

TOWN OF BETHANY BEACH, DELAWARE

FINANCIAL REPORT

MARCH 31, 2006

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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, and each major fund of the Town of Bethany Beach, Delaware (the "Town") as of and for the year ended March 31, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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, and each major fund of the Town of Bethany Beach, Delaware as of March 31, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2006, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 15 and 42 through 43, are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Salisbury, Maryland
June 16, 2006

**Town of Bethany Beach
Management's Discussion and Analysis
March 31, 2006**

As management of the Town of Bethany Beach, Delaware, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended March 31, 2006. 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 FY 2006

The assets of the Town of Bethany Beach exceed its liabilities at the end of the fiscal year on March 31, 2006 by \$15,350,759 (net assets). Of this amount, \$5,697,198 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The Town's total net assets increased by \$1,293,522 (an increase of 9.2%) in fiscal year 2006. Net assets of governmental activities increased by \$971,688, while net assets of the Water department increased by \$321,834.

As of the close of fiscal year 2006 the Town's governmental funds reported an ending fund balance of \$4,920,692. Of this amount, \$753,000 is held for beach and boardwalk improvements, \$250,000 is held for emergencies, \$600,000 is held for replacement of sanitation trucks and \$1,258,500 is held for capital improvements.

This leaves \$2,059,192 as undesignated at the end of FY 2006. The majority of these undesignated funds have been allocated for capital projects and purchases in fiscal year 2007 in the budget which was approved on March 17 of 2006. The unreserved, undesignated fund balances for the governmental funds represents 51.2% of the general fund operating expenditures for fiscal year 2006.

The Town's total debt obligations decreased by \$513,375 (14.6%) as a result of regular, scheduled payments. 68.3% of the Town's total debt of \$2,996,931 is short-term and payable within the next 5 years. The remaining \$949,094 is the outstanding bond for the water plant which is scheduled to be paid off in fiscal year 2015.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

Governmental Activities – The activities in this section are mostly supported by taxes, fees, parking revenue and grants from Federal, state and other sources. Most services normally associated with municipal government fall into this category, including general government, public safety, street maintenance, solid waste disposal, 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 activity of the Town is the Water Department which operates with minimal assistance from the governmental activities of the Town.

The government-wide financial statements can be found on pages 16 - 17 of this report.

Fund financial statements

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

Governmental funds – Most of the basic services provided by the Town are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. These statements provide a detailed short-term view of the Town's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Town.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the government fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town has three governmental funds: the General Fund, the Special Revenue Fund (used to account for state and Federal grants) and the Capital Projects Fund. The basic governmental fund financial statements can be found on pages 18 - 21 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 one proprietary fund, the Water Department. The basic proprietary fund financial statements can be found on pages 22 – 24 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.

The notes to the financial statements can be found on pages 25 – 40 of this report.

Government-Wide Financial Analysis

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's combined net assets (government and business-type activities) totaled \$15,350,759 at the end of FY 2006, compared to \$14,057,237 at the end of the previous year, an increase of \$1,293,522 or 9.2%.

The largest portion of the Town's net assets (62.9%) 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.

The following table is a summary of the government-wide statement of net assets:

Town of Bethany Beach
 Summary of Statement of Net Assets
 March 31, 2006

	Governmental Activities		Business-Type Activities		Total		% Change
	2006	2005	2006	2005	2006	2005	
Current Assets	4,651,260	4,537,036	495,121	345,917	5,146,381	4,882,953	5.4%
Capital Assets	8,711,476	7,946,772	3,947,645	4,030,918	12,659,121	11,977,690	5.7%
Other Assets	800,057	805,621	474,403	501,988	1,274,460	1,307,609	-2.5%
Total Assets	14,162,793	13,289,429	4,917,169	4,878,823	19,079,962	18,168,252	5.0%
Long-Term Liabilities	695,225	972,172	1,902,758	2,223,005	2,597,983	3,195,177	-18.7%
Other Liabilities	799,185	620,562	332,035	295,276	1,131,220	915,838	23.5%
Total Liabilities	1,494,410	1,592,734	2,234,793	2,518,281	3,729,203	4,111,015	-9.3%
Invested in capital assets, net of related debt	7,850,979	6,757,548	1,802,582	1,634,707	9,653,561	8,392,255	15.0%
Unrestricted	4,817,404	4,939,147	879,794	725,835	5,697,198	5,664,982	0.6%
Total Net Assets	12,668,383	11,696,695	2,682,376	2,360,542	15,350,759	14,057,237	9.2%

The remaining balance of unrestricted net assets (\$5,697,198) may be used to meet the government's ongoing obligations to citizens and creditors, slightly more than in fiscal year 2005.

Most of the Current and Other Assets listed above is in cash and investments. These two classes of assets combined increased \$226,740 or 5.1%. The remaining assets in these categories are made up of receivables and prepaid expenses which have increased \$36,688 from last fiscal year mainly due to an increase in interest earned on CDs but not yet received.

The Town's investment in capital assets increased 5.7% to \$12,659,121 this year. Long-term liabilities decreased 18.7% or \$597,194 while other liabilities increased 23.5%, or \$215,382 as a result of making regular payments without taking out any new loans in this fiscal year.

The following table is a summary of the government-wide statement of activities:

Town of Bethany Beach
Summary of Statement of Activities
March 31, 2006

	Governmental Activities		Business-Type Activities		Total		% Change
	2006	2005	2006	2005	2006	2005	
Revenues:							
Program Revenues							
Charges for services	2,299,646	1,959,833	850,725	751,682	3,150,371	2,711,515	16.2%
Assessments & impact fees	-	-	453,405	567,448	453,405	567,448	-20.1%
Operating grants	118,414	121,061	-	-	118,414	121,061	-2.2%
Capital grants	222,139	139,508	38,385	-	260,524	139,508	86.7%
General Revenues							
Property taxes	743,484	732,537	-	-	743,484	732,537	1.5%
Rental real estate taxes	723,393	700,705	-	-	723,393	700,705	3.2%
Transfer taxes	1,555,427	1,420,895	-	-	1,555,427	1,420,895	9.5%
Other	198,064	113,442	15,227	3,538	213,291	116,980	82.3%
Total Revenues	5,860,567	5,187,981	1,357,742	1,322,668	7,218,309	6,510,649	10.9%
Expenses:							
General and administration	861,992	880,727	-	-	861,992	880,727	-2.1%
Licenses and inspections	184,890	147,481	-	-	184,890	147,481	25.4%
Public Safety:							
Police and Alderman	1,277,780	1,123,221	-	-	1,277,780	1,123,221	13.8%
Parking	247,755	211,681	-	-	247,755	211,681	17.0%
Beach Patrol	295,278	285,414	-	-	295,278	285,414	3.5%
Public Works:							
Stormwater management	387,919	252,886	-	-	387,919	252,886	53.4%
Streets	809,810	766,595	-	-	809,810	766,595	5.6%
Sanitation	461,735	493,595	-	-	461,735	493,595	-6.5%
Beach and boardwalk	254,318	322,765	-	-	254,318	322,765	-21.2%
Recreation - entertainment	102,849	9,523	-	-	102,849	9,523	980.0%
Cultural and Historical	4,553	3,441	-	-	4,553	3,441	32.3%
Water Department	-	-	1,035,908	914,338	1,035,908	914,338	13.3%
Total Expenses	4,888,879	4,497,329	1,035,908	914,338	5,924,787	5,411,667	9.5%
Change in Net Assets	971,688	690,652	321,834	408,330	1,293,522	1,098,982	17.7%
Net Assets, beginning of year	11,696,695	11,006,043	2,360,542	1,952,212	14,057,237	12,958,255	8.5%
Net Assets, end of year	12,668,383	11,696,695	2,682,376	2,360,542	15,350,759	14,057,237	9.2%

The Town's total net assets increased \$1,293,522, 9.2%. Approximately 42% of the Town's total revenue came from taxes. Total revenues increased \$707,660 or 10.9% while total expenses increased \$513,120 or 9.5%.

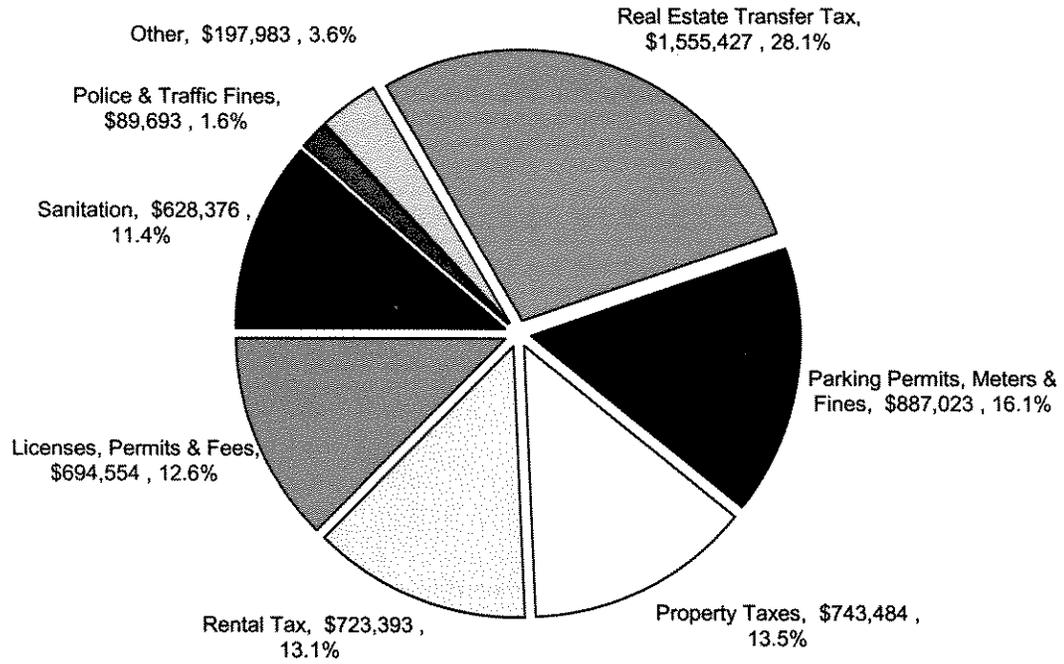
Governmental activities

Major revenue sources and key factors in the revenue increase of \$672,586 for governmental activities are as follows:

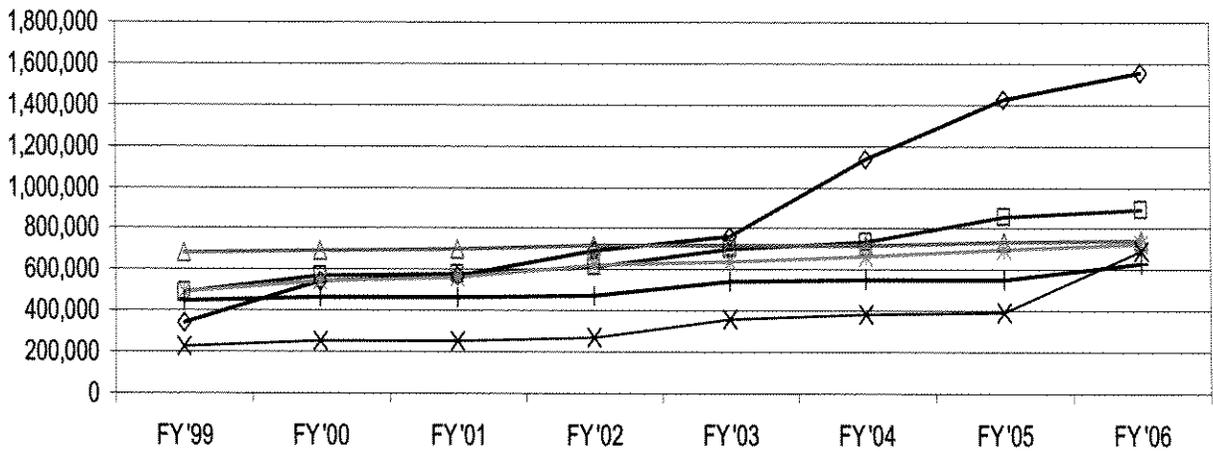
1. Real estate transfer taxes were the Town's largest revenue source as a result of the active housing market and escalating property values. These revenues increased 9.5%, or \$134,532 since last fiscal year. The percentage of total revenue remains similar to last fiscal year.
2. Revenues from parking fines and parking meters were the Town's second largest source of funding. These revenues increased 3.2%, or \$27,580, since last fiscal year. As a percentage of general fund revenue this decreased from 17.5% in fiscal year 2005 to 16.1% this year.
3. Property taxes, which remain comparatively very low at 8 cents per \$100 of assessed value were the Town's third largest revenue source and increased 1.5%, or \$10,947, since last fiscal year. This revenue accounted for 14.9% of general fund revenue last year down to 13.5% this year.
4. Real estate rental taxes are the Town's fourth largest source of revenue for governmental activities and increased 3.2%, or \$22,688, since last fiscal year. 13.1% this year vs. 14.3% last year.
5. Licenses and inspections became the fifth largest source of revenue this year due predominately to a change in rates for building permits. This revenue increased 75.2%, or \$298,102, changing from 8.1% of total revenue last fiscal year to 12.6% for fiscal year 2006.

The following two charts show the Town's general fund revenues for the fiscal year ended March 31, 2006 and the trend of our 6 largest revenue sources over the past 8 fiscal years. Special fund revenue is not included in these charts due to the variable nature of state and Federal grants.

FY 2006 Revenue Sources



Trends in Major Revenue Sources



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

The Town's expenses for all governmental activities combined cover a range of services and increased 8.7%, or \$391,550 from last fiscal year primarily due to the following:

1. Salary for full time employees increased by approximately \$134,000. Three new positions were added this fiscal year in the Public Works, Building Inspector's office and Police Department. In addition to this Police Officer salaries were reviewed and adjusted to be competitive with surrounding governments.
2. Other employment costs increased approximately \$47,000. This includes costs such as health insurance, life insurance, worker's compensation insurance, and retirement plan contributions.
3. In the Police Department costs increased approximately \$30,000 related to becoming accredited by Commission on Accreditation for Law Enforcement Agencies (CALEA). The increase in cost was mainly due to travel to a conference, training of officers and support staff, improved pre and post employment screening and making various changes needed to conform to CALEA guidelines.
4. The town contributed \$10,000 to the Bethany Beach Fire Company toward construction of a new fire hall and \$10,000 to the South Coastal Library toward the construction of a new addition. These were one-time contributions in addition to the annual support the town gives to the Fire Company and Millville Ambulance.
5. Other factors increasing costs included continued efforts toward beautification of the town, additional seasonal drivers for the second trolley, vehicle repair and maintenance cost increases due to the trolleys and aging sanitation trucks, replacement of street signs, improvements to road shoulders and the digitizing of town records.

Business-type activities

The Water Department is the Town's only business-type activity and is accounted for in its own fund.

1. Revenues from water use charges increased 17.5% or \$121,759, due to a rate increase which took effect for the latter half of FY 2005. This increase was needed to insure that the water department is self-sufficient and able to address upcoming capital needs.
2. Water department general operating expenses increased 17.8% or \$136,444 since last fiscal year. This increase is mainly due to engineering costs for upcoming capital projects including placement of a new well, replacement of the water main on Collins Street and other improvements.
3. Another factor in the cost increase was modifications that needed to be made to the water treatment process to comply with changes in State of Delaware and EPA regulations. In September of 2005 the town began fluoridation of the water supply. Changes in the chemical treatment process (mainly enhanced coagulation and chloramines) were also needed to comply with regulations regarding disinfection byproducts.

Financial Analysis of the Town's Funds

As noted previously, the Town of Bethany Beach used fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

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

During fiscal year 2006 the Town's Governmental Fund balance decreased \$130,130 to \$4,920,692. The decrease was due to the spending of the designated fund balance on capital projects such as the new bandstand, storm water drainage, the second trolley and improvements to streets and shoulders.

A significant portion of fund balance, \$2,861,500 or 58.2%, is designated to indicate that it is not available for new spending because it has been committed elsewhere. Currently these designations are:

1. Designated for beach & boardwalk	\$753,000
2. Designated for emergencies	\$250,000
3. Designated for sanitation department capital needs	\$600,000
4. Designated for capital improvements	\$1,258,500

The general fund is the main operating fund of the Town and accounts for major functions of the government including public safety, streets, solid waste disposal, parks, recreation and general administrative services. As a measure of the general fund's liquidity it may be useful to compare both undesignated fund balance and total fund balance to general fund expenditures.

Proprietary Funds

The Town's proprietary fund financial statements provide the same sort of information as the entity-wide statements. Net assets for the Water Department increased \$321,834 to \$2,682,376. Revenue from water usage increased \$121,759 (17.5%) due to the increase in water rates and an 8.9% increase in gallons of water used throughout the fiscal year vs. last fiscal year. Non-operating revenue decreased \$99,480 (23.6%) due to a decline in the collection of impact fees.

Due to the fee changes made over the past few years the Water Department is now operating very close to breaking even on operating costs. This is allowing the department to use non-operating revenue to address the many capital needs of the aging water distribution system and the growing population of both year round residents and summer visitors.

General Fund Budgetary Highlights

During the year the Town Council revised the Town's budget only once. At the November meeting Town Council voted to reallocate \$452,000 from the North Pennsylvania Avenue Stormwater project to various other high priority projects. It was determined by the Town's engineers that the North Pennsylvania project would not be cost-effective and would not provide a significant enough improvement in stormwater drainage.

General Fund revenues exceeded the budget by \$425,193 (8.4%). Real Estate Transfer Taxes were received in higher than expected amounts due to a very active housing market and climbing property values. This revenue alone accounts for \$255,427 of the excess. Favorable interest rates and an increase in the amount of funds invested in CDs resulted in interest revenue of \$78,385 in excess of what was budgeted. Police and Alderman fines and revenue was \$50,307 under budget due to police department staffing problems resulting in a dramatic decrease in the number of traffic tickets issued.

General Fund expenditures as a whole were under budget by 6.5% (\$280,219). Within the General Fund the Police Department exceeded its budget by 5.6% (\$55,855) due to an increase in seasonal foot patrols and legal services to review the salary and benefits of our police officers and address collective bargaining issues. Recreation exceeded its budget slightly (\$1,149) due to the increased cost of firing the July 4th fireworks from a barge on the ocean rather than from the beach. The beach is no longer wide enough to safely launch fireworks, a matter we hope to have corrected in the next few years if the federal government agrees to finance the beach replenishment project. These overruns were expected and it was determined that a formal change to the budget was not needed due to expected cost savings in other departments.

Capital Assets

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

Governmental Activities	FY 2006 Additions
Buildings & Improvements	84,964
Construction in Process	666,262
Land Improvements	17,357
Machinery & Equipment	94,055
Stormwater	124,064
Streets	244,011
Vehicles	216,008
Total	1,446,721

Business-Type Activities	FY 2006 Additions
Vehicles & Equipment	35,200
Water Plant & Distribution System	67,590
Total	102,790

Construction in Process makes up the largest capital expenditure this fiscal year at \$666,262. \$355,967 of this is construction work through March 31st on the new bandstand. The balance of \$310,295 is for projects to improve stormwater drainage in Bethany West and on Evans Road and Candlelight Acres.

The next highest capital cost was in the Streets department at \$244,011. This includes street & parking lot repaving (\$149,170), improvements to road shoulders (\$73,841), and design for the Streetscape project to improve the appearance and functionality of Garfield Parkway (\$21,000).

\$216,008 was spent on vehicles during the fiscal year. The second, larger trolley was purchased for \$130,599 to help alleviate traffic congestion and parking space shortages in the summer months. The remaining \$85,409 was used to purchase two police vehicles and another for administrative use.

The other capital purchases and projects include stormwater drainage improvements on Hollywood Street, three new bill changers, automated parking ticket writers, irrigation improvements for the median strip on Garfield Parkway, a trolley shaped change booth, security improvements to town hall, a new fingerprinting system, and improvements to the museum displays in the lobby.

Debt Administration

As of March 31, 2006 the Town had \$1,855,694 in outstanding long-term bonds payable for debt originally issued in 1989 for construction of the water plant and water distribution system. 9 years remain on this debt.

The Town also has a total of \$1,141,237 in short-term loans of 5 years or fewer. \$480,000 was paid off in the first month of fiscal year 2007. The town has strived to keep its level of debt relatively low by financing for 5 years or less whenever possible.

Economic Factors

We expect revenues for the coming fiscal year to be similar to those of fiscal year 2006 as reported in these financial statements with the following exceptions.

Real Estate Transfer Tax revenue is expected to be significantly lower in fiscal year 2007 than it has been for the preceding three years. Sales of homes have slowed resulting in properties staying on the market longer than they have in previous years. Higher interest rates are also expected to add to a decline in sales. Since this revenue makes up such a large percentage of our total revenue we are closely watching the amount collected monthly. The town is considering several ways to make reductions in spending for operations and possibly delaying capital projects and purchases during fiscal year 2007 as a result of this expected revenue decline.

Summer visitors are expected in higher numbers again this year, weather permitting. The diminishing size of usable beach space is a concern which the Town is addressing with continued efforts to obtain federal funding for beach replenishment.

Overall, there are no new major programs added to the FY 2006 budget.

Requests for Information

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

TOWN OF BETHANY BEACH, DELAWARE

STATEMENT OF NET ASSETS
March 31, 2006

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 2,379,029	\$ 231,926	\$ 2,610,955
Investments	2,050,772	-	2,050,772
Receivables:			
Taxes - real and personal property	2,242	-	2,242
Sanitation fees	1,551	-	1,551
Water charges	-	247,484	247,484
Interest	70,498	-	70,498
Intergovernmental	49,728	-	49,728
Other	12,286	7,657	19,943
Prepaid expenses	76,402	16,806	93,208
Internal balances	8,752	(8,752)	-
Total current assets	4,651,260	495,121	5,146,381
Noncurrent assets			
Restricted Assets			
Cash and cash equivalents	14,718	418,709	433,427
Investments	785,339	-	785,339
Capital assets at cost	12,614,787	6,105,866	18,720,653
Less accumulated depreciation	(3,903,311)	(2,158,221)	(6,061,532)
Bond issue cost, net of amortization	-	55,694	55,694
Total noncurrent assets	9,511,533	4,422,048	13,933,581
Total assets	\$ 14,162,793	\$ 4,917,169	\$ 19,079,962
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	\$ 347,711	\$ 4,578	\$ 352,289
Employee withholdings and payroll taxes	56,004	7,710	63,714
Accrued interest	6,756	49,061	55,817
Deferred revenue	97,375	1,159	98,534
Bonds and notes payable	265,905	263,924	529,829
Lease purchase obligation	2,655	-	2,655
Compensated absences liability	22,779	1,694	24,473
Total current liabilities	799,185	328,126	1,127,311
Noncurrent liabilities			
Bonds and notes payable	585,963	1,881,139	2,467,102
Lease purchase obligation	5,974	-	5,974
Compensated absences liability	103,288	25,528	128,816
Total noncurrent liabilities	695,225	1,906,667	2,601,892
Total liabilities	1,494,410	2,234,793	3,729,203
NET ASSETS			
Invested in capital assets, net of related debt	7,850,979	1,802,582	9,653,561
Unrestricted	4,817,404	879,794	5,697,198
Total net assets	\$ 12,668,383	\$ 2,682,376	\$ 15,350,759

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

TOWN OF BETHANY BEACH, DELAWARE

STATEMENT OF ACTIVITIES
Year Ended March 31, 2006

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES							
General and administration	\$ 861,992	\$ -	\$ -	\$ -	\$ (861,992)	\$ -	\$ (861,992)
Licenses and inspections	184,890	694,554	-	-	509,664	-	509,664
Public Safety							
Police and Alderman fines and revenue	1,277,780	89,693	55,932	75,221	(1,056,934)	-	(1,056,934)
Parking	247,755	887,023	-	-	639,268	-	639,268
Beach Patrol	295,278	-	-	-	(295,278)	-	(295,278)
Public works							
Stormwater management	387,919	-	-	70,000	(317,919)	-	(317,919)
Streets	809,810	-	62,482	76,918	(670,410)	-	(670,410)
Sanitation	461,735	628,376	-	-	166,641	-	166,641
Beach and boardwalk	254,318	-	-	-	(254,318)	-	(254,318)
Recreation - entertainment	102,849	-	-	-	(102,849)	-	(102,849)
Historical/Cultural	4,553	-	-	-	(4,553)	-	(4,553)
Total Governmental Activities	4,888,879	2,299,646	118,414	222,139	(2,248,680)	-	(2,248,680)
BUSINESS-TYPE ACTIVITIES							
Water	1,035,908	850,725	453,405	38,385	-	306,607	306,607
Total Primary Government	\$5,924,787	\$ 3,150,371	\$ 571,819	\$ 260,524	\$ (2,248,680)	\$ 306,607	\$ (1,942,073)

General Revenues

Taxes:

Property	743,484	-	743,484
Rental real estate	723,393	-	723,393
Transfer	1,555,427	-	1,555,427
Interest	163,466	15,227	178,693
Special item - sale of assets	4,240	-	4,240
Other	30,358	-	30,358
Total General Revenues	3,220,368	15,227	3,235,595
Change in Net Assets	971,688	321,834	1,293,522
Net Assets Beginning of Year	11,696,695	2,360,542	14,057,237
Net Assets End of Year	\$ 12,668,383	\$ 2,682,376	\$ 15,350,759

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

TOWN OF BETHANY BEACH, DELAWARE
BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2006

	General <u>Fund</u>	Special <u>Revenue</u>	Capital <u>Projects</u>	Total Governmental <u>Funds</u>
ASSETS				
Cash and cash equivalents	\$ 2,379,029	\$ -	\$ -	\$ 2,379,029
Investments	2,050,772	-	-	2,050,772
Receivables:				
Taxes - real and personal property	2,242	-	-	2,242
Sanitation fees	1,551	-	-	1,551
Interest	70,498	-	-	70,498
Intergovernmental	-	49,728	-	49,728
Other	12,286	-	-	12,286
Prepaid expenses	76,158	-	244	76,402
Due from other funds	37,479	-	-	37,479
Restricted Assets				
Cash and cash equivalents	-	14,718	-	14,718
Investments	-	-	785,339	785,339
Total assets	\$ 4,630,015	\$ 64,446	\$ 785,583	\$ 5,480,044
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenses	\$ 56,611	\$ 21,000	\$ 270,100	\$ 347,711
Employee withholdings and payroll taxes	56,004	-	-	56,004
Accrued interest	-	-	6,756	6,756
Deferred revenue	82,684	14,691	-	97,375
Due to other funds	-	28,727	-	28,727
Compensated absences liability	22,779	-	-	22,779
Total liabilities	218,078	64,418	276,856	559,352
FUND BALANCES				
Designated for:				
Designated for capital improvements	1,258,500	-	-	1,258,500
Designated for emergency	250,000	-	-	250,000
Designated for beach and boardwalk	753,000	-	-	753,000
Designated for sanitation equipment	600,000	-	-	600,000
Unreserved:				
Undesignated	1,550,437	28	508,727	2,059,192
Total fund balances	4,411,937	28	508,727	4,920,692
Total liabilities and fund balances	\$ 4,630,015	\$ 64,446	\$ 785,583	\$ 5,480,044

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

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
March 31, 2006**

Total fund balances, governmental funds		\$ 4,920,692
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets.</p>		8,711,476
<p>Some liabilities are not due and payable in the current period and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets. Those liabilities consist of:</p>		
Bonds and notes payable	(851,868)	
Lease purchase obligation	(8,629)	
Compensated absences	<u>(103,288)</u>	
Total long-term liabilities		<u>(963,785)</u>
Net assets of governmental activities in the Statement of Net Assets		<u>\$ 12,668,383</u>

TOWN OF BETHANY BEACH, DELAWARE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended March 31, 2006

	General Fund	Special Revenue	Capital Projects	Total Governmental Funds
REVENUES:				
Taxes:				
Property	\$ 743,484	\$ -	\$ -	\$ 743,484
Rental real estate	723,393	-	-	723,393
Transfer	1,555,427	-	-	1,555,427
Parking revenues	887,023	-	-	887,023
Licenses, permits and fees	694,554	-	-	694,554
Police and Alderman fines and revenue	89,693	-	-	89,693
Interest	163,385	81	-	163,466
Sanitation fees	628,376	-	-	628,376
Intergovernmental revenues:				
State	-	340,553	-	340,553
Contributions	20,180	-	-	20,180
Miscellaneous	10,178	-	-	10,178
Total revenues	5,515,693	340,634	-	5,856,327
Expenditures:				
General and administration	823,668	-	184,155	1,007,823
Licenses and inspections	182,812	-	-	182,812
Public safety:				
Police	1,049,655	131,234	26,240	1,207,129
Alderman	35,387	-	-	35,387
Parking	228,514	-	44,986	273,500
Beach Patrol	295,218	-	-	295,218
Public works:				
Stormwater management	171,946	70,000	393,542	635,488
Streets	522,369	139,400	201,989	863,758
Sanitation	406,740	-	-	406,740
Beach and boardwalk	200,228	-	355,967	556,195
Recreation - entertainment	102,849	-	-	102,849
Historical/Cultural	2,595	-	36,985	39,580
Debt service:				
Principal	-	-	328,729	328,729
Interest	-	-	55,489	55,489
Total expenditures	4,021,981	340,634	1,628,082	5,990,697
Excess (deficiency) of revenues over expenditures	1,493,712	-	(1,628,082)	(134,370)
Other financing (uses) sources				
Sale of equipment	4,240	-	-	4,240
Transfers out	(1,428,965)	-	-	(1,428,965)
Transfers in	-	-	1,428,965	1,428,965
Total other financing sources (uses)	(1,424,725)	-	1,428,965	4,240
Net change in fund balances	68,987	-	(199,117)	(130,130)
Fund balances, beginning	4,342,950	28	707,844	5,050,822
Fund balances, end of year	\$ 4,411,937	\$ 28	\$ 508,727	\$ 4,920,692

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

**RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
Year Ended March 31, 2006**

Net change in fund balances, governmental funds \$ (130,130)

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

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

Capital outlay	1,446,721	
Depreciation expense	<u>(599,513)</u>	

Excess of capital outlay over depreciation expense		847,208
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In the statement of activities, only the gains on sale of assets is reported
whereas in the governmental funds, the proceeds from the sales of assets increase
financial resources. Thus, the change in net assets differs from the change in fund
balance by the basis of the assets sold. (82,506)

Governmental funds report repayment of debt principal as an expenditure. In contrast,
the Statement of Activities treats such repayments as a reduction in long-term liabilities. 262,227

Governmental funds report repayment of capital leases as an expenditure. In contrast,
the Statement of Activities treats such repayments as a reduction in capital leases. 66,502

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

Decrease in compensated absences		<u>8,387</u>
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Change in net assets of governmental activities		<u>\$ 971,688</u>
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TOWN OF BETHANY BEACH, DELAWARE
STATEMENT OF FUND NET ASSETS
BUSINESS-TYPE ACTIVITIES
March 31, 2006

	Enterprise Fund
	Water Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 231,926
Receivables:	
Water charges	247,484
Other	7,657
Prepaid expenses	16,806
Total current assets	503,873
Noncurrent assets	
Restricted cash and cash equivalents	418,709
Capital assets, at cost	6,105,866
Less accumulated depreciation	(2,158,221)
Bond issue costs, net of amortization	55,694
Total noncurrent assets	4,422,048
Total assets	\$ 4,925,921
 LIABILITIES AND NET ASSETS	
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses	\$ 4,578
Employee withholdings and payroll taxes	7,710
Accrued interest	49,061
Deferred revenue	1,159
Due to other funds	8,752
Long-term liabilities due within one year	
General obligation bonds	263,924
Compensated absences liability	1,694
Total current liabilities	336,878
Noncurrent liabilities	
General obligation bonds	1,881,139
Compensated absences liability	25,528
Total noncurrent liabilities	1,906,667
Total liabilities	2,243,545
 NET ASSETS	
Invested in capital assets, net of related debt	1,802,582
Unrestricted	879,794
Total	\$ 2,682,376

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

TOWN OF BETHANY BEACH, DELAWARE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS
BUSINESS-TYPE ACTIVITIES
Year Ended March 31, 2006

	<u>Enterprise Fund</u>
	<u>Water Fund</u>
OPERATING REVENUE	
Charges for services:	
Water	\$ 818,427
Other operating	82,683
Total operating revenues	901,110
OPERATING EXPENSES	
Water	721,122
Depreciation and amortization	180,053
Total operating expenses	901,175
Net operating income (loss)	(65)
NON-OPERATING REVENUE (EXPENSES)	
Non-operating revenue	441,405
Amortization of bond issue cost	(5,320)
Financial expense, net	(114,186)
Total non-operating revenue (expenses)	321,899
Change in net assets	321,834
Total net assets, beginning	2,360,542
Total net assets, ending	\$ 2,682,376

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, 2006

	<u>Enterprise Fund</u>
	<u>Water Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 917,526
Payments to suppliers	(435,568)
Payments to employees	(312,733)
<hr/>	
Net cash provided by operating activities	169,225
<hr/>	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Non-operating revenue	441,405
Advances from general fund, net	10,928
<hr/>	
Net cash provided by operating activities	452,333
<hr/>	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(102,790)
Principal paid on long-term debt	(251,148)
Interest paid on long-term debt	(129,413)
<hr/>	
Net cash used in capital and related financing activities	(483,351)
<hr/>	
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	15,227
<hr/>	
Net increase in cash and cash equivalents	153,434
Cash and cash equivalents, beginning of year	497,201
<hr/>	
Cash and cash equivalents, end of year	\$ 650,635
<hr/>	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (65)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation and amortization expense	180,053
Loss on disposal of assets	6,010
Changes in assets and liabilities:	
Receivables, net	18,347
Prepaid expenses	(2,780)
Deferred revenue	(1,931)
Accounts and other payables	(33,309)
Compensated absences liability	2,900
<hr/>	
Net cash provided by operating activities	\$ 169,225

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. The Town has elected not to apply Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989 to its business-type activities and to its enterprise funds provided. Following are the more significant of the Town’s accounting policies:

In June 1999 the GASB issued Statement 34 *Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments*. This Statement established new financial and reporting requirements for state and local governments throughout the United States. This statement requires new information and restructures much of the information that governments have presented in the past. The Town implemented this standard for the fiscal year ended March 31, 2005. With the implementation of this standard in fiscal year 2005, the Town has prepared required supplementary information titled *Management’s Discussion and Analysis*, which precedes the basic financial statements.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

FUND FINANCIAL STATEMENTS

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

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.

Special Revenue Fund - The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The Town has one special revenue fund, which includes collection and disbursements of funds restricted for economic development as approved by an agency of the Federal government, state government and other sources.

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

PROPRIETARY FUNDS

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

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 major enterprise fund is:

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.

FIDUCIARY FUNDS

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

C. Measurement Focus

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

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

D. Basis of Accounting

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

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

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

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

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

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.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

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 later than 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.

F. Cash Equivalents

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

G. Investments

Investments consist of certificates of deposit and the Delaware Local Government Investment Pool and are carried at cost, which approximates fair market value.

H. Receivables

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical costs) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Town maintains a capitalization threshold of \$2,500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value to the asset or materially extend an asset's life are not.

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

J. Restricted Assets

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

K. Bond Issue Costs

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

L. Deferred Revenues

Deferred revenues represent funds received in advance, which will be recognized in future years when the revenue recognition criteria is met. In the general fund, deferred revenues of \$82,684 consist of permits and fees collected in advance. In the special revenue fund, deferred revenues of \$14,691 consist of grant funds received in advance.

M. Compensated Absences

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

expendable available financial resources. The liability for compensated absences of the proprietary fund type is recorded within the fund as an accrued liability in accordance with U.S. GAAP.

N. Accrued Liabilities and Long-Term Obligations

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

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

O. Interest Capitalization

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

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

The amount of interest expense to be capitalized is based on the weighted-average amount of accumulated expenditures for the period multiplied by the interest rate for the obligation incurred specifically to finance the construction of capital assets. There was no capitalization of interest expense during the fiscal year ended March 31, 2006.

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are 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.

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

Q. Fund Balance Reserves

The Town reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Fund balance reserves have been established for various capital improvements including beach and boardwalk improvements, sanitation equipment and for emergencies.

R. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Town, these revenues are charges for services for water activities. Operating expenses are

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues not meeting these definitions are reported as non-operating.

S. Estimates

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

T. Interfund Receivables/Payables

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

U. Interfund Transfers In/Out

Interfund transfers in/out are classified in other financing (uses) sources in the statement of revenues, expenditures and changes in fund balances. These transfers reflect monies designated in the General Fund for future capital projects, which are transferred to the Capital Projects Fund to offset costs of projects performed in the current year.

V. Reclassifications

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

Note 3. Real Estate Taxes

The tax on real estate in the Town area for the fiscal year ended March 31, 2006 was \$0.08 per \$100 of assessed valuation as levied by the Town Council. The Town bills and collects its own real estate taxes. Delinquent taxes are levied by the Town. The schedule of real estate taxes levied for the fiscal year are:

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

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.

NOTES TO FINANCIAL STATEMENTS

Note 4. Cash and Investments (continued)

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, 2006 are as follows:

Description	Financial Institution Balances			Totals	Carrying Amounts
	Category				
	1	2	3		
Cash & Cash Equivalents:					
Unrestricted	\$ 200,000	\$ 1,324,932	\$ -	\$ 1,524,932	\$ 2,610,955
Restricted	-	433,427	-	433,427	433,427
Totals	\$ 200,000	\$ 1,758,359	\$ -	\$ 1,958,359	\$ 3,044,382

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, 2006, the Town's investments consist of the following:

Description	Category	Amounts	
		Market	Carrying
Certificates of Deposit	1, 2	\$2,569,469	\$2,569,469
Delaware Local Government Investment Pool	3	266,642	266,642
Total Investments by Type		\$2,836,111	\$2,836,111
Investments:			
Unrestricted		\$2,050,772	\$2,050,772
Restricted		785,339	785,339
Total Investments		\$2,836,111	\$2,836,111

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

NOTES TO FINANCIAL STATEMENTS

Note 5. Intergovernmental Receivables

Amount due from other governmental units represents receivables for revenues earned by the Town or collections made by another governmental unit on behalf of the Town. The intergovernmental receivables as of March 31, 2006, are as follows:

Description	Special Revenue
State of Delaware	\$ 49,728

Note 6. Capital Assets

The following is a summary of changes in capital assets for the year ended March 31, 2006:

	March 31, 2005	Additions	Transfer In (Out)	Deductions	March 31, 2006
GOVERNMENTAL ACTIVITIES					
Capital assets, not being depreciated:					
Land	\$ 3,402,334	\$ -	\$(10,567)	\$ -	\$ 3,391,767
Construction in progress	176,564	666,262	(80,723)	-	762,103
Total capital assets, not being depreciated	<u>3,578,898</u>	<u>666,262</u>	<u>(91,290)</u>	<u>-</u>	<u>4,153,870</u>
Capital assets, being depreciated					
Beach and boardwalk	792,225	-	-	-	792,225
Building and improvements	2,534,010	84,964	-	-	2,618,974
Land improvements	252,202	17,357	10,567	-	280,126
Machinery and equipment	669,168	94,055	30,616	-	793,839
Stormwater	576,156	124,064	80,723	(69,775)	711,168
Streets	1,689,009	244,011	-	-	1,933,020
Vehicles	1,155,819	216,008	(5,135)	(35,127)	1,331,565
Total capital assets, being depreciated	<u>7,668,589</u>	<u>780,459</u>	<u>116,771</u>	<u>(104,902)</u>	<u>8,460,917</u>
Less accumulated depreciation:					
Beach and boardwalk	406,032	34,749	-	-	440,781
Building and improvements	765,771	96,319	-	-	862,090
Land improvements	17,799	15,102	-	-	32,901
Machinery and equipment	318,551	83,402	24,606	-	426,559
Stormwater	56,277	42,710	-	-	98,987
Streets	1,068,786	176,712	-	-	1,245,498
Vehicles	667,499	150,519	13,604	(35,127)	796,495
Total accumulated depreciation	<u>3,300,715</u>	<u>599,513</u>	<u>38,210</u>	<u>(35,127)</u>	<u>3,903,311</u>
Total capital assets, being depreciated, net	<u>4,367,874</u>	<u>180,946</u>	<u>78,561</u>	<u>(69,775)</u>	<u>4,557,606</u>
Governmental activities capital assets, net	<u>\$ 7,946,772</u>	<u>\$ 847,208</u>	<u>\$(12,729)</u>	<u>\$(69,775)</u>	<u>\$ 8,711,476</u>

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

General and administration	\$ 108,979
Licenses and inspections	-
Police and Alderman	80,984
Parking	17,782
Beach Patrol	-
Public works	
Stormwater management	65,750
Streets	217,313
Sanitation	52,806
Beach and boardwalk	53,941
Recreation - entertainment	-
Historical association	1,958
	\$ 599,513

BUSINESS-TYPE ACTIVITIES

	March 31, 2005	Additions	Transfer In (Out)	Deductions	March 31, 2006
Capital assets, not being depreciated:					
Construction in progress	\$ 31,077	\$ -	\$ -	\$ -	\$ 31,077
Total capital assets, not being depreciated	31,077	-	-	-	31,077
Capital assets, being depreciated:					
Plant and water distribution system	5,676,880	67,590	-	(9,625)	5,734,845
Vehicles and equipment	352,271	35,200	(47,527)	-	339,944
Total capital assets, being depreciated	6,029,151	102,790	(47,527)	(9,625)	6,074,789
Total accumulated depreciation	2,029,310	180,053	(41,517)	(9,625)	2,158,221
Total capital assets, being depreciated, net	3,999,841	(77,263)	(6,010)	-	3,916,568
Business-type activities capital assets, net	\$ 4,030,918	\$ (77,263)	\$ (6,010)	\$ -	\$ 3,947,645

NOTES TO FINANCIAL STATEMENTS

Note 7. Notes Receivable

Note receivable as of March 31, 2006 is as follows:

	Interest Rate	Maturity Date	Balances			Balances March 31, 2006
			March 31, 2005	Additions	Payments	
General Fund						
Library	N/A	2006	\$ 44,428	\$ -	\$ 44,428	\$ -

Note 8. Bonds and Notes Payable – Business-type Activities

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

	Interest Rate	Maturity Date	Balances		Retirements and Repayments	Balances March 31, 2006	Amount Due in One Year
			March 31, 2005	Additions			
Compensated absences			\$ 24,322	\$ 2,900	\$ -	\$ 27,222	\$ 1,694
General Obligation Bonds:							
Series 1994			\$ 1,945,000	\$ -	\$ 135,000	\$ 1,810,000	145,000
Bond Premium			218,091	-	22,735	195,356	22,735
Refunding Deferral	2.75-						
Series 1994, net	9.75%	2014	(167,077)	17,415	-	(149,662)	(17,415)
			1,996,014	17,415	157,735	1,855,694	150,320
General Obligation Refunding							
Note, Series 2004	2.49%	2009	400,197	-	110,828	289,369	113,604
			2,396,211	17,415	268,563	2,145,063	263,924
Total Business-type Activities			\$2,420,533	\$ 20,315	\$ 268,563	\$2,172,285	\$265,618
Long-Term Debt							

NOTES TO FINANCIAL STATEMENTS

Note 8. Bonds and Notes Payable – Business-type Activities (continued)

Total annual requirements to amortize all business-type activities debt outstanding as of March 31, 2006 are as follows:

<u>Fiscal Year Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 263,924	\$ 124,015	\$ 387,939
2008	281,770	107,031	388,801
2009	244,635	88,513	333,148
2010	200,320	70,225	270,545
2011	205,320	59,890	265,210
2012 - 2015	949,094	126,405	1,075,499
	<u>\$ 2,145,063</u>	<u>\$ 576,079</u>	<u>\$ 2,721,142</u>

Interest expense in the business-type activities for the year ended March 31, 2006 totaled \$134,733.

Note 9. Bonds and Notes Payable – Governmental Activities

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

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balances March 31, 2005</u>	<u>Additions</u>	<u>Retirements and Repayments</u>	<u>Balances March 31, 2006</u>	<u>Amount Due in One Year</u>
Compensated absences			\$ 122,232	\$ 3,835	\$ -	\$ 126,067	\$ 22,779
General Obligation Note, Series 2003	2.57%	2009	\$ 514,095	\$ -	\$ 142,227	\$ 371,868	145,905
Neff property	7.00%	2010	600,000	-	120,000	480,000	120,000
			<u>1,114,095</u>	<u>-</u>	<u>262,227</u>	<u>851,868</u>	<u>265,905</u>
Total Governmental Activities Long-Term Debt			<u>\$ 1,236,327</u>	<u>\$ 3,835</u>	<u>\$ 262,227</u>	<u>\$ 977,935</u>	<u>\$ 288,684</u>

NOTES TO FINANCIAL STATEMENTS

Note 9. Bonds and Notes Payable – Governmental Activities (continued)

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

<u>Fiscal Year Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 265,905	\$ 42,226	\$ 308,131
2008	269,679	30,052	299,731
2009	196,284	17,780	214,064
2010	120,000	8,400	128,400
	<u>\$ 851,868</u>	<u>\$ 98,458</u>	<u>\$ 950,326</u>

Interest expense in the governmental activities for the year ended March 31, 2006 totaled \$314,221.

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

Original cost of assets acquired under these capital leases for the general fund is \$256,814 with accumulated depreciation of \$115,360 as of March 31, 2006.

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

<u>Fiscal Year Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 2,655	\$ 279	\$ 2,934
2008	2,655	279	2,934
2009	2,655	279	2,934
2010	664	70	734
	<u>\$ 8,629</u>	<u>\$ 907</u>	<u>\$ 9,536</u>

NOTES TO FINANCIAL STATEMENTS

Note 10. Reserved and Designated Fund Balances/Net Assets

Reservations of fund balances show amounts that are not available for current appropriations or are legally restricted for specific uses. Designations of fund balances are used to show the amounts within unreserved fund balances, which are intended to be used for specific purposes but are not legally restricted. The purpose for each reservation or designation is indicated by the account title on the face of the balance sheet.

Note 11. Post-Employment Healthcare Benefits

The Town provides post-retirement healthcare benefits, for employees retiring prior to June 1, 1999, in accordance with Town statutes, to all employees who retire on or after attaining age 62 with at least 7 years of service. Currently four retirees are eligible for these benefits and all are receiving such benefits. The cost of healthcare benefits is recognized as an expenditure as claims are paid. During the fiscal year ended March 31, 2006 the cost of healthcare benefits for retirees was approximately \$11,200.

Note 12. Pension and Retirement Plans

The Town's pension benefits consist of the following two plans:

Profit Sharing Plan

The Town sponsors a defined contribution profit-sharing plan under Internal Revenue Service Section 401(a) covering all employees with one year of service (with at least 1,000 hours service), who have attained the age of 21. The Town is required to contribute 6% of base salary (bi-monthly compensation) of participants other than Town police, which includes deferrals under the Section 457 plan, but excludes overtime pay. The Town is required to contribute on behalf of the Town police the annual allocation received from the State of Delaware for police pensions. There are no participant contributions to this plan. Contributions to the plan vest immediately.

During the year, the Town's required and actual contributions amounted to \$50,043, which was 6% of its current year covered payroll of \$834,067.

Deferred Compensation Plan

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Town employees with one year of service, permits them to defer a portion of their salary until future years. Participation in the plan is optional and participants elect how their salary deferrals are invested. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The Town matches contributions of each participant up to 5% of base salary. The Town's contribution was \$52,234 for the fiscal year.

NOTES TO FINANCIAL STATEMENTS

Note 12. Pension and Retirement Plans (continued)

All compensation amounts deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held for the exclusive benefit of the participants and their beneficiaries.

Investments are managed by ING Life Insurance and Annuity Company, the plan trustees. Investment options include the following: stock funds, bond funds, and money market accounts, including various risk alternatives.

Note 13. 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 14. Commitments, Contingencies and Subsequent Events

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

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

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF BETHANY BEACH, DELAWARE

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year Ended March 31, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Taxes:				
Property	\$ 732,000	\$ 732,000	\$ 743,484	\$ 11,484
Rental real estate	700,000	700,000	723,393	23,393
Transfer	1,300,000	1,300,000	1,555,427	255,427
Parking Revenues	855,000	855,000	887,023	32,023
Licenses, permits and fees	632,000	632,000	694,554	62,554
Police and Alderman fines and revenue	140,000	140,000	89,693	(50,307)
Interest	85,000	85,000	163,385	78,385
Sanitation fees	623,500	623,500	628,376	4,876
Contributions	9,000	9,000	20,180	11,180
Miscellaneous	14,000	14,000	10,178	(3,822)
Total revenues	5,090,500	5,090,500	5,515,693	425,193
EXPENDITURES:				
General and administration	901,000	901,000	823,668	77,332
Licenses and inspections	196,300	196,300	182,812	13,488
Public safety:				
Police	993,800	993,800	1,049,655	(55,855)
Alderman	40,600	40,600	35,387	5,213
Parking	256,700	256,700	228,514	28,186
Beach Patrol	322,700	322,700	295,218	27,482
Public works:				
Stormwater management	205,900	205,900	171,946	33,954
Streets	601,700	601,700	522,369	79,331
Sanitation	437,000	437,000	406,740	30,260
Beach and boardwalk	238,600	238,600	200,228	38,372
Recreation - entertainment	101,700	101,700	102,849	(1,149)
Historical/Cultural	6,200	6,200	2,595	3,605
Total expenditures	4,302,200	4,302,200	4,021,981	280,219
Excess (deficiency) of revenues over expenditures	788,300	788,300	1,493,712	705,412
OTHER FINANCING SOURCES (USES):				
Sale of equipment	5,000	5,000	4,240	(760)
Operating transfers out	-	-	(1,428,965)	(1,428,965)
Total other financing sources	5,000	5,000	(1,424,725)	(1,429,725)
Net change in fund balance	\$ 793,300	\$ 793,300	68,987	\$ (724,313)
Fund balance - beginning			<u>4,342,950</u>	
Fund balance - ending			<u>\$ 4,411,937</u>	

TOWN OF BETHANY BEACH, DELAWARE
REQUIRED SUPPLEMENTARY SCHEDULE
BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND
Year Ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Interest and rents	\$ -	\$ -	\$ 81	\$ 81
Intergovernmental revenues:				
State	-	-	340,553	340,553
Total revenues	-	-	340,634	340,634
EXPENDITURES:				
General and administration	153,300	158,300	-	158,300
Public safety:				
Police	119,187	152,644	131,234	21,410
Public works:				
Stormwater management	70,000	70,000	70,000	-
Streets	289,000	263,995	139,400	124,595
Total expenditures	631,487	644,939	340,634	304,305
Deficiency of revenues over expenditures	(631,487)	(644,939)	-	644,939
Net change in fund balance	\$ (631,487)	\$ (644,939)	-	\$ 644,939
Fund balance - beginning			28	
Fund balance - ending			\$ 28	

ADDITIONAL SUPPLEMENTARY INFORMATION

TOWN OF BETHANY BEACH, DELAWARE

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - CAPITAL PROJECTS FUND
Year Ended March 31, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable <u>(Unfavorable)</u>
EXPENDITURES:				
General and administration	\$ 1,176,600	\$ 1,281,600	\$ 498,376	\$ 783,224
Public safety:				
Police	58,800	58,800	36,616	22,184
Parking	54,800	54,800	44,986	9,814
Public works:				
Stormwater management	772,600	774,500	393,542	380,958
Streets	275,000	275,000	201,989	73,011
Sanitation	69,700	69,700	59,621	10,079
Beach and boardwalk	753,100	741,300	355,967	385,333
Historical/Cultural	34,300	85,000	36,985	48,015
Total expenditures	3,194,900	3,340,700	1,628,082	1,712,618
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	-	1,428,965	(1,428,965)
Total other financing sources (uses)	-	-	1,428,965	(1,428,965)
Net change in fund balance	\$(3,194,900)	\$(3,340,700)	(199,117)	\$ 3,141,583
Fund balance - beginning			<u>707,844</u>	
Fund balance - ending			<u>\$ 508,727</u>	

TOWN OF BETHANY BEACH, DELAWARE

**INCOME AND EXPENSE DETAIL
WATER FUND**

Year Ended March 31, 2006

2006

WATER SERVICE:

Operating revenues:	
Charges for services	\$ 818,427
Other service fees	81,562
Miscellaneous	1,121
<hr/>	
Total operating revenues	901,110
<hr/>	
Operating expenses:	
Salaries and wages	228,244
Payroll taxes	17,276
Employee benefits	70,113
Administrative fees	2,420
Contract services	44,544
Insurance	29,741
Telephone	5,174
Utilities	41,374
Repairs and maintenance	77,669
Engineering	14,685
Sewer service charge	338
Plant maintenance	32,932
Distribution system maintenance	57,100
Office supplies	9,596
Miscellaneous	12,978
Supplies	20,319
Chemicals	55,465
Uniforms	1,154
Depreciation	180,053
<hr/>	
Total operating expenses	901,175
<hr/>	
Net operating income (loss)	(65)
<hr/>	
Non-operating revenue (expenses):	
Taxes and assessments	319,741
Impact fees	121,664
Interest income	15,227
Amortization on bond issue costs	(5,320)
Interest expense	(129,413)
<hr/>	
Net non-operating revenues	321,899
<hr/>	
NET INCOME	\$ 321,834

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

Town of Bethany Beach, Delaware
Bethany Beach, Delaware

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Bethany Beach, Delaware as of and for the year ended March 31, 2006, which collectively comprise the Town of Bethany Beach, Delaware's basic financial statements and have issued our report thereon dated June 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Bethany Beach, Delaware's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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

Salisbury, Maryland
June 16, 2006