TOWN OF BETHANY BEACH, DELAWARE

FINANCIAL REPORT

MARCH 31, 2009

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TRICEGEARY & MYERS LLC
CERTIFIED PUBLIC ACCOUNTANTS BUSINESS CONSULTANTS

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, 2009, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the Town as of March 31, 2009, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2009 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

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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 16 and 42 through 43, respectively, are not a required part of the basic financial statements 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 inquires 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 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 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.

Price Heavner + Myers LLC

Salisbury, Maryland
June 1, 2009

Town of Bethany Beach
Management's Discussion and Analysis
March 31, 2009

As management of the Town of Bethany Beach, Delaware (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended March 31, 2009. 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 2009

The assets of the Town of Bethany Beach exceed its liabilities at the end of the fiscal year on March 31, 2009 by $17,527,303 (net assets). Of this amount, $5,941,809 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.

The Town's total net assets increased by $925,673 (an increase of 5.6%) in fiscal year 2009. Net assets of governmental activities decreased by $973,106, while net assets of business-type activities increased by $1,898,779. In fiscal year 2009, the Town reclassified sanitation services to operate fully as a business-type activity rather than as a governmental activity. As part of this change, $1,145,568 in cash, investments and capital assets related to sanitation services were shifted from governmental activities to business-type activities. Adjusting for this reporting change, the net assets of governmental activities increased $172,462 while the net assets of business-type activities increased by $753,211.

As of the close of fiscal year 2009 the Town's governmental funds reported an ending fund balance of $4,472,558. Of this amount, $800,000 is held for beach and boardwalk improvements, $300,000 is held for emergencies, $1,766,000 is held for future capital replacements and $681,000 is held for capital purchases in FY 2010.

This leaves $925,558 as undesignated at the end of fiscal year 2009. The unreserved, undesignated fund balances for the governmental fund represents 22.8% of the general fund operating expenditure budget for fiscal year 2010.

The Town's bonds and notes payable increased by $354,020 (16.7%) as a result of regular, scheduled payments on current debt, and the addition of employee pension related debt and notes payable directly to employees. The new debts resulted from negotiations with employees concerning a change in benefits. The Town ended the benefit of post employment health care coverage for retiring employees, though the Town will continue to pay this benefit for employees who previously retired from town service. Of the Town's total bonds and notes payable of $2,472,974, 86.1%, is payable within the next 5 years. The remaining $342,542 will 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, which assists in assessing the Town's financial position.

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

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

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

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

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

The government-wide financial statements can be found on pages 17-18 of this report.

Fund financial statements

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

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

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

The Town has five governmental funds: the General Fund, the Capital Projects Fund, the Special Revenue Fund (used to account for State and Federal grants), the Recycling Fund and the Ambulance Fund. Fees collected for Recycling and Ambulance services are used to pay the charges of the Delaware Solid Waste Authority and Bethany Beach Volunteer Fire Company respectively. The basic governmental fund financial statements can be found on pages 19-22 of this report.

Proprietary funds – These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers they are also known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

The Town has two proprietary funds, the water and sanitation departments. The basic proprietary fund financial statements can be found on pages 23–25 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Specifically, Note 2 summarizes the Town's significant accounting policies and provides definitions for many of the terms used throughout this report.

The notes to the financial statements can be found on pages 26–40 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 $17,527,303 at the end of fiscal year 2009, compared to $16,601,630 at the end of fiscal year 2008, an increase of $925,673 or 5.6%.

The largest portion of the Town's net assets (66.1%) reflects its investment in capital assets such as land, buildings, equipment and infrastructure, less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens: consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The Town follows a written investment policy, which is reviewed annually. The primary objective of Town investments in priority order are safety, liquidity and then return on investment. The Town seeks investments that are collateralized and diverse by type, institution and maturity date. Authorized investments include United States government securities, certificates of deposit, money market accounts in commercial banks, commercial bank saving accounts and the Delaware Local Government Investment Pool.

The Delaware Local Government Investment Pool (DELGIP) is an investment pool managed by the State of Delaware. Local governments are permitted to invest in this pool, which has historically shown a good return on investment. Funds placed in this pool are managed by the Office of the State Treasurer in accordance with State policy. In addition to the types of investment specifically authorized in the Town's policy, the State allows investments in corporate debt, repurchase agreements, reverse repurchase agreements and securities. Local government investment pools such as this one are not registered, insured or guaranteed. Regardless of this higher level of risk, the Town feels secure investing in this pool based on the State Treasurer's Office's oversight and excellent financial history.

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, 2009

	Governmental Activities		Business-Type Activities		Total		%
	2009	2008	2009	2008	2009	2008	
Current Assets	4,704,931	4,822,475	2,278,187	885,885	6,983,118	5,708,360	22.3%
Capital Assets	9,008,994	9,359,594	3,931,897	3,737,906	12,940,891	13,097,500	-1.2%
Other Assets	90	11,181	546,389	476,813	546,479	487,994	12.0%
Total Assets	13,714,015	14,193,250	6,756,473	5,100,604	20,470,488	19,293,854	6.1%
Long-Term Liabilities	1,012,532	505,152	1,208,197	1,391,662	2,220,729	1,896,814	17.1%
Other Liabilities	483,669	497,178	238,787	298,232	722,456	795,410	-9.2%
Total Liabilities	1,496,201	1,002,330	1,446,984	1,689,894	2,943,185	2,692,224	9.3%
Invested in capital assets, net of related debt	9,008,331	9,279,991	2,577,163	2,138,537	11,585,494	11,418,528	1.5%
Unrestricted	3,209,483	3,910,929	2,732,326	1,272,173	5,941,809	5,183,102	14.6%
Total Net Assets	12,217,814	13,190,920	5,309,489	3,410,710	17,527,303	16,601,630	5.6%

The remaining balance of unrestricted net assets ($5,941,809) may be used to meet the government's ongoing obligations to citizens and creditors. Unrestricted net assets increased $758,707 during fiscal year 2009.

Current assets increased $1,274,758, or 22.3% to $6,983,118. The majority of this amount is cash and cash equivalents, most of which are held in reserves for future needs. Receivables are $458,188 of the current assets and increased $24,217, or 5.6%.

The Town's investment in capital assets decreased 1.2% to $12,940,891 in fiscal year 2009 as annual depreciation exceeded new purchases. Long-term liabilities increased 17.1% ($323,915) from scheduled payments and two new debts while other liabilities decreased 9.2% ($72,954).

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

Town of Bethany Beach
Summary of Statement of Activities
March 31, 2009

	Governmental Activities		Business-Type Activities		Total		%
	2009	2008	2009	2008	2009	2008	Change
Revenues:							
Program Revenues							
Charges for services	2,153,760	2,573,793	1,736,956	861,851	3,890,716	3,435,644	13.3%
Assessments & impact fees	-	-	495,715	502,140	495,715	502,140	-1.3%
Operating grants	64,166	101,640	-	-	64,166	101,640	-36.9%
Capital grants	199,519	278,337	-	-	199,519	278,337	-28.3%
General Revenues							
Property taxes	1,525,832	1,514,575	-	-	1,525,832	1,514,575	0.7%
Rental real estate taxes	908,263	765,491	-	-	908,263	765,491	18.7%
Transfer taxes	673,426	706,862	-	-	673,426	706,862	-4.7%
Other	116,667	248,246	73,552	36,222	190,219	284,468	-33.1%
Total Revenues	5,641,633	6,188,944	2,306,223	1,400,213	7,947,856	7,589,157	4.7%
Expenses:							
General and administration	1,503,038	1,200,814	-	-	1,503,038	1,200,814	25.2%
Licenses and inspections	176,314	178,126	-	-	176,314	178,126	-1.0%
Public Safety							
Police and Alderman	1,518,869	1,530,998	-	-	1,518,869	1,530,998	-0.8%
Parking	276,477	325,692	-	-	276,477	325,692	-15.1%
Beach Patrol	362,809	314,140	-	-	362,809	314,140	15.5%
Ambulance	49,868	-	-	-	49,868	-	
Public Works							
Stormwater management	219,082	216,304	-	-	219,082	216,304	1.3%
Streets	839,220	901,133	-	-	839,220	901,133	-6.9%
Sanitation	-	529,799	580,612	-	580,612	529,799	9.6%
Beach and boardwalk	353,880	385,553	-	-	353,880	385,553	-8.2%
Recycling	16,866	-	-	-	16,866	-	
Recreation - entertainment	140,352	95,636	-	-	140,352	95,636	46.8%
Cultural and Historical	12,396	9,240	-	-	12,396	9,240	34.2%
Water Department	-	-	972,400	1,007,573	972,400	1,007,573	-3.5%
Total Expenses	5,469,171	5,687,435	1,553,012	1,007,573	7,022,183	6,695,008	4.9%
Transfer of Sanitation	(1,145,568)	-	1,145,568	-	-	-	
Change in Net Assets	(973,106)	501,509	1,898,779	392,640	925,673	894,149	3.5%
Net Assets, beginning	13,190,920	12,689,411	3,410,710	3,018,070	16,601,630	15,707,481	5.7%
Net Assets, end	12,217,814	13,190,920	5,309,489	3,410,710	17,527,303	16,601,630	5.6%

The Town's total net assets increased $925,673 or 5.6%. Approximately 39.1% of the Town's total revenue came from taxes. Total revenues increased $358,699 or 4.7% while total expenses increased $327,175 or 4.9%. The increase in net assets is a direct result of Town Council and Budget Committee efforts to provide adequate funding for the financial needs of the Town for the next five to ten years.

Governmental activities

Major revenue sources and key factors in the revenue decrease of $547,311 (8.8%) for governmental activities are as follows. Grant revenue is not included due to the variable nature of State and Federal grants.

1. Sanitation revenues of $637,177 are included in governmental activities in fiscal year 2008. Beginning in fiscal year 2009, sanitation revenues are included in business-type activities. Once adjusted for this change in presentation, governmental revenues show an increase of $89,866 (1.6%) from the prior year.

2. Property Tax revenue totaled $1,525,832 and was the Town's largest single source of funding. These revenues increased 0.7%, or $11,257, since fiscal year 2008. As a percentage of governmental revenue, property tax increased from 26.1% in fiscal year 2008 to 28.4% in fiscal year 2009.

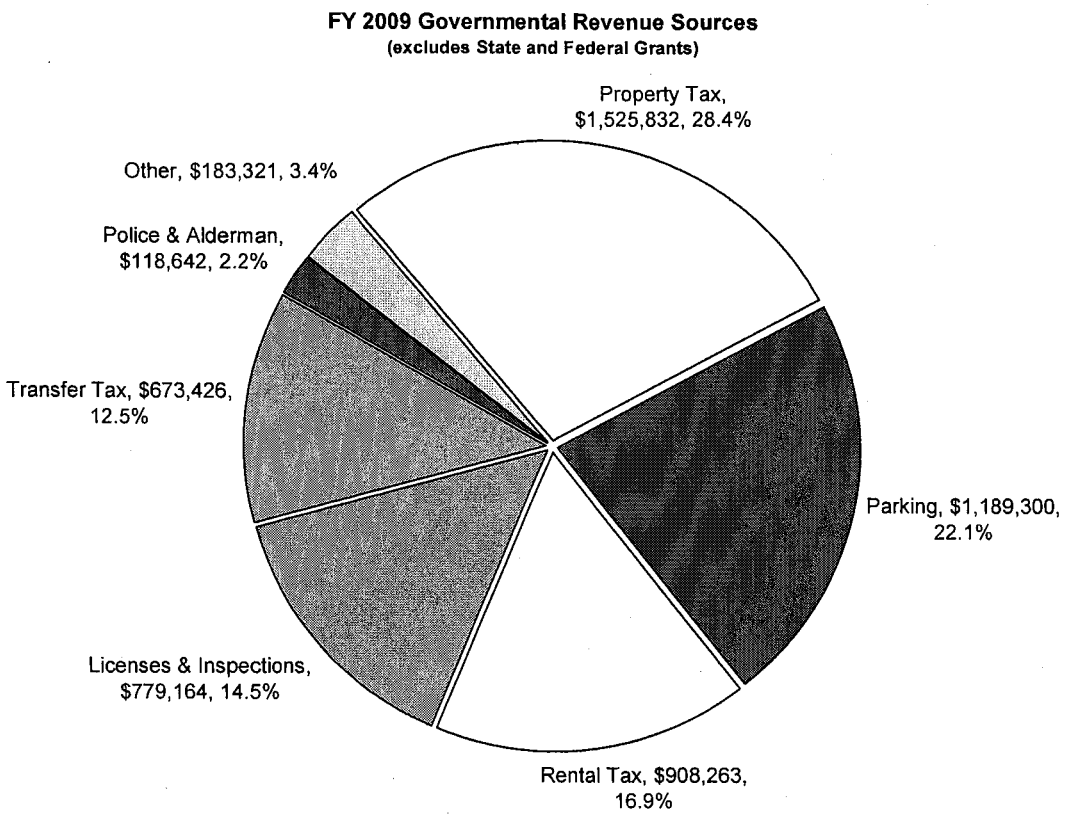
3. Revenues from parking fines, parking meters, and parking permits totaled $1,189,300 and were the Town's second largest revenue source. These revenues decreased 1.9%, or $23,036, due to a slight decrease in summer visitors. As a percentage of governmental revenue, parking increased from 20.9% in fiscal year 2008 to 22.1% in fiscal year 2009.

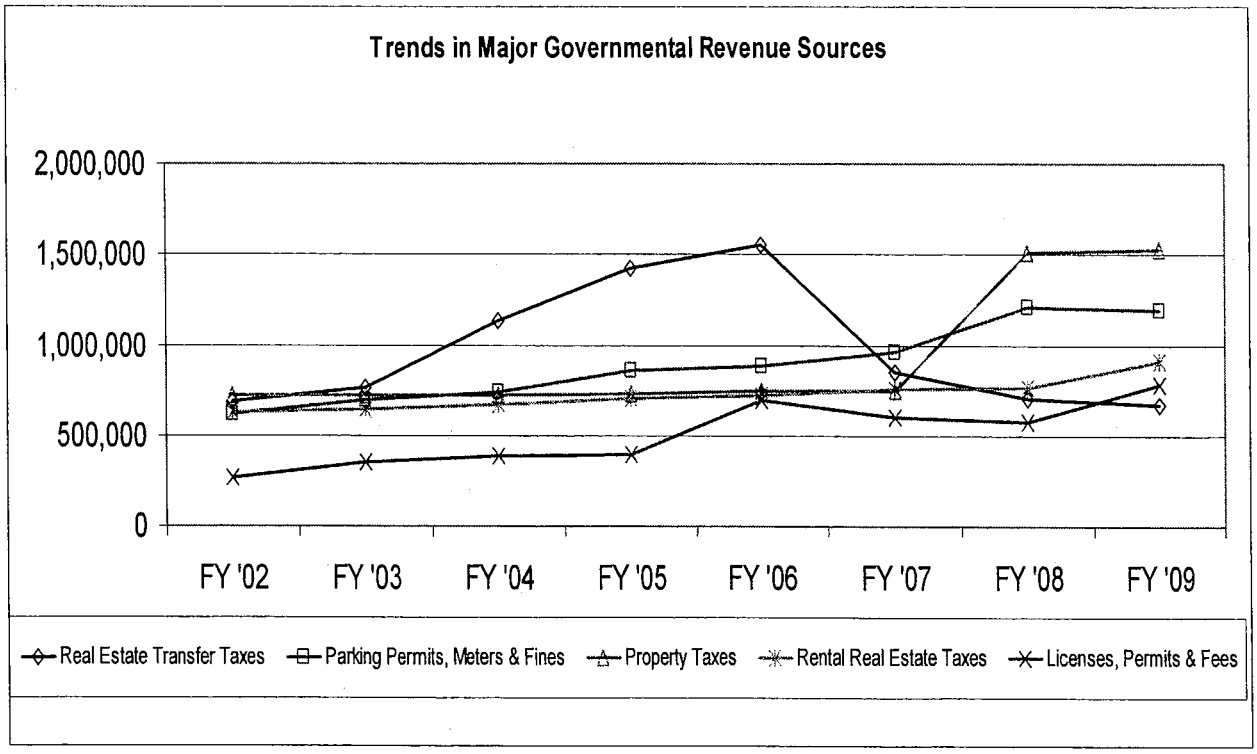
4. Real estate rental taxes were the Town's third largest revenue source at $908,263. These revenues increased 18.7% or $142,772 due to increasing the tax rate from 5% to 6%. As a percentage of total governmental revenue, rental taxes increased from 13.2% in fiscal year 2008 to 16.9% in fiscal year 2009.

5. Licenses, permits and other fees were the fourth largest revenue source at $799,164. This revenue increased 35.5%, or $203,973 mainly due to a single building permit. As a percentage of governmental revenue, licenses, permits and other fees increased from 9.9% in fiscal year 2008 to 14.5% in fiscal year 2009.

6. Real estate transfer taxes were the Town's fifth largest revenue source at $673,426. These revenues decreased 4.7% or $33,436. As a percentage of governmental revenue, transfer taxes increased from 12.2% in fiscal year 2008 to 12.5% in fiscal year 2009.

The following two charts show the Town's general fund revenues for the fiscal year ended March 31, 2009 and the trend of our six largest revenue sources over the past eight fiscal years. Special fund revenue is not included in these charts due to the variable nature of State and Federal grants.


FY 2009 Governmental Revenue Sources
(excludes State and Federal Grants)
Property Tax, $1,525,832, 28.4%
Other, $183,321, 3.4%
Police & Alderman, $118,642, 2.2%
Transfer Tax, $673,426, 12.5%
Parking, $1,189,300, 22.1%
Licenses & Inspections, $779,164, 14.5%
Rental Tax, $908,263, 16.9%


Trends in Major Governmental Revenue Sources
2,000,000
1,500,000
1,000,000
500,000
0
FY '02
FY '03
FY '04
FY '05
FY '06
FY '07
FY '08
FY '09
Real Estate Transfer Taxes
Parking Permits, Meters & Fines
Property Taxes
Rental Real Estate Taxes
Licenses, Permits & Fees

The Town's expenses for all governmental activities combined cover a range of services and decreased 3.8%, or $218,264 from fiscal year 2008 primarily due to the following:

1. Sanitation expenses of $529,799 are included in governmental activities in fiscal year 2008. Beginning in fiscal year 2009, sanitation expenses are included in business-type activities. Once adjusted for this change in presentation, governmental expenses show an increase of $311,535 (6.0%) from the prior year.

2. The Town negotiated a change in benefits with current employees. Involved employees agreed to waive their right to post employment heath care insurance in exchange for the purchase of additional prior service into the State of Delaware's Municipal Pension Plan and direct payments to employees. $635,020 of this is included as an expense in General and Administration. The remaining $205,000 is specific to police officers and so is included as an expense of the Police Department. The Town has set up a five-year payment schedule for these one-time expenses.

3. Spending of State and Federal grant funds decreased $116,313 from the prior year. Grant funding can vary widely from year to year as projects are completed and available funding changes.

Business-type activities

Sanitation and water departments are the Town's business-type activities and are accounted for in their own funds. This is the first year that sanitation is being treated as a business-type activity, previously the sanitation department was included in governmental activities.

Sanitation department revenues increased 9.5%, or $60,366, when compared to the prior year's sanitation fees included in governmental activities. Of this increase, $40,294 is a direct result of the change in classification from governmental activity to business-type activity as interest earned on sanitation fund investments is now retained by the sanitation fund rather than being used for governmental activities. The majority of the rest of the increase is from the sale of two trucks, which the town replaced this year.

Sanitation department expenses increased 9.6%, or $50,813 when compared to the prior year's sanitation fees included in governmental activities. Approximately $45,000 of this increase is a direct result of the change in classification from governmental activity to business-type activity as indirect costs were allocated to the sanitation fund rather than being funded from governmental activities.

Water department revenues increased 14.9%, or $208,467. This increase was a result of a 25% increase in charges for services as water usage fees were increased.

Water department expenses decreased 3.5% or $35,173. The decrease from the prior year is mainly from a decrease in repairs and maintenance needed this year and a decrease in debt service payments.

Financial Analysis of the Town's Funds

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

Governmental Funds

Governmental fund accounting provides information on available or spendable resources. This information is useful in assessing the Town's financing requirements for operations. The amount of 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 2009, the Town's governmental fund balance decreased $22,396 to $4,472,558. Sanitation funds totaling $974,000 were moved from governmental activities to business-type activities. Funds designated for capital improvements in the coming year increased $95,000 while funds designated for future capital replacements increased $553,000.

A significant portion of fund balance, $3,547,000 or 79.3%, 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	$800,000
2.	Designated for emergencies	$300,000
3.	Designated for capital improvements in the coming fiscal year	$681,000
4.	Designated for future capital replacements	$1,766,000

The general fund is the main operating fund of the Town and accounts for major functions of the government including public safety, streets, storm water drainage, 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 $636,280 to $4,046,990. Fiscal year 2009 resulted in a net operating gain of $188,487 because of the increase to water usage rates. In fiscal years 2008 and 2007 the water department had net operating losses of $45,154 and $55,331 respectively. The increase to water usage rates was needed to provide funding for future capital projects, including construction of a water tower.

Net assets for the sanitation department ended the year at $1,262,499. Of this, $1,145,568 was transferred from governmental activities this year as the sanitation department began functioning as an enterprise fund. Fiscal year 2009 resulted in a net operating gain of $76,637, which will be used to fund future replacements of trash trucks.

General Fund Budgetary Highlights

General fund revenues exceeded the amount budgeted by $527,618 (11.0%). Real estate transfer taxes exceeded the amount budgeted by $223,426. Although this revenue declined $33,436 from the prior year it did not decline as sharply as we projected. Licenses, permits and fees exceeded the amount budgeted by $256,164 primarily due to the building permit for the Blue Surf condominium complex. Interest income was $55,168 under budget due to a decline in interest rates and an oversight in the budgeting process. Of the $162,000 budgeted for interest income in the general fund, $45,000 should have been budgeted in the sanitation fund. Police and alderman fines and revenue ended the year $11,358 under budget from having one less active police officer as a vacant position was filled by a recruit who spent his first six months at the police academy.

The Town Council approved mid-year changes to the general fund operating budget in order to reduce the Town's liability for post employment health care for retired employees. An amount of $483,000 was added to fund the decision to increase the past service buy in to the State of Delaware's municipal pension plan from 35% to 100% for non-police employees with over ten years of service to the Town. An amount of $357,000 was added to fund notes payable directly to employees. Involved employees waived their claim to the benefit of

post employment health care in exchange for this increase in past service time purchased and/or cash payments. Of these amounts, $85,544 was paid in this fiscal year 2009, the remainder will be paid over the next five years.

General fund expenditures as a whole were under the amended budget by 3.8% or $185,748. One department, Licenses and inspections, did exceed the amount budgeted, but only by $77. The budgetary comparison schedule for the general fund can be found on page 42.

Capital Assets

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

Governmental Activities	FY 2009 Additions
Beach & Boardwalk	25,931
Buildings & Improvements	43,275
Machinery & Equipment	111,120
Streets and parks	223,090
Vehicles	73,824
Governmental Activities Total	477,240

Business-Type Activities	FY 2009 Additions
Water vehicles and equipment	41,129
Water in process	63,745
Water Total	104,874
Sanitation vehicle and equipment transfer	582,341
Sanitation vehicle and equipment purchases	208,917
Sanitation Total	791,255

The Town Council amended the capital budget mid-year by $26,000 for Historical/Cultural to cover the cost of the Wall of Service in the lobby of Town Hall. Most of the cost for this project is funded from the Cultural and Historic Affairs Committee's revenues generated by the Seaside Craft Show.

The largest capital expenditure in FY 2009 was $223,090 for road resurfacing. Of this amount, $132,500 was funded by the State of Delaware Municipal Street Aid grant.

Machinery & Equipment capital expenditures totaled $111,120. $34,713 of this was police equipment purchased with grant funds. The remaining $76,407 of Town funds was spent on the purchase of equipment to clean the beach, change machines for the parking department and office equipment.

An amount of $73,824 was spent on vehicles for two new work trucks, an ATV for the use on the beach, and one truck received in trade with the water department. In addition, $43,275 was spent on the nature center and $25,931 on dune ramps and crossovers.

The water department spent $41,129 on a work truck, a truck received in trade from the public works department, and equipment at the water plant. Three projects; aerator replacement, raw water line move and new well drilling, are currently in process and should be completed in fiscal year 2010.

The sanitation department received a transfer from the general fund of $582,341 in vehicles and equipment to establish sanitation as a stand-alone enterprise fund. In addition, $208,914 was spent to purchase a new dump truck and rear loading trash truck.

Debt Administration

As of March 31, 2009 the Town had $1,354,734 in outstanding long-term bonds payable for debt originally issued in 1989 for construction of the water plant and water distribution system. Six years remain on this debt.

The Town also has a total of $1,118,240 in loans of 5 years or fewer. Of this, $840,020 was new debt in FY 2009 from the payment plan for purchase of prior year service into the State of Delaware Municipal Pension plan and notes payable to employees. Involved employees waived their claim to the benefit of post employment health care in exchange for this increase in past service time purchased and/or cash payments.

Economic Factors

We expect revenues for the coming fiscal year to be similar to those of fiscal year 2009 as reported in these financial statements with the following exceptions.

Real estate transfer tax revenue is very unpredictable and dependant on the housing market which has been adversely affected by the nationwide economy. We expect to receive anywhere from $450,000 to $800,000 in fiscal year 2010.

Licenses, permits and fees were high in fiscal year 2009 due to the building permit for one large construction project, the Blue Surf condominium complex. In early fiscal year 2010 this project generated $131,250 in water impact fees for the Town. Real estate transfer taxes for sales of the residential units are expected in fiscal years 2010 and 2011.

Several tax and fee rates were changed for fiscal year 2010.

1. Sanitation fees decreased $25 per residential property because of efforts to control costs. This is expected to result in a $65,000 reduction in sanitation fees.
2. Sinking fund fees decreased a minimum of $31.50 per property because the water department paid off one of two sinking fund debts. This is expected to reduce this revenue by $144,000.
3. Property taxes were increased half of one cent to $0.165 per $100 of assessed value. This increase is less than $13 per year for more than half the properties in town and is expected to generate an additional $48,000 in revenue.
4. The parking meter rate was increased from $1.25 to $1.50 per hour and daily/weekly parking permits were increased approximately 20%. This is expected to generate an additional $143,000 in revenue.

Summer visitors are expected in high numbers again this year.

The fiscal year 2010 budget was approved in March of 2009. The operating budget for all town activities combined is $41,000 (0.8%) less than the fiscal year 2009 operating budget.

Capital projects for fiscal year 2010 include:

- $155,000 to improve drainage in Lake Bethany, Bethany Glen, and Westwood and also on Atlantic and Ashwood streets
- $100,000 for improvements to sidewalks and bike paths
- $80,000 for street repairs
- $50,000 for work on the boardwalk and beach access as needed
- $50,000 for repairs and improvements to the water distribution system
- $50,000 for machinery and equipment at the water plant
- $20,000 for machinery and equipment for public works

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, 2009

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	$ 1,955,823	$ 304,613	$ 2,260,436
Investments	2,552,511	1,529,444	4,081,955
Receivables:			
Taxes - real and personal property	6,382	-	6,382
Sanitation fees	-	3,352	3,352
Water charges	-	389,114	389,114
Interest	3,627	-	3,627
Other	25,707	30,006	55,713
Prepaid expenses	144,004	38,535	182,539
Internal balances	16,877	(16,877)	-
Total current assets	4,704,931	2,278,187	6,983,118
Noncurrent assets			
Restricted cash and cash equivalents	90	256,655	256,745
Restricted investments	-	250,000	250,000
Capital assets at cost	14,189,733	6,934,065	21,123,798
Less accumulated depreciation	(5,180,739)	(3,002,168)	(8,182,907)
Bond issue cost, net of amortization	-	39,734	39,734
Total noncurrent assets	9,009,084	4,478,286	13,487,370
Total assets	$ 13,714,015	$ 6,756,473	$ 20,470,488
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	$ 86,613	$ 32,488	$ 119,101
Employee withholdings and payroll taxes	8,985	2,883	11,868
Accrued interest	26,630	-	26,630
Deferred revenue	98,966	-	98,966
Bonds and notes payable	250,543	200,320	450,863
Lease purchase obligation	663	-	663
Compensated absences liability	11,269	3,096	14,365
Total current liabilities	483,669	238,787	722,456
Noncurrent liabilities			
Bonds and notes payable	867,697	1,154,414	2,022,111
Compensated absences liability	144,835	53,783	198,618
Total noncurrent liabilities	1,012,532	1,208,197	2,220,729
Total liabilities	1,496,201	1,446,984	2,943,185
NET ASSETS			
Invested in capital assets, net of related debt	9,008,331	2,577,163	11,585,494
Unrestricted	3,209,483	2,732,326	5,941,809
Total net assets	$ 12,217,814	$ 5,309,489	$ 17,527,303

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

TOWN OF BETHANY BEACH, DELAWARE

STATEMENT OF ACTIVITIES
Year Ended March 31, 2009

Function/Program	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants, Contributions, and Interest	Program Revenues: Capital Grants, Contributions, and Interest	Net (Expense) Revenue and Changes in Net Assets, Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets, Primary Government: Business-Type Activities	Net (Expense) Revenue and Changes in Net Assets, Primary Government: Total
GOVERNMENTAL ACTIVITIES							
General and administration	$ 1,503,038	$ -	$ -	$ -	$ (1,503,038)	$ -	$ (1,503,038)
Licenses and inspections	176,314	779,164	-	-	602,850	-	602,850
Public Safety							
Police and Alderman fines and revenue	1,518,869	118,642	64,166	67,544	(1,268,517)	-	(1,268,517)
Parking	276,477	1,189,300	-	-	912,823	-	912,823
Beach Patrol	362,809	-	-	-	(362,809)	-	(362,809)
Ambulance	49,868	49,802	-	-	(66)	-	(66)
Public works							
Stormwater management	219,082	-	-	-	(219,082)	-	(219,082)
Streets and parks	839,220	-	-	131,975	(707,245)	-	(707,245)
Beach and boardwalk	353,880	-	-	-	(353,880)	-	(353,880)
Recycling	16,866	16,852	-	-	(14)	-	(14)
Recreation - entertainment	140,352	-	-	-	(140,352)	-	(140,352)
Historical/Cultural	12,396	-	-	-	(12,396)	-	(12,396)
Total Governmental Activities	5,469,171	2,153,760	64,166	199,519	(3,051,726)	-	(3,051,726)
BUSINESS-TYPE ACTIVITIES							
Water	972,400	1,079,707	495,715	-	-	603,022	603,022
Sanitation	580,612	657,249	-	-	-	76,637	76,637
Total Business-Type Activities	1,553,012	1,736,956	495,715	-	-	679,659	679,659
Total Primary Government	$7,022,183	$ 3,890,716	$ 559,881	$ 199,519	$ (3,051,726)	$ 679,659	$ (2,372,067)
		General Revenues					
		Taxes:					
		Property			1,525,832	-	1,525,832
		Rental real estate			908,263	-	908,263
		Transfer			673,426	-	673,426
		Interest			77,267	73,552	150,819
		Special item - sale of assets			8,241	-	8,241
		Other			31,159	-	31,159
		Total General Revenues			3,224,188	73,552	3,297,740
		Transfers			(1,145,568)	1,145,568	-
		Total General Revenues and Transfers			2,078,620	1,219,120	3,297,740
		Change in Net Assets			(973,106)	1,898,779	925,673
		Net Assets Beginning of Year			13,190,920	3,410,710	16,601,630
		Net Assets End of Year			$ 12,217,814	$ 5,309,489	$ 17,527,303

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

TOWN OF BETHANY BEACH, DELAWARE
BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2009

	General Fund	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 1,949,437	$ -	$ 6,386	$ 1,955,823
Investments	2,552,511	-	-	2,552,511
Receivables:				
Taxes - real and personal property	6,382	-	-	6,382
Interest	3,627	-	-	3,627
Other	7,404	-	18,303	25,707
Prepaid expenses	123,309	-	20,695	144,004
Due from other funds	2,641	35,043	-	37,684
Restricted Assets:				
Cash and cash equivalents	-	-	90	90
Total assets	$ 4,645,311	$ 35,043	$ 45,474	$ 4,725,828
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenses	$ 77,096	$ 8,413	$ 1,104	$ 86,613
Employee withholdings and payroll taxes	8,985	-	-	8,985
Accrued interest	-	26,630	-	26,630
Deferred revenue	75,494	-	23,472	98,966
Due to other funds	-	-	20,807	20,807
Compensated absences liability	11,269	-	-	11,269
Total liabilities	172,844	35,043	45,383	253,270
FUND BALANCES				
Designated for:				
Designated for capital improvements	681,000	-	-	681,000
Designated for emergency	300,000	-	-	300,000
Designated for beach and boardwalk	800,000	-	-	800,000
Designated for future capital replacements	1,766,000	-	-	1,766,000
Unreserved:				
Undesignated	925,467	-	91	925,558
Total fund balances	4,472,467	-	91	4,472,558
Total liabilities and fund balances	$ 4,645,311	$ 35,043	$ 45,474	$ 4,725,828

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, 2009

Total fund balances, governmental funds		$ 4,472,558
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets.		9,008,994
Some liabilities are not due and payable in the current period and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets. Those liabilities consist of:		
Bonds and notes payable	(1,118,240)	
Lease purchase obligation	(663)	
Compensated absences	(144,835)	
Total long-term liabilities		(1,263,738)
Net assets of governmental activities in the Statement of Net Assets		$ 12,217,814

TOWN OF BETHANY BEACH, DELAWARE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended March 31, 2009

	General Fund	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes:				
Property	$ 1,525,832	$ -	$ -	$ 1,525,832
Rental real estate	908,263	-	-	908,263
Transfer	673,426	-	-	673,426
Parking revenues	1,189,300	-	-	1,189,300
Licenses, permits and fees	779,164	-	-	779,164
Police and Alderman fines and revenue	118,642	-	-	118,642
Interest	106,832	-	435	107,267
Service receipts	-	-	66,654	66,654
Intergovernmental revenues: State	-	-	263,685	263,685
Contributions	19,760	-	-	19,760
Miscellaneous	6,399	-	-	6,399
Total revenues	5,327,618	-	330,774	5,658,392
Expenditures:				
General and administration	1,425,682	-	-	1,425,682
Licenses and inspections	174,077	-	-	174,077
Public safety:				
Police	1,286,323	-	64,166	1,350,489
Alderman	51,090	-	-	51,090
Parking	262,651	-	-	262,651
Beach Patrol	362,809	-	-	362,809
Ambulance	-	-	49,868	49,868
Public works:				
Stormwater management	133,053	-	-	133,053
Streets and parks	549,346	49,181	-	598,527
Beach and boardwalk	278,150	-	-	278,150
Recycling	-	-	16,866	16,866
Recreation - entertainment	97,555	-	-	97,555
Historical/Cultural	7,972	-	-	7,972
Debt service:				
Principal	85,544	158,476	-	244,020
Interest	-	30,000	-	30,000
Capital outlay	-	272,196	200,044	472,240
Total expenditures	4,714,252	509,853	330,944	5,555,049
Excess (deficiency) of revenues over expenditures	613,366	(509,853)	(170)	103,343
Other financing (uses) sources				
Transfer in (out)	(1,445,646)	471,646	-	(974,000)
Loan proceeds	840,020	-	-	840,020
Sale of equipment	8,241	-	-	8,241
Total other financing sources (uses)	(597,385)	471,646	-	(125,739)
Net change in fund balances	15,981	(38,207)	(170)	(22,396)
Fund balances, beginning	4,456,486	38,207	261	4,494,954
Fund balances, end of year	$ 4,472,467	$ -	$ 91	$ 4,472,558

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, 2009

Net change in fund balances, governmental funds		$ (22,396)
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	477,240	
Depreciation expense	(653,673)	
Excess of depreciation expense over capital outlay		(176,433)
Loan proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Assets. In the current period, loans of this amount were issued.		(840,020)
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.		(174,167)
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.		241,365
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.		2,655
Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Increase in compensated absences		(4,110)
Change in net assets of governmental activities		$ (973,106)

TOWN OF BETHANY BEACH, DELAWARE

STATEMENT OF FUND NET ASSETS
BUSINESS-TYPE ACTIVITIES
March 31, 2009

	Enterprise Fund		
	Water Fund	Sanitation Fund	Total
ASSETS			
Current assets			
Cash and cash equivalents	$ 170,377	$ 134,236	$ 304,613
Investments	750,000	779,444	1,529,444
Receivables:			
Water charges	389,114	-	389,114
Sanitation	-	3,352	3,352
Other	4,886	25,120	30,006
Prepaid expenses	24,380	14,155	38,535
Due from other funds	-	17,505	17,505
Total current assets	1,338,757	973,812	2,312,569
Noncurrent assets			
Restricted cash and cash equivalents	256,655	-	256,655
Restricted investments	250,000	-	250,000
Capital assets, at cost	6,279,094	654,971	6,934,065
Less accumulated depreciation	(2,663,218)	(338,950)	(3,002,168)
Bond issue costs, net of amortization	39,734	-	39,734
Total noncurrent assets	4,162,265	316,021	4,478,286
Total assets	$ 5,501,022	$ 1,289,833	$ 6,790,855
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	$ 24,029	$ 8,459	$ 32,488
Employee withholdings and payroll taxes	1,812	1,071	2,883
Due to other funds	34,382	-	34,382
Long-term liabilities due within one year:			
General obligation bonds	200,320	-	200,320
Compensated absences liability	1,621	1,475	3,096
Total current liabilities	262,164	11,005	273,169
Noncurrent liabilities			
General obligation bonds	1,154,414	-	1,154,414
Compensated absences liability	37,454	16,329	53,783
Total noncurrent liabilities	1,191,868	16,329	1,208,197
Total liabilities	1,454,032	27,334	1,481,366
NET ASSETS			
Invested in capital assets, net of related debt	2,261,142	316,021	2,577,163
Unrestricted	1,785,848	946,478	2,732,326
Total	$ 4,046,990	$ 1,262,499	$ 5,309,489

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, 2009

	Enterprise Fund		
	Water Fund	Sanitation Fund	Total
OPERATING REVENUE			
Charges for services:			
Water	$ 1,062,980	$ -	$ 1,062,980
Sanitation	-	640,781	640,781
Other operating	16,727	16,468	33,195
Total operating revenues	1,079,707	657,249	1,736,956
OPERATING EXPENSES			
Water	690,831	-	690,831
Sanitation	-	517,183	517,183
Depreciation and amortization	200,389	63,429	263,818
Total operating expenses	891,220	580,612	1,471,832
Net operating income (loss)	188,487	76,637	265,124
NON-OPERATING REVENUE (EXPENSES)			
Non-operating revenue	495,715	-	495,715
Amortization of bond issue cost	(5,320)	-	(5,320)
Financial expense, net	(42,602)	40,294	(2,308)
Total non-operating revenue (expenses)	447,793	40,294	488,087
Income before transfers and contributions	636,280	116,931	753,211
Contributions	-	171,568	171,568
Operating transfers	-	974,000	974,000
Total transfers and contributions	-	1,145,568	1,145,568
Change in net assets	636,280	1,262,499	1,898,779
Total net assets, beginning	3,410,710	-	3,410,710
Total net assets, ending	$ 4,046,990	$ 1,262,499	$ 5,309,489

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, 2009

	Enterprise Fund		
	Water Fund	Sanitation Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	$ 974,759	$ 628,777	$ 1,603,536
Payments to suppliers	(342,861)	(246,641)	(589,502)
Payments to employees	(349,908)	(256,331)	(606,239)
Net cash provided by operating activities	281,990	125,805	407,795
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Non-operating revenue	495,715	-	495,715
Operating transfers from General Fund	-	974,000	974,000
Advances from general fund, net	34,034	(17,505)	16,529
Net cash provided by noncapital financing activities	529,749	956,495	1,486,244
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets	(104,874)	(208,914)	(313,788)
Principal paid on long-term debt	(244,635)	-	(244,635)
Interest paid on long-term debt	(75,860)	-	(75,860)
Net cash used in capital and related financing activities	(425,369)	(208,914)	(634,283)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments	(750,000)	(779,444)	(1,529,444)
Interest income	33,258	40,294	73,552
Net cash used in investing activities	(716,742)	(739,150)	(1,455,892)
Net (decrease) increase in cash and cash equivalents	(330,372)	134,236	(196,136)
Cash and cash equivalents, beginning of year	757,404	-	757,404
Cash and cash equivalents, end of year	$ 427,032	$ 134,236	$ 561,268
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	$ 188,487	$ 76,637	$ 265,124
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Loss on disposal of asset	26,515	1,032	27,547
Depreciation and amortization expense	200,389	63,429	263,818
Changes in assets and liabilities:			
Receivables, net	(102,051)	(28,472)	(130,523)
Prepaid expenses	(5,741)	(14,155)	(19,896)
Deferred revenue	(2,897)	-	(2,897)
Accounts and other payables	(24,056)	9,530	(14,526)
Compensated absences liability	1,344	17,804	19,148
Net cash provided by operating activities	$ 281,990	$ 125,805	$ 407,795

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

NOTES TO FINANCIAL STATEMENTS

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

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

A. Financial Reporting Entity

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

Note 2. Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

Note 2. Summary of Significant Accounting Policies (continued)

FUND FINANCIAL STATEMENTS

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

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.

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 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.

FIDUCIARY FUNDS

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

Note 2. Summary of Significant Accounting Policies (continued)

C. Measurement Focus

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

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

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

D. Basis of Accounting

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

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

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

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

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

Note 2. Summary of Significant Accounting Policies (continued)

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

E. Budgetary Process

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

1. The Budget Committee submits to the Town Council a proposed operating budget for the ensuing fiscal year. The operating budget includes proposed expenditures and the means of financing them.

2. Council meets in open session to review the proposed operating budget.

3. Not 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.

7. The Town Council may amend the approved budget periodically throughout the year.

F. Cash Equivalents

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

G. Investments

Investments consist of certificates of deposit and 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.

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 governmental funds, deferred revenues of $98,966 consist of permits and fees collected in advance.

M. Compensated Absences

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

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

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

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, 2009.

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.

Note 2. Summary of Significant Accounting Policies (continued)

R. Operating Revenues and Expenses

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

S. Estimates

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

T. Interfund Receivables/Payables

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

U. Interfund Transfers In/Out

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

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

V. Reclassifications

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

Note 3. Real Estate Taxes

The tax on real estate in the Town area for the fiscal year ended March 31, 2009 was $0.16 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.

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, 2009 are as follows:

	Financial Institution Balances				
	Category				Carrying
Description	1	2	3	Totals	Amounts
Cash & Cash Equivalents:					
Unrestricted	$ 331,806	$2,033,424	$ -	$2,365,230	$2,260,436
Restricted	-	256,745	-	256,745	256,745
Totals	$ 331,806	$2,290,169	$ -	$2,621,975	$2,517,181

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, 2009, the Town's investments consist of the following:

		Amounts	
Description	Category	Market	Carrying
Certificates of Deposit	1, 2	$4,032,218	$4,032,218
Delaware Local Government Investment Pool	3	299,737	299,737
Total Investments by Type		$4,331,955	$4,331,955
Investments:			
Unrestricted		$4,081,955	$4,081,955
Restricted		250,000	250,000
Total Investments		$4,331,955	$4,331,955

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.

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, 2009, are as follows:

Description	Special Revenue
State of Delaware	$ 5,144

Note 6. Capital Assets

The following is a summary of changes in capital assets for the year ended March 31, 2009:

	March 31, 2008	Additions / Transfers	Deletions / Transfers	March 31, 2009
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated:				
Land	$ 3,391,767	$ -	$ -	$ 3,391,767
Total capital assets, not being depreciated	3,391,767	-	-	3,391,767
Capital assets, being depreciated				
Beach and boardwalk	958,829	25,931	-	984,760
Building and improvements	3,558,180	43,275	-	3,601,455
Land improvements	643,162	-	-	643,162
Machinery and equipment	1,060,027	111,120	(73,789)	1,097,358
Stormwater	1,192,348	-	-	1,192,348
Streets and parks	2,257,392	223,090	(1,050)	2,479,432
Vehicles	1,364,562	73,824	(638,935)	799,451
Total capital assets, being depreciated	11,034,500	477,240	(713,774)	10,797,966
Less accumulated depreciation:				
Beach and boardwalk	516,681	50,068	-	566,749
Building and improvements	1,105,928	138,341	-	1,244,269
Land improvements	86,937	39,845	-	126,782
Machinery and equipment	608,155	118,406	(73,789)	652,772
Stormwater	231,214	67,895	-	299,109
Streets and parks	1,573,837	139,680	(1,050)	1,712,467
Vehicles	943,921	99,438	(464,768)	578,591
Total accumulated depreciation	5,066,673	653,673	(539,607)	5,180,739
Total capital assets, being depreciated, net	5,967,827	(176,433)	(174,167)	5,617,227
Governmental activities capital assets, net	$ 9,359,594	$ (176,433)	$ (174,167)	$ 9,008,994

Note 6. Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

General, administrative and park development	$ 88,213
Police and Alderman	106,140
Parking	13,540
Public works	
Stormwater management	86,331
Streets and parks	236,304
Beach and boardwalk	75,924
Recreation - entertainment	42,797
Historical/Cultural	4,424
	$ 653,673

	March 31, 2008	Additions / Transfers	Deductions	March 31, 2009
BUSINESS-TYPE ACTIVITIES				
Water Fund				
Capital assets, not being depreciated:				
Construction in progress	$ 25,258	$ 63,745	$ -	$ 89,003
Total capital assets, not being depreciated	25,258	63,745	-	89,003
Capital assets, being depreciated:				
Plant and water distribution system	5,908,552	-	(62,352)	5,846,200
Vehicles and equipment	348,744	41,129	(45,982)	343,891
Total capital assets, being depreciated	6,257,296	41,129	(108,334)	6,190,091
Total accumulated depreciation	2,544,648	200,389	(81,819)	2,663,218
Total capital assets, being depreciated, net	3,712,648	(159,260)	(26,515)	3,526,873
Water capital assets, net	$ 3,737,906	$ (95,515)	$ (26,515)	$ 3,615,876
Sanitation Fund				
Capital assets, being depreciated:				
Vehicles and equipment	$ -	$ 791,255	$ (136,284)	$ 654,971
Total capital assets, being depreciated	-	791,255	(136,284)	654,971
Total accumulated depreciation	-	474,202	(135,252)	338,950
Total capital assets, being depreciated, net	-	317,053	(1,032)	316,021
Sanitation capital assets, net	$ -	$ 317,053	$ (1,032)	$ 316,021
Business-type activities capital assets, net	$ 3,737,906	$ 221,538	$ (27,547)	$ 3,931,897

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

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

	Interest Rate	Maturity Date	Balances March 31, 2008	Additions	Retirements and Repayments	Balances March 31, 2009	Amount Due in One Year
Compensated absences			$ 37,731	$ 19,148	$ -	$ 56,879	$ 3,096
General Obligation Bonds:							
Series 1994			$ 1,505,000	$ -	$ 180,000	$ 1,325,000	$ 195,000
Bond Premium			149,886	-	22,735	127,151	22,735
Refunding Deferral Series 1994, net	2.75-9.75%	2014	(114,832)	17,415	-	(97,417)	(17,415)
			1,540,054	17,415	202,735	1,354,734	200,320
General Obligation Refunding Note, Series 2004	2.49%	2009	59,315	-	59,315	-	-
			1,599,369	17,415	262,050	1,354,734	200,320
Total Business-type Activities Long-Term Debt			$ 1,637,100	$ 36,563	$ 262,050	$ 1,411,613	$ 203,416

Total annual requirements to amortize all business-type activities debt outstanding as of March 31, 2009 are as follows:

Fiscal Year Ending March 31,	Principal	Interest	Total
2010	$ 200,320	$ 70,225	$ 270,545
2011	205,320	59,890	265,210
2012	220,320	49,290	269,610
2013	230,320	37,895	268,215
2014	245,320	25,970	271,290
2015	253,134	13,250	266,384
	$ 1,354,734	$ 256,520	$ 1,611,254

Interest expense in the business-type activities for the year ended March 31, 2009 totaled $81,180.

Note 8. Bonds and Notes Payable – Governmental Activities

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

	Interest Rate	Maturity Date	Balances March 31, 2008	Additions	Retirements and Repayments	Balances March 31, 2009	Amount Due in One Year
Compensated absences			$ 154,362	$ 1,742	$ -	$ 156,104	$ 11,269
General Obligation Note, Series 2003	2.57%	2009	$ 76,285	$ -	$ 76,285	$ -	$ -
Cash settlement employees	0.00%	2013	-	357,320	85,544	271,776	67,944
State of Delaware Pension	8.00%	2012	443,300	482,700	79,536	846,464	182,599
			519,585	840,020	241,365	1,118,240	250,543
Total Governmental Activities Long-Term Debt			$ 673,947	$ 841,762	$ 241,365	$ 1,274,344	$ 261,812

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

Fiscal Year Ending March 31,	Principal	Interest	Total
2010	$ 250,543	$ 29,101	$ 279,644
2011	226,535	53,109	279,644
2012	239,222	40,422	279,644
2013	229,618	26,720	256,338
2014	82,914	13,786	96,700
2015	89,408	7,153	96,561
	$ 1,118,240	$ 170,291	$ 1,288,531

Interest expense in the governmental activities for the year ended March 31, 2009 totaled $30,000.

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 $13,273 with accumulated depreciation of $12,388 as of March 31, 2009.

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

Fiscal Year Ending March 31,	Principal	Interest	Total
2010	$ 663	$ 70	$ 733
	$ 663	$ 70	$ 733

Note 9. 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 10. 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 three 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, 2009 the cost of healthcare benefits for retirees was approximately $9,900.

The Town also provides healthcare benefits for one individual based upon an agreement made during the time of employment. During the fiscal year ended March 31, 2009 the cost of healthcare benefits was approximately $12,000.

In April 2004, GASB issued Statement No. 43, Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans. GASB Statement No. 43 addresses the financial reporting for other post-employment benefit plans. The Town was not required to implement this standard as of March 31, 2009, as there was no trust established at that time.

In June 2004, GASB issued Statement No. 45, Accounting and Financial Reporting by Employees for Post-Employment Benefits Other Than Pensions. GASB No. 45 requires employer governments to account for and report the annual cost of other postemployment benefits in the same manner as they do for pensions. This statement is effective for the Town's financial statements for periods beginning after December 15, 2008, Fiscal year 2010.

The Town performed an actuarial valuation of its Post-Employment Health Benefits obligation, calculated in accordance with GASB No. 45 under the alternative measurement method for plans with fewer than one hundred total plan members. As of March 31, 2009, the preliminary liability is estimated to range from $400,000 to $600,000. The Town plans to amortize this amount over 10 years.

Note 11. Pension and Retirement Plans

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

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

The Town's contribution to the State of Delaware County & Municipal Employees Plan and State of Delaware Police and Firefighters Plan was $72,272 and $57,576 for the fiscal year, respectively.

Note 11. Pension and Retirement Plans (continued)

Plan Description

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

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

Funding Policy

The State Office of Pensions requires active members to contribute to the System at rates determined annually by actuarial valuations. For the State fiscal year ending June 30, 2009 the Town was required to contribute 6.44% of total compensation for general employees and 13.82% of regular salary for police officers. Employee contributions are done through payroll withholding in the amount of 3% for general employees and 7% for police officers.

Employer's Payroll and Contributions Under the Plan

The Town joined the State of Delaware pension plans on June 30, 2006. Contributions paid for the years ended March 31, 2009, 2008 and for the nine months included in the fiscal year ended March 31, 2007 are as follows:

	2009	2008	2007
Creditable wages	**$ 1,549,436**	$ 1,563,296	$ 1,221,686
Contributions paid:			
General employees	**72,272**	67,927	45,176
Police officers	**57,576**	56,971	46,680

Note 12. Risk Management

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

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

Note 13. New Funds Created During 2009

The three new funds created during 2009 are as follows:

Sanitation fund – The sanitation department is an enterprise fund that was previously part of the General fund. Sanitation fixed assets with a cost basis of $582,341 and prior year depreciation of $410,775 have been moved from the General Fund to the Sanitation Fund. Sanitation related cash and investments totaling $974,000 have also been moved from the General Fund to the Sanitation Fund.

Recycling fund – The recycling fund is a governmental fund and was previously part of the sanitation department.

Ambulance fund - Effective May 8, 2008, the Town entered into an agreement with the Bethany Beach Volunteer Fire Company to provide ambulance service to the Town for the next 10 years with a termination date of December 31, 2018. The ambulance fund is a governmental fund.

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.

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

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF BETHANY BEACH, DELAWARE

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year Ended March 31, 2009

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Taxes:				
Property	$ 1,508,000	$ 1,508,000	$ 1,525,832	$ 17,832
Rental real estate	860,000	860,000	908,263	48,263
Transfer	450,000	450,000	673,426	223,426
Parking Revenues	1,145,000	1,145,000	1,189,300	44,300
Licenses, permits and fees	523,000	523,000	779,164	256,164
Police and Alderman fines and revenue	130,000	130,000	118,642	(11,358)
Interest	162,000	162,000	106,832	(55,168)
Contributions	14,000	14,000	19,760	5,760
Miscellaneous	8,000	8,000	6,399	(1,601)
Total revenues	4,800,000	4,800,000	5,327,618	527,618
EXPENDITURES:				
General and administration	846,000	1,448,000	1,425,682	22,318
Licenses and inspections	186,000	174,000	174,077	(77)
Public safety:				
Police	1,146,000	1,310,000	1,286,323	23,677
Alderman	55,000	55,000	51,090	3,910
Parking	263,000	263,000	262,651	349
Beach Patrol	363,000	363,000	362,809	191
Public works:				
Stormwater management	214,000	214,000	133,053	80,947
Streets and parks	561,000	561,000	549,346	11,654
Beach and boardwalk	292,000	292,000	278,150	13,850
Recreation - entertainment	114,000	114,000	97,555	16,445
Historical/Cultural	20,000	20,000	7,972	12,028
Debt service: Principal	-	86,000	85,544	456
Total expenditures	4,060,000	4,900,000	4,714,252	185,748
Excess (deficiency) of revenues over expenditures	740,000	(100,000)	613,366	713,366
OTHER FINANCING SOURCES (USES):				
Transfer out	-	-	(1,445,646)	(1,445,646)
Loan proceeds	-	-	840,020	840,020
Sale of equipment	-	-	8,241	8,241
Total other financing sources	-	-	(597,385)	(597,385)
Net change in fund balance	$ 740,000	$ (100,000)	15,981	$ 115,981
Fund balance - beginning			4,456,486	
Fund balance - ending			$ 4,472,467	

TOWN OF BETHANY BEACH, DELAWARE

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - CAPITAL PROJECTS FUND
Year Ended March 31, 2009

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
EXPENDITURES:				
General and administration	$ 115,000	$ 115,000	$ 14,846	$ 100,154
Public safety:				
Parking	10,000	10,000	9,081	919
Beach Patrol	11,000	11,000	10,994	6
Public works:				
Streets and parks	360,000	360,000	208,045	151,955
Beach and boardwalk	110,000	110,000	78,411	31,589
Historical/Cultural	-	26,000	-	26,000
Debt service:				
Principal	166,000	166,000	158,476	7,524
Interest	30,000	30,000	30,000	-
Total expenditures	802,000	828,000	509,853	318,147
OTHER FINANCING SOURCES:				
Operating transfers in	-	-	471,646	471,646
Total other financing sources	-	-	471,646	471,646
Net change in fund balance	$ (802,000)	$ (828,000)	(38,207)	$ 789,793
Fund balance - beginning			38,207	
Fund balance - ending			$ -	

ADDITIONAL SUPPLEMENTARY INFORMATION

TOWN OF BETHANY BEACH, DELAWARE

ADDITIONAL SUPPLEMENTARY SCHEDULE
BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND
Year Ended March 31, 2009

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Interest	$ 355	$ 355	$ 355	$ -
Intergovernmental revenues:				
State	263,685	263,685	263,685	-
Total revenues	264,040	264,040	264,040	-
EXPENDITURES:				
Public safety:				
Police	121,843	131,711	131,710	1
Public works:				
Streets and parks	258,000	267,500	132,500	135,000
Total expenditures	379,843	399,211	264,210	135,001
Excess (deficiency) of revenues over expenditures	(115,803)	(135,171)	(170)	135,001
Net change in fund balance	$ (115,803)	$ (135,171)	(170)	$ 135,001
Fund balance - beginning			261	
Fund balance - ending			$ 91	

TOWN OF BETHANY BEACH, DELAWARE

ADDITIONAL SUPPLEMENTARY SCHEDULE
BUDGETARY COMPARISON SCHEDULE - RECYCLING FUND
Year Ended March 31, 2009

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Interest	$ -	$ -	$ 14	$ 14
Recycling receipts	20,000	20,000	16,852	(3,148)
Total revenues	20,000	20,000	16,866	(3,134)
EXPENDITURES:				
Public works:				
Recycling	20,000	20,000	16,866	3,134
Total expenditures	20,000	20,000	16,866	3,134
Excess of revenues over expenditures	-	-	-	-
Net change in fund balance	$ -	$ -	-	$ -
Fund balance - beginning			-	
Fund balance - ending			$ -	

TOWN OF BETHANY BEACH, DELAWARE

ADDITIONAL SUPPLEMENTARY SCHEDULE
BUDGETARY COMPARISON SCHEDULE - AMBULANCE FUND
Year Ended March 31, 2009

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Interest	$ -	$ -	$ 66	$ 66
Ambulance receipts	63,000	63,000	49,802	(13,198)
Total revenues	63,000	63,000	49,868	(13,132)
EXPENDITURES:				
Public safety:				
Ambulance	63,000	63,000	49,868	13,132
Total expenditures	63,000	63,000	49,868	13,132
Excess of revenues over expenditures	-	-	-	-
Net change in fund balance	$ -	$ -	-	$ -
Fund balance - beginning			-	
Fund balance - ending			$ -	

TOWN OF BETHANY BEACH, DELAWARE

INCOME AND EXPENSE DETAIL
WATER FUND
Year Ended March 31, 2009

WATER SERVICE:	
Operating revenues:	
Charges for services	$ 1,062,980
Other service fees	15,967
Miscellaneous	760
Total operating revenues	1,079,707
Operating expenses:	
Salaries and wages	251,915
Payroll taxes	19,148
Employee benefits	80,189
Administrative fees	2,337
Contract services	31,277
Insurance	27,489
Telephone	5,051
Utilities	57,509
Repairs and maintenance	15,857
Engineering	3,768
Sewer service charge	384
Plant maintenance	26,970
Distribution system maintenance	36,459
Office supplies	5,303
Miscellaneous	34,217
Supplies	15,108
Chemicals	77,019
Uniforms	831
Depreciation	200,389
Total operating expenses	891,220
Net operating income (loss)	188,487
Non-operating revenue (expenses):	
Taxes and assessments	388,079
Impact fees	107,636
Interest income	33,258
Amortization on bond issue costs	(5,320)
Interest expense	(75,860)
Net non-operating revenues	447,793
NET INCOME	$ 636,280

TOWN OF BETHANY BEACH, DELAWARE

INCOME AND EXPENSE DETAIL
SANITATION FUND
Year Ended March 31, 2009

SANITATION SERVICE:	
Operating revenues:	
Charges for services	$ 640,781
Miscellaneous	16,468
Total operating revenues	657,249
Operating expenses:	
Salaries and wages	200,180
Payroll taxes	13,335
Employee benefits	60,620
Disposal fees	139,011
Fuel	35,437
Insurance	16,853
Telephone	1,742
Utilities	9,163
Repairs and maintenance	30,650
Office supplies	5,162
Miscellaneous	5,030
Depreciation	63,429
Total operating expenses	580,612
Net operating income (loss)	76,637
Non-operating revenue (expenses):	
Interest income	40,294
Net non-operating revenues	40,294
NET INCOME	$ 116,931

TOWN OF BETHANY BEACH, DELAWARE
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
March 31, 2009

	Special Revenue	Ambulance	Recycling	Total
ASSETS				
Cash and cash equivalents	$ -	$ 1,850	$ 4,536	$ 6,386
Receivables:				
Ambulance fees	-	13,159	-	13,159
Intergovernmental	5,144	-	-	5,144
Prepaid expenses	-	20,695	-	20,695
Restricted Assets:				
Cash and cash equivalents	90	-	-	90
Total assets	$ 5,234	$ 35,704	$ 4,536	$ 45,474
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenses	$ -	$ -	$ 1,104	$ 1,104
Deferred revenue	-	21,142	2,330	23,472
Due to other funds	5,143	14,562	1,102	20,807
Total liabilities	5,143	35,704	4,536	45,383
FUND BALANCES				
Unreserved:				
Undesignated	91	-	-	91
Total fund balances	91	-	-	91
Total liabilities and fund balances	$ 5,234	$ 35,704	$ 4,536	$ 45,474

TOWN OF BETHANY BEACH, DELAWARE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
Year Ended March 31, 2009

	Special Revenue	Ambulance	Recycling	Total
REVENUES:				
Interest	$ 355	$ 66	$ 14	$ 435
Recycling receipts	-	-	16,852	16,852
Ambulance receipts	-	49,802	-	49,802
Intergovernmental revenues:				
State	263,685	-	-	263,685
Total revenues	264,040	49,868	16,866	330,774
Expenditures:				
Public safety:				
Police	131,710	-	-	131,710
Ambulance	-	49,868	-	49,868
Public works:				
Streets and parks	132,500	-	-	132,500
Recycling	-	-	16,866	16,866
Total expenditures	264,210	49,868	16,866	330,944
Excess (deficiency) of revenues over expenditures	(170)	-	-	(170)
Net change in fund balances	(170)	-	-	(170)
Fund balances, beginning	261	-	-	261
Fund balances, end of year	$ 91	$ -	$ -	$ 91

TRICE GEARY & MYERS LLC
CERTIFIED PUBLIC ACCOUNTANTS BUSINESS CONSULTANTS

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 (the "Town") as of and for the year ended March 31, 2009, which collectively comprise the Town's basic financial statements and have issued our report thereon dated June 1, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Town's management, others within the organization, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Price Heavy + Myers LLC

Salisbury, Maryland
June 1, 2009