

TOWN OF BETHANY BEACH, DELAWARE

FINANCIAL REPORT

MARCH 31, 2007

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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, 2007, 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, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2007 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on

compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 15 and 41 through 42, respectively, 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 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.

*Trice Seary Myers LLC*  
Salisbury, Maryland  
June 15, 2007

**Town of Bethany Beach  
Management's Discussion and Analysis  
March 31, 2007**

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, 2007. 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 2007**

The assets of the Town of Bethany Beach exceed its liabilities at the end of the fiscal year on March 31, 2007 by \$15,707,481 (net assets). Of this amount, \$4,626,743 (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 \$356,722 (an increase of 2.3%) in fiscal year 2007. Net assets of governmental activities increased by \$21,028, while net assets of the Water department increased by \$335,694.

As of the close of fiscal year 2007 the Town's governmental funds reported an ending fund balance of \$3,771,402. Of this amount, \$753,000 is held for beach and boardwalk improvements, \$250,000 is held for emergencies, \$750,000 is held for replacement of sanitation trucks and \$1,242,000 is held for capital improvements and debt payments in FY 2008.

This leaves \$776,244 as undesignated at the end of fiscal year 2007. The unreserved, undesignated fund balances for the governmental fund represents 17.6% of the general fund operating expenditure budget for fiscal year 2008.

The Town's bonds and notes payable decreased by \$889,828 (29.7%) as a result of regular, scheduled payments and paying off one loan early. 65.4% of the Town's total bonds and notes payable of \$2,107,103 is payable within the next 5 years. The remaining \$728,774 is the outstanding bond for the water plant, which is scheduled to be paid off in fiscal year 2015.

**Overview of the Financial Statements**

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

**Government-Wide Financial Statements**

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

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

The statement of activities presents information showing how the Town's net assets changed during this fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs,



regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave).

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

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

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

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

### **Fund financial statements**

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

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

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

The Town has three governmental funds: the General Fund, the Special Revenue Fund (used to account for state and federal grants) and the Capital Projects Fund. The basic governmental fund financial statements can be found on pages 18-20 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 25–39 of this report.

### Government-Wide Financial Analysis

#### Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's combined net assets (government and business-type activities) totaled \$15,707,481 at the end of fiscal year 2007, compared to \$15,350,759 at the end of fiscal year 2006, an increase of \$356,722 or 2.3%.

The largest portion of the Town's net assets (70.5%) 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, 2007

	Governmental Activities		Business-Type Activities		Total		% Change
	2007	2006	2007	2006	2007	2006	
Current Assets	4,066,616	4,651,260	670,332	495,121	4,736,948	5,146,381	-8.0%
Capital Assets	9,286,317	8,711,476	3,907,498	3,947,645	13,193,815	12,659,121	4.2%
Other Assets	14,937	800,057	437,874	474,403	452,811	1,274,460	-64.5%
<b>Total Assets</b>	<b>13,367,870</b>	<b>14,162,793</b>	<b>5,015,704</b>	<b>4,917,169</b>	<b>18,383,574</b>	<b>19,079,962</b>	<b>-3.6%</b>
Long-Term Liabilities	215,974	695,225	1,627,385	1,906,667	1,843,359	2,601,892	-29.2%
Other Liabilities	462,485	799,185	370,249	328,126	832,734	1,127,311	-26.1%
<b>Total Liabilities</b>	<b>678,459</b>	<b>1,494,410</b>	<b>1,997,634</b>	<b>2,234,793</b>	<b>2,676,093</b>	<b>3,729,203</b>	<b>-28.2%</b>
Invested in capital assets, net of related debt	9,054,379	7,850,979	2,026,359	1,802,582	11,080,738	9,653,561	14.8%
Unrestricted	3,635,032	4,817,404	991,711	879,794	4,626,743	5,697,198	-18.8%
<b>Total Net Assets</b>	<b>12,689,411</b>	<b>12,668,383</b>	<b>3,018,070</b>	<b>2,682,376</b>	<b>15,707,481</b>	<b>15,350,759</b>	<b>2.3%</b>

The remaining balance of unrestricted net assets (\$4,626,743) may be used to meet the government's ongoing obligations to citizens and creditors. Unrestricted net assets declined \$1,070,455 while the amount invested in capital assets increased \$1,427,177 due to capital purchases and debt reduction.

Most of the current and other assets listed above are in cash and investments. These two classes of assets combined decreased \$1,231,082 (19.2%) as cash was used on capital projects and the reduction of debt. The remaining assets in these categories are made up of receivables and prepaid expenses, which have increased \$110,795 from fiscal year 2006 mainly from grant reimbursements due to the Town from the State of Delaware.

The Town's investment in capital assets increased 4.2% to \$13,193,815 in fiscal year 2007. Long-term liabilities decreased 29.2% (-\$754,624) while other liabilities decreased 26.1% (-\$298,489) as a result of regular payments on three loans, complete pay off of one loan and not taking out any new loans in fiscal year 2007.

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



Town of Bethany Beach  
Summary of Statement of Activities  
March 31, 2007

	Governmental Activities		Business-Type Activities		Total		%
	2007	2006	2007	2006	2007	2006	Change
<b>Revenues:</b>							
<b>Program Revenues</b>							
Charges for services	2,327,432	2,299,646	836,976	850,725	3,164,408	3,150,371	0.5%
Operating grants	143,745	118,414	483,626	453,405	627,371	571,819	9.7%
Capital grants	312,886	222,139	14,933	38,385	327,819	260,524	25.8%
<b>General Revenues</b>							
Property taxes	747,368	743,484	-	-	747,368	743,484	0.5%
Rental real estate taxes	758,934	723,393	-	-	758,934	723,393	4.9%
Transfer taxes	852,192	1,555,427	-	-	852,192	1,555,427	-45.2%
Other	<u>225,759</u>	<u>198,064</u>	<u>25,248</u>	<u>15,227</u>	<u>251,007</u>	<u>213,291</u>	17.7%
<b>Total Revenues</b>	<u>5,368,316</u>	<u>5,860,567</u>	<u>1,360,783</u>	<u>1,357,742</u>	<u>6,729,099</u>	<u>7,218,309</u>	-6.8%
<b>Expenses:</b>							
General and administration	972,936	861,992	-	-	972,936	861,992	12.9%
Licenses and inspections	185,596	184,890	-	-	185,596	184,890	0.4%
<b>Public Safety:</b>							
Police and Alderman	1,291,303	1,277,780	-	-	1,291,303	1,277,780	1.1%
Parking	263,959	247,755	-	-	263,959	247,755	6.5%
Beach Patrol	310,205	295,278	-	-	310,205	295,278	5.1%
<b>Public Works:</b>							
Stormwater management	296,468	387,919	-	-	296,468	387,919	-23.6%
Streets	893,390	809,810	-	-	893,390	809,810	10.3%
Sanitation	520,406	461,735	-	-	520,406	461,735	12.7%
Natter Trails	157,765	-	-	-	157,765	-	-
Beach and boardwalk	305,202	254,318	-	-	305,202	254,318	20.0%
Recreation - entertainment	134,268	102,849	-	-	134,268	102,849	30.6%
Cultural and Historical	15,790	4,553	-	-	15,790	4,553	246.8%
Water Department	<u>-</u>	<u>-</u>	<u>1,025,089</u>	<u>1,035,908</u>	<u>1,025,089</u>	<u>1,035,908</u>	-1.0%
<b>Total Expenses</b>	<u>5,347,288</u>	<u>4,888,879</u>	<u>1,025,089</u>	<u>1,035,908</u>	<u>6,372,377</u>	<u>5,924,787</u>	7.6%
Change in Net Assets	<u>21,028</u>	<u>971,688</u>	<u>335,694</u>	<u>321,834</u>	<u>356,722</u>	<u>1,293,522</u>	-72.4%
Net Assets, beginning of year	<u>12,668,383</u>	<u>11,696,695</u>	<u>2,682,376</u>	<u>2,360,542</u>	<u>15,350,759</u>	<u>14,057,237</u>	9.2%
Net Assets, end of year	<u><u>12,689,411</u></u>	<u><u>12,668,383</u></u>	<u><u>3,018,070</u></u>	<u><u>2,682,376</u></u>	<u><u>15,707,481</u></u>	<u><u>15,350,759</u></u>	2.3%

The Town's total net assets increased \$356,722 or 2.3%. Approximately 35.0% of the Town's total revenue came from taxes. Total revenues decreased \$489,210 or -6.8% while total expenses increased \$447,590 or 7.6%.

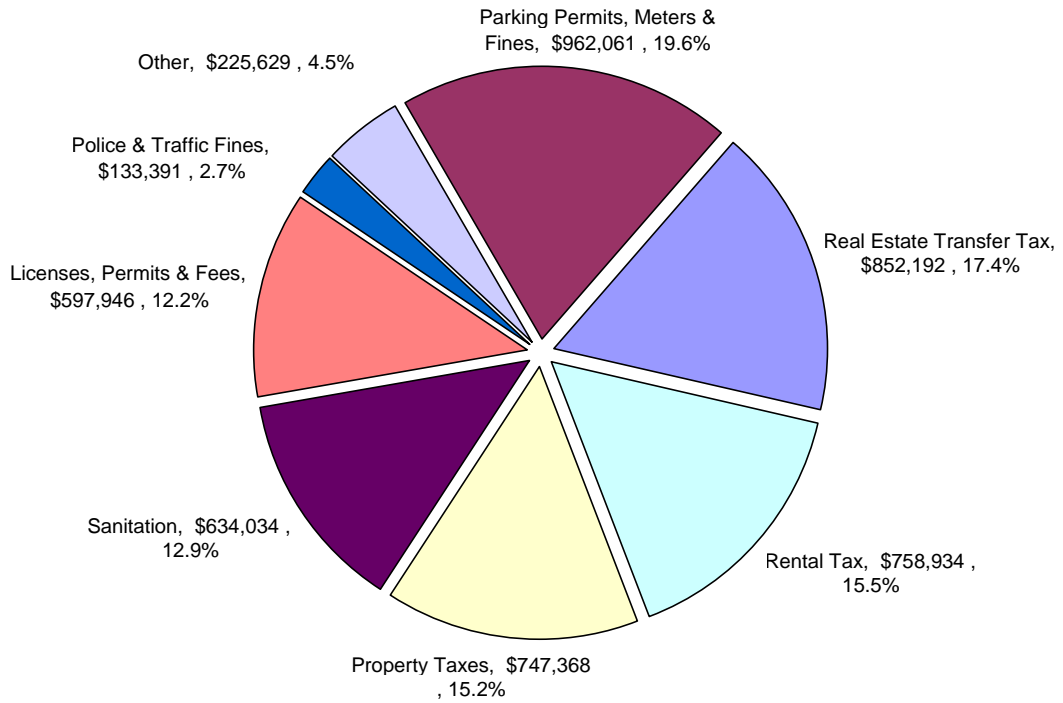
### **Governmental activities**

Major revenue sources and key factors in the revenue decrease of \$492,251 for governmental activities are as follows. Grant revenue is not included due to the variable nature of state and Federal grants.

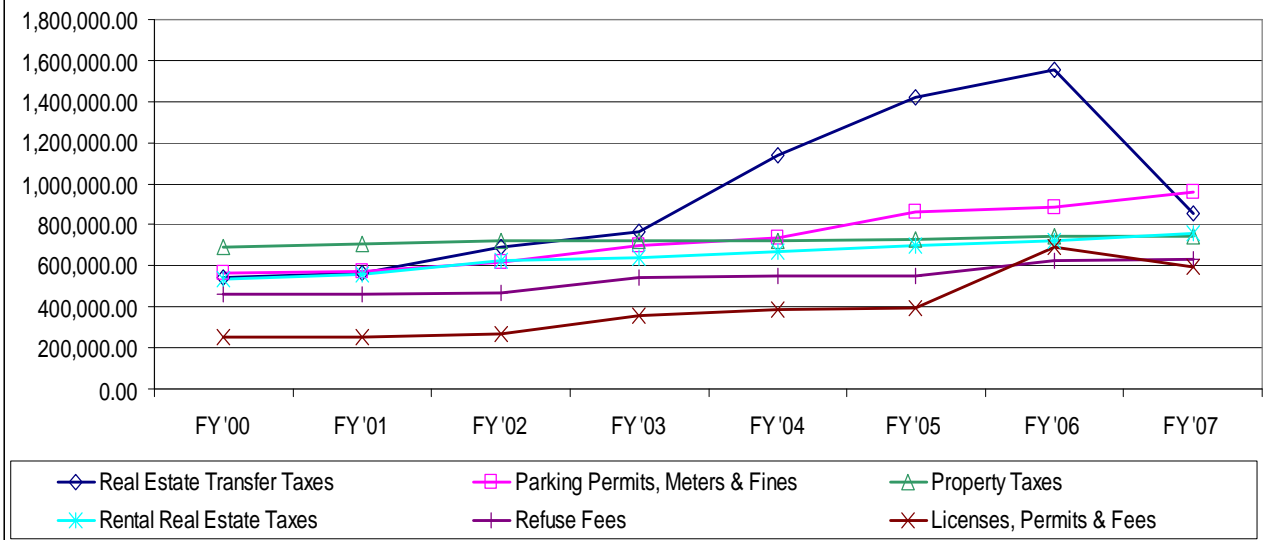
1. Revenues from parking fines, parking meters and parking permits were the Town's largest source of funding. These revenues increased 8.5%, or \$75,038, since fiscal year 2006. As a percentage of general fund revenue, parking increased from 16.1% in fiscal year 2006 to 19.6% in fiscal year 2007.
2. Real estate transfer taxes were the Town's second largest revenue source. These revenues decreased 45.2%, or -\$703,235 since fiscal year 2006. As a percentage of total general fund revenue, real estate transfer taxes decreased from 28.2% in fiscal year 2006 to 17.4% in fiscal year 2007. Fiscal year 2007 saw a sharp decline in the housing market after several record years. We do not expect this decline to continue in future years.
3. Real estate rental taxes are the Town's third largest source of revenue for governmental activities and increased 4.9%, or \$35,541, since fiscal year 2006. As a percentage of total general fund revenue, rental taxes increased from 13.1% in fiscal year 2006 to 15.5% in fiscal year 2007.
4. Property taxes were the Town's fourth largest revenue source and increased 0.5%, or \$3,884, since fiscal year 2006. As a percentage of total general fund revenue, property taxes increased from 13.5% in fiscal year 2006 to 15.2% in fiscal year 2007.
5. Sanitation fees became the Town's fifth largest revenue source this year with an increase of 0.9%, or \$5,658 since last fiscal year. These fees are used to support the sanitation department operating costs and capital needs.
6. Licenses, permits and other fees declined 13.9%, or -\$96,608 this year due predominately to a significant decline in building permits from the housing market decline.

The following two charts show the Town's general fund revenues for the fiscal year ended March 31, 2007 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 2007 Revenue Sources



### Trends in Major Revenue Sources



The Town's expenses for all governmental activities combined cover a range of services and increased 9.4%, approximately \$458,409, from fiscal year 2006 primarily due to the following:

1. Repair and maintenance of buildings and grounds increased approximately \$107,000. The main cause of this is extensive repairs and remodeling needed from water damage to the back of the town hall which amounted to \$76,000. Other items increasing this cost for fiscal year 2007 include cleaning of the air ducts in the town hall, and repair of weather related damages to the boardwalk and outdoor benches.
2. Salary costs increased approximately \$79,100. \$58,800 of this increase was for full time employees including two positions added for fiscal year 2007. These two positions were a police officer and a public works employee. \$12,500 of the total increase was in part time workers mainly due to the hiring of a second judge to fill a position which had been vacant for most of the prior fiscal year. Overtime costs increased by \$8,400 due to additional hours in the public works department while seasonal costs decreased \$600.
3. Other employment costs increased approximately \$80,000. \$48,200 of this increase was caused by a 23% increase in health insurance rates which took effect in May of 2006. The rest of the increase is from costs which increase as salaries rise such as social security, worker's compensation insurance, and retirement plan contributions.
4. Electricity costs increased approximately \$73,200. \$50,000 of this was from Del-Mar-Va Power's rate increase, which took effect in May of 2006. The other \$23,000 was a shifting of the cost of street lighting from grant funding to town funding. The State of Delaware's annual Municipal Street Aid grant can be used for purposes including electricity for street lighting and repair of street surfaces. For fiscal year 2007, the Town decided to spend the full grant amount on street repair so the full amount of street lighting electricity costs was paid by the Town.
5. Contracted services increased approximately \$59,000. The main cause of this was \$28,000 for the development of architectural guidelines for the C-1 and C-2 zoning districts. Other increases were seen in the control of weeds to improve storm water drainage, increased beach cleaning and additional bandstand performances.
6. Other factors increasing costs included continued efforts toward beautification of the town, installation of a new computer server in the town hall, laptops purchased for the town council, and higher fuel prices.

#### **Business-type activities**

The water department is the Town's only business-type activity and is accounted for in its own fund and changed very little from the prior year. Revenues increased only 0.2%, or \$3,041. Expenses decreased 1.0% or -\$10,819 since fiscal year 2006.

## 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 2007, the Town's governmental fund balance decreased \$1,149,290 to \$3,771,402. The main cause of this decrease was that revenue earned in prior years was spent on capital projects this fiscal year such as the new bandstand, park development, and debt payments on land purchases.

A significant portion of fund balance, \$2,995,000 or 79.4%, is designated to indicate that it is not available for new spending because it has been committed elsewhere. Currently these designations are:

1. Designated for beach & boardwalk	\$753,000
2. Designated for emergencies	\$250,000
3. Designated for sanitation department capital needs	\$750,000
4. Designated for capital improvements	\$1,242,000

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, solid waste disposal, parks, recreation and general administrative services. As a measure of the general fund's liquidity it may be useful to compare both undesignated fund balance and total fund balance to general fund expenditures.

### Proprietary Funds

The Town's proprietary fund financial statements provide the same sort of information as the entity-wide statements. Net assets for the water department increased \$335,694 to \$3,018,070. Charges for services other than water supply charges decreased \$43,732 from fewer new houses being hooked into the water system and a reduction in granted funds. Non-operating revenue increased \$42,221 (9.6%) due to the sinking fund rate increase which generates funds used to make debt payments on the water plant.

The water department seeks to operate close to breaking even on operating costs. This is allowing the department to use non-operating revenue to address the many capital needs of the aging water distribution system and the growing population of both year round residents and summer visitors.

### General Fund Budgetary Highlights

General fund revenues fell short of the amount budgeted by \$305,165 (5.9%). Real estate transfer taxes were received in lower than expected amounts due to a sharp decline in the house sales. This revenue alone was \$447,808 under budgeted. The decline in the housing market also resulted in a decline in building permits causing licenses, permits and fees to end the year \$48,554 under budget. Favorable interest rates resulted in interest revenue \$59,819 in excess of what was budgeted. Rental real estate tax collections were \$58,934, 8.4%, in excess of budgeted.

General fund expenditures as a whole were under budget by 10.9% (\$534,933). When the decline in transfer tax revenue was noticed early in the fiscal year department managers were asked to reduce their spending by

5% to 10%. Managers responded quickly and more than made up for the reduction in revenue by decreasing cost below budget. Expenditures were decreased under budget by \$181,900 as a result of cutting three full time positions and reducing seasonal, part time and overtime hours, \$106,900 resulted from savings in related other employment costs and \$137,200 was cut by reconsidering or delaying previously budgeted equipment purchases and projects. Significant reductions were also made in the categories of training, travel, supplies, printing, and rentals. The budgetary comparison schedule for the general fund can be found on page 41.

### Capital Assets

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

<b>Governmental Activities</b>	<b>FY 2007 Additions</b>
Buildings & Improvements	446,379
Land Improvements	248,257
Storm water Drainage	170,885
Machinery & Equipment	170,082
Streets	160,466
Vehicles	44,147
<b>Total</b>	<b>1,240,216</b>
<b>Business-Type Activities</b>	<b>FY 2007 Additions</b>
Vehicles & Equipment	8,800
Water Plant & Distribution System	135,705
<b>Total</b>	<b>144,505</b>

Buildings and improvements makes up the largest capital expenditure this fiscal year at \$446,379. \$405,235 of this is construction work on the new bandstand. An additional \$451,808 in bandstand costs was transferred from construction in process at completion. \$34,094 was spent on remodeling work on the Addy house at the conservation park. \$7,050 was spent on the mural in the lobby of the town hall.

Land improvement cost of \$248,257 is for work done at the conservation area and the small plaza next to the town hall. \$153,300 of this was a grant from the State of Delaware for the conservation area.

Storm water drainage projects accounted for \$170,885 this year. \$147,242 of this was for Bethany West and \$23,643 was for Candlelight Acres. An additional \$310,295 for these two projects was transferred from construction in process at completion.

Machinery and equipment purchases totaled \$170,082, which includes the audio system for the bandstand, a skid loader for public works, a hot water pressure washer for the streets department, a computer server for town hall, bill changers, and a large lawn mower. Capital work on streets amounted to \$160,466, of which \$115,427 was funded from a state grant. \$44,127 was added in vehicles for a new police vehicle and modifications to another police vehicle purchased last year. State and county grants funded \$40,147 of these vehicle costs.

### Debt Administration

As of March 31, 2007 the Town had \$1,705,374 in outstanding long-term bonds payable for debt originally issued in 1989 for construction of the water plant and water distribution system. Eight years remain on this debt.

The Town also has a total of \$401,729 in loans of 5 years or fewer. In early fiscal year 2007 the Town paid off a loan early for \$480,000 in principal. The town has strived to keep its level of debt relatively low by financing for 5 years or less whenever possible.

#### **Economic Factors**

We expect revenues for the coming fiscal year to be similar to those of fiscal year 2007 as reported in these financial statements with the following exceptions.

Real estate transfer tax revenue is unpredictable but is not expected to keep declining. We expect to receive between \$600,000 and \$800,000 in fiscal year 2008. For fiscal year 2008, the town council approved rate increases for property taxes, parking fines, parking meters, business licenses and rental tax. The rate increases were done to help reduce the Town's reliance on the unreliable nature of the real estate transfer tax.

Summer visitors are expected in high numbers again this year. The diminishing size of usable beach space has been a concern for many years so the Town is very pleased that State and Federal funding has been allocated to replenishing our beach in late 2007.

The fiscal year 2008 budget was approved in March of 2007. The operating budget is \$514,750 less than the fiscal year 2007 operating budget while capital projects and purchases are being kept to a minimum. There are no new major programs added to the fiscal year 2008 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, 2007**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 1,782,819	\$ 152,369	\$ 1,935,188
Investments	1,906,311	300,000	2,206,311
Receivables:			
Taxes - real and personal property	1,637	-	1,637
Sanitation fees	1,548	-	1,548
Water charges	-	276,410	276,410
Interest	81,288	-	81,288
Intergovernmental	100,227	-	100,227
Other	8,676	-	8,676
Prepaid expenses	105,422	20,241	125,663
Internal balances	78,688	(78,688)	-
<b>Total current assets</b>	<b>4,066,616</b>	<b>670,332</b>	<b>4,736,948</b>
Noncurrent assets			
Restricted Assets			
Cash and cash equivalents	14,937	387,500	402,437
Capital assets at cost	13,794,755	6,250,371	20,045,126
Less accumulated depreciation	(4,508,438)	(2,342,873)	(6,851,311)
Bond issue cost, net of amortization	-	50,374	50,374
<b>Total noncurrent assets</b>	<b>9,301,254</b>	<b>4,345,372</b>	<b>13,646,626</b>
<b>Total assets</b>	<b>\$ 13,367,870</b>	<b>\$ 5,015,704</b>	<b>\$ 18,383,574</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued expenses	\$ 127,991	\$ 41,186	\$ 169,177
Employee withholdings and payroll taxes	69,002	-	69,002
Accrued interest	2,569	42,895	45,464
Deferred revenue	97,878	2,213	100,091
Bonds and notes payable	149,679	281,770	431,449
Lease purchase obligation	2,655	-	2,655
Compensated absences liability	12,711	2,185	14,896
<b>Total current liabilities</b>	<b>462,485</b>	<b>370,249</b>	<b>832,734</b>
Noncurrent liabilities			
Bonds and notes payable	76,285	1,599,369	1,675,654
Lease purchase obligation	3,319	-	3,319
Compensated absences liability	136,370	28,016	164,386
<b>Total noncurrent liabilities</b>	<b>215,974</b>	<b>1,627,385</b>	<b>1,843,359</b>
<b>Total liabilities</b>	<b>678,459</b>	<b>1,997,634</b>	<b>2,676,093</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	9,054,379	2,026,359	11,080,738
Unrestricted	3,635,032	991,711	4,626,743
<b>Total net assets</b>	<b>\$ 12,689,411</b>	<b>\$ 3,018,070</b>	<b>\$ 15,707,481</b>

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

TOWN OF BETHANY BEACH, DELAWARE

STATEMENT OF ACTIVITIES  
Year Ended March 31, 2007

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest	Governmental Activities	Business-Type Activities	Total
<b>GOVERNMENTAL ACTIVITIES</b>							
General and administration	\$ 972,936	\$ -	\$ -	\$ -	(972,936)	\$ -	(972,936)
Licenses and inspections	185,596	597,946	-	-	412,350	-	412,350
Public Safety							
Police and Alderman fines and revenue	1,291,303	133,391	63,945	44,159	(1,049,808)	-	(1,049,808)
Parking	263,959	962,061	-	-	698,102	-	698,102
Beach Patrol	310,205	-	-	-	(310,205)	-	(310,205)
Public works							
Stormwater management	296,468	-	-	-	(296,468)	-	(296,468)
Streets	893,390	-	75,335	115,427	(702,628)	-	(702,628)
Sanitation	520,406	634,034	-	-	113,628	-	113,628
Natter trails administration	157,765	-	4,465	153,300	-	-	-
Beach and boardwalk	305,202	-	-	-	(305,202)	-	(305,202)
Recreation - entertainment	134,268	-	-	-	(134,268)	-	(134,268)
Historical/Cultural	15,790	-	-	-	(15,790)	-	(15,790)
Total Governmental Activities	5,347,288	2,327,432	143,745	312,886	(2,563,225)	-	(2,563,225)
<b>BUSINESS-TYPE ACTIVITIES</b>							
Water	1,025,089	836,976	483,626	14,933	-	310,446	310,446
Total Primary Government	\$ 6,372,377	\$ 3,164,408	\$ 627,371	\$ 327,819	\$ (2,563,225)	\$ 310,446	\$ (2,252,779)
<b>General Revenues</b>							
Taxes:							
Property					747,368	-	747,368
Rental real estate					758,934	-	758,934
Transfer					852,192	-	852,192
Interest					184,949	25,248	210,197
Special item - sale of assets					1,720	-	1,720
Other					39,090	-	39,090
Total General Revenues					2,584,253	25,248	2,609,501
Change in Net Assets					21,028	335,694	356,722
Net Assets Beginning of Year					12,668,383	2,682,376	15,350,759
Net Assets End of Year					\$ 12,689,411	\$ 3,018,070	\$ 15,707,481

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

**TOWN OF BETHANY BEACH, DELAWARE**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**March 31, 2007**

	General Fund	Special Revenue	Capital Projects	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,743,366	\$ -	\$ 39,453	\$ 1,782,819
Investments	1,906,311	-	-	1,906,311
Receivables:				
Taxes - real and personal property	1,637	-	-	1,637
Sanitation fees	1,548	-	-	1,548
Interest	81,288	-	-	81,288
Intergovernmental	-	100,227	-	100,227
Other	8,676	-	-	8,676
Prepaid expenses	105,422	-	-	105,422
Due from other funds	172,415	-	-	172,415
Restricted Assets				
Cash and cash equivalents	-	14,937	-	14,937
<b>Total assets</b>	<b>\$ 4,020,663</b>	<b>\$ 115,164</b>	<b>\$ 39,453</b>	<b>\$ 4,175,280</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	\$ 79,249	\$ 15,858	\$ 32,884	\$ 127,991
Employee withholdings and payroll taxes	69,002	-	-	69,002
Accrued interest	-	-	2,569	2,569
Deferred revenue	88,457	9,421	-	97,878
Due to other funds	-	89,727	4,000	93,727
Compensated absences liability	12,711	-	-	12,711
<b>Total liabilities</b>	<b>249,419</b>	<b>115,006</b>	<b>39,453</b>	<b>403,878</b>
<b>FUND BALANCES</b>				
Designated for:				
Designated for capital improvements	1,242,000	-	-	1,242,000
Designated for emergency	250,000	-	-	250,000
Designated for beach and boardwalk	753,000	-	-	753,000
Designated for sanitation equipment	750,000	-	-	750,000
Unreserved:				
Undesignated	776,244	158	-	776,402
<b>Total fund balances</b>	<b>3,771,244</b>	<b>158</b>	<b>-</b>	<b>3,771,402</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,020,663</b>	<b>\$ 115,164</b>	<b>\$ 39,453</b>	<b>\$ 4,175,280</b>

*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, 2007**

Total fund balances, governmental funds		\$ 3,771,402
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets.</p>		9,286,317
<p>Some liabilities are not due and payable in the current period and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets. Those liabilities consist of:</p>		
Bonds and notes payable	(225,964)	
Lease purchase obligation	(5,974)	
Compensated absences	<u>(136,370)</u>	
Total long-term liabilities		<u>(368,308)</u>
Net assets of governmental activities in the Statement of Net Assets		<u>\$ 12,689,411</u>

**TOWN OF BETHANY BEACH, DELAWARE**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**Year Ended March 31, 2007**

	General <u>Fund</u>	Special <u>Revenue</u>	Capital <u>Projects</u>	Total Governmental <u>Funds</u>
<b>REVENUES:</b>				
Taxes:				
Property	\$ 747,368	\$ -	\$ -	\$ 747,368
Rental real estate	758,934	-	-	758,934
Transfer	852,192	-	-	852,192
Parking revenues	962,061	-	-	962,061
Licenses, permits and fees	597,946	-	-	597,946
Police and Alderman fines and revenue	133,391	-	-	133,391
Interest	184,819	130	-	184,949
Sanitation fees	634,034	-	-	634,034
Intergovernmental revenues:				
State	-	456,631	-	456,631
Contributions	17,290	-	-	17,290
Miscellaneous	21,800	-	-	21,800
<b>Total revenues</b>	<b>4,909,835</b>	<b>456,761</b>	<b>-</b>	<b>5,366,596</b>
<b>Expenditures:</b>				
General and administration	951,418	-	165,031	1,116,449
Licenses and inspections	178,252	-	10,057	188,309
Public safety:				
Police	1,068,594	108,104	6,910	1,183,608
Alderman	49,704	-	-	49,704
Parking	240,800	-	13,385	254,185
Beach Patrol	310,205	-	-	310,205
Public works:				
Stormwater management	158,412	-	219,655	378,067
Streets	602,670	190,762	121,196	914,628
Sanitation	469,940	-	-	469,940
Natter trails administration	-	157,765	-	157,765
Beach and boardwalk	246,803	-	472,998	719,801
Recreation - entertainment	108,305	-	-	108,305
Historical/Cultural	4,314	-	7,050	11,364
Debt service:				
Principal	-	-	625,905	625,905
Interest	-	-	29,371	29,371
<b>Total expenditures</b>	<b>4,389,417</b>	<b>456,631</b>	<b>1,671,558</b>	<b>6,517,606</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>520,418</b>	<b>130</b>	<b>(1,671,558)</b>	<b>(1,151,010)</b>
Other financing (uses) sources				
Transfer out	(1,162,831)	-	-	(1,162,831)
Transfer in	-	-	1,162,831	1,162,831
Sale of equipment	1,720	-	-	1,720
<b>Total other financing sources (uses)</b>	<b>(1,161,111)</b>	<b>-</b>	<b>1,162,831</b>	<b>1,720</b>
<b>Net change in fund balances</b>	<b>(640,693)</b>	<b>130</b>	<b>(508,727)</b>	<b>(1,149,290)</b>
<b>Fund balances, beginning</b>	<b>4,411,937</b>	<b>28</b>	<b>508,727</b>	<b>4,920,692</b>
<b>Fund balances, end of year</b>	<b>\$ 3,771,244</b>	<b>\$ 158</b>	<b>\$ -</b>	<b>\$ 3,771,402</b>

*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, 2007**

Net change in fund balances, governmental funds \$ (1,149,290)

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	1,240,216	
Depreciation expense	<u>(660,915)</u>	
 Excess of capital outlay over depreciation expense		 579,301

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. (4,460)

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. 625,904

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		<u>(33,082)</u>
Change in net assets of governmental activities		<u>\$ 21,028</u>

**TOWN OF BETHANY BEACH, DELAWARE**  
**STATEMENT OF FUND NET ASSETS**  
**BUSINESS-TYPE ACTIVITIES**  
**March 31, 2007**

		<u>Enterprise Fund</u>
		<u>Water Fund</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$	152,369
Investments		300,000
Receivables:		
Water charges		276,410
Prepaid expenses		20,241
Total current assets		<u>749,020</u>
Noncurrent assets		
Restricted cash and cash equivalents		387,500
Capital assets, at cost		6,250,371
Less accumulated depreciation		(2,342,873)
Bond issue costs, net of amortization		50,374
Total noncurrent assets		<u>4,345,372</u>
<b>Total assets</b>	<b>\$</b>	<b><u>5,094,392</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued expenses	\$	41,186
Accrued interest		42,895
Deferred revenue		2,213
Due to other funds		78,688
Long-term liabilities due within one year		
General obligation bonds		281,770
Compensated absences liability		2,185
Total current liabilities		<u>448,937</u>
Noncurrent liabilities		
General obligation bonds		1,599,369
Compensated absences liability		28,016
Total noncurrent liabilities		<u>1,627,385</u>
Total liabilities		<u>2,076,322</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt		2,026,359
Unrestricted		991,711
Total	<b>\$</b>	<b><u>3,018,070</u></b>

*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, 2007**

	<u>Enterprise Fund</u>
	<u>Water Fund</u>
OPERATING REVENUE	
Charges for services:	
Water	\$ 812,958
Other operating	38,951
Total operating revenues	851,909
OPERATING EXPENSES	
Water	722,588
Depreciation and amortization	184,652
Total operating expenses	907,240
Net operating income (loss)	(55,331)
NON-OPERATING REVENUE (EXPENSES)	
Non-operating revenue	483,626
Amortization of bond issue cost	(5,320)
Financial expense, net	(87,281)
Total non-operating revenue (expenses)	391,025
Change in net assets	335,694
Total net assets, beginning	2,682,376
Total net assets, ending	\$ 3,018,070

*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, 2007**

	<u>Enterprise Fund</u> <u>Water Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts from customers	\$ 831,694
Payments to suppliers	(372,523)
Payments to employees	(327,789)
Net cash provided by operating activities	131,382
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Non-operating revenue	483,626
Advances from general fund, net	69,936
Net cash provided by noncapital financing activities	553,562
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Acquisition of capital assets	(144,505)
Principal paid on long-term debt	(263,924)
Interest paid on long-term debt	(112,529)
Net cash used in capital and related financing activities	(520,958)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Proceeds from maturity of investments	300,000
Purchase of investments	(300,000)
Interest income	25,248
Net cash provided by investing activities	25,248
Net increase in cash and cash equivalents	189,234
Cash and cash equivalents, beginning of year, as restated	350,635
Cash and cash equivalents, end of year	\$ 539,869
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating income (loss)	\$ (55,331)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation and amortization expense	184,652
Changes in assets and liabilities:	
Receivables, net	(21,269)
Prepaid expenses	(3,435)
Deferred revenue	1,054
Accounts and other payables	22,732
Compensated absences liability	2,979
Net cash provided by operating activities	\$ 131,382

*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:

For the fiscal year ended March 31, 2005, the Town implemented GASB 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 that included the addition of management's discussion and analysis, government-wide financial statements, and required supplementary information.

#### 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.

## NOTES TO FINANCIAL STATEMENTS

### 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 major governmental funds:

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

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.

## NOTES TO FINANCIAL STATEMENTS

### 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.

## NOTES TO FINANCIAL STATEMENTS

### 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.

#### 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.

Beginning cash and cash equivalents on the statement of cash flows has been restated for a greater than three months certificate of deposit which was improperly included in cash and cash equivalents in fiscal year 2006.

#### G. Investments

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

#### H. Receivables

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

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (continued)

#### I. Capital Assets

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

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

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

#### J. Restricted Assets

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

#### K. Bond Issue Costs

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

#### L. Deferred Revenues

Deferred revenues represent funds received in advance, which will be recognized in future years when the revenue recognition criteria is met. In the general fund, deferred revenues of \$88,457 consist of permits and fees collected in advance. In the special revenue fund, deferred revenues of \$9,421 consist of grant funds received in advance.

#### M. Compensated Absences

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

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

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



## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (continued)

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

#### N. Accrued Liabilities and Long-Term Obligations

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

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

#### O. Interest Capitalization

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

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

The amount of interest expense to be capitalized is based on the weighted-average amount of accumulated expenditures for the period multiplied by the interest rate for the obligation incurred specifically to finance the construction of capital assets. There was no capitalization of interest expense during the fiscal year ended March 31, 2007.

#### 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.

## NOTES TO FINANCIAL STATEMENTS

### 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 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

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

#### V. Reclassifications

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

### Note 3. Real Estate Taxes

The tax on real estate in the Town area for the fiscal year ended March 31, 2007 was \$0.08 per \$100 of assessed valuation as levied by the Town Council. The Town bills and collects its own real estate taxes. Delinquent taxes are levied by the Town. The schedule of real estate taxes levied for the fiscal year are:

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

### Note 4. Cash and Investments

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

## NOTES TO FINANCIAL STATEMENTS

### Note 4. Cash and Investments (continued)

#### Cash and Cash Equivalents

The following summary represents the Town deposits which are (Category 1) fully insured or collateralized with securities held by the Town or its agent in the Town's name, (Category 2) those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent(s) in the Town's name, and (Category 3) those deposits which are not collateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Town's name at March 31, 2007 are as follows:

Description	Financial Institution Balances			Totals	Carrying Amounts
	Category				
	1	2	3		
Cash & Cash Equivalents:					
Unrestricted	\$ 200,000	\$ 1,660,487	\$ -	\$ 1,860,487	\$ 1,935,188
Restricted	-	402,437	-	402,437	402,437
<b>Totals</b>	<b>\$ 200,000</b>	<b>\$ 2,062,924</b>	<b>\$ -</b>	<b>\$ 2,262,924</b>	<b>\$ 2,337,625</b>

#### 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, 2007, the Town's investments consist of the following:

Description	Category	Amounts	
		Market	Carrying
Certificates of Deposit	1, 2	\$ 1,925,762	\$ 1,925,762
Delaware Local Government Investment Pool	3	280,549	280,549
<b>Total Investments by Type</b>		<b>\$2,206,311</b>	<b>\$2,206,311</b>
Investments:			
Unrestricted		\$ 2,206,311	\$ 2,206,311
Restricted		-	-
<b>Total Investments</b>		<b>\$ 2,206,311</b>	<b>\$ 2,206,311</b>

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

## NOTES TO FINANCIAL STATEMENTS

### Note 5. Intergovernmental Receivables

Amount due from other governmental units represents receivables for revenues earned by the Town or collections made by another governmental unit on behalf of the Town. The intergovernmental receivables as of March 31, 2007, are as follows:

Description	Special Revenue
State of Delaware	\$ 100,227

### Note 6. Capital Assets

The following is a summary of changes in capital assets for the year ended March 31, 2007:

	March 31, 2006	Additions	Deductions	March 31, 2007
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets, not being depreciated:				
Land	\$ 3,391,767	\$ -	\$ -	\$ 3,391,767
Construction in progress	762,103	-	(762,103)	-
Total capital assets, not being depreciated	4,153,870	-	(762,103)	3,391,767
Capital assets, being depreciated				
Beach and boardwalk	792,225	-	-	792,225
Building and improvements	2,618,974	898,187	(1,073)	3,516,088
Land improvements	280,126	248,257	-	528,383
Machinery and equipment	793,839	170,082	(18,618)	945,303
Stormwater	711,168	481,180	-	1,192,348
Streets	1,933,020	160,466	-	2,093,486
Vehicles	1,331,565	44,147	(40,557)	1,335,155
Total capital assets, being depreciated	8,460,917	2,002,319	(60,248)	10,402,988
Less accumulated depreciation:				
Beach and boardwalk	440,781	34,750	-	475,531
Building and improvements	862,090	121,860	(1,073)	982,877
Land improvements	32,901	17,973	-	50,874
Machinery and equipment	426,559	99,713	(18,618)	507,654
Stormwater	98,987	64,332	-	163,319
Streets	1,245,498	175,183	-	1,420,681
Vehicles	796,495	147,104	(36,097)	907,502
Total accumulated depreciation	3,903,311	660,915	(55,788)	4,508,438
Total capital assets, being depreciated, net	4,557,606	1,341,404	(4,460)	5,894,550
Governmental activities capital assets, net	\$ 8,711,476	\$ 1,341,404	\$ (766,563)	\$ 9,286,317

## NOTES TO FINANCIAL STATEMENTS

### Note 6. Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

General, administrative and park development	\$ 118,693
Licenses and inspections	-
Police and Alderman	83,530
Parking	21,103
Beach Patrol	-
Public works	
Stormwater management	86,599
Streets	218,547
Sanitation	48,113
Beach and boardwalk	53,941
Recreation - entertainment	25,963
Historical association	4,426
	<u>\$ 660,915</u>

	March 31, 2006	Additions	Deductions	March 31, 2007
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital assets, not being depreciated:				
Construction in progress	\$ 31,077	\$ -	\$ -	\$ 31,077
Total capital assets, not being depreciated	<u>31,077</u>	<u>-</u>	<u>-</u>	<u>31,077</u>
Capital assets, being depreciated:				
Plant and water distribution system	5,734,845	135,705	-	5,870,550
Vehicles and equipment	339,944	8,800	-	348,744
Total capital assets, being depreciated	<u>6,074,789</u>	<u>144,505</u>	<u>-</u>	<u>6,219,294</u>
Total accumulated depreciation	<u>2,158,221</u>	<u>184,652</u>	<u>-</u>	<u>2,342,873</u>
Total capital assets, being depreciated, net	<u>3,916,568</u>	<u>(40,147)</u>	<u>-</u>	<u>3,876,421</u>
Business-type activities capital assets, net	<u>\$ 3,947,645</u>	<u>\$ (40,147)</u>	<u>\$ -</u>	<u>\$ 3,907,498</u>

## NOTES TO FINANCIAL STATEMENTS

### 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, 2006	Additions	Retirements and Repayments	Balances March 31, 2007	Amount Due in One Year
Compensated absences			\$ 27,222	\$ 2,979	\$ -	\$ 30,201	\$ 2,185
General Obligation Bonds:							
Series 1994			\$ 1,810,000	\$ -	\$ 145,000	\$ 1,665,000	160,000
Bond Premium			195,356	-	22,735	172,621	22,735
Refunding Deferral Series 1994, net	2.75- 9.75%	2014	(149,662)	17,415	-	(132,247)	(17,415)
			1,855,694	17,415	167,735	1,705,374	165,320
General Obligation Refunding Note, Series 2004	2.49%	2009	289,369	-	113,604	175,765	116,450
			2,145,063	17,415	281,339	1,881,139	281,770
Total Business-type Activities Long-Term Debt			\$2,172,285	\$20,394	\$ 281,339	\$1,911,340	\$283,955

Total annual requirements to amortize all business-type activities debt outstanding as of March 31, 2007 are as follows:

Fiscal Year Ending March 31,	Principal	Interest	Total
2008	\$ 281,770	\$ 107,031	\$ 388,801
2009	244,635	88,513	333,148
2010	200,320	70,225	270,545
2011	205,320	59,890	265,210
2012	220,320	49,290	269,610
2013 - 2015	728,774	77,115	805,889
	\$ 1,881,139	\$ 452,064	\$ 2,333,203

Interest expense in the business-type activities for the year ended March 31, 2007 totaled \$117,849.

## NOTES TO FINANCIAL STATEMENTS

### 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, 2006	Additions	Retirements and Repayments	Balances March 31, 2007	Amount Due in One Year
Compensated absences			\$ 126,067	\$ 23,014	\$ -	\$ 149,081	\$ 12,711
General Obligation Note, Series 2003	2.57%	2009	\$ 371,868	\$ -	\$ 145,904	\$ 225,964	149,679
Neff property	7.00%	2010	480,000	-	480,000	-	-
			851,868	-	625,904	225,964	149,679
<b>Total Governmental Activities Long-Term Debt</b>			<b>\$ 977,935</b>	<b>\$ 23,014</b>	<b>\$ 625,904</b>	<b>\$ 375,045</b>	<b>\$ 162,390</b>

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

Fiscal Year Ending March 31,	Principal	Interest	Total
2008	\$ 149,679	\$ 4,852	\$ 154,531
2009	76,285	980	77,265
	\$ 225,964	\$ 5,832	\$ 231,796

Interest expense in the governmental activities for the year ended March 31, 2007 totaled \$26,438.

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 \$6,899 as of March 31, 2007.

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

Fiscal Year Ending March 31,	Principal	Interest	Total
2008	\$ 2,655	\$ 279	\$ 2,934
2009	2,655	279	2,934
2010	664	70	734
	\$ 5,974	\$ 628	\$ 6,602



## NOTES TO FINANCIAL STATEMENTS

### 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, 2007 the cost of healthcare benefits for retirees was approximately \$8,900.

### Note 11. 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 \$36,428, which was 6% of its current year covered payroll of \$607,133.

#### 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 \$12,170 for the fiscal year.

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.

## NOTES TO FINANCIAL STATEMENTS

### Note 11. Pension and Retirement Plans (continued)

The Profit Sharing and Deferred Compensation Plans were terminated on June 30, 2006, effective on that date, 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. The Town's contribution to the State of Delaware County & Municipal Employees Plan and State of Delaware Police and Firefighters Plan was \$45,176 and \$46,680 for the fiscal year, respectively.

#### 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. General employees are vested in the plan after 5 years of service while police officers are vested after 10 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, 2007 the Town was required to contribute 5.09% of total compensation for general employees and 13.97% 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.

## NOTES TO FINANCIAL STATEMENTS

### Note 11. Pension and Retirement Plans (continued)

#### Employer's Payroll and Contributions Under the Plan

The Town joined the State of Delaware pension plans on July 1, 2006. Contributions paid for the six months included in the fiscal year ended March 31, 2007 are as follows:

	2007	2006	2005
Creditable wages	\$ 1,221,686	n/a	n/a
Contributions paid:			
General employees	45,176	n/a	n/a
Police officers	46,680	n/a	n/a

### 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. 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, 2007**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES:</b>				
Taxes:				
Property	\$ 742,000	\$ 742,000	\$ 747,368	\$ 5,368
Rental real estate	700,000	700,000	758,934	58,934
Transfer	1,300,000	1,300,000	852,192	(447,808)
Parking Revenues	935,000	935,000	962,061	27,061
Licenses, permits and fees	646,500	646,500	597,946	(48,554)
Police and Alderman fines and revenue	120,000	120,000	133,391	13,391
Interest	125,000	125,000	184,819	59,819
Sanitation fees	628,500	628,500	634,034	5,534
Contributions	9,000	9,000	17,290	8,290
Miscellaneous	9,000	9,000	21,800	12,800
<b>Total revenues</b>	<b>5,215,000</b>	<b>5,215,000</b>	<b>4,909,835</b>	<b>(305,165)</b>
<b>EXPENDITURES:</b>				
General and administration	1,005,200	1,005,200	951,418	53,782
Licenses and inspections	202,000	202,000	178,252	23,748
Public safety:				
Police	1,220,100	1,220,100	1,068,594	151,506
Alderman	53,900	53,900	49,704	4,196
Parking	274,400	274,400	240,800	33,600
Beach Patrol	328,950	328,950	310,205	18,745
Public works:				
Stormwater management	215,700	215,700	158,412	57,288
Streets	702,700	702,700	602,670	100,030
Sanitation	502,700	502,700	469,940	32,760
Beach and boardwalk	275,500	275,500	246,803	28,697
Recreation - entertainment	126,000	126,000	108,305	17,695
Historical/Cultural	17,200	17,200	4,314	12,886
<b>Total expenditures</b>	<b>4,924,350</b>	<b>4,924,350</b>	<b>4,389,417</b>	<b>534,933</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>290,650</b>	<b>290,650</b>	<b>520,418</b>	<b>229,768</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of equipment	30,000	30,000	1,720	(28,280)
Operating transfers out	-	-	(1,162,831)	(1,162,831)
<b>Total other financing sources</b>	<b>30,000</b>	<b>30,000</b>	<b>(1,161,111)</b>	<b>(1,191,111)</b>
<b>Net change in fund balance</b>	<b>\$ 320,650</b>	<b>\$ 320,650</b>	<b>(640,693)</b>	<b>\$ (961,343)</b>
Fund balance - beginning			<u>4,411,937</u>	
Fund balance - ending			<u>\$ 3,771,244</u>	

**TOWN OF BETHANY BEACH, DELAWARE**  
**REQUIRED SUPPLEMENTARY SCHEDULE**  
**BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND**  
**Year Ended March 31, 2007**

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES:</b>				
Interest and rents	\$ -	\$ -	\$ 130	\$ 130
Intergovernmental revenues:				
State	-	-	456,631	456,631
<b>Total revenues</b>	<b>-</b>	<b>-</b>	<b>456,761</b>	<b>456,761</b>
<b>EXPENDITURES:</b>				
Public safety:				
Police	74,894	117,766	108,104	9,662
Public works:				
Natter trails administration	158,300	158,300	157,765	535
Streets	265,595	240,179	190,762	49,417
<b>Total expenditures</b>	<b>498,789</b>	<b>516,245</b>	<b>456,631</b>	<b>59,614</b>
<b>Excess of revenues over expenditures</b>	<b>(498,789)</b>	<b>(516,245)</b>	<b>130</b>	<b>516,375</b>
<b>Net change in fund balance</b>	<b>\$ (498,789)</b>	<b>\$ (516,245)</b>	<b>130</b>	<b>\$ 516,375</b>
Fund balance - beginning			<u>28</u>	
Fund balance - ending			<u>\$ 158</u>	

ADDITIONAL SUPPLEMENTARY INFORMATION

**TOWN OF BETHANY BEACH, DELAWARE**

**ADDITIONAL SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - CAPITAL PROJECTS FUND  
Year Ended March 31, 2007**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable <u>(Unfavorable)</u>
<b>EXPENDITURES:</b>				
General and administration	\$ 1,035,100	\$ 1,051,700	\$ 817,374	\$ 234,326
Public safety:				
Police	22,200	34,300	9,843	24,457
Parking	15,000	15,000	13,385	1,615
Public works:				
Stormwater management	544,000	650,900	219,655	431,245
Streets	280,000	278,000	121,196	156,804
Sanitation	75,000	75,000	-	75,000
Beach and boardwalk	315,000	547,200	472,998	74,202
Building official	60,000	60,000	10,057	49,943
Historical/Cultural	33,600	48,000	7,050	40,950
<b>Total expenditures</b>	<b>2,379,900</b>	<b>2,760,100</b>	<b>1,671,558</b>	<b>1,088,542</b>
<b>OTHER FINANCING SOURCES:</b>				
Operating transfers in	-	-	1,162,831	1,162,831
<b>Total other financing sources</b>	<b>-</b>	<b>-</b>	<b>1,162,831</b>	<b>1,162,831</b>
<b>Net change in fund balance</b>	<b>\$ (2,379,900)</b>	<b>\$ (2,760,100)</b>	<b>(508,727)</b>	<b>\$ 2,251,373</b>
Fund balance - beginning			<u>508,727</u>	
Fund balance (deficit) - ending			<u>\$ -</u>	



TOWN OF BETHANY BEACH, DELAWARE

INCOME AND EXPENSE DETAIL

WATER FUND

Year Ended March 31, 2007

WATER SERVICE:

Operating revenues:	
Charges for services	\$ 812,958
Other service fees	38,114
Miscellaneous	837
<hr/>	
Total operating revenues	851,909
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Operating expenses:	
Salaries and wages	238,323
Payroll taxes	17,960
Employee benefits	74,485
Administrative fees	3,013
Contract services	24,886
Insurance	33,414
Telephone	5,081
Utilities	57,791
Repairs and maintenance	84,270
Engineering	1,083
Sewer service charge	272
Plant maintenance	39,091
Distribution system maintenance	50,088
Office supplies	5,305
Miscellaneous	3,057
Supplies	16,048
Chemicals	66,835
Uniforms	1,586
Depreciation	184,652
<hr/>	
Total operating expenses	907,240
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Net operating income (loss)	(55,331)
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Non-operating revenue (expenses):	
Taxes and assessments	388,177
Impact fees	95,449
Interest income	25,248
Amortization on bond issue costs	(5,320)
Interest expense	(112,529)
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Net non-operating revenues	391,025
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NET INCOME	\$ 335,694

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, 2007, which collectively comprise the Town's basic financial statements and have issued our report thereon dated June 15, 2007. 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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

*Trice Geary & Myers LLC*  
Salisbury, Maryland  
June 15, 2007