Change |
|--|-------------------------|-------------------|--------------------------|-------------------|-------------------|-------------------|--------------|
| | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | |
| Current Assets | 6,539,059 | 6,816,491 | 3,002,811 | 2,800,646 | 9,541,870 | 9,617,137 | 0.8% |
| Capital Assets | 10,567,846 | 11,774,735 | 7,347,829 | 7,602,500 | 17,915,675 | 19,377,235 | 8.2% |
| Other Assets | 360,749 | 329,180 | 218,477 | 297,775 | 579,226 | 626,955 | 8.2% |
| Total Assets | 17,467,654 | 18,920,406 | 10,569,117 | 10,700,921 | 28,036,771 | 29,621,327 | 5.6% |
| Deferred Outflows - Pension | 176,461 | 187,148 | - | - | 176,461 | 187,148 | 6.0% |
| Long-Term Liabilities | 158,384 | 704,582 | 2,293,598 | 2,290,994 | 2,451,982 | 2,995,576 | 22.2% |
| Other Liabilities | 465,193 | 577,395 | 347,647 | 195,473 | 812,840 | 772,868 | -4.9% |
| Total Liabilities | 623,577 | 1,281,977 | 2,641,245 | 2,486,467 | 3,264,822 | 3,768,444 | 15.4% |
| Deferred Inflows - Pension | - | 263,388 | - | - | - | 263,388 | 100% |
| Invested in capital assets, net of related debt | 10,567,846 | 11,774,735 | 5,055,144 | 5,507,815 | 15,622,990 | 17,282,550 | 10.6% |
| Restricted | 322,637 | 220,607 | 218,477 | 297,775 | 541,114 | 518,382 | -4.2% |
| Unrestricted | 6,130,055 | 5,566,847 | 2,654,251 | 2,408,864 | 8,784,306 | 7,975,711 | -9.2% |
| Total Net Position | 17,020,538 | 17,562,189 | 7,927,872 | 8,214,454 | 24,948,410 | 25,776,643 | 3.3% |

Funds in the Town's unrestricted net position of \$7,975,711, may be used to meet the government's ongoing obligations to citizens and creditors. Unrestricted net position decreased \$808,595 (9.2%) during fiscal year 2016: \$563,208 in Governmental Activities and \$245,387 in Business-Type Activities. During this time capital assets, net of related debt, increased \$1,659,560 (10.6%): \$1,206,889 in Governmental Activities and \$452,671 in Business-Type Activities. This shows that the Town continues to invest in capital, such as the purchase of the parking lot land on Garfield Parkway and the pump station at the water tower.

Current assets increased \$75,267 (0.8%). The current assets for Governmental Activities increased \$277,432 (4.2%), while current assets of Business-Type Activities decreased \$202,165 (6.7%). The majority of the \$9,617,137 in total current assets is cash, cash equivalents and investments, most of which are held in reserves for future needs.

Receivables, which make up \$964,008 of the current assets, decreased \$103,016 (9.7%). The largest single receivable is \$457,023 in water bills mailed in April 2016 for the previous six months of water use. The second largest receivable is \$395,532 due to the Town for the remaining two years of a four-year payment plan for the building permit and water impact fee of the Bethany Beach Ocean Suites construction project.

Long-term liabilities increased \$543,594 (22.2%), increasing \$546,198 in Governmental Activities and decreasing \$2,604 in Business-Type Activities. The increase in Governmental Activities is predominately from the loan towards the purchase of the parking lot land on Garfield Parkway. The small decrease in Business-Type Activities is mainly from debt repayment on the water tower loan reducing the liability while accounting regulations require that the town present a liability for other post-employment benefits (OPEB).

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, 2016

| | Governmental Activities | | Business-Type Activities | | Total | | % Change |
|--------------------------------------|-------------------------|-------------------|--------------------------|------------------|-------------------|-------------------|-------------|
| | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | |
| Revenues: | | | | | | | |
| Program Revenues | | | | | | | |
| Charges for services | 3,083,884 | 2,979,404 | 1,899,023 | 2,068,709 | 4,982,907 | 5,048,113 | 1.3% |
| Assessments & impact fees | | | 524,741 | 342,849 | 524,741 | 342,849 | -34.7% |
| Operating grants | 94,980 | 103,976 | - | - | 94,980 | 103,976 | 9.5% |
| Capital grants | 36,080 | 242,251 | - | - | 36,080 | 242,251 | 571.4% |
| General Revenues | | | | | | | |
| Property taxes | 1,745,806 | 1,776,040 | - | - | 1,745,806 | 1,776,040 | 1.7% |
| Rental real estate taxes | 1,044,036 | 1,149,424 | - | - | 1,044,036 | 1,149,424 | 10.1% |
| Transfer taxes | 822,846 | 710,089 | - | - | 822,846 | 710,089 | -13.7% |
| Other | 79,645 | 78,717 | 12,212 | 15,705 | 91,857 | 94,422 | 2.8% |
| Total Revenues | 6,907,277 | 7,039,901 | 2,435,976 | 2,427,263 | 9,343,253 | 9,467,164 | 1.3% |
| Expenses: | | | | | | | |
| General and administration | 982,884 | 1,279,220 | - | - | 982,884 | 1,279,220 | 30.1% |
| Licenses and inspections | 230,218 | 242,479 | - | - | 230,218 | 242,479 | 5.3% |
| Public Safety | | | | | | | |
| Police and Alderman | 1,528,375 | 1,616,709 | - | - | 1,528,375 | 1,616,709 | 5.8% |
| Parking | 492,645 | 514,343 | - | - | 492,645 | 514,343 | 4.4% |
| Beach Patrol | 517,196 | 537,084 | - | - | 517,196 | 537,084 | 3.8% |
| Ambulance | 149,195 | 149,195 | - | - | 149,195 | 149,195 | 0.0% |
| Public Works | | | | | | | |
| Storm water management | 217,666 | 177,063 | - | - | 217,666 | 177,063 | -18.7% |
| Streets & Parks | 1,150,510 | 1,280,257 | - | - | 1,150,510 | 1,280,257 | 11.3% |
| Beach and boardwalk | 430,234 | 389,201 | - | - | 430,234 | 389,201 | -9.5% |
| Recreation - entertainment | 264,844 | 273,366 | - | - | 264,844 | 273,366 | 3.2% |
| Cultural/Historic & Parade | 42,315 | 39,333 | - | - | 42,315 | 39,333 | -7.0% |
| Sanitation Fund | - | - | 798,512 | 825,944 | 798,512 | 825,944 | 3.4% |
| Water Fund | - | - | 1,274,410 | 1,314,737 | 1,274,410 | 1,314,737 | 3.2% |
| Total Expenses | 6,006,082 | 6,498,250 | 2,072,922 | 2,140,681 | 8,079,004 | 8,638,931 | 6.9% |
| Change in net position | 901,195 | 541,651 | 363,054 | 286,582 | 1,264,249 | 828,233 | -34.5% |
| Net position, beginning, as restated | 16,119,343 | 17,020,538 | 7,564,818 | 7,927,872 | 23,684,161 | 24,948,410 | 5.3% |
| Net position, end of year | 17,020,538 | 17,562,189 | 7,927,872 | 8,214,454 | 24,948,410 | 25,776,643 | 3.3% |

The Town's total net position increased \$828,233 (3.3%). Approximately 38.4% of the Town's total revenue came from three types of taxes: property, rental and transfer. Total revenues increased \$123,911 (1.3%), while total expenses increased \$559,927 (6.9%). Much of the increase in expense is from a \$206,171 increase in capital grant funds from the State of Delaware for a paving project on Half Moon Drive.

Governmental Activities

Total revenue for government activities increased \$132,624 (1.9%) to \$7,039,901. 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.

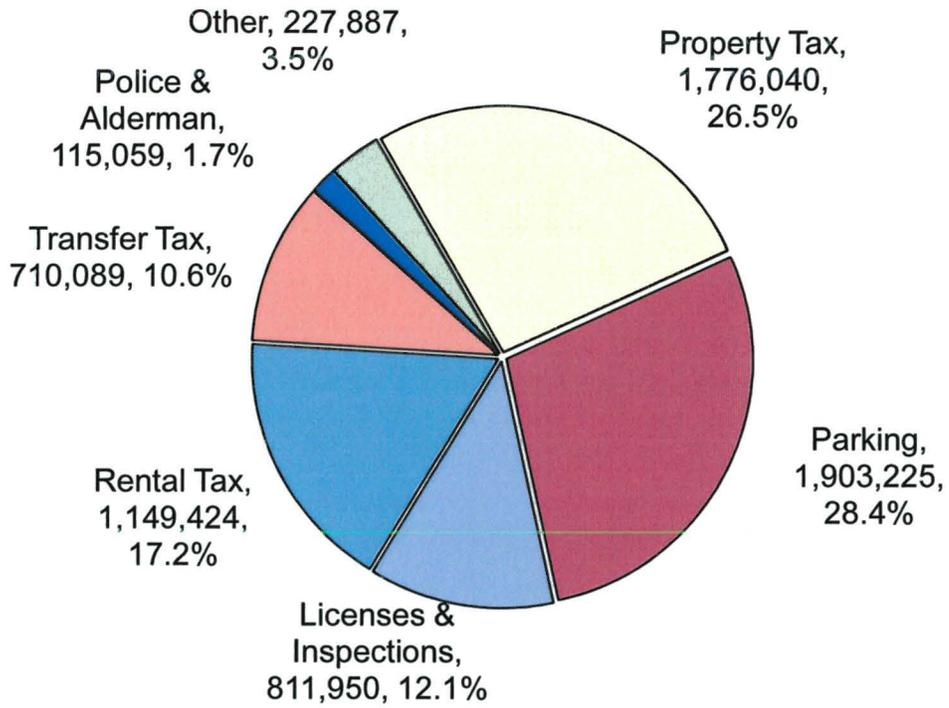
1. Revenues from parking fines, parking meters and parking permits totaled \$1,903,225 and were the Town's largest revenue source. These revenues increased \$370,408 (24.2%) mainly from an increase in the hourly parking rate from \$1.50 to \$2.00. As a percentage of governmental revenue, parking increased from 22.6% in fiscal year 2015 to 28.4% in fiscal year 2016.
2. Property Tax revenue totaled \$1,776,040 and was the Town's second largest source of funding. The assessed value of taxable properties as of May 2015 was \$995,876,659, which is 4,824,654 (0.5%) more than the prior year. The tax rate was \$0.175 per \$100 of assessed value and the most recent town-wide reassessment was completed in 2001. Total property tax revenue increased \$30,234 (1.7%) from new construction. As a percentage of total governmental revenue, property tax increased from 25.8% in fiscal year 2015 to 26.5% in fiscal year 2016.
3. Real estate rental taxes were the Town's third largest revenue source at \$1,149,424. These revenues increased \$105,388 (10.1%). As a percentage of total governmental revenue, rental taxes increased from 15.4% in fiscal year 2015 to 17.2% in fiscal year 2016.
4. Licenses, permits and other fees were the fourth largest revenue source at \$811,950. These revenues decreased \$498,931 (38.1%). The main cause of this decrease was a single building permit in the prior year for construction of Bethany Beach Ocean Suites. 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 decreased from 19.3% in fiscal year 2015 to 12.1% in fiscal year 2016.
5. Real estate transfer taxes were the Town's fifth largest revenue source at \$710,089. These revenues decreased \$112,757 (13.7%). 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 decreased from 12.1% in fiscal year 2015 to 10.6% in fiscal year 2016.
6. All other revenue combined increased \$23,115.

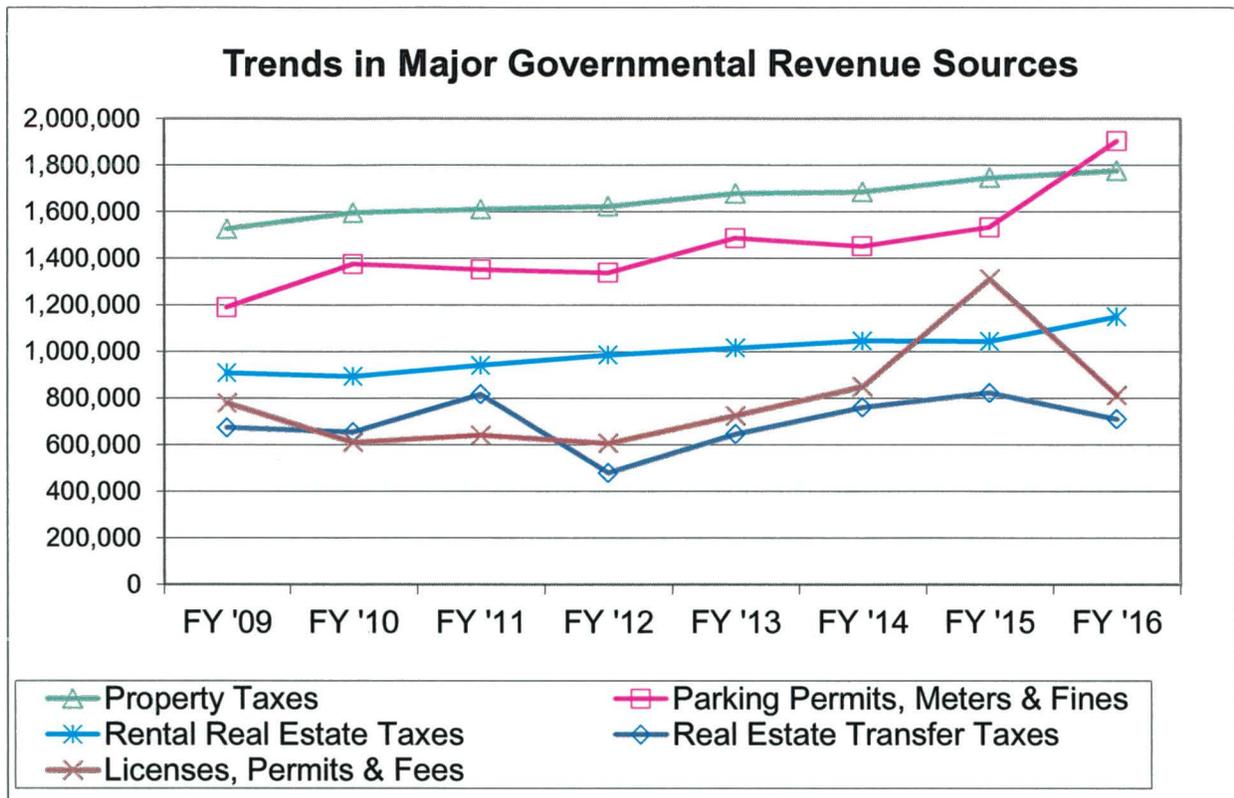
The Town budgets and sets fees with a goal of summer season revenues fully paying the cost of operations for the summer season. Summer season related revenue was approximately \$3.5 million. This revenue includes parking fees, rental taxes, business licenses, beach concessions and other fines and fees. The operating cost for the summer season, including the depreciation of capital assets, was estimated at \$3.3 million in fiscal year 2016. Property tax revenues are not used to fund summer season costs.

The following two charts show the Town's general fund revenues for the fiscal year ending March 31, 2016, 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 2016 Governmental Revenue Sources

(excludes grant funds)





The Town's expense for all governmental activities combined was \$6,498,250. This covers a range of services and increased \$492,168 (8.2%) from fiscal year 2015.

Business-type activities

The 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 \$7,553 (0.9%). Sanitation department expenses increased \$27,432 (3.4%). Income and expense detail is shown on page 64 of this report. Sanitation revenues fell just short of covering all operating costs, including depreciation with a net operating loss of \$2,165, which is 0.3% of total sanitation revenue.

Water department revenues decreased \$16,266 (1.0%) as water use was lower than in recent years. Water department expenses increased \$40,327 (3.2%). Income and expense detail is shown on page 63 of this report. Operating revenues were not quite sufficient to cover all operating expenses, resulting in a net loss of \$22,097, which is 1.4% of total water revenue.

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 2016, the Town's governmental fund balance increased \$233,782 (3.6%) to \$6,673,819. Funds committed for capital improvements budgeted in the coming year increased \$178,000, from \$972,000 to \$1,150,000. Funds committed for future capital projects decreased \$766,000 from \$4,782,000 to \$4,016,000 as some funds were used and \$644,000 was shifted to the new Storm Emergency Relief Fund.

Most of the fund balance in the general fund is nonspendable, restricted or committed to indicate that it is not available for spending. Currently these designations are:

| | |
|---|-------------|
| 1. Nonspendable prepaid balances | \$80,209 |
| 2. Restricted for payment of post-employment health care benefits | \$51,502 |
| 3. Restricted for uses determined by the Cultural & Historical Affairs Committee (In February 2016 the Committee dedicated \$46,300 of these funds for the museum project) | \$71,986 |
| 4. Restricted for use on the Fourth of July Parade | \$23,168 |
| 5. Committed for capital improvements in the coming fiscal year | \$1,150,000 |
| 6. Committed for the Storm Emergency Relief Fund | \$644,000 |
| 7. Committed for future capital replacements | \$4,016,000 |

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 \$636,912 is 9.5% of the \$6,673,777 total fund balance and 12.3% of the \$5,196,028 in general fund operating expenditures for fiscal year 2016.

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 \$281,757 (4.4%) to \$6,646,016. Fiscal year 2016 resulted in a net operating loss of \$22,097. The water department had net operating loss of \$133,825 in fiscal year 2015 and \$12,196 in fiscal year 2014; and net operating income of \$48,294 in fiscal year 2013, \$97,313 in fiscal year 2012 and \$124,818 in fiscal year 2011. Non-operating revenues of \$303,854 were received mainly from water impact fees for capital projects and sinking fund fees for water department debt repayment.

The net position of the sanitation department increased \$4,825 (0.3%) to end the year at \$1,568,438. Fiscal year 2016 resulted in a net operating loss of \$2,165. The sanitation department had net operating income of \$19,995 in fiscal year 2015 and \$13,682 in fiscal year 2014; net operating loss of \$80,418 in fiscal year 2013 and \$77,266 in fiscal year 2012; and net operating income of \$74,401 in fiscal year 2011.

General Fund Budgetary Highlights

The budgetary comparison schedule for the general fund can be found on page 54 of this report.

General fund revenues exceeded the amount budgeted by \$618,046 (10.4%). Page 12 of this report supplies detail on the largest revenues. Revenues from transfer taxes and building permits significantly exceeded our conservative, budgeted estimates. Parking revenues exceeded the budget as the hourly parking rate was increased after the budget was approved.

The Town Council may amend the budget during the year as purchase decisions are made and previously estimated amounts become known. In April 2016 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 \$55,972 (1.1%). Total revenues exceeded total expenditures by \$1,368,018, providing funding for future purchases of capital assets and for capital improvement projects.

Capital Assets

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

| Governmental Activities | FY 2016 Additions |
|-----------------------------------|--------------------------|
| Land | \$1,256,770 |
| Construction in Progress | \$213,817 |
| Machinery and equipment | \$99,793 |
| Streets and parks | \$386,379 |
| Vehicles | \$74,989 |
| Total | \$2,031,748 |
| | |
| Sanitation Fund | FY 2016 Additions |
| Vehicles | \$0 |
| | |
| Water Fund | FY 2016 Additions |
| Water Plant & Distribution System | \$645,977 |

The Town Council made four amendments to the capital budget in governmental activities. In October of 2015, \$1,257,000 was added to the budget to purchase land on Garfield Parkway for a parking lot. In February of 2016, \$25,000 was added to purchase a bucket truck and \$105,000 was added for a town museum (\$46,300 of the cost for the museum will be Cultural and Historic Affairs funds). In April of 2016 \$25,000 was retroactively added to the budget to purchase a vehicle for administrative and Town Council use.

In governmental activities, the largest area of capital expenditure in fiscal year 2016 was \$1,256,770 for purchasing land on Garfield Parkway for a parking lot. The second largest capital cost was \$386,379 for paving of streets, \$217,250 of this was funded through the State's Municipal Street Aid grant. The third largest category was \$213,817 added to several projects still in process. The fourth category was \$99,793 spent in machinery and equipment to replace a backhoe and purchase a large outdoor holiday tree. The \$74,989 in vehicles was used to purchase a police car, a bucket truck, and a van for administrative and Town Council use.

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 2016, \$213,817 was added to Construction in Progress for four projects; \$98,908 for the public works yard on Blackwater Road, \$82,460 for paving on Hollywood Street, \$550 for a museum and \$31,899 for the park development project. As of the end of the fiscal year, \$291,613 remained in Construction in Progress these four projects.

In the water department, \$552,880 was used to construct a pump station at the water tower, \$51,695 was used on underground piping on Atlantic Avenue, \$33,402 was used for paving at the water plant and \$8,000 was used to finish the water tower construction project. Construction in Progress decreased \$2,804,766 as the tower, pump station and Atlantic Avenue projects were completed.

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, 2016, the Town had \$2,769,685 in outstanding debt; \$2,094,685 from construction of the water tower and \$675,000 from the purchase of the land under the parking lot on Garfield Parkway. Of the \$2,769,685 total outstanding debt of the Town, \$1,162,789 (42.0%) is payable within five years.

The debt for the Garfield parking lot is from an agreement made in June of 2015. The land was purchased for \$1,250,000 plus \$6,770 in settlement costs. An initial payment of \$356,770 was from town reserves with seller financing of \$900,000 being repaid in four annual installments with an interest rate of 5%. The first installment of \$225,000 was paid in September of 2015, leaving a balance of \$675,000 remaining at the end of the fiscal year.

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 2016 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 2017. 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 2017 budget was approved in March 2016. The operating budget for all Town activities combined is \$7,382,000. This is \$362,000 (5.2%) more than the fiscal year 2016 operating budget. Budgeted operating costs increased 5.1% in the general fund, 3.2% in the sanitation fund and 7.0% in the water fund.

The fiscal year 2017 budget included the following adjustments to tax rates with the additional revenue going to build the Storm Emergency Relief Fund (SERF)

- Increased the property tax rate from \$0.175 to \$0.185 per \$100 of assessed value. This is estimated to generate an additional \$100,000 in revenue for the SERF reserve.
- Increased the residential and commercial rental tax rates. The rate for properties not subject to the State accommodations tax increased from 6.0% to 7.0% effective on rentals after September 2016. The rate for properties that are subject to the State accommodations tax, such as hotels, increased from 3.0% to 3.25% effective on rentals after April 2016. This is estimated to generate an additional \$184,000 in revenue per year for the SERF reserve once the rates are fully in effect.

General Fund capital projects budgeted for fiscal year 2017 are:

- \$200,000 for street maintenance and paving
- \$170,000 for improvements to the public works yard
- \$80,000 to replace the beach tractor
- \$60,000 for a boardwalk extension at Hollywood Street
- \$40,000 to replace a street cleaner and a lawn tractor
- \$20,000 to construct a shooting range at the public works yard

Water Fund capital projects budgeted for fiscal year 2017 are:

- \$100,000 to construct an earthen mineral pond at the water plant
- \$60,000 to replace a pickup truck
- \$50,000 for water system repairs
- \$50,000 for equipment replacement as needed

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.

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TOWN OF BETHANY BEACH, DELAWARE

STATEMENT OF NET POSITION

March 31, 2016

| | Governmental Activities | Business-Type Activities | Total |
|---------------------------------------|----------------------------|-----------------------------|----------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 572,937 | \$ 280,499 | \$ 853,436 |
| Investments | 5,764,260 | 1,910,740 | 7,675,000 |
| Receivables: | | | |
| Taxes - real and personal property | 23,535 | - | 23,535 |
| Service charges | - | 471,045 | 471,045 |
| Interest | 8,859 | 3,211 | 12,070 |
| Other | 366,691 | 90,667 | 457,358 |
| Prepaid expenses | 80,209 | 44,484 | 124,693 |
| Total current assets | 6,816,491 | 2,800,646 | 9,617,137 |
| Noncurrent assets | | | |
| Restricted cash and cash equivalents | 220,607 | 297,775 | 518,382 |
| Net pension asset | 108,573 | - | 108,573 |
| Capital assets at cost | 18,937,870 | 12,379,466 | 31,317,336 |
| Less accumulated depreciation | (7,163,135) | (4,776,966) | (11,940,101) |
| Total noncurrent assets | 12,103,915 | 7,900,275 | 20,004,190 |
| Total assets | \$ 18,920,406 | \$ 10,700,921 | \$ 29,621,327 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pension (see Note 9) | 187,148 | - | 187,148 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable and accrued expenses | \$ 200,082 | \$ 55,229 | \$ 255,311 |
| Internal balances | (39,333) | 39,333 | - |
| Unearned revenue | 198,361 | 5,663 | 204,024 |
| Compensated absences liability | 4,169 | 1,780 | 5,949 |
| Bonds and notes payable | 214,116 | 93,468 | 307,584 |
| Total current liabilities | 577,395 | 195,473 | 772,868 |
| Noncurrent liabilities | | | |
| Compensated absences liability | 188,117 | 79,358 | 267,475 |
| OPEB obligation | 55,581 | 210,419 | 266,000 |
| Bonds and notes payable | 460,884 | 2,001,217 | 2,462,101 |
| Total noncurrent liabilities | 704,582 | 2,290,994 | 2,995,576 |
| Total liabilities | 1,281,977 | 2,486,467 | 3,768,444 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pension (see Note 9) | 263,388 | - | 263,388 |
| NET POSITION | | | |
| Net investment in capital assets | 11,774,735 | 5,507,815 | 17,282,550 |
| Restricted | 220,607 | 297,775 | 518,382 |
| Unrestricted | 5,566,847 | 2,408,864 | 7,975,711 |
| Total net position | \$ 17,562,189 | \$ 8,214,454 | \$ 25,776,643 |

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

TOWN OF BETHANY BEACH, DELAWARE

STATEMENT OF ACTIVITIES
Year Ended March 31, 2016

| Function/Program | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|--|---------------------|----------------------|---|---|---|--------------------------|-----------------------|
| | | Charges for Services | Operating Grants, Contributions, and Interest | Capital Grants, Contributions, and Interest | Primary Government | | |
| | | | | | Governmental Activities | Business-Type Activities | Total |
| GOVERNMENTAL ACTIVITIES | | | | | | | |
| General and administration | \$ 1,279,220 | \$ - | \$ - | \$ - | \$ (1,279,220) | \$ - | \$ (1,279,220) |
| Licenses and inspections | 242,479 | 811,950 | - | - | 569,471 | - | 569,471 |
| Public Safety | | | | | | | |
| Police and Alderman fines and revenue | 1,616,709 | 115,059 | 93,976 | 25,001 | (1,382,673) | - | (1,382,673) |
| Parking | 514,343 | 1,903,225 | - | - | 1,388,882 | - | 1,388,882 |
| Beach Patrol | 537,084 | - | - | - | (537,084) | - | (537,084) |
| Ambulance | 149,195 | 149,170 | - | - | (25) | - | (25) |
| Public works | | | | | | | |
| Stormwater management | 177,063 | - | - | - | (177,063) | - | (177,063) |
| Streets and parks | 1,280,257 | - | - | 217,250 | (1,063,007) | - | (1,063,007) |
| Beach and boardwalk | 389,201 | - | 10,000 | - | (379,201) | - | (379,201) |
| Recreation - entertainment | 273,366 | - | - | - | (273,366) | - | (273,366) |
| Cultural, historical & parade | 39,333 | - | - | - | (39,333) | - | (39,333) |
| Total Governmental Activities | 6,498,250 | 2,979,404 | 103,976 | 242,251 | (3,172,619) | - | (3,172,619) |
| BUSINESS-TYPE ACTIVITIES | | | | | | | |
| Water | 1,314,737 | 1,244,930 | 342,849 | - | - | 273,042 | 273,042 |
| Sanitation | 825,944 | 823,779 | - | - | - | (2,165) | (2,165) |
| Total Business-Type Activities | 2,140,681 | 2,068,709 | 342,849 | - | - | 270,877 | 270,877 |
| Total Primary Government | \$ 8,638,931 | \$ 5,048,113 | \$ 446,825 | \$ 242,251 | \$ (3,172,619) | \$ 270,877 | \$ (2,901,742) |
| General Revenues | | | | | | | |
| Taxes: | | | | | | | |
| Property | | | | | 1,776,040 | - | 1,776,040 |
| Rental real estate | | | | | 1,149,424 | - | 1,149,424 |
| Transfer | | | | | 710,089 | - | 710,089 |
| Interest | | | | | 22,594 | 15,705 | 38,299 |
| Other | | | | | 56,123 | - | 56,123 |
| Total General Revenues | | | | | 3,714,270 | 15,705 | 3,729,975 |
| Change in Net Position | | | | | 541,651 | 286,582 | 828,233 |
| Net Position Beginning, as restated (see Note 12) | | | | | 17,020,538 | 7,927,872 | 24,948,410 |
| Net Position End of Year | | | | | \$ 17,562,189 | \$ 8,214,454 | \$ 25,776,643 |

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

TOWN OF BETHANY BEACH, DELAWARE
BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2016

| | <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 | \$ 572,937 | \$ - | \$ - | \$ - | \$ 572,937 |
| Investments | 5,764,260 | - | - | - | 5,764,260 |
| Receivables: | | | | | |
| Taxes - real and personal property | 23,535 | - | - | - | 23,535 |
| Interest | 8,859 | - | - | - | 8,859 |
| Other | 360,228 | - | 3,911 | 2,552 | 366,691 |
| Prepaid expenses | 80,209 | - | - | - | 80,209 |
| Due from other funds | 43,244 | 19,700 | - | - | 62,944 |
| Restricted Assets: | | | | | |
| Cash and cash equivalents | 146,656 | - | 13,658 | 60,293 | 220,607 |
| Total assets | \$ 6,999,928 | \$ 19,700 | \$ 17,569 | \$ 62,845 | \$ 7,100,042 |
| LIABILITIES AND FUND BALANCES | | | | | |
| LIABILITIES | | | | | |
| Accounts payable and accrued expenses | \$ 180,382 | 19,700 | \$ - | \$ - | \$ 200,082 |
| Due to other funds | 19,700 | - | 3,911 | - | 23,611 |
| Unearned revenues | 121,900 | - | 13,616 | 62,845 | 198,361 |
| Compensated absences liability | 4,169 | - | - | - | 4,169 |
| Total liabilities | 326,151 | 19,700 | 17,527 | 62,845 | 426,223 |
| FUND BALANCES | | | | | |
| Nonspendable | 80,209 | - | - | - | 80,209 |
| Restricted | 146,656 | - | 42 | - | 146,698 |
| Committed for: | | | | | |
| Capital improvements | 1,150,000 | - | - | - | 1,150,000 |
| Storm emergency | 644,000 | - | - | - | 644,000 |
| Future capital replacements | 4,016,000 | - | - | - | 4,016,000 |
| Unassigned | 636,912 | - | - | - | 636,912 |
| Total fund balances | 6,673,777 | - | 42 | - | 6,673,819 |
| Total liabilities and fund balances | \$ 6,999,928 | \$ 19,700 | \$ 17,569 | \$ 62,845 | \$ 7,100,042 |

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

TOWN OF BETHANY BEACH, DELAWARE

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

March 31, 2016

Total fund balances, governmental funds \$ 6,673,819

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. 11,774,735

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:

| | |
|--|-----------|
| Deferred outflow of resources - Pension (See Note 9) | 187,148 |
| Deferred inflow of resources - Pension (See Note 9) | (263,388) |
| Net pension asset | 108,573 |
| Compensated absences | (188,117) |
| Other post-employment benefits obligation | (55,581) |
| Bonds and notes payable | (675,000) |

Net position of governmental activities in the Statement of Net Position \$ 17,562,189

TOWN OF BETHANY BEACH, DELAWARE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended March 31, 2016

| | <u>Major Fund</u> | | Special Revenue Fund | Ambulance Fund | Total Governmental Funds |
|--|---------------------|---------------------|----------------------------|-------------------|--------------------------------|
| | General Fund | Capital Projects | | | |
| REVENUES: | | | | | |
| Taxes: | | | | | |
| Property | \$ 1,776,040 | \$ - | \$ - | \$ - | \$ 1,776,040 |
| Rental real estate | 1,149,424 | - | - | - | 1,149,424 |
| Transfer | 710,089 | - | - | - | 710,089 |
| Parking revenues | 1,903,225 | - | - | - | 1,903,225 |
| Licenses, permits and fees | 811,950 | - | - | - | 811,950 |
| Police and Alderman fines and revenue | 115,059 | - | - | - | 115,059 |
| Interest | 42,136 | - | 133 | 25 | 42,294 |
| Service receipts | - | - | - | 149,170 | 149,170 |
| Intergovernmental revenues | - | - | 346,227 | - | 346,227 |
| Contributions | 33,972 | - | - | - | 33,972 |
| Miscellaneous | 22,151 | - | - | - | 22,151 |
| Total revenues | 6,564,046 | - | 346,360 | 149,195 | 7,059,601 |
| Expenditures: | | | | | |
| General and administration | 992,891 | - | - | - | 992,891 |
| Licenses and inspections | 242,137 | - | - | - | 242,137 |
| Public safety: | | | | | |
| Police | 1,374,532 | - | 94,148 | - | 1,468,680 |
| Alderman | 53,103 | - | - | - | 53,103 |
| Parking | 483,122 | - | - | - | 483,122 |
| Beach Patrol | 537,084 | - | - | - | 537,084 |
| Ambulance | - | - | - | 149,195 | 149,195 |
| Public works: | | | | | |
| Stormwater management | 107,459 | - | - | - | 107,459 |
| Streets and parks | 844,358 | - | - | - | 844,358 |
| Beach and boardwalk | 289,080 | - | 10,000 | - | 299,080 |
| Recreation - entertainment | 237,696 | - | - | - | 237,696 |
| Cultural, historical & parade | 34,566 | - | - | - | 34,566 |
| Debt service: | | | | | |
| Principal | - | 225,000 | - | - | 225,000 |
| Interest | - | 19,700 | - | - | 19,700 |
| Capital outlay | - | 1,789,497 | 242,251 | - | 2,031,748 |
| Total expenditures | 5,196,028 | 2,034,197 | 346,399 | 149,195 | 7,725,819 |
| Excess (deficiency) of revenues over expenditures | 1,368,018 | (2,034,197) | (39) | - | (666,218) |
| Other financing sources (uses) sources | | | | | |
| Issuance of note payable | - | 900,000 | - | - | 900,000 |
| Transfer (out) in | (1,134,197) | 1,134,197 | - | - | - |
| Total other financing (uses) sources | (1,134,197) | 2,034,197 | - | - | 900,000 |
| Net change in fund balances | 233,821 | - | (39) | - | 233,782 |
| Fund balances, beginning | 6,439,956 | - | 81 | - | 6,440,037 |
| Fund balances, end of year | \$ 6,673,777 | \$ - | \$ 42 | \$ - | \$ 6,673,819 |

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

TOWN OF BETHANY BEACH, DELAWARE

**RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
Year Ended March 31, 2016**

Net change in fund balances, governmental funds \$ 233,782

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 | 2,031,748 |
| Depreciation expense | (824,859) |

Note payable proceeds provide current financial resources to governmental funds.
However, issuing a note payable increases long-term liabilities in the Statement of Net
Position. In the current period, a note payable of this amount was issued. (900,000)

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. 225,000

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:

| | |
|--|-----------|
| Change in deferred outflow of resources - Pension (See Note 9) | 10,687 |
| Change in deferred inflow of resources - Pension (See Note 9) | (263,388) |
| Change in net pension liability / asset | 70,461 |
| Change in compensated absences | (29,733) |
| Change in other post-employment benefits obligation | (12,047) |

Change in net position of governmental activities \$ 541,651

TOWN OF BETHANY BEACH, DELAWARE

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

March 31, 2016

| | Enterprise Fund | | |
|--|------------------------|------------------------|----------------------|
| | <u>Water Fund</u> | <u>Sanitation Fund</u> | <u>Total</u> |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 183,021 | \$ 97,478 | \$ 280,499 |
| Investments | 1,008,806 | 901,934 | 1,910,740 |
| Receivables: | | | |
| Service charges | 457,023 | 14,022 | 471,045 |
| Interest | 1,690 | 1,521 | 3,211 |
| Other | 90,667 | - | 90,667 |
| Prepaid expenses | 31,493 | 12,991 | 44,484 |
| Total current assets | 1,772,700 | 1,027,946 | 2,800,646 |
| Noncurrent assets | | | |
| Restricted cash and cash equivalents | 297,775 | - | 297,775 |
| Capital assets, at cost | 10,823,474 | 1,555,992 | 12,379,466 |
| Less accumulated depreciation | (3,818,867) | (958,099) | (4,776,966) |
| Total noncurrent assets | 7,302,382 | 597,893 | 7,900,275 |
| Total assets | \$ 9,075,082 | \$ 1,625,839 | \$ 10,700,921 |
| LIABILITIES AND NET POSITION | | | |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable and accrued expenses | \$ 42,821 | \$ 12,408 | \$ 55,229 |
| Due to other funds | 24,676 | 14,657 | 39,333 |
| Unearned revenues | 5,663 | - | 5,663 |
| Long-term liabilities due within one year: | | | |
| Compensated absences liability | 22 | 1,758 | 1,780 |
| General obligation bonds | 93,468 | - | 93,468 |
| Total current liabilities | 166,650 | 28,823 | 195,473 |
| Noncurrent liabilities | | | |
| Compensated absences liability | 50,780 | 28,578 | 79,358 |
| OPEB obligation | 210,419 | - | 210,419 |
| General obligation bonds | 2,001,217 | - | 2,001,217 |
| Total noncurrent liabilities | 2,262,416 | 28,578 | 2,290,994 |
| Total liabilities | 2,429,066 | 57,401 | 2,486,467 |
| NET POSITION | | | |
| Net investment in capital assets | 4,909,922 | 597,893 | 5,507,815 |
| Restricted | 297,775 | - | 297,775 |
| Unrestricted | 1,438,319 | 970,545 | 2,408,864 |
| Total net position | \$ 6,646,016 | \$ 1,568,438 | \$ 8,214,454 |

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, 2016**

| | Enterprise Fund | | |
|---|------------------------|------------------------|---------------------|
| | <u>Water Fund</u> | <u>Sanitation Fund</u> | <u>Total</u> |
| OPERATING REVENUE | | | |
| Charges for services | \$ 1,221,264 | \$ 823,779 | \$ 2,045,043 |
| Other | 23,666 | - | 23,666 |
| Total operating revenues | 1,244,930 | 823,779 | 2,068,709 |
| OPERATING EXPENSES | | | |
| Operations | 987,985 | 713,679 | 1,701,664 |
| Depreciation and amortization | 279,042 | 112,265 | 391,307 |
| Total operating expenses | 1,267,027 | 825,944 | 2,092,971 |
| Net operating loss | (22,097) | (2,165) | (24,262) |
| NON-OPERATING REVENUE (EXPENSES) | | | |
| Non-operating revenue | 342,849 | - | 342,849 |
| Financial expense, net | (38,995) | 6,990 | (32,005) |
| Total non-operating revenue | 303,854 | 6,990 | 310,844 |
| Change in net position | 281,757 | 4,825 | 286,582 |
| Total net position, beginning | 6,364,259 | 1,563,613 | 7,927,872 |
| Total net position, ending | \$ 6,646,016 | \$ 1,568,438 | \$ 8,214,454 |

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, 2016**

| | Enterprise Fund | | |
|---|------------------------|------------------------|-------------------|
| | <u>Water Fund</u> | <u>Sanitation Fund</u> | <u>Total</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Receipts from customers | \$ 1,246,322 | \$ 822,141 | \$ 2,068,463 |
| Payments to suppliers | (487,628) | (327,996) | (815,624) |
| Payments to employees | (486,671) | (384,766) | (871,437) |
| Net cash provided by operating activities | 272,023 | 109,379 | 381,402 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | |
| Non-operating revenue | 342,849 | - | 342,849 |
| Advances to general fund, net | 10,987 | 9,489 | 20,476 |
| Net cash provided by noncapital financing activities | 353,836 | 9,489 | 363,325 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | |
| Acquisition of capital assets | (645,977) | - | (645,977) |
| Principal paid on long-term debt | (198,000) | - | (198,000) |
| Interest paid on long-term debt | (47,710) | - | (47,710) |
| Net cash used in capital and related financing activities | (891,687) | - | (891,687) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchase of investments | - | (121,477) | (121,477) |
| Sale of investments | 127,759 | - | 127,759 |
| Interest income | 8,715 | 6,990 | 15,705 |
| Net cash provided by (used in) investing activities | 136,474 | (114,487) | 21,987 |
| Net increase (decrease) in cash and cash equivalents | (129,354) | 4,381 | (124,973) |
| Cash and cash equivalents, beginning of year | 610,150 | 93,097 | 703,247 |
| Cash and cash equivalents, end of year | \$ 480,796 | \$ 97,478 | \$ 578,274 |
| RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | | |
| Operating loss | \$ (22,097) | \$ (2,165) | \$ (24,262) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | | |
| Depreciation and amortization expense | 279,042 | 112,265 | 391,307 |
| Changes in assets and liabilities: | | | |
| Receivables, net | 322 | (1,420) | (1,098) |
| Prepaid expenses | (5,117) | (2,174) | (7,291) |
| Unearned revenue | 1,070 | (218) | 852 |
| Accounts and other payables | (13,579) | (793) | (14,372) |
| Compensated absences liability | 4,429 | 3,884 | 8,313 |
| OPEB obligation | 27,953 | - | 27,953 |
| Net cash provided by operating activities | \$ 272,023 | \$ 109,379 | \$ 381,402 |

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 Outflows / Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

See Note 9 for further details relating to the deferred outflows/inflows of resources, as recorded on the statement of net position, relating to the Town's pension plan.

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.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

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.

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. Unearned Revenue

Unearned revenues at March 31, 2016 are as follows:

| | Governmental Activities | Business-Type Activities | Total |
|--------------------------------|----------------------------|-----------------------------|-------------------|
| Parking permits | \$ 26,845 | \$ - | \$ 26,845 |
| Licenses | 15,460 | - | 15,460 |
| Concession fees | 62,049 | - | 62,049 |
| Grants | 13,616 | - | 13,616 |
| Ambulance fees | 62,845 | - | 62,845 |
| Other | 17,546 | 5,663 | 23,209 |
| Total unearned revenues | \$ 198,361 | \$ 5,663 | \$ 204,024 |

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

L. 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.

M. 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.

N. 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, 2016.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

O. Net Position

Net position represents the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources. 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.

P. 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, 2016. 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.

Q. 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.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

R. 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.

S. 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."

T. 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.

U. Reclassifications

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

V. Operating Leases

The Town has several parking lot lease agreements with various lease terms, renewable annually. Rent expense totaled approximately \$59,000 for the year ended March 31, 2016.

Note 3. Real Estate Taxes

The tax on real estate in the Town area for the fiscal year ended March 31, 2016 was \$0.175 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

NOTES TO FINANCIAL STATEMENTS

Note 4. Cash and Investments

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

Cash and Cash Equivalents

The following summary represents the Town deposits which are (Category 1) fully insured or collateralized with securities held by the Town or its agent in the Town's name, (Category 2) those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent(s) in the Town's name, and (Category 3) those deposits which are not collateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Town's name at March 31, 2016:

| Description | Financial Institution Balances | | | Totals | Carrying Amounts |
|-------------------------------------|--------------------------------|-------------------|-------------|---------------------|---------------------|
| | Category | | | | |
| | 1 | 2 | 3 | | |
| Cash & Cash Equivalents: | | | | | |
| Unrestricted | \$ 531,987 | \$ 419,067 | \$ - | \$ 951,054 | \$ 853,436 |
| Restricted | - | 518,382 | - | 518,382 | 518,382 |
| Totals | \$ 531,987 | \$ 937,449 | \$ - | \$ 1,469,436 | \$ 1,371,818 |

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, 2016, the Town's investments consist of the following:

| Description | Category | Amounts | |
|--------------------------|----------|---------------------|---------------------|
| | | Market | Carrying |
| Certificates of Deposit | 1, 2 | \$ 7,675,000 | \$ 7,675,000 |
| Investments: | | | |
| Unrestricted | | \$ 7,675,000 | \$ 7,675,000 |
| Total Investments | | \$ 7,675,000 | \$ 7,675,000 |

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.

Of the \$7,675,000 in investments, \$6,397,000 has been designated for capital replacement and \$644,000 has been designated for Storm Emergency Relief.

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets

The following is a summary of changes in capital assets for the year ended March 31, 2016:

| | March 31, 2015 | Additions | Deletions/ Transfers | March 31, 2016 |
|--|----------------------|---------------------|-------------------------|----------------------|
| GOVERNMENTAL ACTIVITIES | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 3,630,013 | \$ 1,256,770 | \$ - | \$ 4,886,783 |
| Construction in progress | 93,266 | 213,817 | (15,470) | 291,613 |
| Total capital assets, not being depreciated | <u>3,723,279</u> | <u>1,470,587</u> | <u>(15,470)</u> | <u>5,178,396</u> |
| Capital assets, being depreciated | | | | |
| Beach and boardwalk | 1,009,502 | - | - | 1,009,502 |
| Building and improvements | 3,917,518 | - | - | 3,917,518 |
| Land improvements | 643,162 | - | - | 643,162 |
| Machinery and equipment | 1,375,984 | 99,793 | - | 1,475,777 |
| Stormwater | 1,253,093 | - | 15,470 | 1,268,563 |
| Streets and parks | 3,948,832 | 386,379 | - | 4,335,211 |
| Vehicles | 1,118,724 | 74,989 | (83,972) | 1,109,741 |
| Total capital assets, being depreciated | <u>13,266,815</u> | <u>561,161</u> | <u>(68,502)</u> | <u>13,759,474</u> |
| Less accumulated depreciation: | | | | |
| Beach and boardwalk | 318,522 | 50,642 | - | 369,164 |
| Building and improvements | 2,169,194 | 147,398 | - | 2,316,592 |
| Land improvements | 364,167 | 37,363 | - | 401,530 |
| Machinery and equipment | 1,037,644 | 92,226 | - | 1,129,870 |
| Stormwater | 713,477 | 52,405 | - | 765,882 |
| Streets and parks | 1,051,210 | 357,116 | - | 1,408,326 |
| Vehicles | 768,034 | 87,709 | (83,972) | 771,771 |
| Total accumulated depreciation | <u>6,422,248</u> | <u>824,859</u> | <u>(83,972)</u> | <u>7,163,135</u> |
| Total capital assets, being depreciated, net | <u>6,844,567</u> | <u>(263,698)</u> | <u>15,470</u> | <u>6,596,339</u> |
| Governmental activities capital assets, net | <u>\$ 10,567,846</u> | <u>\$ 1,206,889</u> | <u>\$ -</u> | <u>\$ 11,774,735</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|--|-------------------|
| General, administrative and park development | \$ 91,381 |
| Police and Alderman | 75,823 |
| Parking | 28,288 |
| Public works | |
| Stormwater management | 68,799 |
| Streets and parks | 431,693 |
| Beach and boardwalk | 89,760 |
| Recreation - entertainment | 34,348 |
| Historical/Cultural | 4,767 |
| | <u>\$ 824,859</u> |

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets (continued)

| | March 31, 2015 | Additions | Deletions/ Transfers | March 31, 2016 |
|---|---------------------|-------------------|-------------------------|---------------------|
| BUSINESS-TYPE ACTIVITIES | | | | |
| Water Fund | | | | |
| Capital assets, not being depreciated: | | | | |
| Construction in progress | \$ 2,804,766 | \$ - | \$ (2,804,766) | \$ - |
| Total capital assets, not being depreciated | 2,804,766 | - | (2,804,766) | - |
| Capital assets, being depreciated: | | | | |
| Plant and water distribution system | 6,917,380 | 645,977 | 2,804,766 | 10,368,123 |
| Vehicles and equipment | 455,351 | - | - | 455,351 |
| Total capital assets, being depreciated | 7,372,731 | 645,977 | 2,804,766 | 10,823,474 |
| Total accumulated depreciation | 3,539,825 | 279,042 | - | 3,818,867 |
| Total capital assets, being depreciated, net | 3,832,906 | 366,935 | 2,804,766 | 7,004,607 |
| Water capital assets, net | \$ 6,637,672 | \$ 366,935 | \$ - | \$ 7,004,607 |
| Sanitation Fund | | | | |
| Capital assets, being depreciated: | | | | |
| Vehicles and equipment | \$ 1,555,992 | \$ - | \$ - | \$ 1,555,992 |
| Total capital assets, being depreciated | 1,555,992 | - | - | 1,555,992 |
| Total accumulated depreciation | 845,834 | 112,265 | - | 958,099 |
| Total capital assets, being depreciated, net | 710,158 | (112,265) | - | 597,893 |
| Sanitation capital assets, net | 710,158 | (112,265) | - | 597,893 |
| Business-type activities capital assets, net | \$ 7,347,830 | \$ 254,670 | \$ - | \$ 7,602,500 |

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, 2015 | Additions | Retirements and Repayments | Balances March 31, 2016 | Amount Due in One Year |
|--|---------------|---------------|-------------------------------|-----------|----------------------------------|-------------------------------|------------------------------|
| Compensated absences | | | \$ 72,825 | \$ 8,313 | \$ - | \$ 81,138 | \$ 1,780 |
| General Obligation Bonds: | | | | | | | |
| Series 2012-SRF | 2.13% | 2034 | 2,292,685 | - | 198,000 | 2,094,685 | 93,468 |
| Total Business-type Activities Long-Term Debt | | | \$2,365,510 | \$ 8,313 | \$ 198,000 | \$2,175,823 | \$ 95,248 |

Total annual requirements to amortize all business-type activities debt outstanding as of March 31, 2016 are as follows:

| Fiscal Year Ending March 31, | Principal | Interest | Total |
|------------------------------|--------------|------------|--------------|
| 2017 | \$ 93,468 | \$ 44,122 | \$ 137,590 |
| 2018 | 95,470 | 42,120 | 137,590 |
| 2019 | 97,514 | 40,076 | 137,590 |
| 2020 | 99,602 | 37,988 | 137,590 |
| 2021 | 101,735 | 35,855 | 137,590 |
| 2022 - 2026 | 542,301 | 145,649 | 687,950 |
| 2027 - 2031 | 602,905 | 85,046 | 687,951 |
| 2032 - 2035 | 461,690 | 19,876 | 481,566 |
| | \$ 2,094,685 | \$ 450,732 | \$ 2,545,417 |

Interest expense in the business-type activities for the year ended March 31, 2016 totaled \$47,710. 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, 2015 | Additions | Retirements and Repayments | Balances March 31, 2016 | Amount Due in One Year |
|---|---------------|---------------|-------------------------------|-------------------|----------------------------------|-------------------------------|------------------------------|
| Compensated absences | | | \$ 167,475 | \$ 24,811 | \$ - | \$ 192,286 | \$ 4,169 |
| Garfield Parking Lot | 5.00% | 2019 | - | 900,000 | 225,000 | 675,000 | 214,116 |
| Total Governmental Activities Long-Term Debt | | | \$ 167,475 | \$ 924,811 | \$ 225,000 | \$ 867,286 | \$ 218,285 |

Total annual requirements to amortize all governmental activities debt outstanding as of March 31, 2016 are as follows:

| <u>Fiscal Year Ending March 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------------|-------------------|------------------|-------------------|
| 2017 | \$ 214,116 | \$ 33,750 | \$ 247,866 |
| 2018 | 224,822 | 23,044 | 247,866 |
| 2019 | 236,062 | 11,804 | 247,866 |
| | \$ 675,000 | \$ 68,598 | \$ 743,598 |

Interest expense in the governmental activities for the year ended March 31, 2016 totaled \$19,700.

NOTES TO FINANCIAL STATEMENTS

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, 2016, the cost of healthcare benefits for these employees and their families was approximately \$6,000.

Annual OPEB Cost and Net OPEB Obligation

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

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

| | | |
|--|----|---------|
| Annual Required Contribution (ARC) | \$ | 46,000 |
| Interest on Net OPEB Obligation (NOO) | | - |
| Adjustment to Annual Required Contribution (ARC) | | - |
| Annual OPEB cost | | 46,000 |
| Contributions made | | (6,000) |
| Change in Net OPEB Obligation (NOO) | | 40,000 |
| | | |
| Net OPEB Obligation (NOO) - Beginning of Year | | 226,000 |
| Net OPEB Obligation (NOO) - End of Year | \$ | 266,000 |

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 |
|-------------------------|---------------------|---------------------------------|---|------------------------|
| 2014 | \$ 38,000 | \$ 5,000 | 13.16% | \$ 193,000 |
| 2015 | 38,000 | 5,000 | 13.16% | 226,000 |
| 2016 | 46,000 | 6,000 | 13.04% | 266,000 |

NOTES TO FINANCIAL STATEMENTS

Note 8. Post-Employment Healthcare Benefits (continued)

Funding Status and Funding Progress

| Year Ended March, 31 | 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) |
|-------------------------|-------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 2014 | 3/31/2013 | \$ 206,000 | \$ 473,000 | \$ 267,000 | 43.55% | \$ 61,000 | 437.70% |
| 2015 | 3/31/2013 | 234,000 | 473,000 | 239,000 | 49.47% | 64,000 | 373.44% |
| 2016 | 3/31/2016 | 262,000 | 597,000 | 335,000 | 43.89% | 65,000 | 515.38% |

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 71, 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 an open 10-year period.

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans

A. Plan Descriptions and Contribution Information

The County & Municipal Other Employees' Pension Plan (the Employee Plan) and the County & Municipal Police and Firefighters' Pension Plan (the Police & Fire Plan) are cost sharing multiple-employer defined-benefit pension plans established in the Delaware Code (collectively "the Plans").

The General Assembly is responsible for setting benefits and contributions and amending plan provisions; administrative rules and regulations are adopted and maintained by the Board of Pension Trustees (the Board).

The management of both Plans is the responsibility of the Board. The Board is comprised of five members appointed by the Governor and confirmed by the State Senate, plus two exofficio members. The daily operation is the responsibility of the Office of Pensions. Although most of the assets of the Plans are commingled with other Plans for investment purposes, the Plans' assets may be used only for the payment of benefits to the members of the Plans in accordance with the terms of the Plans.

The following are brief descriptions of the Plans in effect as of June 30, 2014. For a more complete description, please refer to the DPERs CAFR.

Separately issued financial statements for DPERs are available from the pension office at:

McArdle Building, Suite 1
860 Silver Lake Blvd
Dover, DE 19904

Plan Description and Eligibility

The Employee Plan - Covers employees of counties or municipalities that have joined the Employee Plan.

The Police & Fire Plan - Covers police officers and firefighters employed by a county or municipality of the State that have joined the Police & Fire Plan.

Service Benefits

The Employee Plan - 1/60th of final average monthly compensation multiplied by years of credited service, subject to maximum limitations. For this plan, final average monthly compensation is the monthly average of the highest five years of compensation.

The Police & Fire Plan - 2.5% of final average monthly compensation multiplied by years of credited service up to 20 years, plus 3.5% of final average monthly compensation multiplied by years of service in excess of 20 years. For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting - 5 years of credited service.

Retirement

The Employee Plan - Age 62 with 5 years of credited service; age 60 with 15 years of credited service; or after 30 years of credited service.

The Police & Fire Plan - Age 62 with 5 years of service; age plus credited service (but not less than 10 years) equals 75; or 20 years of credited service.

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

Disability Benefits

The Employee Plan - Same as Service Benefits. Employee must have 5 years of credited service.

The Police & Fire Plan -

Duty - Total Disability - 75% of final average compensation plus 10% for each dependent not to exceed 25% for all dependents.

Duty - Partial Disability - Calculated the same as Service Benefits, subject to minimum 50% of final average compensation.

Non-Duty - Same as Service Benefits, total disability subject to a minimum 50% of final average monthly compensation plus 5% of each dependent not to exceed 20% for all dependents. Partial disability to a minimum of 30% of final average monthly compensation.

Survivor Benefits

The Employee Plan - If employee is receiving a pension, then eligible survivor receives 50% of pension; if employee is active, eligible survivor receives 50% of pension the employee would have received at age 62.

The Police & Fire Plan - If employee is receiving a pension, then eligible survivor receives 50% of pension; if employee is active, eligible survivor receives 50% of pension the employee would have received at age 62. If the member is killed in the line of duty, the eligible survivor receives 75% of the member's compensation.

Contributions -

The Employee Plan -

Employer - Determined by Board of Pension Trustees. Employer contributions were 6.6% and 6.8% of earnings for the Fiscal Year 2014 and 2013, respectively.

Member - 3% of earnings in excess of \$6,000.

The Police & Fire Plan -

Employer - Determined by Board of Pension Trustees. Employer contributions were 15.5% and 14.8% of earnings for the Fiscal Year 2014 and 2013, respectively.

Member - 7% of compensation.

B. Basis of Presentation

The Schedules of Employer Allocations and Pension Amounts by Employer (collectively, the Schedules) present amounts that are considered elements of the financial statements of DPERS or of its participating employers. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of DPERS or the participating employers.

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

C. Summary of Significant Accounting Policies

The accompanying schedules of the Plan within the Delaware Public Employees' Retirement System (DPERS or the System) have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

The Plans schedules are presented on the accrual basis of accounting. Employer contributions to each plan are recognized when due pursuant to legal requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plans.

Management of the System has made certain estimates and assumptions relative to the Plans schedules in conformity with U.S. generally accepted accounting principles. Due to the inherent nature of these estimates, actual results could differ from those estimates.

D. Employer Allocation Percentage Methodology

The amounts assigned to each employer in the Schedule of Pension Amounts by Participating Employer is each employer's proportionate share of the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense (the Collective Pension Amounts) determined in accordance with Governmental Accounting Standards Board No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). Management has elected to allocate the employer's proportionate shares of the Collective Pension amounts based on the percentage of actual employer contributions as documented in the Schedule of Employer Allocations. Employer specific contributions represent payments made by employers to purchase prior service.

E. Collective Net Pension Liability (Asset) of Employers and Actuarial Information

The collective total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of June 30, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. The collective total pension liability for the June 30, 2013 measurement date was determined by an actuarial valuation as of June 30, 2013. These actuarial valuations used the following actuarial assumptions:

| Plan | County & Municipal Other Employees' | County & Municipal Police & Firefighters' |
|---|---|---|
| Actuarial assumptions: | | |
| Investment rate of return/Discount rate (1) | 7.20% | 7.20% |
| Projected salary increases (1) | 3.5% to 11.5% | 4% to 11.5% |
| Cost-of-living adjustments | Ad hoc | Ad hoc |

(1) Inflation is included at 3%

The total pension liabilities are measured based on assumptions pertaining to the interest rates, inflation rates, and employee demographic behavior in future years. The assumptions used were based on the results of an actuarial experience study conducted in 2011. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates the larger the impact on future financial statements.

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

Mortality rates were based on the Sex distinct RP -2000 combined Mortality Table projected to 2015 using scale AA for Males or Females, as appropriate, for mortality improvement.

Projected benefit payments do not include the effects of projected ad hoc cost-of-living adjustments (ad hoc COLAs) as they are not substantively automatic. The primary considerations relevant to making this determination include the historical pattern of granting the changes and the consistency in the amounts of the changes.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by an asset allocation percentage, which is based on the nature and mix of current and expected plan investments, and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System's current and expected asset allocation is summarized in the following table:

| Asset Class | Long-term Expected Real Rate of Return |
|-------------------------|--|
| Domestic equity | 5.70% |
| International equity | 5.70% |
| Fixed income | 2.00% |
| Alternative investments | 7.80% |
| Cash and equivalents | 0.00% |

Discount rate - The discount rate for all plans used to measure the total pension liability was 7.2%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at rates determined by the Board of Pension Trustees, actuarially determined. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate - The following presents the collective net pension liability of the Plans, calculated using the discount rate of 7.2%, as well as what the Plans' net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

| Plans | 1% Decrease | Discount Rate | 1% Increase |
|--|-------------|---------------|--------------|
| County & Municipal Other Employees' | \$ 246,633 | \$ (18,727) | \$ (237,476) |
| County & Municipal Police & Firefighters | 235,402 | (89,846) | (356,221) |
| Total pensions liability/(asset) | \$ 482,035 | \$ (108,573) | \$ (593,697) |

The amounts above represent the Town's proportional percentage

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

F. Components on Schedule of Pension Amounts by Employer

Net Pension Liability

The employer proportionate share of net pension liability is equal to the collective net pension liability multiplied by the employers proportionate share percentage for fiscal year ending June 30, 2014 as shown in Schedule of Employer Allocations.

Expected and Actual Experience Differences

The difference between expected and actual experience with regard to economic and demographic factors is amortized over the weighted average of the expected remaining service life of active and inactive members which is 8 and 11 years for the Employee and the Police & Fire Plan, respectively. The first year of amortization is recognized as pension expense with the remaining years either a deferred outflow or deferred inflow. The collective amount of the difference between expected and actual experience for fiscal year ending June 30, 2014 is \$0.00. As this is the first year of implementation of GASB Statement No. 68 and rollforward procedures were used to determine the total pension liability at the measurement date, there were no changes between expected and actual experience.

Change in Assumptions

The change in assumptions about future economic or demographic factors or other inputs is amortized over the weighted average of the expected remaining service life of active and inactive members which is 8 and 11 years for the Employee and the Police & Fire Plan, respectively. The first year of amortization is recognized as pension expense with the remaining years either a deferred outflow or deferred inflow. The collective amount of change in assumptions for fiscal year ending June 30, 2014 is \$0.00.

Change in Employer Proportionate Share

The change in employer proportionate share is the amount of difference between the employer proportionate share of net pension liability (asset) in the prior year compared to the current year. This change in proportion is amortized over the weighted average of the expected remaining service life of active and inactive members which is 8 and 11 years for the Employee and the Police & Fire Plan, respectively. The first year of amortization is recognized as pension expense with the remaining years shown as either a deferred outflow of resources or deferred inflow of resources.

Net Difference between Projected and Actual Investment Earnings on Pension Plan Investments

The difference between the actual earnings on plan investments compared to the plans expected rate of return of 7.2% is amortized over a closed period of 5 years. The collective amount of the difference between projected and actual earnings for fiscal year ending June 30, 2014 is \$143,044 and \$173,090 for the Employee and the Police & Fire Plan, respectively. The first year of amortization, \$28,609 and \$34,618 for the Employee and the Police & Fire Plan, respectively, is recognized as pension expense with the remaining 4 years, \$114,435 and \$138,472 for the Employee and the Police & Fire Plan, respectively, to be shown as a deferred inflow of resources. The amounts above represent the Town's proportional percentage.

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

G. Collective Deferred Outflows of Resources and Deferred Inflows of Resources

The components of collective deferred outflows of resources and deferred inflows of resources, other than the difference between the projected and actual earnings on DPERS investments, are amortized into pension expense over a closed period, which reflects the weighted average remaining service life of all Plan members, beginning the year in which the deferred amount occurs. The amortization period is 8 and 11 years for the Employee and the Police & Fire Plan, respectively, for deferred amounts arising in 2014. The annual difference between the projected and actual earnings on investments is amortized over a five-year closed period beginning the year in which the difference occurs. The cumulative amounts of collective net deferred outflows (inflows) of resources reported as of June 30, 2014 will be recognized in pension expense as follows:

| Years ending June 30: | County & Municipal Other Employees' | County & Municipal Police & Firefighters' | Total |
|-----------------------|---|---|---------------------|
| 2015 | \$ (28,609) | \$ (34,618) | \$ (63,227) |
| 2016 | (28,609) | (34,618) | (63,227) |
| 2017 | (28,609) | (34,618) | (63,227) |
| 2018 | (28,608) | (34,618) | (63,226) |
| | <u>\$ (114,435)</u> | <u>\$ (138,472)</u> | <u>\$ (252,907)</u> |

The amounts above represent the Town's proportional percentage

H. Pension Expense

The components of the pension expense for the year ended June 30, 2014 are as follows:

| | County & Municipal Other Employees' | County & Municipal Police & Firefighters' | Total |
|---|---|---|-------------------|
| Service costs | \$ 112,288 | \$ 118,741 | \$ 231,029 |
| Interest on total pension liability | 113,702 | (40,672) | 73,030 |
| Member contributions | (38,053) | 831 | (37,222) |
| Administrative expense | 3,052 | 131,749 | 134,801 |
| Projected earnings on plan investments | (105,308) | (125,936) | (231,244) |
| Amortization of investment return differences | (28,609) | (34,618) | (63,227) |
| Pension expense before purchased service | <u>57,072</u> | <u>50,095</u> | <u>107,167</u> |
| Employer specific purchased service | - | - | - |
| Total collective pension expense | <u>\$ 57,072</u> | <u>\$ 50,095</u> | <u>\$ 107,167</u> |

The amounts above represent the Town's proportional percentage

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

| | County & Municipal Other Employees' | County & Municipal Police & Firefighters' | Total |
|---|---|---|---------------------|
| Employer's proportionate (percentage) of the collective NPL | 5.0873243 % | 0.8305459 % | |
| Employer's proportionate share of the collective NPL | \$ (18,727) | \$ (89,846) | \$ (108,573) |
| Pension expense recognized by the employer for the year ended June 30, 2015 | | | |
| Collective pension expense | \$ 57,072 | \$ 50,095 | \$ 107,167 |
| Pension expense from proportion change | (397) | (770) | (1,167) |
| Adjustment for employer purchase of service | - | - | - |
| Total pension expense | \$ 56,675 | \$ 49,325 | \$ 106,000 |
| Deferred outflows of resources: | | | |
| Expected and actual experience differences | \$ - | \$ - | \$ - |
| Assumption changes | - | - | - |
| Changes in proportion | - | - | - |
| Year end June 30, 2015 contributions | 100,252 | 86,896 | 187,148 |
| Total deferred outflows of resources | \$ 100,252 | \$ 86,896 | \$ 187,148 |
| Deferred inflows of resources: | | | |
| Expected and actual experience differences | \$ - | \$ - | \$ - |
| Assumption changes | - | - | - |
| Projected and actual plan investment differences | 114,435 | 138,472 | 252,907 |
| Changes in proportion | 2,779 | 7,702 | 10,481 |
| Total deferred inflows of resources | \$ 117,214 | \$ 146,174 | \$ 263,388 |
| Net pension liability (asset) June 30, 2014 | \$ 15,655 | \$ (53,767) | \$ (38,112) |
| Year end June 30, 2014 contributions | (91,057) | (85,404) | (176,461) |
| Change in NPL factored for contributions | 56,675 | 49,325 | 106,000 |
| Net pension liability (asset) June 30, 2015 | \$ (18,727) | \$ (89,846) | \$ (108,573) |

The \$187,148 of deferred outflows or resources resulting from the Town's contributions to the plans subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ending March 31, 2017.

For the year ended March 31, 2016 the Town's payroll for all employees was \$3,100,519. As of the plans measurement date June 30, 2014, total covered payroll was \$1,924,804. Covered payroll refers to all compensation paid by the Town to active employees covered by the Plans.

NOTES TO FINANCIAL STATEMENTS

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.

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.

Note 12. Prior Period Restatement

The Town has determined to restate its Statement of Net Position and Statement of Activities as of March 31, 2016. The determination to restate these financial statements was made as a result of the fiscal year 2016 implementation of the GASB's Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* - an amendment of GASB Statement No. 68. This statement's objective is to improve the accounting and financial reporting for pensions as well as to improve the information provided by employers about financial support for pensions that are provided by other entities (see Note 9).

The following table is a summary of the effect of these changes on net position and the change in net position:

| | Net Position | Change in Net Position |
|--|---------------|---------------------------|
| As previously reported, March 31, 2015 | \$ 16,805,965 | \$ 901,195 |
| Adjustment to deferred financing outflows for contributions | 176,461 | 176,461 |
| Adjustment to net pension (liability) asset | 38,112 | 38,112 |
| As restated, March 31, 2015 | \$ 17,020,538 | \$ 1,115,768 |

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF BETHANY BEACH, DELAWARE

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year Ended March 31, 2016**

| | Original Budget | Final Budget | Actual | Variance with Final Budget Favorable (Unfavorable) |
|---|--------------------|------------------|---------------------|---|
| REVENUES: | | | | |
| Taxes: | | | | |
| Property | \$ 1,759,000 | \$ 1,759,000 | \$ 1,776,040 | \$ 17,040 |
| Rental real estate | 1,117,000 | 1,117,000 | 1,149,424 | 32,424 |
| Transfer | 550,000 | 550,000 | 710,089 | 160,089 |
| Parking revenues | 1,693,000 | 1,693,000 | 1,903,225 | 210,225 |
| Licenses, permits and fees | 648,000 | 648,000 | 811,950 | 163,950 |
| Police and Alderman fines and revenue | 104,000 | 104,000 | 115,059 | 11,059 |
| Interest | 30,000 | 30,000 | 42,136 | 12,136 |
| Contributions | 29,000 | 29,000 | 33,972 | 4,972 |
| Miscellaneous | 16,000 | 16,000 | 22,151 | 6,151 |
| Total revenues | 5,946,000 | 5,946,000 | 6,564,046 | 618,046 |
| EXPENDITURES: | | | | |
| General and administration | 968,000 | 993,000 | 992,891 | 109 |
| Licenses and inspections | 233,000 | 243,000 | 242,137 | 863 |
| Public safety: | | | | |
| Police | 1,375,000 | 1,375,000 | 1,374,532 | 468 |
| Alderman | 56,000 | 56,000 | 53,103 | 2,897 |
| Parking | 469,000 | 484,000 | 483,122 | 878 |
| Beach Patrol | 580,000 | 545,000 | 537,084 | 7,916 |
| Public works: | | | | |
| Stormwater management | 185,000 | 110,000 | 107,459 | 2,541 |
| Streets and parks | 819,000 | 859,000 | 844,358 | 14,642 |
| Beach and boardwalk | 283,000 | 293,000 | 289,080 | 3,920 |
| Recreation - entertainment | 234,000 | 244,000 | 237,696 | 6,304 |
| Cultural, historical & parade | 50,000 | 50,000 | 34,566 | 15,434 |
| Total expenditures | 5,252,000 | 5,252,000 | 5,196,028 | 55,972 |
| Excess of revenues over expenditures | 694,000 | 694,000 | 1,368,018 | 674,018 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfer out | (972,000) | (2,629,000) | (1,134,197) | 1,494,803 |
| Fund balance appropriated | 278,000 | 1,935,000 | - | (1,935,000) |
| Total other financing uses | (694,000) | (694,000) | (1,134,197) | (440,197) |
| Net change in fund balance | \$ - | \$ - | 233,821 | \$ 233,821 |
| Fund balance - beginning | | | 6,439,956 | |
| Fund balance - ending | | | <u>\$ 6,673,777</u> | |

TOWN OF BETHANY BEACH, DELAWARE
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended March 31, 2016

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

| Year Ended March, 31 | 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) |
|-------------------------|-------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 2014 | 3/31/2013 | \$ 206,000 | \$ 473,000 | \$ 267,000 | 43.55% | \$ 61,000 | 437.70% |
| 2015 | 3/31/2013 | 234,000 | 473,000 | 239,000 | 49.47% | 64,000 | 373.44% |
| 2016 | 3/31/2016 | 262,000 | 597,000 | 335,000 | 43.89% | 65,000 | 515.38% |

SCHEDULE OF EMPLOYER CONTRIBUTIONS

| Year Ended March, 31 | Annual OPEB Cost | Age Adjusted Contribution | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------------|---------------------|---------------------------------|---|------------------------|
| 2014 | \$ 38,000 | \$ 5,000 | 13.16% | \$ 193,000 |
| 2015 | 38,000 | 5,000 | 13.16% | 226,000 |
| 2016 | 46,000 | 6,000 | 13.04% | 266,000 |

TOWN OF BETHANY BEACH, DELAWARE

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended March 31, 2016

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

| Fiscal Year | Measurement Date | Employer's Proportion (Percentage) of the Collective NPL A | Employer's Proportion Share of the Collective NPL B | Employer's Covered Employee Payroll C | Proportionate Share as a Percentage of Covered Payroll (B / C) | Plan's Total Fiduciary Net Position D | Plan's Total Pension Liability E | Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (D / E) |
|--------------------|-------------------------|---|--|--|---|--|---|---|
| MUNI PLAN | | | | | | | | |
| 2015 | June 30, 2014 | 5.0873% | \$ (18,727) | \$ 1,374,520 | -1% | \$ 34,688,000 | \$ 34,320,000 | 101% |
| POLICE PLAN | | | | | | | | |
| 2015 | June 30, 2014 | 0.8305% | \$ (89,846) | \$ 550,284 | -16% | \$ 252,662,000 | \$ 241,845,000 | 104% |

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which the information is available.

TOWN OF BETHANY BEACH, DELAWARE

**REQUIRED SUPPLEMENTARY INFORMATION
Year Ended March 31, 2016**

SCHEDULE OF THE CONTRIBUTIONS - PENSION PLAN

| Fiscal Year | Measurement Date | Contractually Required Contribution A | Actual Contribution B | Contribution Deficiency (Excess) (A - B) | Employer's Covered Employee Payroll C | Actual Contribution as a Percentage of Covered Payroll (B / C) |
|--------------------|-------------------------|--|----------------------------------|---|--|---|
| MUNI PLAN | | | | | | |
| 2015 | June 30, 2014 | \$ 91,057 | \$ 91,057 | \$ - | \$ 1,374,520 | 7% |
| POLICE PLAN | | | | | | |
| 2015 | June 30, 2014 | \$ 85,404 | \$ 85,404 | \$ - | \$ 550,284 | 16% |

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which the information is available.

TOWN OF BETHANY BEACH, DELAWARE
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended March 31, 2016

ACTUARIAL ASSUMPTIONS - PENSION PLAN

| Plan | County & Municipal Other Employees' | County & Municipal Police & Firefighters' |
|---|--|--|
| Actuarial assumptions: | | |
| Investment rate of return/Discount rate (1) | 7.20% | 7.20% |
| Projected salary increases (1) | 3.5% to 11.5% | 4% to 11.5% |
| Cost-of-living adjustments | Ad hoc | Ad hoc |

(1) Inflation is included at 3%

Mortality rates were based on the Sex distinct RP -2000 combined Mortality Table projected to 2015 using scale AA for Males or Females, as appropriate, for mortality improvement.

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, 2016**

| | Original Budget | Final Budget | Actual | Variance with Final Budget Favorable (Unfavorable) |
|--------------------------------------|--------------------|------------------|------------------|---|
| EXPENDITURES: | | | | |
| General and administration | \$ - | \$ 25,000 | \$ 24,999 | \$ 1 |
| Parking: | | | | |
| Land & Buildings | - | 1,257,000 | 1,256,770 | 230 |
| Public works: | | | | |
| Streets and parks | 877,000 | 1,007,000 | 427,978 | 579,022 |
| Stormwater management | 95,000 | 95,000 | 79,750 | 15,250 |
| Debt service: | | | | |
| Principal | - | 225,000 | 225,000 | - |
| Interest | - | 20,000 | 19,700 | 300 |
| Total expenditures | 972,000 | 2,629,000 | 2,034,197 | 594,803 |
| OTHER FINANCING SOURCES: | | | | |
| Issuance of note payable | - | - | 900,000 | 900,000 |
| Transfers in | 972,000 | 2,629,000 | 1,134,197 | (1,494,803) |
| Total other financing sources | 972,000 | 2,629,000 | 2,034,197 | (594,803) |
| Net change in fund balance | \$ - | \$ - | - | \$ - |
| Fund balance - beginning | | | - | |
| Fund balance - ending | | | \$ - | |

TOWN OF BETHANY BEACH, DELAWARE

**ADDITIONAL SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND
Year Ended March 31, 2016**

| | Original Budget | Final Budget | Actual | Variance with Final Budget Favorable (Unfavorable) |
|--|--------------------|-----------------|----------------|---|
| REVENUES: | | | | |
| Intergovernmental revenues: | | | | |
| State and County | \$ 319,000 | \$ 360,057 | \$ 346,227 | \$ (13,830) |
| Interest income | - | - | 133 | 133 |
| Total revenues | 319,000 | 360,057 | 346,360 | (13,697) |
| EXPENDITURES: | | | | |
| Public safety: | | | | |
| Police | 101,000 | 131,764 | 119,149 | 12,615 |
| Public works: | | | | |
| Streets and parks | 218,000 | 217,293 | 217,250 | 43 |
| Beach and boardwalk | - | 11,000 | 10,000 | 1,000 |
| Total expenditures | 319,000 | 360,057 | 346,399 | 13,658 |
| Deficit of revenues over expenditures | - | - | (39) | (39) |
| Net change in fund balance | \$ - | \$ - | (39) | \$ (39) |
| Fund balance - beginning | | | 81 | |
| Fund balance - ending | | | \$ 42 | |

TOWN OF BETHANY BEACH, DELAWARE

**INCOME AND EXPENSE DETAIL
WATER FUND**

Year Ended March 31, 2016

WATER SERVICE:

| | |
|-----------------------------------|-------------------|
| Operating revenues: | |
| Charges for services | \$ 1,221,264 |
| Other service fees | 23,425 |
| Miscellaneous | 241 |
| <hr/> | |
| Total operating revenues | 1,244,930 |
| <hr/> | |
| Operating expenses: | |
| Salaries and wages | 346,759 |
| Payroll taxes | 24,090 |
| Employee benefits | 148,204 |
| Engineering | 6,536 |
| Contract services | 49,525 |
| Insurance | 67,728 |
| Telephone | 5,381 |
| Utilities | 47,754 |
| Repairs and maintenance | 14,334 |
| Sewer service charge | 1,042 |
| Plant maintenance | 70,147 |
| Distribution system maintenance | 62,289 |
| Office supplies | 4,907 |
| Miscellaneous | 26,792 |
| Supplies | 20,314 |
| Chemicals | 91,059 |
| Uniforms | 1,124 |
| Depreciation | 279,042 |
| <hr/> | |
| Total operating expenses | 1,267,027 |
| <hr/> | |
| Net operating loss | (22,097) |
| <hr/> | |
| Non-operating revenue (expenses): | |
| Taxes and assessments | 245,976 |
| Impact fees | 96,873 |
| Interest income | 8,715 |
| Interest expense | (47,710) |
| <hr/> | |
| Net non-operating revenues | 303,854 |
| <hr/> | |
| NET INCOME | \$ 281,757 |

TOWN OF BETHANY BEACH, DELAWARE

**INCOME AND EXPENSE DETAIL
SANITATION FUND**

Year Ended March 31, 2016

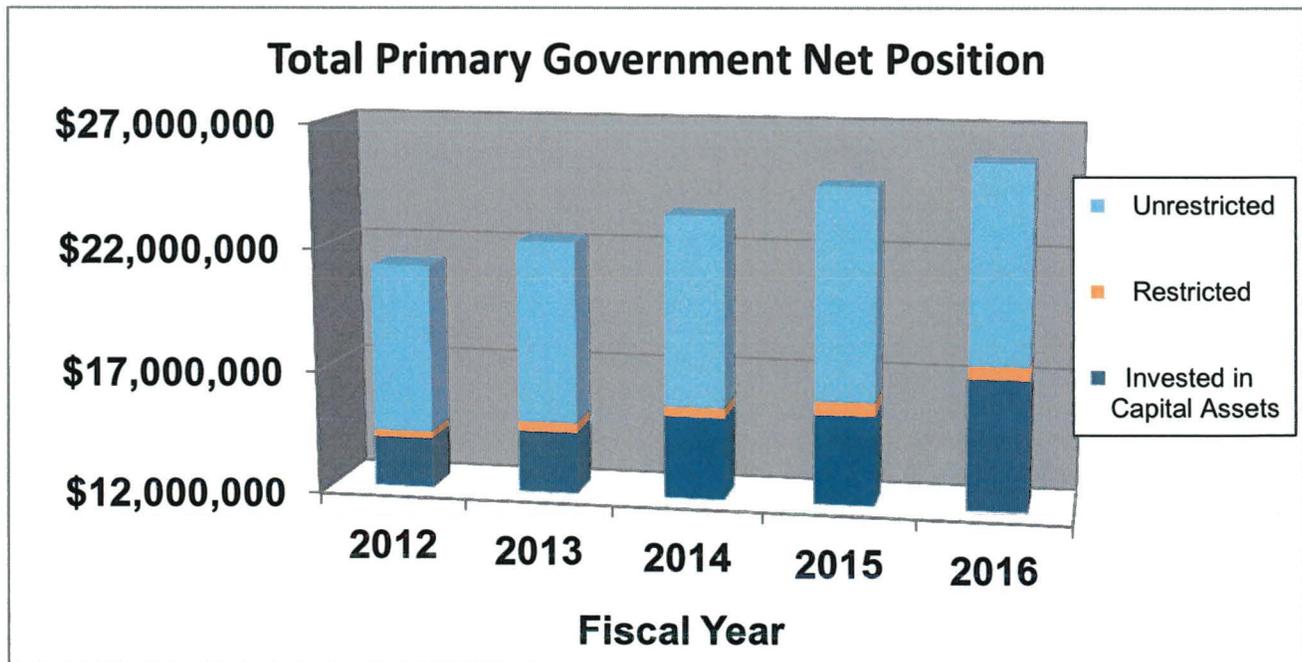
SANITATION SERVICE:

| | |
|----------------------------|-----------------|
| Operating revenues: | |
| Charges for services | \$ 823,779 |
| <hr/> | |
| Total operating revenues | 823,779 |
| <hr/> | |
| Operating expenses: | |
| Salaries and wages | 273,888 |
| Payroll taxes | 19,957 |
| Employee benefits | 94,805 |
| Disposal fees | 181,562 |
| Fuel | 22,544 |
| Insurance | 34,278 |
| Telephone | 1,365 |
| Utilities | 7,001 |
| Repairs and maintenance | 58,762 |
| Office supplies | 8,557 |
| Miscellaneous | 10,960 |
| Depreciation | 112,265 |
| <hr/> | |
| Total operating expenses | 825,944 |
| <hr/> | |
| Net operating loss | (2,165) |
| <hr/> | |
| Non-operating revenues: | |
| Interest income | 6,990 |
| <hr/> | |
| Net non-operating revenues | 6,990 |
| <hr/> | |
| NET INCOME | \$ 4,825 |
| <hr/> | |

STATISTICAL SECTION

Town of Bethany Beach, Delaware
Net Position by Component
Last Five Years
(accrual basis of accounting)
Schedule 1

| Years ended March 31, | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Governmental Activities | | | | | |
| Invested in Capital Assets, Net of Related Debt | \$ 10,446,118 | \$ 10,534,644 | \$ 10,584,971 | \$ 10,567,846 | \$ 11,774,735 |
| Restricted | 31,791 | 229,424 | 219,195 | 322,637 | 220,607 |
| Unrestricted | 3,779,264 | 4,340,368 | 5,100,604 | 5,915,482 | 5,566,847 |
| Total Government Activities Net Position | \$ 14,257,173 | \$ 15,104,436 | \$ 15,904,770 | \$ 16,805,965 | \$ 17,562,189 |
| Business-type Activities | | | | | |
| Invested in Capital Assets, Net of Related Debt | \$ 3,592,437 | \$ 3,967,104 | \$ 4,753,707 | \$ 5,055,144 | \$ 5,507,815 |
| Restricted | 242,182 | 164,814 | 173,870 | 218,477 | 297,775 |
| Unrestricted | 3,068,685 | 3,022,971 | 2,637,241 | 2,654,251 | 2,408,864 |
| Total Business-type Activities Net Position | \$ 6,903,304 | \$ 7,154,889 | \$ 7,564,818 | \$ 7,927,872 | \$ 8,214,454 |
| Summary | | | | | |
| Invested in Capital Assets Net of Related Debt | \$ 14,038,555 | \$ 14,501,748 | \$ 15,338,678 | \$ 15,622,990 | \$ 17,282,550 |
| Restricted | 273,973 | 394,238 | 393,065 | 541,114 | 518,382 |
| Unrestricted | 6,847,949 | 7,363,339 | 7,737,845 | 8,569,733 | 7,975,711 |
| Total Primary Government Net Position | \$ 21,160,477 | \$ 22,259,325 | \$ 23,469,588 | \$ 24,733,837 | \$ 25,776,643 |



Town of Bethany Beach, Delaware
Revenues, Expenditures, Change in Fund Balance, Governmental Funds
Last Five Years
(modified accrual basis of accounting)
Schedule 2

| Years ended March 31, | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|---|---------------------|-------------------|-------------------|-------------------|-------------------|
| Revenues | | | | | |
| Property taxes | \$ 1,622,491 | \$ 1,678,185 | \$ 1,684,712 | \$ 1,745,806 | \$ 1,776,040 |
| Rental real estate taxes | 984,667 | 1,014,946 | 1,045,656 | 1,044,036 | 1,149,424 |
| Transfer taxes | 479,558 | 645,691 | 760,558 | 822,846 | 710,089 |
| Parking revenues | 1,337,779 | 1,486,610 | 1,451,462 | 1,532,817 | 1,903,225 |
| License, permits and fees | 605,572 | 724,240 | 848,991 | 1,310,881 | 811,950 |
| Police and Alderman Fines | 115,898 | 121,369 | 113,164 | 91,059 | 115,059 |
| Interest | 34,564 | 24,516 | 23,749 | 32,013 | 42,294 |
| Service receipts: ambulance | 114,609 | 118,881 | 129,769 | 149,127 | 149,170 |
| Intergovernmental revenues | 436,045 | 318,535 | 268,123 | 131,060 | 346,227 |
| Contributions | 17,930 | 85,673 | 34,693 | 31,328 | 33,972 |
| Refunds | - | 177,560 | - | - | - |
| Miscellaneous | 10,365 | 19,013 | 16,753 | 85,715 | 22,151 |
| Total Revenues | 5,759,478 | 6,415,219 | 6,377,630 | 6,976,688 | 7,059,601 |
| Expenditures | | | | | |
| General and administration | 967,730 | 840,915 | 912,861 | 885,800 | 992,891 |
| Licenses and inspections | 194,768 | 197,541 | 216,045 | 229,067 | 242,137 |
| Police | 1,231,158 | 1,450,704 | 1,360,144 | 1,409,172 | 1,468,680 |
| Alderman | 44,453 | 49,878 | 49,987 | 50,625 | 53,103 |
| Parking | 453,150 | 377,525 | 354,153 | 458,159 | 483,122 |
| Beach Patrol | 385,599 | 438,735 | 443,174 | 517,196 | 537,084 |
| Ambulance | 114,800 | 119,000 | 129,864 | 149,195 | 149,195 |
| Storm water management | 169,294 | 108,512 | 156,176 | 153,594 | 107,459 |
| Streets and parks | 663,106 | 780,514 | 712,838 | 769,853 | 844,358 |
| Beach and boardwalk | 215,491 | 279,083 | 220,171 | 314,199 | 299,080 |
| Recreation - entertainment | 106,025 | 142,189 | 182,089 | 224,324 | 237,696 |
| Cultural, historical & parade | 4,213 | 8,170 | 40,551 | 36,406 | 34,566 |
| Debt Service: | | | | | |
| Principal | 317,606 | 297,104 | 158,515 | 89,408 | 225,000 |
| Interest and Fiscal Charges | 27,926 | 14,864 | 5,105 | 596 | 19,700 |
| Capital Outlay | 1,774,284 | 767,153 | 763,022 | 856,606 | 2,031,748 |
| Total Expenditures | 6,669,603 | 5,871,887 | 5,704,695 | 6,144,200 | 7,725,819 |
| Excess of Revenues Over (Under) Expenditures | (910,125) | 543,332 | 672,935 | 832,488 | (666,218) |
| Other Financing Sources (Uses) | | | | | |
| Proceeds from loan | - | - | - | - | 900,000 |
| Proceeds from capital lease | 91,800 | - | - | - | - |
| Total Other Financing Sources (Uses) | 91,800 | - | - | - | 900,000 |
| Net Change in Fund Balance | \$ (818,325) | \$ 543,332 | \$ 672,935 | \$ 832,488 | \$ 233,782 |

| | | | | | |
|---|----|----|----|----|----|
| Debt Service as a Percentage of Non Capital Expenditures | 7% | 6% | 3% | 2% | 4% |
|---|----|----|----|----|----|

Herbert J. Geary III
Corey N. Duncan
Roy J. Geiser
Chris A. Hall
Ronald W. Hickman
Charles M. Meenehan
Craig A. Walter
Mark A. Welsh



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Town of Bethany Beach, Delaware
Bethany Beach, Delaware

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Bethany Beach, Delaware (the "Town") as of and for the year ended March 31, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated July 1, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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

Salisbury, Maryland
July 1, 2016