

TOWN OF BETHANY BEACH, DELAWARE

FINANCIAL REPORT

MARCH 31, 2005

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INDEPENDENT AUDITORS' REPORT

Town of Bethany Beach, Delaware
Bethany Beach, Delaware

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Bethany Beach, Delaware (the "Town") as of and for the year ended March 31, 2005, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the Town of Bethany Beach, Delaware as of March 31, 2005, 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.

As described in Note 2, the Town of Bethany Beach, Delaware has implemented the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, as of March 31, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2005 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 15 and 43 through 45, are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and

presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town's basic financial statements. The additional supplementary information and schedules 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. Such information, except for the schedules on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion based upon our audit, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Salisbury, Maryland
May 17, 2005

**Town of Bethany Beach
Management's Discussion and Analysis
March 31, 2005**

As management of the Town of Bethany Beach, Delaware, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended March 31, 2005. 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 2005

The assets of the Town of Bethany Beach exceed its liabilities at the end of the fiscal year on March 31, 2005 by \$14,057,237 (net assets). Of this amount, \$5,664,982 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The Town's total net assets increased by \$1,098,982 (an increase of 8.5%) in fiscal year 2005. Net assets of governmental activities increased by \$690,652, while net assets of the Water department increased by \$408,330.

As of the close of fiscal year 2005 the Town's governmental funds reported an ending fund balance of \$5,050,822. Of this amount, \$753,000 is held for beach and boardwalk improvements, \$250,000 is held for emergencies and \$1,079,800 is held for capital improvements. This leaves \$2,968,022 as undesignated.

The Town's total debt obligations increased by \$222,922 (6.8%). The increase is a result of the bond used for purchase of a piece of land just west of the land purchased last fiscal year. This land is the wooded area on the northwest corner of Rt.1 and Rt. 26. 67.1% of the Town's total debt of \$3,510,306 is short-term and payable within the next 5 years.

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.

It is important to note that the Town implemented the new reporting requirements outlined in GASB 34 effective April 1, 2004. The statements contained in this report as of March 31, 2005 are the Town's first report using the new model. As allowed under GASB 34, the Town has elected not to present comparative data in this our first year of implementation.

Government-Wide Financial Statements

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

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

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

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

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

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

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

Fund financial statements

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

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

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

The Town has three governmental funds: the General Fund, the Special Revenue Fund (used to account for state and federal grants) and the Capital Projects Fund. The basic governmental fund financial statements can be found on pages 18 - 20 of this report.

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

The Town has one proprietary fund, the Water Department. The basic proprietary fund financial statements can be found on pages 22 – 24 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 25 – 41 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 \$14,057,237 at the end of FY 2005, compared to \$12,958,255 at the end of the previous year.

The largest portion of the Town's net assets (59.7%) 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.

Town of Bethany Beach
 Summary of Statement of Net Assets
 March 31, 2005

	Governmental Activities	Business-Type Activities	Total
Current Assets	\$ 4,537,036	\$ 345,917	\$ 4,882,953
Capital Assets	7,946,772	4,030,918	11,977,690
Other Assets	805,621	501,988	1,307,609
Total Assets	13,289,429	4,878,823	18,168,252
Long-Term Liabilities	972,172	2,223,005	3,195,177
Other Liabilities	620,562	295,276	915,838
Total Liabilities	1,592,734	2,518,281	4,111,015
Invested in capital assets, net of related debt	6,757,548	1,634,707	8,392,255
Unrestricted	4,939,147	725,835	5,664,982
Total Net Assets	\$ 11,696,695	\$ 2,360,542	\$ 14,057,237

The remaining balance of unrestricted net assets (\$5,664,982) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental activities. The same situation held true for the prior fiscal year.

Town of Bethany Beach
Summary of Statement of Activities
Year ended March 31, 2005

	Governmental Activities	Business-Type Activities	Total
Revenues:			
Program Revenues:			
Charges for services	\$ 1,959,833	\$ 751,682	\$ 2,711,515
Assessments and impact fees	-	567,448	567,448
Operating grants	121,061	-	121,061
Capital grants	139,508	-	139,508
General Revenues			
Property taxes	732,537	-	732,537
Rental real estate taxes	700,705	-	700,705
Transfer taxes	1,420,895	-	1,420,895
Other	113,442	3,538	116,980
Total Revenues	5,187,981	1,322,668	6,510,649
Expenses:			
General and administration	880,727	-	880,727
Licenses and inspections	147,481	-	147,481
Police and Alderman	1,123,221	-	1,123,221
Parking	211,681	-	211,681
Beach Patrol	285,414	-	285,414
Stormwater management	252,886	-	252,886
Streets	766,595	-	766,595
Sanitation	493,595	-	493,595
Beach and boardwalk	322,765	-	322,765
Recreation - entertainment	9,523	-	9,523
Historical association	3,441	-	3,441
Water Department	-	914,338	914,338
Total Expenses	4,497,329	914,338	5,411,667
Change in Net Assets	690,652	408,330	1,098,982
Net Assets, beginning of Year, as restated	11,006,043	1,952,212	12,958,255
Net Assets, End of Year	\$ 11,696,695	\$ 2,360,542	\$ 14,057,237

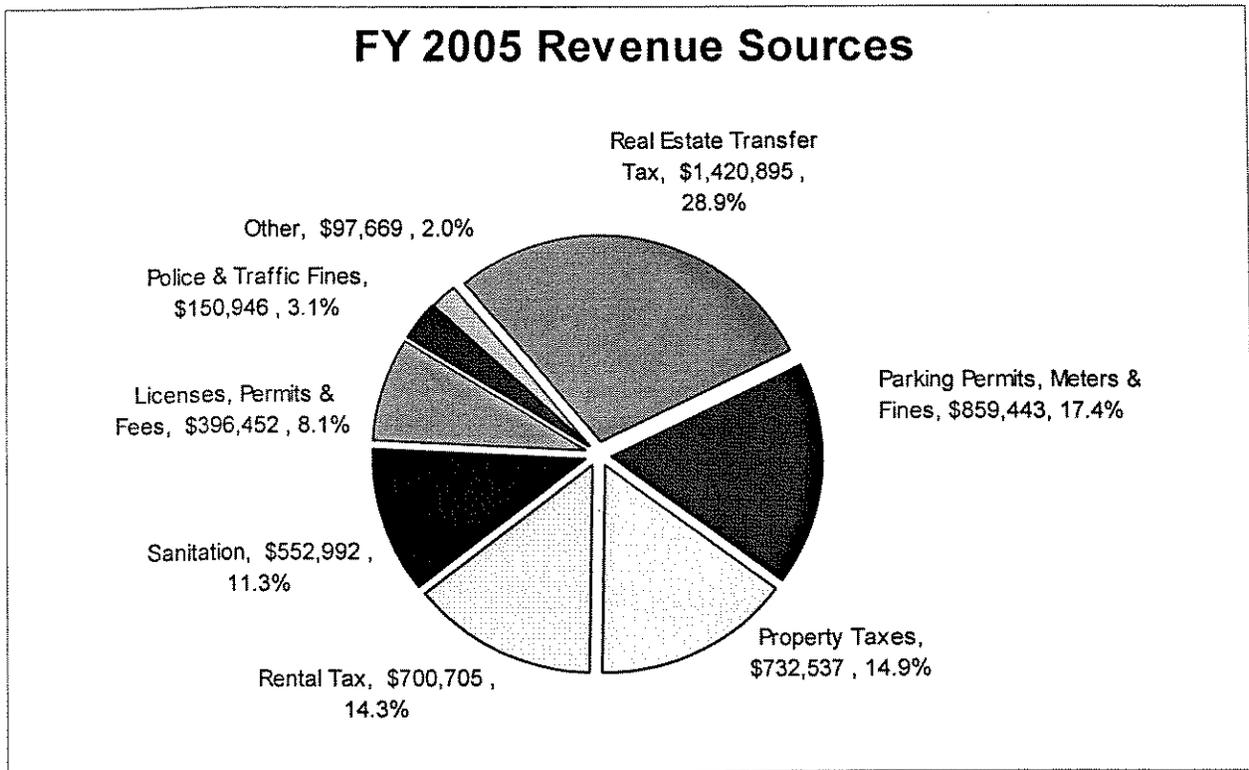
The Town's net assets increased by \$1,098,982 or 8.5%. Approximately 43.8% of the Town's total revenue came from taxes.

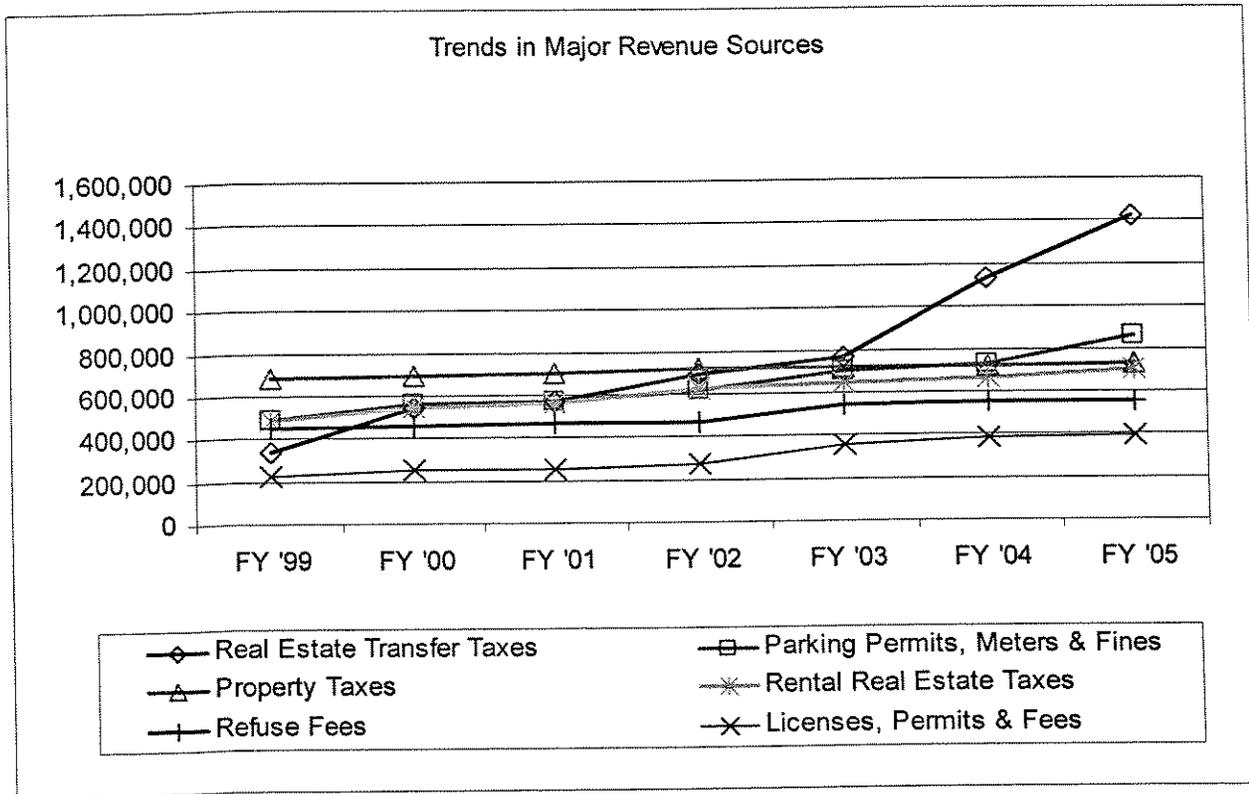
Governmental activities

Major revenue sources and key factors in the revenue increase of \$539,259 for governmental activities are as follows:

1. Real estate transfer taxes were the Town's largest revenue source as a result of the active housing market and escalating property values. These revenues increased 25.2%, or \$286,399 since last fiscal year and 161.3% or \$877,016, in total since fiscal year 2000.
2. Revenues from parking fines and parking meters were the Town's second largest source of funding. These revenues increased 17.0%, or \$125,029, since last fiscal year mainly due to an increase in fine amount from \$10.00 to \$20.00 for an expired parking meter.
3. Property taxes, which remain comparatively very low at 8 cents per \$100 of assessed value were the Town's third largest revenue source and increased 1.8%, or \$13,191, since last fiscal year due to new construction.
4. Real estate rental taxes are the Town's fourth largest source of revenue for governmental activities and increased 5.1%, or \$33,921, since last fiscal year.

The following two charts show the Town's general fund revenues for the fiscal year ended March 31, 2005 and the trend of our 6 largest revenue sources over the past 7 fiscal years. Special fund revenue is not included in these charts due to the variable nature of state and Federal grants.





The Town's expenses for governmental activities cover a range of services and increased 13.6%, or \$588,719 from last fiscal year primarily due to the following:

1. This year the Town hired an employee to work specifically on landscaping and beautification. In addition to the new employee's salary the Town spent \$67,525 on landscaping equipment, supplies, irrigation of Town property, and plantings such as crocuses on Rt. 26 and tulips on Garfield Parkway.
2. Seasonal employee salary costs increased \$67,373 due primarily to hiring trolley drivers and increases to seasonal parking and public works employees.
3. The cost of health and life insurance rose dramatically since last fiscal year resulting in a 26.6%, or \$41,542, cost increase.
4. Vehicle repair and maintenance costs increased \$32,466 since last fiscal year primarily due to the purchase of the Trolley and repairs to aging sanitation trucks.
5. Improvements to the Town's appearance are also reflected in approximately \$25,000 for replacement of street signs. The Town is continuing the replacement of older signs with the new design.
6. Other projects which contributed to the increase include hiring a lobbyist to seek beach replenishment funding from the federal government and the digitizing of town records.

Business-type activities

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

1. Revenues from water use charges increased 32.1%, or \$167,268, due to a rate increase which took effect mid-year. The full effect of the rate increase will be seen in next year’s financial statements. This increase was needed to insure that the water department is self-sufficient and able to address upcoming capital needs.
2. Water department general operating expenses increased only 0.5% or \$20,833 since last fiscal year.

Financial Analysis of the Town’s Funds

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

Governmental Funds

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

During fiscal year 2005 the Town’s Governmental Fund balance increased \$8,522 to \$5,050,822. As noted previously, this is in large part due to a strong residential housing market. The Town’s real estate transfer tax revenue increased 25.2%, from \$1,134,496 to \$1,420,895.

A significant portion of fund balance, \$2,082,800 or 41.2%, is designated to indicate that it is not available for new spending because it has been committed elsewhere. Currently these designations are:

1. Designated for beach & boardwalk	\$753,000
2. Designated for emergencies	\$250,000
3. Designated for capital improvements	\$1,079,800

The general fund is the main operating fund of the Town and accounts for major functions of the government including public safety, streets, solid waste disposal, parks and 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. At March 31, 2005, undesignated fund balance for governmental funds was \$2,968,022, which represents 81.0% of total 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 \$408,330. Revenue from water usage increased \$167,268 (32.1%) due to an increase in rates. Impact fee revenue increased \$127,454 (105.1%) due to a fee increase, though these revenues did not increase as much as the Town expected. These fee increases were necessary to enable the Water Department to be fully self sufficient operationally and to fund capital projects to make repairs and improvements on our underground infrastructure.

General Fund Budgetary Highlights

During the year the Town Council revised the Town's budget only once. At the November meeting Town Council voted unanimously to approve an addition to the budget of \$130,000 to fund the purchase of a second trolley due to the popularity of the first trolley, which was purchased in the summer of 2003.

General Fund revenues exceeded the budget by \$927,339 (23.3%). As noted previously, Real Estate Transfer Taxes were received in higher than expected amounts due to a very active housing market and climbing property values. This revenue alone accounts for \$670,895 of the excess.

General Fund expenditures as a whole were under budget by 3.8% (\$144,702). Within the General Fund the Parking department exceeded it's budget by 9.2% (\$16,386) due to an increase in seasonal staffing and the Streets department exceeded it's budget by 10.8% (\$50,761) due to increased beautification efforts in excess of what was originally budgeted. The effect of the beautification efforts can be seen around town in improved landscaping and new street signs. The overruns were expected and it was determined that a formal change to the budget was not needed due to expected cost savings in other departments.

Capital Assets

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

Governmental Activities	FY 2005 Additions
Beach & Boardwalk	34,875
Buildings & Improvements	167,642
Construction in Process	151,516
Land & Improvements	717,882
Machinery & Equipment	111,891
Stormwater	224,425
Streets	206,483
Vehicles	63,585
Total	1,678,299

Business-Type Activities	FY 2005 Additions
Construction in Process	31,077
Vehicles & Equipment	17,452
Water Plant & Distribution System	<u>22,739</u>
Total	71,268

The largest purchase this fiscal year was a piece of land directly west of the lot purchased by the Town during fiscal year 2004. This combined property is the wooded area located on the northwest corner of Rt. 1 and Rt. 26. The Town Council is working with the Planning Commission and considering public input on ways to use this land.

Stormwater drainage projects are the next largest use of funds. The Town and our engineers are developing an extensive database on ground elevation and drainage infrastructure. This information will be useful for many years as we continue to address drainage problems. This year, engineering and improvement work has concentrated most on Evans Ave., Atlantic Avenue, Ashwood St, and Bethany West, although many other areas have been studied. Two more large Stormwater projects are included in Construction in Process, these are Hollywood St (completed in May) and North Pennsylvania Ave.

Also included in Construction in Process is design and engineering costs for the new bandstand. The new bandstand will be at the same location as the current bandstand and construction is set to start this coming fall. The design can be viewed on the Town's website.

Renovation and restoration of the Addy house accounts for most of the cost in Buildings & Improvements. This is a historical house located at the Bethany Beach Nature & Conservation Center which is on the north side of Rt. 26. The Town is developing walkways and interpretive stations on the land and planning to use the house as a nature center. We anticipate opening the Nature & Conservation Center to the public in the spring of 2006.

Other capital purchases include a recording system for the council meeting room, playground equipment for the park on the corner of Garfield and Pennsylvania Avenues, boardwalk repairs & improvements, upgrading of parking equipment, and replacement of older vehicles.

Debt Administration

As of March 31, 2005 the Town had \$1,996,014 in outstanding long-term bonds payable for debt originally issued in 1989 for construction of the water plant and water distribution system. 10 years remain on this debt.

The Town also has a total of \$1,514,292 in short-term loans of under 5 years. \$1,114,095 of this was used to finance land purchases. \$400,197 was used to refinance water department debt from a higher interest, longer term loan.

Economic Factors

We expect revenues for the coming fiscal year to be similar to those of fiscal year 2005 as reported in these financial statements with two exceptions for fee increases that took effect April 1st, 2005. A 12% increase in trash service fees will increase revenue for the Sanitation department, providing funding for replacement of aging trash trucks. An increase in the fees for obtaining a building permit will result in a revenue increase intended for current and future capital projects.

The area's housing market conditions continue to be generally favorable. Mortgage rates remain low and home sales remain at record levels.

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

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

Requests for Information

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

TOWN OF BETHANY BEACH, DELAWARE

STATEMENT OF NET ASSETS

March 31, 2005

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 3,337,272	\$ 56,227	\$ 3,393,499
Investments	1,041,488	-	1,041,488
Receivables:			
Taxes - real and personal property	4,255	-	4,255
Sanitation fees	2,232	-	2,232
Water charges	-	271,802	271,802
Interest	7,338	-	7,338
Intergovernmental	27,788	-	27,788
Other	5,893	1,686	7,579
Prepaid expenses	68,518	14,026	82,544
Internal balances	(2,176)	2,176	-
Notes receivable	44,428	-	44,428
Total current assets	4,537,036	345,917	4,882,953
Noncurrent assets			
Restricted Assets			
Cash and cash equivalents	20,282	440,974	461,256
Investments	785,339	-	785,339
Capital assets at cost	11,247,487	6,060,228	17,307,715
Less accumulated depreciation	(3,300,715)	(2,029,310)	(5,330,025)
Bond issue cost, net of amortization	-	61,014	61,014
Total noncurrent assets	8,752,393	4,532,906	13,285,299
Total assets	\$ 13,289,429	\$ 4,878,823	\$ 18,168,252
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	\$ 124,520	\$ 36,425	\$ 160,945
Employee withholdings and payroll taxes	51,475	3,951	55,426
Accrued interest	9,066	54,282	63,348
Deferred revenue	96,217	3,090	99,307
Bonds and notes payable	262,226	195,391	457,617
Lease purchase obligation	66,501	-	66,501
Compensated absences liability	10,557	2,137	12,694
Total current liabilities	620,562	295,276	915,838
Noncurrent liabilities			
Bonds and notes payable	851,869	2,200,820	3,052,689
Lease purchase obligation	8,628	-	8,628
Compensated absences liability	111,675	22,185	133,860
Total noncurrent liabilities	972,172	2,223,005	3,195,177
Total liabilities	1,592,734	2,518,281	4,111,015
NET ASSETS			
Invested in capital assets, net of related debt	6,757,548	1,634,707	8,392,255
Unrestricted	4,939,147	725,835	5,664,982
Total net assets	\$ 11,696,695	\$ 2,360,542	\$ 14,057,237

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

TOWN OF BETHANY BEACH, DELAWARE

**STATEMENT OF ACTIVITIES
Year Ended March 31, 2005**

Function/Program	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest		Primary Government		
			Capital Grants, Contributions, and Interest	Governmental Activities	Business-Type Activities	Total	
GOVERNMENTAL ACTIVITIES							
General and administration	\$ 880,727	\$ -	\$ -	\$ -	\$ (880,727)	\$ -	\$ (880,727)
Licenses and inspections	147,481	396,452	-	-	248,971	-	248,971
Police and Alderman fines and revenue	1,123,221	150,946	-	-	(972,275)	-	(972,275)
Parking	211,681	859,443	-	-	647,762	-	647,762
Beach Patrol	285,414	-	-	-	(285,414)	-	(285,414)
Public works							
Stormwater management	252,886	-	-	-	(252,886)	-	(252,886)
Streets	766,595	-	-	-	(766,595)	-	(766,595)
Sanitation	493,595	552,992	-	-	59,397	-	59,397
Beach and boardwalk	322,765	-	-	-	(322,765)	-	(322,765)
Recreation - entertainment	9,523	-	-	-	(9,523)	-	(9,523)
Historical association	3,441	-	-	-	(3,441)	-	(3,441)
Intergovernmental	-	-	121,061	139,508	260,569	-	260,569
Total Governmental Activities	4,497,329	1,959,833	121,061	139,508	(2,276,927)	-	(2,276,927)
BUSINESS-TYPE ACTIVITIES							
Water	914,338	751,682	567,448	-	-	404,792	404,792
Total Primary Government	\$5,411,667	\$ 2,711,515	\$ 688,509	\$ 139,508	\$ (2,276,927)	\$ 404,792	\$ (1,872,135)
General Revenues							
Taxes:							
Property					732,537	-	732,537
Rental real estate					700,705	-	700,705
Transfer					1,420,895	-	1,420,895
Interest					77,118	3,538	80,656
Special item - sale of assets					15,750	-	15,750
Other					20,574	-	20,574
Total General Revenues					2,967,579	3,538	2,971,117
Change in Net Assets					690,652	408,330	1,098,982
Net Assets Beginning of Year, as restated					11,006,043	1,952,212	12,958,255
Net Assets End of Year					\$ 11,696,695	\$ 2,360,542	\$ 14,057,237

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

TOWN OF BETHANY BEACH, DELAWARE
BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2005

	General Fund	Special Revenue	Capital Projects	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 3,337,272	\$ -	\$ -	\$ 3,337,272
Investments	1,041,488	-	-	1,041,488
Receivables:				
Taxes - real and personal property	4,255	-	-	4,255
Sanitation fees	2,232	-	-	2,232
Interest	7,338	-	-	7,338
Intergovernmental	-	27,788	-	27,788
Other	5,893	-	-	5,893
Prepaid expenses	68,518	-	-	68,518
Due from other funds	25,612	-	-	25,612
Notes receivable	44,428	-	-	44,428
Restricted Assets				
Cash and cash equivalents	-	20,282	-	20,282
Investments	-	-	785,339	785,339
Total assets	\$ 4,537,036	\$ 48,070	\$ 785,339	\$ 5,370,445
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenses	\$ 56,091	\$ -	\$ 68,429	\$ 124,520
Employee withholdings and payroll taxes	51,475	-	-	51,475
Accrued interest	-	-	9,066	9,066
Deferred revenue	75,963	20,254	-	96,217
Due to other funds	-	27,788	-	27,788
Compensated absences liability	10,557	-	-	10,557
Total liabilities	194,086	48,042	77,495	319,623
FUND BALANCES				
Designated for:				
Designated for capital improvements	1,079,800	-	-	1,079,800
Designated for emergency	250,000	-	-	250,000
Designated for beach and boardwalk	753,000	-	-	753,000
Unreserved:				
Undesignated	2,260,150	28	707,844	2,968,022
Total fund balances	4,342,950	28	707,844	5,050,822
Total liabilities and fund balances	\$ 4,537,036	\$ 48,070	\$ 785,339	\$ 5,370,445

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, 2005**

Total fund balances, governmental funds		\$ 5,050,822
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.		7,946,772
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	(1,114,095)	
Lease purchase obligation	(75,129)	
Compensated absences	<u>(111,675)</u>	
Total long-term liabilities		<u>(1,300,899)</u>
Net assets of governmental activities in the Statement of Net Assets		<u>\$11,696,695</u>

TOWN OF BETHANY BEACH, DELAWARE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended March 31, 2005

	General Fund	Special Revenue	Capital Projects	Total Governmental Funds
REVENUES:				
Taxes:				
Property	\$ 732,537	\$ -	\$ -	\$ 732,537
Rental real estate	700,705	-	-	700,705
Transfer	1,420,895	-	-	1,420,895
Parking revenues	859,443	-	-	859,443
Licenses, permits and fees	396,452	-	-	396,452
Police and Alderman fines and revenue	150,946	-	-	150,946
Interest	77,095	23	-	77,118
Sanitation fees	552,992	-	-	552,992
Intergovernmental revenues:				
State	-	260,569	-	260,569
Contributions	10,044	-	-	10,044
Miscellaneous	10,530	-	-	10,530
Total revenues	4,911,639	260,592	-	5,172,231
Expenditures:				
General and administration	747,978	-	930,016	1,677,994
Licenses and inspections	142,714	-	-	142,714
Public safety	896,856	92,790	29,385	1,019,031
Alderman	38,606	-	-	38,606
Parking	195,236	-	8,601	203,837
Beach Patrol	284,230	-	-	284,230
Public works:				
Stormwater management	138,408	-	394,116	532,524
Streets	520,724	167,880	118,029	806,633
Sanitation	420,480	-	-	420,480
Beach and boardwalk	196,412	-	107,545	303,957
Recreation - entertainment	80,316	-	-	80,316
Historical association	2,625	-	19,585	22,210
Debt service:				
Principal	-	-	221,614	221,614
Interest	-	-	25,313	25,313
Total expenditures	3,664,585	260,670	1,854,204	5,779,459
Excess (deficiency) of revenues over expenditures	1,247,054	(78)	(1,854,204)	(607,228)
Other financing (uses) sources				
Loan proceeds	-	-	600,000	600,000
Sale of equipment	15,750	-	-	15,750
Operating transfers out	(1,184,429)	-	-	(1,184,429)
Operating transfers in	-	-	1,184,429	1,184,429
Total other financing sources (uses)	(1,168,679)	-	1,784,429	615,750
Net change in fund balances	78,375	(78)	(69,775)	8,522
Fund balances, beginning as restated	4,264,575	106	777,619	5,042,300
Fund balances, end of year	\$ 4,342,950	\$ 28	\$ 707,844	\$ 5,050,822

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, 2005**

Net change in fund balances, governmental funds \$ 8,522

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

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

Capital outlay	1,678,299	
Depreciation expense	<u>(542,835)</u>	

Excess of capital outlay over depreciation expense		1,135,464
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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.		(600,000)
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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.		138,640
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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.		69,701
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Some items reported in the Statement of Activities do not require the use of current
financial resources and therefore are not reported as expenditures in governmental
funds. These activities consist of:

Increase in compensated absences		<u>(61,675)</u>
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Change in net assets of governmental activities		<u>\$ 690,652</u>
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TOWN OF BETHANY BEACH, DELAWARE
STATEMENT OF FUND NET ASSETS
BUSINESS-TYPE ACTIVITIES
March 31, 2005

	Enterprise Fund
	Water Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 56,227
Receivables:	
Water charges	271,802
Other	1,686
Prepaid expenses	14,026
Due from other funds	2,176
Total current assets	345,917
Noncurrent assets	
Restricted cash and cash equivalents	440,974
Capital assets, at cost	6,060,228
Less accumulated depreciation	(2,029,310)
Bond issue costs, net of amortization	61,014
Total noncurrent assets	4,532,906
Total assets	\$ 4,878,823
 LIABILITIES AND NET ASSETS	
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses	\$ 36,425
Employee withholdings and payroll taxes	3,951
Accrued interest	54,282
Deferred revenue	3,090
Long-term liabilities due within one year	
General obligation bonds	195,391
Compensated absences liability	2,137
Total current liabilities	295,276
Noncurrent liabilities	
General obligation bonds	2,200,820
Compensated absences liability	22,185
Total noncurrent liabilities	2,223,005
Total liabilities	2,518,281
 NET ASSETS	
Invested in capital assets, net of related debt	1,634,707
Unrestricted	725,835
Total	\$ 2,360,542

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, 2005

	<u>Enterprise Fund</u>
	<u>Water Fund</u>
OPERATING REVENUE	
Charges for services:	
Water	\$ 696,668
Other operating	55,014
Total operating revenues	751,682
OPERATING EXPENSES	
Water	583,729
Depreciation and amortization	181,002
Total operating expenses	764,731
Net operating income (loss)	(13,049)
NON-OPERATING REVENUE (EXPENSES)	
Non-operating revenue	567,448
Amortization of bond issue cost	(5,320)
Financial expense, net	(140,749)
Total non-operating revenue (expenses)	421,379
Change in net assets	408,330
Total net assets, beginning	1,952,212
Total net assets, ending	\$ 2,360,542

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, 2005

	<u>Enterprise Fund</u>
	<u>Water Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 704,598
Payments to suppliers	(257,808)
Payments to employees	(290,519)
Net cash provided by operating activities	156,271
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Advances from general fund, net	(15,820)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Receipts related to acquisition of capital assets	567,448
Acquisition of capital assets	(71,268)
Principal paid on long-term debt	(238,438)
Interest paid on long-term debt	(149,531)
Net cash provided by capital and related financing activities	108,211
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	3,538
Net increase in cash and cash equivalents	252,200
Cash and cash equivalents, beginning of year	245,001
Cash and cash equivalents, end of year	\$ 497,201
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (13,049)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	181,002
Loss on disposal of assets	1,547
Changes in assets and liabilities:	
Receivables, net	(50,174)
Prepaid expenses	6,680
Deferred revenue	3,090
Accounts and other payables	26,952
Compensated absences liability	223
Net cash provided by operating activities	\$ 156,271

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

NOTES TO FINANCIAL STATEMENTS

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

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

A. Financial Reporting Entity

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

Note 2. Summary of Significant Accounting Policies

The financial statements of the Town have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Town has elected not to apply Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989 to its business-type activities and to its enterprise funds provided. Following are the more significant of the Town’s accounting policies:

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

FUND FINANCIAL STATEMENTS

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

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

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

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

PROPRIETARY FUNDS

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

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

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

FIDUCIARY FUNDS

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

C. Measurement Focus

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

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

D. Basis of Accounting

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

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

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

Under modified accrual basis, the following revenue sources are considered both measurable and available at year end: charges for services, fines and forfeitures, state-levied locally shared taxes, grants, interest and rent.

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

E. Budgetary Process

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

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

F. Cash Equivalents

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

G. Investments

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

H. Receivables

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

I. Capital Assets

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

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

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over estimated useful lives of the assets, ranging from 5 to 50 years.

J. Restricted Assets

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

K. Bond Issue Costs

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

L. Deferred Revenues

Deferred revenues represent funds received in advance, which will be recognized in future years when the revenue recognition criteria is met. In the general fund, deferred revenues of \$75,963 consist of permits and fees collected in advance. In the special revenue fund, deferred revenues of \$20,253 consist of grant funds received in advance.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

M. Compensated Absences

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

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

In accordance with the above criteria, the Town has accrued a liability for vacation pay and sick leave, which has been earned but not taken by Town employees. The entire compensated absences liability is reported on the government-wide financial statements. For governmental funds the long-term portion of the liability for compensated absences is not recorded since it is anticipated that none of the liability will be liquidated with expendable available financial resources. The liability for compensated absences of the proprietary funds types is recorded within the funds 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, 2005.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

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 and for emergencies.

R. Operating Revenues and Expenses

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

NOTES TO FINANCIAL STATEMENTS

Note 3. Changes in Accounting Principles and Restatement of Fund Equity

In fiscal year 2005, the Town implemented GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. The restatement due to the implementation of this statement and additional other restatements of beginning fund balances are detailed in the following table:

	Governmental Activities	Business-type Activities
General fund	\$ 4,174,276	\$ -
Special revenue fund	106	-
Capital projects fund	777,619	-
Enterprise fund	-	1,971,126
Net assets, March 31, 2004	4,952,001	1,971,126
Adjustments:		
Adjustments for GASB 34 capital assets, net	6,811,308	-
Adjustments for GASB 34 long-term debt	(652,735)	-
Adjustments for GASB 34 capital lease	(144,829)	-
Adjustments for GASB 34 compensated absences	(50,000)	-
Adjustments for previously unreported revenue from sale of assets	88,855	-
Adjustments for other	1,443	-
Adjustment for previously unreported depreciation expense	-	(18,914)
Net assets, March 31, 2004, as restated	\$ 11,006,043	\$ 1,952,212

Note 4. Real Estate Taxes

The tax on real estate in the Town area for the fiscal year ended March 31, 2005 was \$0.08 per \$100 of assessed valuation as levied by the Town Council. The Town bills and collects its own real estate taxes. Delinquent taxes are levied by the Town. The schedule of real estate taxes levied for the fiscal year are:

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

Note 5. 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.

NOTES TO FINANCIAL STATEMENTS

Note 5. Cash and Investments (continued)

Cash and Cash Equivalents

The following summary represents the Town deposits which are (Category 1) fully insured or collateralized with securities held by the Town or its agent in the Town's name, (Category 2) those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent(s) in the Town's name, and (Category 3) those deposits which are not collateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Town's name at March 31, 2005 are as follows:

Description	Financial Institution Balances			Totals	Carrying Amounts
	1	2	3		
Cash & Cash Equivalents:					
Unrestricted	\$ 200,000	\$2,525,974	\$ -	\$2,725,974	\$3,393,499
Restricted	-	461,256	-	461,256	461,256
Totals	\$ 200,000	\$2,987,230	\$ -	\$3,187,230	\$3,854,755

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, 2005, the Town's investments consist of the following:

Description	Category	Amounts	
		Market	Carrying
Certificates of Deposit	1, 2	\$1,569,269	\$1,569,269
Delaware Local Government Investment Pool	3	257,558	257,558
Total Investments by Type		1,826,827	1,826,827
Investments:			
Unrestricted		1,041,488	1,041,488
Restricted		785,339	785,339
Total Investments		\$1,826,827	\$1,826,827

NOTES TO FINANCIAL STATEMENTS

Note 6. Intergovernmental Receivables

Amount due from other governmental units represent 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, 2005, are as follows:

Description	Special Revenue
State of Delaware - Department of Natural Resources & Environmental Control	\$ 27,788

Note 7. Capital Assets

The following is a summary of changes in capital assets for the year ended March 31, 2005:

	March 31, 2004	Additions	Deductions	March 31, 2005
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated:				
Land	\$ 2,698,700	\$ 703,634	\$ -	\$ 3,402,334
Construction in progress	25,048	151,516	-	176,564
Total capital assets, not being depreciated	2,723,748	855,150	-	3,578,898
Capital assets, being depreciated				
Beach and boardwalk	757,350	34,875	-	792,225
Building and improvements	2,366,368	167,642	-	2,534,010
Land improvements	237,954	14,248	-	252,202
Machinery and equipment	557,277	111,891	-	669,168
Stormwater	351,731	224,425	-	576,156
Streets	1,482,526	206,483	-	1,689,009
Vehicles	1,092,234	63,585	-	1,155,819
Total capital assets, being depreciated	6,845,440	823,149	-	7,668,589
Less accumulated depreciation:				
Beach and boardwalk	372,154	33,878	-	406,032
Building and improvements	675,493	90,278	-	765,771
Land improvements	4,216	13,583	-	17,799
Machinery and equipment	253,266	65,285	-	318,551
Stormwater	31,844	24,433	-	56,277
Streets	906,904	161,882	-	1,068,786
Vehicles	514,003	153,496	-	667,499
Total accumulated depreciation	2,757,880	542,835	-	3,300,715
Total capital assets, being depreciated, net	4,087,560	280,314	-	4,367,874
Governmental activities capital assets, net	\$ 6,811,308	\$ 1,135,464	\$ -	\$ 7,946,772

NOTES TO FINANCIAL STATEMENTS

Note 7. Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

General and administration	\$ 89,372
Licenses and inspections	-
Police and Alderman	78,544
Parking	9,807
Beach Patrol	-
Public works	
Stormwater management	54,353
Streets	194,682
Sanitation	62,192
Beach and boardwalk	53,069
Recreation - entertainment	-
Historical association	816
	<u>\$ 542,835</u>

BUSINESS-TYPE ACTIVITIES

Capital assets, not being depreciated:

	March 31, 2004	Additions	Deductions	March 31, 2005
Construction in progress	\$ -	\$ 31,077	\$ -	\$ 31,077
Total capital assets, not being depreciated	-	31,077	-	31,077

Capital assets, being depreciated:

Plant and water distribution system	5,685,144	22,739	(31,003)	5,676,880
Vehicles and equipment	352,523	17,452	(17,704)	352,271
Total capital assets, being depreciated	6,037,667	40,191	(48,707)	6,029,151

Total accumulated depreciation

	1,895,468	181,002	(47,160)	2,029,310
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Total capital assets, being depreciated, net

Business-type activities capital assets, net	\$ 4,142,199	\$ (109,734)	\$ (1,547)	\$ 4,030,918
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NOTES TO FINANCIAL STATEMENTS

Note 8. Notes Receivable

Note receivable as of March 31, 2005 is as follows:

	Interest Rate	Maturity Date	Balances March 31, 2004	Additions	Payments	Balances March 31, 2005
General Fund						
Library	N/A	2006	\$ 88,855	\$ -	\$ 44,427	\$ 44,428

Note 9. 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, 2004	Additions	Retirements and Repayments	Balances March 31, 2005
Compensated absences			\$ 24,100	\$ 222	\$ -	\$ 24,322
General Obligation Bonds:						
Series 1994			2,070,000	-	125,000	1,945,000
Bond Premium			240,826	-	22,735	218,091
Refunding Deferral Series 1994, net	2.75-9.75%	2014	(184,492)	17,415	-	(167,077)
			2,126,334	17,415	147,735	1,996,014
General Obligation Refunding Note, Series 2004	2.49%	2009	508,315	-	108,118	400,197
			2,634,649	17,415	255,853	2,396,211
Total Business-type Activities Long-Term Debt			\$ 2,658,749	\$ 17,637	\$ 255,853	\$2,420,533

NOTES TO FINANCIAL STATEMENTS

Note 9. Bonds and Notes Payable – Business-type Activities (continued)

Total annual requirements to amortize all business-type activities debt outstanding as of March 31, 2005 are as follows:

<u>Fiscal Year Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 251,147	\$ 139,954	\$ 391,101
2007	263,924	124,015	387,939
2008	281,770	107,031	388,801
2009	244,635	88,513	333,148
2010	200,320	70,225	270,545
2011 - 2015	1,154,415	186,295	1,340,710
	<u>\$ 2,396,211</u>	<u>\$ 716,033</u>	<u>\$ 3,112,244</u>

Interest expense in the business-type activities for the year ended March 31, 2005 totaled \$149,607.

Note 10. Bonds and Notes Payable – Governmental Activities

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

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balances March 31, 2004</u>	<u>Additions</u>	<u>Retirements and Repayments</u>	<u>Balances March 31, 2005</u>
Compensated absences			\$ 93,525	\$ 28,707	\$ -	\$ 122,232
General Obligation Note, Series 2003	2.57%	2009	\$ 652,735	\$ -	\$ 138,640	\$ 514,095
Neff property	7.00%	2010	-	600,000	-	600,000
			<u>652,735</u>	<u>600,000</u>	<u>138,640</u>	<u>1,114,095</u>
Total Governmental Activities Long-Term Debt			<u>\$ 746,260</u>	<u>\$ 628,707</u>	<u>\$ 138,640</u>	<u>\$ 1,236,327</u>

NOTES TO FINANCIAL STATEMENTS

Note 10. Bonds and Notes Payable – Governmental Activities (continued)

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

<u>Fiscal Year Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 262,226	\$ 54,304	\$ 316,530
2007	265,905	42,226	308,131
2008	269,679	31,052	300,731
2009	196,285	17,780	214,065
2010	120,000	8,400	128,400
	<u>\$ 1,114,095</u>	<u>\$ 153,762</u>	<u>\$ 1,267,857</u>

Interest expense in the governmental activities for the year ended March 31, 2005 totaled \$156,187.

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

Original cost of assets acquired under these capital leases for the general fund is \$256,814 with accumulated depreciation of \$76,724 as of March 31, 2005.

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

<u>Fiscal Year Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 66,501	\$ 3,496	\$ 69,997
2007	2,655	279	2,934
2008	2,655	279	2,934
2009	2,655	279	2,934
2010	663	70	733
	<u>\$ 75,129</u>	<u>\$ 4,403</u>	<u>\$ 79,532</u>

NOTES TO FINANCIAL STATEMENTS

Note 11. 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 12. Post-Employment Healthcare Benefits

The Town provides post-retirement healthcare benefits, for employees retiring prior to June 1, 1999, in accordance with Town statutes, to all employees who retire on or after attaining age 62 with at least 7 years of service. Currently four retirees are eligible for these benefits and all are receiving such benefits. The cost of healthcare benefits is recognized as an expenditure as claims are paid. During the fiscal year ended March 31, 2005 the cost of healthcare benefits for retirees was approximately \$10,000.

Note 13. Pension and Retirement Plans

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

Profit Sharing Plan

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

During the year, the Town's required and actual contributions amounted to \$37,585, which was 6% of its current year covered payroll of \$626,420.

Deferred Compensation Plan

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Town employees with one year of service, permits them to defer a portion of their salary until future years. Participation in the plan is optional and participants elect how their salary deferrals are invested. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The Town matches contributions of each participant up to 5% of base salary. The Town's contribution was \$47,906 for the fiscal year.

NOTES TO FINANCIAL STATEMENTS

Note 13. Pension and Retirement Plans (continued)

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

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

Note 14. 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 15. Commitments, Contingencies and Subsequent Events

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

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

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF BETHANY BEACH, DELAWARE

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year Ended March 31, 2005**

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Taxes:				
Property	\$ 722,000	\$ 722,000	\$ 732,537	\$ 10,537
Rental real estate	640,000	640,000	700,705	60,705
Transfer	750,000	750,000	1,420,895	670,895
Parking Revenues	827,000	827,000	859,443	32,443
Licenses, permits and fees	313,500	313,500	396,452	82,952
Police and Alderman fines and revenue	96,400	96,400	150,946	54,546
Interest	65,000	65,000	77,095	12,095
Sanitation fees	551,400	551,400	552,992	1,592
Contributions	5,000	5,000	10,044	5,044
Miscellaneous	14,000	14,000	10,530	(3,470)
Total revenues	3,984,300	3,984,300	4,911,639	927,339
EXPENDITURES:				
General and administration	963,157	780,225	747,978	32,247
Licenses and inspections	146,400	146,400	142,714	3,686
Public safety	1,006,399	980,375	896,856	83,519
Alderman	33,250	33,250	38,606	(5,356)
Parking	184,490	178,850	195,236	(16,386)
Beach Patrol	301,600	301,600	284,230	17,370
Public works:				
Stormwater management	196,434	190,500	138,408	52,092
Streets	492,164	469,963	520,724	(50,761)
Sanitation	488,399	426,513	420,480	6,033
Beach and boardwalk	207,461	207,461	196,412	11,049
Recreation - entertainment	92,850	92,850	80,316	12,534
Historical association	1,300	1,300	2,625	(1,325)
Total expenditures	4,113,904	3,809,287	3,664,585	144,702
Excess (deficiency) of revenues over expenditures	(129,604)	175,013	1,247,054	1,072,041
OTHER FINANCING SOURCES (USES):				
Sale of equipment	44,000	44,000	15,750	(28,250)
Operating transfers out	-	-	(1,184,429)	(1,184,429)
Total other financing sources	44,000	44,000	(1,168,679)	(1,212,679)
Net change in fund balance	\$ (85,604)	\$ 219,013	78,375	\$ (140,638)
Fund balance - beginning, as restated			4,264,575	
Fund balance - ending			<u>\$ 4,342,950</u>	

TOWN OF BETHANY BEACH, DELAWARE

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - CAPITAL PROJECTS FUND
Year Ended March 31, 2005**

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
EXPENDITURES:				
General and administration	\$ 657,500	\$ 837,791	\$ 1,086,203	\$ (248,412)
Public safety	66,700	71,722	53,556	18,166
Parking	10,900	10,900	15,549	(4,649)
Public works:				
Stormwater management	875,000	880,611	394,116	486,495
Streets	123,000	123,000	118,029	4,971
Sanitation	59,621	59,621	59,621	-
Beach and boardwalk	460,000	460,476	107,545	352,931
Historical association	205,000	205,273	19,585	185,688
<hr/>				
Total expenditures	2,457,721	2,649,394	1,854,204	795,190
<hr/>				
OTHER FINANCING SOURCES (USES):				
Loan proceeds	-	-	600,000	(600,000)
Operating transfers in	-	-	1,184,429	(1,184,429)
<hr/>				
Total other financing sources (uses)	-	-	1,784,429	(1,784,429)
<hr/>				
Net change in fund balance	\$(2,457,721)	\$(2,649,394)	(69,775)	\$ 2,579,619
<hr/>				
Fund balance - beginning, as restated			<u>777,619</u>	
Fund balance - ending			<u>\$ 707,844</u>	

TOWN OF BETHANY BEACH, DELAWARE
REQUIRED SUPPLEMENTARY SCHEDULE
BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND
Year Ended March 31, 2005

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Budget</u>	<u>Budget</u>		
REVENUES:				
Interest and rents	\$ -	\$ -	\$ 23	\$ 23
Intergovernmental revenues:				
State	-	-	260,569	260,569
<hr/>				
Total revenues	-	-	260,592	260,592
<hr/>				
EXPENDITURES:				
General and administration	153,300	153,300	-	153,300
Public safety	74,738	113,042	92,790	20,252
Public works:				
Stormwater management	-	70,000	-	70,000
Streets	149,000	142,880	167,880	(25,000)
<hr/>				
Total expenditures	377,038	479,222	260,670	218,552
<hr/>				
Deficiency of revenues over expenditures	(377,038)	(479,222)	(78)	479,144
<hr/>				
Net change in fund balance	\$ (377,038)	\$ (479,222)	(78)	\$ 479,144
<hr/>				
Fund balance - beginning, as restated			106	
Fund balance - ending			\$ 28	

ADDITIONAL SUPPLEMENTARY INFORMATION

TOWN OF BETHANY BEACH, DELAWARE

INCOME AND EXPENSE DETAIL

WATER FUND

Year Ended March 31, 2005

	<u>2005</u>
WATER SERVICE:	
Operating revenues:	
Charges for services	\$ 696,668
Other service fees	54,085
Miscellaneous	929
<hr/>	
Total operating revenues	751,682
<hr/>	
Operating expenses:	
Salaries and wages	210,383
Payroll taxes	15,882
Employee benefits	62,211
Administrative fees	2,350
Contract services	36,259
Insurance	29,232
Telephone	4,439
Utilities	41,246
Vehicle repairs and maintenance	3,480
Engineering	19,964
Sewer service charge	326
Plant maintenance	18,014
Distribution system maintenance	55,935
Office supplies	5,565
Miscellaneous	8,130
Supplies	25,062
Chemicals	43,307
Uniforms	1,944
Depreciation	181,002
<hr/>	
Total operating expenses	764,731
<hr/>	
Net operating income (loss)	(13,049)
<hr/>	
Non-operating revenue (expenses):	
Taxes and assessments	318,744
Impact fees	248,704
Interest income	3,538
Amortization on bond issue costs	(5,320)
Interest expense	(144,287)
<hr/>	
Net non-operating revenues	421,379
<hr/>	
NET INCOME	\$ 408,330

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

Town of Bethany Beach, Delaware
Bethany Beach, Delaware

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Bethany Beach, Delaware as of and for the year ended March 31, 2005, and have issued our report thereon dated May 17, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

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

Salisbury, Maryland
May 17, 2005