

TOWN OF BETHANY BEACH, DELAWARE

FINANCIAL REPORT

MARCH 31, 2017

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



INDEPENDENT AUDITORS' REPORT

Town of Bethany Beach, Delaware
Bethany Beach, Delaware

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Bethany Beach, Delaware (the "Town") as of and for the year ended March 31, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of March 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The additional supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2017, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Bethany Beach, Delaware's internal control over financial reporting and compliance.

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

Salisbury, Maryland
July 24, 2017

**Town of Bethany Beach
Management's Discussion and Analysis
March 31, 2017**

As management of the Town of Bethany Beach, Delaware (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ending March 31, 2017. We encourage readers to consider this information in conjunction with the additional information that we have furnished in the Town's financial statements that follow this section.

Financial Highlights for Fiscal Year 2017

The assets and deferred outflows of resources of the Town of Bethany Beach exceed its liabilities and deferred inflows of resources at the end of fiscal year 2017 by \$27,292,108 (net position). Of this amount, \$10,167,296 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors. \$16,931,556 of the remaining net position is invested in capital assets, net of related debt and \$193,256 is restricted for specific uses. The Town's total net position increased by \$1,515,465 (5.9%) during fiscal year 2017. The net position of governmental activities increased by \$1,270,881 (7.2%) while the net position of business-type activities increased by \$244,584 (3.0%).

The increase in net position is a direct result of Town Council and Budget and Finance Committee efforts to provide adequate funding for the financial needs of the Town for the next five to ten years. This long-term focus and the maintenance of sufficient reserves has proven very beneficial to the Town.

As of the close of fiscal year 2017, the Town's governmental funds reported an ending fund balance of \$7,855,342. Of this amount, \$85,021 is nonspendable prepaid balances. In the General Fund, restricted funds include \$51,502 in post-employment benefits, \$86,258 in Cultural & Historic funds, and \$7,727 in Fourth of July Parade Funds. Committed funds are \$1,011,000 for capital purchases in fiscal year 2018, \$5,175,000 for future capital projects and \$1,067,000 in the Storm Emergency Relief Fund.

This leaves \$371,775 as unassigned in the governmental funds at the end of fiscal year 2017. The unassigned fund balance for the general fund represents 6.4% of the general fund operating expenditure budget for fiscal year 2018 of \$5,831,000.

The Town's bonds and notes payable decreased by \$416,764 (15.0%) as a result of regular, scheduled payments on current debt. Of the Town's total debt of \$2,352,921, \$971,319 (41.3%) is due within the next five years.

Overall, the Town is in good financial condition and has the policies and focus to stay in sound fiscal shape.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

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

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

The government-wide financial statements can be found on pages 20-21 of this report.

Fund Financial Statements

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

Governmental funds – Most of the basic services provided by the Town are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

These statements provide a detailed short-term view of the Town's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Town. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town has four governmental funds: the General Fund, the Capital Projects Fund, the Special Revenue Fund and the Ambulance Fund. The Special Revenue Fund is used to account for State and Federal grants. Fees collected for ambulance services are used only to pay the charges of the Bethany Beach Volunteer Fire Company.

The basic governmental fund financial statements can be found on pages 22-25 of this report.

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

The basic proprietary fund financial statements can be found on pages 26-28 of this report.

Notes to the Financial Statements

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

The notes to the financial statements can be found on pages 29-51 of this report.

Government-Wide Financial Analysis

As noted earlier, the Town's net position may serve, over time, as a useful indicator of the government's financial situation. The Town's combined net position (government and business-type activities) totaled \$27,292,108 at the end of fiscal year 2017, compared to \$25,776,643 at the end of fiscal year 2016, an increase of \$1,515,465 (5.9%).

The largest portion of the Town's net position, \$16,931,556 (62.0%) reflects its investment in capital assets such as land, buildings, equipment and infrastructure, less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

On March 31, 2017, the Town held \$941,912 in cash and cash equivalents and \$9,093,000 in investments. The investments were entirely certificates of deposit. The Town follows a written Investment Policy, which is reviewed annually. The primary objective of Town investments in priority order are safety, liquidity and then return on investment. The Town seeks investments that are diverse by type, institution and maturity date. All investments must be FDIC insured or collateralized. Authorized investments include United States government securities, certificates of deposit, money market accounts in commercial banks and commercial bank savings accounts. Currently, all certificates of deposit held by the Town are for amounts under the FDIC limit of \$250,000 per institution to provide greater security of funds while improving interest earnings. Further information on cash and investments can be found on page 37, Note 4.

The Town's Fund Balance Policy establishes recommendations for minimum and maximum levels of reserves held for operating and capital needs. This policy is intended to increase the long-term financial stability of the Town while decreasing the need for long-term borrowing. All of the Town's funds continue to hold reserves above the minimums recommended in the policy, a good indicator of the Town's financial strength.

The Fund Balance Policy recommends maintaining an Operating Reserve of 15% to 30% of budgeted operating costs. In the budget for the current fiscal year 2018, operating reserves are \$875,000 in the general fund, \$121,000 in the sanitation fund and \$170,000 in the water fund. Total town-wide operating reserves are \$1,166,000, which is 15.0% of the FY 2018 operating budget.

The policy's recommendations for the amount of funds committed for capital replacement are based on the cost and useful lives of assets currently in use by the Town. For fiscal year 2018, capital replacement reserves are \$5,175,000 in the general fund, \$901,000 in the sanitation fund and \$1,087,000 in the water fund. An additional \$350,000 is held in reserve in the water fund for replacement of filter media in the water plant, which is expected to be needed within the next five years. Total town-wide capital reserves are \$7,513,000, which is 44.4% of the Town's net investment in capital assets.

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

The Town has agreed to pay the cost of post-employment health care insurance for three retirees and their families. The Town has elected to amortize the liability over ten years, beginning in fiscal year 2012. As of March 31, 2017, \$308,042 was held in a separate bank account to fund this benefit, which is 51.6% of the \$597,000 actuarial accrued liability. Further information on this obligation can be found on pages 42-43, Note 8.

The following table is a summary of the government-wide statement of net position compared to the prior year:

Town of Bethany Beach
Summary of Statement of Net Position
March 31, 2017

	Governmental Activities		Business-Type Activities		Total		% Change
	2016	2017	2016	2017	2016	2017	
Current Assets	\$6,816,491	\$8,054,674	\$2,800,646	\$2,899,033	\$9,617,137	\$10,953,707	13.9%
Capital Assets	11,774,735	11,615,997	7,602,500	7,668,480	19,377,235	19,284,477	-0.5%
Other Assets	329,180	264,311	297,775	276,208	626,955	540,519	-13.8%
Total Assets	<u>18,920,406</u>	<u>19,934,982</u>	<u>10,700,921</u>	<u>10,843,721</u>	<u>29,621,327</u>	<u>30,778,703</u>	3.9%
Deferred Outflows - Pension	187,148	188,327	-	-	187,148	188,327	0.6%
Noncurrent Liabilities	704,582	498,442	2,290,994	2,132,877	2,995,576	2,631,319	-12.2%
Current Liabilities	<u>577,395</u>	<u>645,202</u>	<u>195,473</u>	<u>251,806</u>	<u>772,868</u>	<u>897,008</u>	16.1%
Total Liabilities	<u>1,281,977</u>	<u>1,143,644</u>	<u>2,486,467</u>	<u>2,384,683</u>	<u>3,768,444</u>	<u>3,528,327</u>	-6.4%
Deferred Inflows - Pension	263,388	146,595	-	-	263,388	146,595	-44.3%
Net investment in capital assets	11,774,735	11,155,113	5,507,815	5,776,443	17,282,550	16,931,556	-2.0%
Restricted	165,026	173,588	87,356	19,668	252,382	193,256	-23.4%
Unrestricted	<u>5,622,428</u>	<u>7,504,369</u>	<u>2,619,283</u>	<u>2,662,927</u>	<u>8,241,711</u>	<u>10,167,296</u>	23.4%
Total Net Position	<u>\$17,562,189</u>	<u>\$18,833,070</u>	<u>\$8,214,454</u>	<u>\$8,459,038</u>	<u>\$25,776,643</u>	<u>\$27,292,108</u>	5.9%

Funds in the Town's unrestricted net position of \$10,167,296 may be used to meet the government's ongoing obligations to citizens and creditors. Unrestricted net position increased \$1,925,585 (23.4%) during fiscal year 2017: increasing \$1,881,941 in Governmental Activities and \$43,644 in Business-Type Activities. During this time net investment in capital assets decreased \$350,994 (2.0%): decreasing \$619,622 in Governmental Activities and increasing \$268,628 in Business-Type Activities.

Current assets increased \$1,336,570 (13.9%). The current assets for Governmental Activities increased \$1,238,183 (18.2%), while current assets of Business-Type Activities increased \$98,387 (3.5%). The majority of the \$10,953,707 in total current assets is cash, cash equivalents and investments, most of which are held in reserves for future needs.

Receivables, which make up \$820,073 of the current assets, decreased \$143,935 (14.9%). The largest single receivable is \$464,083 in water bills mailed in April 2017 for the previous six months of water use. The second largest receivable is \$197,765 due to the Town for the final year of a four-year payment plan for the building permit and water impact fee of the Bethany Beach Ocean Suites construction project.

Noncurrent liabilities decreased \$364,257 (12.2%); \$206,140 in Governmental Activities and \$158,117 in Business-Type Activities.

The following table is a summary of the government-wide statement of activities compared to the prior year:

Town of Bethany Beach
Summary of Statement of Activities
March 31, 2017

	Governmental Activities		Business-Type Activities		Total		% Change
	2016	2017	2016	2017	2016	2017	
Revenues:							
Program Revenues							
Charges for services	\$2,979,404	\$3,100,056	\$2,068,709	\$2,108,480	\$5,048,113	\$5,208,536	3.2%
Assessments & impact fees			342,849	333,017	342,849	333,017	-2.9%
Operating grants	103,976	96,507	-	-	103,976	96,507	-7.2%
Capital grants	242,251	132,500	-	-	242,251	132,500	-45.3%
General Revenues							
Property taxes	1,776,040	1,897,538	-	-	1,776,040	1,897,538	6.8%
Rental real estate taxes	1,149,424	1,348,255	-	-	1,149,424	1,348,255	17.3%
Transfer taxes	710,089	1,143,222	-	-	710,089	1,143,222	61.0%
Other	78,717	89,675	15,705	38,304	94,422	127,979	35.5%
Total Revenues	7,039,901	7,807,753	2,427,263	2,479,801	9,467,164	10,287,554	8.7%
Expenses:							
General and administration	1,279,220	1,119,390	-	-	1,279,220	1,119,390	-12.5%
Licenses and inspections	242,479	267,848	-	-	242,479	267,848	10.5%
Public Safety							
Police and Alderman	1,616,709	1,710,059	-	-	1,616,709	1,710,059	5.8%
Parking	514,343	568,278	-	-	514,343	568,278	10.5%
Beach Patrol	537,084	486,587	-	-	537,084	486,587	-9.4%
Ambulance	149,195	149,195	-	-	149,195	149,195	0.0%
Public Works							
Storm water management	177,063	198,394	-	-	177,063	198,394	12.0%
Streets & Parks	1,280,257	1,325,313	-	-	1,280,257	1,325,313	3.5%
Beach and boardwalk	389,201	403,364	-	-	389,201	403,364	3.6%
Recreation - entertainment	273,366	277,373	-	-	273,366	277,373	1.5%
Cultural/Historic & Parade	39,333	31,071	-	-	39,333	31,071	-21.0%
Sanitation Fund	-	-	825,944	816,317	825,944	816,317	-1.2%
Water Fund	-	-	1,314,737	1,418,900	1,314,737	1,418,900	7.9%
Total Expenses	6,498,250	6,536,872	2,140,681	2,235,217	8,638,931	8,772,089	1.5%
Change in net position	541,651	1,270,881	286,582	244,584	828,233	1,515,465	83.0%
Net position, beginning	17,020,538	17,562,189	7,927,872	8,214,454	24,948,410	25,776,643	3.3%
Net position, end of year	<u>\$17,562,189</u>	<u>\$18,833,070</u>	<u>\$8,214,454</u>	<u>\$8,459,038</u>	<u>\$25,776,643</u>	<u>\$27,292,108</u>	<u>5.9%</u>

The Town's total net position increased \$1,515,465 (5.9%). Approximately 42.7% of the Town's total revenue came from three types of taxes: property, rental and transfer. Total revenues increased \$820,390 (8.7%), \$433,133 of this was from real estate transfer taxes. Total expenses increased \$133,158 (1.5%).

Governmental Activities

Total revenue for government activities increased \$767,852 (10.9%) to \$7,807,753. The major revenue sources and key factors are as follows. Grant revenue is not included due to the variable nature of State and Federal grants.

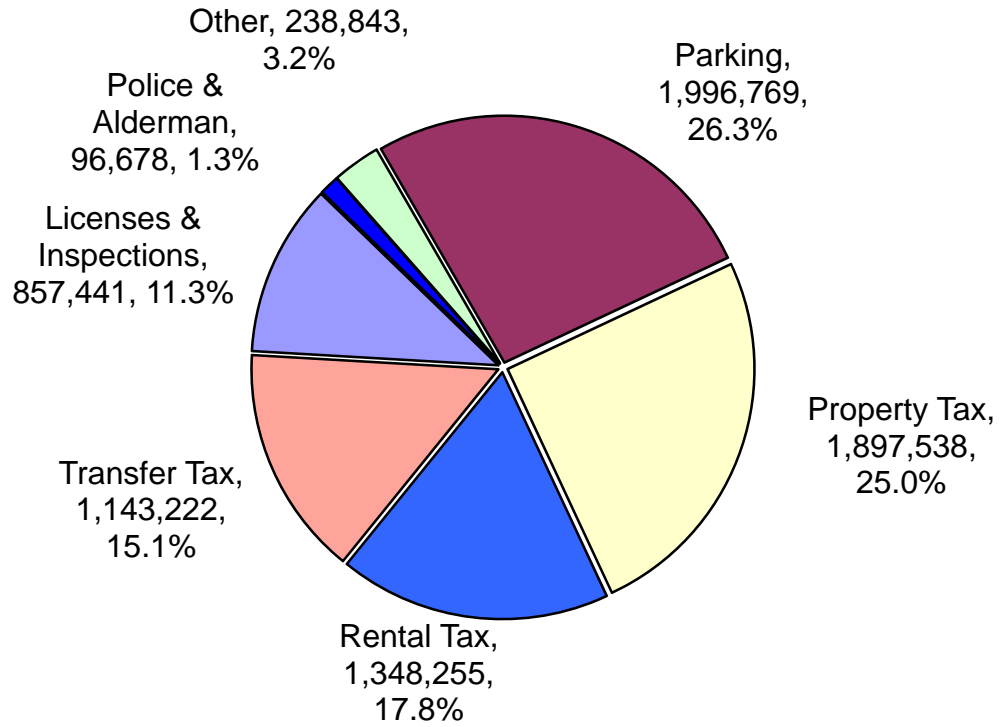
1. Revenues from parking fines, parking meters and parking permits totaled \$1,996,769 and were the Town's largest revenue source. These revenues increased \$93,544 (4.9%). As a percentage of governmental revenue, parking decreased from 28.4% in fiscal year 2016 to 26.3% in fiscal year 2017.
2. Property Tax revenue totaled \$1,897,538 and was the Town's second largest source of funding. The assessed value of taxable properties as of May 2016 was \$1,017,733,259, which is 21,856,600 (2.2%) more than the prior year. The tax rate was \$0.185 per \$100 of assessed value and the most recent town-wide reassessment was completed in 2001. Total property tax revenue increased \$121,498 (6.8%) from new construction. As a percentage of total governmental revenue, property tax decreased from 26.5% in fiscal year 2016 to 25.0% in fiscal year 2017.
3. Real estate rental taxes were the Town's third largest revenue source at \$1,348,255. These revenues increased \$198,831 (17.3%) as the tax increase that was approved in the prior year was fully implemented. As a percentage of total governmental revenue, rental taxes increased from 17.2% in fiscal year 2016 to 17.8% in fiscal year 2017.
4. Real estate transfer taxes were the Town's fourth largest revenue source at \$1,143,222. These revenues increased \$433,133 (61.0%) from a very active housing market. The Town uses transfer tax revenue only for funding capital projects and not for day-to-day operational costs. As a percentage of governmental revenue, transfer taxes increased from 10.6% in fiscal year 2016 to 15.1% in fiscal year 2017.
5. Licenses, permits and other fees were the fifth largest revenue source at \$857,441. These revenues increased \$45,491 (5.6%). The main revenue in this category is building permits, which brought in \$450,446. Other revenues include business licenses, rental licenses, franchise fees, concession fees, shuttle bus fees and trolley fees. As a percentage of governmental revenue, licenses, permits and other fees decreased from 12.1% in fiscal year 2016 to 11.3% in fiscal year 2017.

The Town budgets and sets fees with a goal of summer season revenues fully paying the cost of operations for the summer season. Summer season related revenue was approximately \$3.8 million. This revenue includes parking fees, rental taxes, business licenses, beach concessions and other fines and fees. The operating cost for the summer season, including the depreciation of capital assets, was estimated at \$3.4 million in fiscal year 2017. Property tax revenues are not used to fund summer season costs.

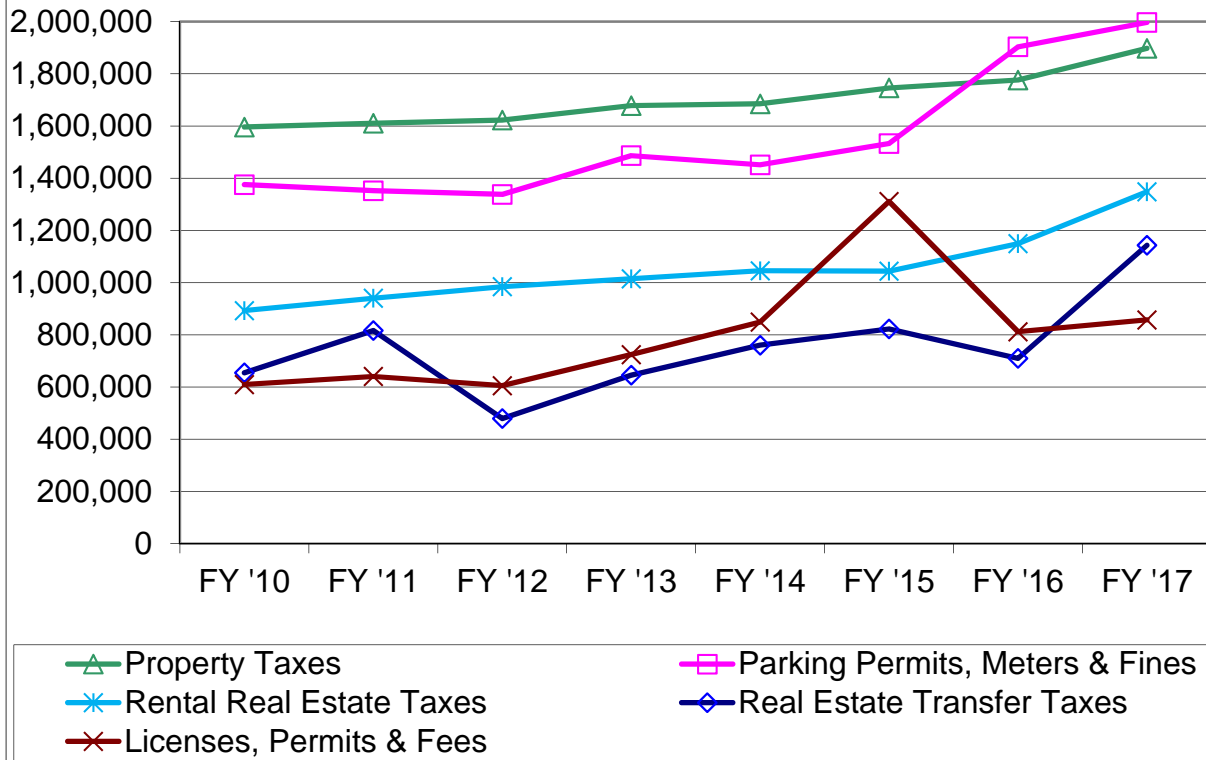
The following two charts show the Town's general fund revenues for the fiscal year ending March 31, 2017, and the trend of our six largest, recurring revenue sources over the past eight fiscal years. Special fund revenue is not included in these charts due to the variable nature of State and Federal grants.

FY 2017 Governmental Revenue Sources

(excludes grant funds)



Trends in Major Governmental Revenue Sources



The Town's expense for all governmental activities combined was \$6,536,872. This covers a range of services and increased \$38,622 (0.6%) from fiscal year 2016.

Business-type Activities

The sanitation and water departments are the Town's business-type activities and are accounted for in their own funds. The Town segregates funds so that sanitation and water fees are used only to support sanitation and water needs, respectively. The sanitation and water funds are each entirely self-supporting.

Sanitation department revenues increased \$20,502 (2.5%). Sanitation department expenses decreased \$9,627 (1.2%). Sanitation revenues covered all operating costs, including depreciation, with a net operating gain of \$9,217, which is 1.1% of total sanitation revenue. The total change in net position was \$34,954. Income and expense detail is shown on page 65 of this report.

Water department revenues increased \$32,036 (2.0%). Water department expenses increased \$104,163 (7.9%). Operating revenues were not sufficient to cover all operating expenses, resulting in a net operating loss of \$93,332, which is 5.7% of total water revenue. The total change in net position was \$209,630. Income and expense detail is shown on page 64 of this report.

This operating loss means that the town is not currently fully funding depreciation, which has increased dramatically in the past few years due to extensive construction at the water plant, mainly the construction of a new water tower. In fiscal year 2017, depreciation expense was \$332,560, which is \$81,178 higher than it was in fiscal year 2015, before construction of the water tower and attached pump station. If non-operating revenue from water impact fees and interest were included in this calculation then the water fund would show a gain of \$6,281.

Financial Analysis of the Town's Funds

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

Governmental Funds

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

During fiscal year 2017, the Town's governmental fund balance increased \$1,181,523 (17.7%) to \$7,855,342. Funds committed for capital improvements budgeted in the coming year decreased \$139,000 to \$1,011,000. Funds committed for future capital projects increased \$1,159,000 to \$5,175,000. The Storm Emergency Relief Fund increased \$423,000, from \$644,000 to \$1,067,000.

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

1. Nonspendable prepaid balances	\$85,021
2. Restricted for payment of post-employment health care benefits	\$51,502
3. Restricted for uses determined by the Cultural & Historical Affairs Committee (In February 2017 the Committee dedicated \$46,300 of these funds for the museum project)	\$86,258
4. Restricted for use on the Fourth of July Parade	\$7,727
5. Restricted for approved grants	\$59
6. Committed for capital improvements in the coming fiscal year	\$1,011,000
7. Committed for the Storm Emergency Relief Fund	\$1,067,000
8. Committed for future capital replacements	\$5,175,000

The general fund is the main operating fund of the Town and accounts for major functions of the government including police, lifeguards, streets, parks, stormwater drainage, parking, recreation and general administrative services. As a measure of the general fund's liquidity, it may be useful to compare the unassigned fund balance to the general fund's total fund balance and operating expenditures. The general fund's unassigned fund balance of \$393,033 is 5.0% of the \$7,855,283 total fund balance and 7.2% of the \$5,441,556 in general fund operating expenditures for fiscal year 2017.

Proprietary Funds

The Town's proprietary fund financial statements provide the same sort of information as the entity-wide statements and are found on pages 26-28 of this report.

The net position of the water department increased \$209,630 (3.2%) to \$6,855,646. Fiscal year 2017 resulted in a net operating loss of \$93,332. The water department had a net operating loss of \$22,097 in fiscal year 2016, \$133,825 in fiscal year 2015 and \$12,196 in fiscal year 2014; and net operating income of \$48,294 in fiscal year 2013, \$97,313 in fiscal year 2012 and \$124,818 in fiscal year 2011. Non-operating revenues of \$333,017 were received mainly from water impact fees for capital projects and sinking fund fees for water department debt repayment.

The net position of the sanitation department increased \$34,954 (2.2%) to end the year at \$1,603,392. Fiscal year 2017 resulted in net operating income of \$9,217. The sanitation department had a net operating loss of \$2,165 in fiscal year 2016; net operating income of \$19,995 in fiscal year 2015 and \$13,682 in fiscal year 2014; net operating loss of \$80,418 in fiscal year 2013 and \$77,266 in fiscal year 2012; and net operating income of \$74,401 in fiscal year 2011.

General Fund Budgetary Highlights

The budgetary comparison schedule for the general fund can be found on page 53 of this report.

General fund revenues exceeded the amount budgeted by \$1,003,983 (15.6%). Page 12 of this report supplies detail on the largest revenues. Revenues from transfer taxes and building permits significantly exceeded our conservative, budgeted estimates. Parking revenues and rental taxes also exceeded the budget.

The Town Council may amend the budget during the year as purchase decisions are made and previously estimated amounts become known. In April 2017, the General Fund Operating Budget was retroactively reallocated between departments; additional funds were needed in some departments while others had funds to spare. The budget was not changed in total.

General fund expenditures as a whole were under the amended budget by \$77,444 (1.4%). Total revenues exceeded total expenditures by \$2,015,427, providing funding for future purchases of capital assets and for capital improvement projects.

Capital Assets

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

Governmental Activities	FY 2017 Additions
Construction in Progress	\$423,294
Beach and Boardwalk	\$56,356
Machinery and equipment	\$93,426
Streets and parks	\$126,779
Vehicles	\$25,000
Total	<u>\$724,855</u>
Sanitation Fund	FY 2017 Additions
Vehicles	\$194,040
Water Fund	FY 2017 Additions
Water Plant & Distribution System	\$246,188
Vehicles and Equipment	\$58,890
Total	<u>\$305,078</u>

In governmental activities, the largest area of capital expenditure in fiscal year 2017 is the \$423,294 in Construction in Progress. The second largest category was \$126,779 for street paving. The third largest category was \$93,426 spent in machinery and equipment to purchase a riding mower, pressure washer, tractor and scissor lift with trailer. The \$56,356 in Beach and Boardwalk was for the boardwalk extension near Hollywood Street. The \$25,000 in vehicles was used to purchase a police car.

When capital projects are not completed by the end of the fiscal year they are classified as Construction in Progress, then when the project is complete it is transferred from Construction in Progress and into capital assets being depreciated. In fiscal year 2017, \$423,294 was added to Construction in Progress for six projects; \$142,596 for street paving, \$141,056 for the public works yard on Blackwater Road, \$73,917 for engineering of the upcoming Atlantic Avenue paving project, \$28,555 for the park development project, \$27,145 for the museum and \$10,025 for the police shooting range. As of the end of the fiscal year, \$632,447 remained in Construction in Progress for these six projects.

In the sanitation department, \$194,040 was used to purchase a side loading trash truck.

In the water department, \$150,594 was used to construct a mineral pond, \$95,594 was used to replace the underground pipe on South Atlantic Avenue and \$58,890 was used to purchase a diesel pickup truck.

Capital asset records are reviewed annually for accuracy and completeness. Assets that have been sold, scrapped or are no longer in use are deleted from the capital asset inventory. Further information on capital projects and purchases can be found on pages 38-39 of this report in Note 5.

Debt Administration

As of March 31, 2017, the Town had \$2,352,921 in outstanding debt; \$1,892,037 from construction of the water tower and \$460,884 from the purchase of the land under the parking lot on Garfield Parkway. Of the \$2,352,921 total outstanding debt of the Town, \$971,319 (41.3%) is payable within five years; however, the Town Council intends to make accelerated payments on the water tower loan.

Additional information on Town debt can be found on pages 40-41 of this report in Notes 6 and 7.

Economic Factors

We expect revenues for the coming fiscal year to be similar to those of fiscal year 2017 as reported in these financial statements with the following exceptions:

The Town may be significantly affected by unpredictable events such as hurricanes and nor'easters. The Town takes a proactive approach to pending storms by activating our disaster plan, evacuating people, and relocating assets when feasible. The future economic performance of the Town could be greatly affected by weather events, particularly if they occur during the peak summer season.

Real estate transfer tax revenue is very unpredictable and dependent on the housing market. We expect to receive anywhere from \$550,000 to \$800,000 in fiscal year 2018. The Town chooses to budget at the conservative end of this range. The variable nature of this revenue is one reason that the Town uses these funds for capital purchases and projects and not for operational costs.

The fiscal year 2018 budget was approved in March 2017. The operating budget for all Town activities combined is \$7,771,000. This is \$389,000 (5.3%) more than the fiscal year 2017 operating budget. Budgeted operating costs increased 5.7% in the general fund, 4.1% in the sanitation fund and 4.1% in the water fund.

The fiscal year 2018 budget included an 18% increase to trash service rates, which should provide sufficient funding for at least the next five years. The trash rate for residential properties increased \$50 to \$330 per year. This fee includes pickup of trash, recycling, yard waste and two bulk pickup weeks per year.

General Fund capital projects budgeted for fiscal year 2018 are:

- \$200,000 for annual street repaving
- \$140,000 for additional improvements to the Town's Public Works Yard
- \$100,000 for plan development and continued enhancement to the Town Park
- \$60,000 to replace the roof on the Comfort Station
- \$15,000 to repair and replace pilings on town property near Tingle and Evans
- \$3,000 additional funds to be combined with \$12,000 in the current year budget to replace a mosquito sprayer

Water Fund capital projects budgeted for fiscal year 2018 are:

- \$50,000 for water system repairs
- \$50,000 for equipment replacement as needed

Requests for Information

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

FINANCIAL STATEMENTS

TOWN OF BETHANY BEACH, DELAWARE

STATEMENT OF NET POSITION

March 31, 2017

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 818,666	\$ 123,246	\$ 941,912
Investments	6,874,381	2,218,619	9,093,000
Receivables:			
Taxes - real and personal property	40,782	-	40,782
Service charges	-	494,561	494,561
Interest	8,189	3,572	11,761
Other	227,635	45,334	272,969
Prepaid expenses	85,021	13,701	98,722
Total current assets	8,054,674	2,899,033	10,953,707
Noncurrent assets			
Restricted cash and cash equivalents	221,048	276,208	497,256
Net pension asset	43,263	-	43,263
Capital assets at cost	19,448,435	12,587,390	32,035,825
Less: accumulated depreciation	(7,832,438)	(4,918,910)	(12,751,348)
Total noncurrent assets	11,880,308	7,944,688	19,824,996
Total assets	19,934,982	10,843,721	30,778,703
DEFERRED OUTFLOWS OF RESOURCES			
Pension (see Note 9)	188,327	-	188,327
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	207,422	139,036	346,458
Internal balances	(6,857)	6,857	-
Unearned revenue	214,167	6,156	220,323
Compensated absences liability	5,648	1,949	7,597
Bonds and notes payable	224,822	97,808	322,630
Total current liabilities	645,202	251,806	897,008
Noncurrent liabilities			
Compensated absences liability	214,920	82,108	297,028
OPEB obligation	47,460	256,540	304,000
Bonds and notes payable	236,062	1,794,229	2,030,291
Total noncurrent liabilities	498,442	2,132,877	2,631,319
Total liabilities	1,143,644	2,384,683	3,528,327
DEFERRED INFLOWS OF RESOURCES			
Pension (see Note 9)	146,595	-	146,595
NET POSITION			
Net investment in capital assets	11,155,113	5,776,443	16,931,556
Restricted	173,588	19,668	193,256
Unrestricted	7,504,369	2,662,927	10,167,296
Total net position	\$ 18,833,070	\$ 8,459,038	\$ 27,292,108

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

TOWN OF BETHANY BEACH, DELAWARE

STATEMENT OF ACTIVITIES

Year Ended March 31, 2017

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants, and Interest	Capital Grants, and Interest	Primary Government		
					Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES							
General and administration	\$1,119,390	\$ -	\$ -	\$ -	\$ (1,119,390)	\$ -	\$ (1,119,390)
Licenses and inspections	267,848	857,441	-	-	589,593	-	589,593
Public safety:							
Police and Alderman fines and revenue	1,710,059	96,678	96,507	25,000	(1,491,874)	-	(1,491,874)
Parking	568,278	1,996,769	-	-	1,428,491	-	1,428,491
Beach patrol	486,587	-	-	-	(486,587)	-	(486,587)
Ambulance	149,195	149,168	-	-	(27)	-	(27)
Public works:							
Stormwater management	198,394	-	-	-	(198,394)	-	(198,394)
Streets and parks	1,325,313	-	-	107,500	(1,217,813)	-	(1,217,813)
Beach and boardwalk	403,364	-	-	-	(403,364)	-	(403,364)
Recreation - entertainment	277,373	-	-	-	(277,373)	-	(277,373)
Cultural, historical, and parade	31,071	-	-	-	(31,071)	-	(31,071)
Total governmental activities	6,536,872	3,100,056	96,507	132,500	(3,207,809)	-	(3,207,809)
BUSINESS-TYPE ACTIVITIES							
Water	1,418,900	1,282,946	333,017	-	-	197,063	197,063
Sanitation	816,317	825,534	-	-	-	9,217	9,217
Total business-type activities	2,235,217	2,108,480	333,017	-	-	206,280	206,280
Total primary government	\$8,772,089	\$ 5,208,536	\$ 429,524	\$ 132,500	\$ (3,207,809)	\$ 206,280	\$ (3,001,529)
General Revenues							
Taxes:							
Property					1,897,538	-	1,897,538
Rental real estate					1,348,255	-	1,348,255
Transfer					1,143,222	-	1,143,222
Interest					36,529	22,191	58,720
Other					53,146	16,113	69,259
Total general revenues					4,478,690	38,304	4,516,994
Change in net position					1,270,881	244,584	1,515,465
Net position, beginning of year					17,562,189	8,214,454	25,776,643
Net position, end of year					\$ 18,833,070	\$ 8,459,038	\$ 27,292,108

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

TOWN OF BETHANY BEACH, DELAWARE

**BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2017**

	<u>Major Fund</u>		Non-Major Governmental Funds	Total Governmental Funds
	General Fund	Capital Projects		
ASSETS				
Cash and cash equivalents	\$ 818,666	\$ -	\$ -	\$ 818,666
Investments	6,874,381	-	-	6,874,381
Receivables:				
Taxes - real and personal property	40,782	-	-	40,782
Interest	8,189	-	-	8,189
Other	223,267	-	4,368	227,635
Prepaid expenses	63,763	21,258	-	85,021
Due from other funds	7,957	27,626	-	35,583
Restricted assets:				
Cash and cash equivalents	145,487	-	75,561	221,048
Total assets	\$ 8,182,492	\$ 48,884	\$ 79,929	\$ 8,311,305
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenses	\$ 158,338	\$ 48,884	\$ 200	\$ 207,422
Due to other funds	27,626	-	1,100	28,726
Unearned revenues	135,597	-	78,570	214,167
Compensated absences liability	5,648	-	-	5,648
Total liabilities	327,209	48,884	79,870	455,963
FUND BALANCES				
Nonspendable	63,763	21,258	-	85,021
Restricted	145,487	-	59	145,546
Committed for:				
Capital improvements	1,011,000	-	-	1,011,000
Storm emergency	1,067,000	-	-	1,067,000
Future capital replacements	5,175,000	-	-	5,175,000
Unassigned	393,033	(21,258)	-	371,775
Total fund balances	7,855,283	-	59	7,855,342
Total liabilities and fund balances	\$ 8,182,492	\$ 48,884	\$ 79,929	\$ 8,311,305

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

TOWN OF BETHANY BEACH, DELAWARE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
March 31, 2017

Total fund balances, governmental funds	\$ 7,855,342
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.	11,615,997
Some liabilities are not due and payable in the current period and, therefore, are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position. Those liabilities consist of:	
Deferred outflow of resources - pension (see Note 9)	188,327
Deferred inflow of resources - pension (see Note 9)	(146,595)
Net pension asset	43,263
Compensated absences	(214,920)
Other post-employment benefits obligation	(47,460)
Bonds and notes payable	(460,884)
	18,833,070
Net position of governmental activities in the Statement of Net Position	\$ 18,833,070

TOWN OF BETHANY BEACH, DELAWARE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended March 31, 2017

	<u>Major Fund</u>		Non-Major Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
	General <u>Fund</u>	Capital Projects		
REVENUES:				
Taxes:				
Property	\$ 1,897,538	\$ -	\$ -	\$ 1,897,538
Rental real estate	1,348,255	-	-	1,348,255
Transfer	1,143,222	-	-	1,143,222
Parking revenues	1,996,769	-	-	1,996,769
Licenses, permits, and fees	857,441	-	-	857,441
Police and Alderman fines and revenue	96,678	-	-	96,678
Interest	63,934	-	45	63,979
Service receipts	-	-	149,168	149,168
Intergovernmental revenues	-	-	229,007	229,007
Contributions	35,472	-	-	35,472
Miscellaneous	17,674	-	-	17,674
Total revenues	7,456,983	-	378,220	7,835,203
EXPENDITURES:				
General and administration	1,081,846	-	-	1,081,846
Licenses and inspections	263,106	-	-	263,106
Public safety:				
Police	1,485,796	-	96,508	1,582,304
Alderman	52,707	-	-	52,707
Parking	535,451	-	-	535,451
Beach patrol	486,587	-	-	486,587
Ambulance	-	-	149,195	149,195
Public works:				
Stormwater management	126,363	-	-	126,363
Streets and parks	829,826	-	-	829,826
Beach and boardwalk	316,176	-	-	316,176
Recreation - entertainment	237,395	-	-	237,395
Cultural, historical, and parade	26,303	-	-	26,303
Debt service:				
Principal	-	214,116	-	214,116
Interest	-	27,450	-	27,450
Capital outlay	-	592,355	132,500	724,855
Total expenditures	5,441,556	833,921	378,203	6,653,680
Excess (deficiency) of revenues over expenditures	2,015,427	(833,921)	17	1,181,523
Other financing (uses) sources:				
Transfer (out) in	(833,921)	833,921	-	-
Total other financing (uses) sources	(833,921)	833,921	-	-
Net change in fund balances	1,181,506	-	17	1,181,523
Fund balances, beginning of year	6,673,777	-	42	6,673,819
Fund balances, end of year	\$ 7,855,283	\$ -	\$ 59	\$ 7,855,342

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

TOWN OF BETHANY BEACH, DELAWARE
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
Year Ended March 31, 2017

Net change in fund balances, governmental funds \$ 1,181,523

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	724,855
Depreciation expense	(883,593)

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

214,116

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

Change in deferred outflow of resources - pension (see Note 9)	1,179
Change in deferred inflow of resources - pension (see Note 9)	116,793
Change in net pension liability/asset	(65,310)
Change in compensated absences	(26,803)
Change in other post-employment benefits obligation	<u>8,121</u>

Change in net position of governmental activities \$ 1,270,881

TOWN OF BETHANY BEACH, DELAWARE
STATEMENT OF FUND NET POSITION
BUSINESS-TYPE ACTIVITIES
March 31, 2017

	Enterprise Fund		
	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 106,718	\$ 16,528	\$ 123,246
Investments	1,287,377	931,242	2,218,619
Receivables:			
Service charges	475,548	19,013	494,561
Interest	2,401	1,171	3,572
Other	45,334	-	45,334
Prepaid expenses	10,306	3,395	13,701
Total current assets	1,927,684	971,349	2,899,033
Noncurrent assets			
Restricted cash and cash equivalents	276,208	-	276,208
Capital assets, at cost	11,020,936	1,566,454	12,587,390
Less: accumulated depreciation	(4,043,811)	(875,099)	(4,918,910)
Total noncurrent assets	7,253,333	691,355	7,944,688
Total assets	\$ 9,181,017	\$ 1,662,704	\$ 10,843,721
LIABILITIES AND NET POSITION			
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	\$ 111,651	\$ 27,385	\$ 139,036
Due to other funds	6,386	471	6,857
Unearned revenues	6,156	-	6,156
Long-term liabilities due within one year:			
Compensated absences liability	1,278	671	1,949
Bonds and notes payable	97,808	-	97,808
Total current liabilities	223,279	28,527	251,806
Noncurrent liabilities			
Compensated absences liability	51,323	30,785	82,108
OPEB obligation	256,540	-	256,540
Bonds and notes payable	1,794,229	-	1,794,229
Total noncurrent liabilities	2,102,092	30,785	2,132,877
Total liabilities	2,325,371	59,312	2,384,683
NET POSITION			
Net investment in capital assets	5,085,088	691,355	5,776,443
Restricted	19,668	-	19,668
Unrestricted	1,750,890	912,037	2,662,927
Total net position	\$ 6,855,646	\$ 1,603,392	\$ 8,459,038

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

TOWN OF BETHANY BEACH, DELAWARE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION
BUSINESS-TYPE ACTIVITIES
Year Ended March 31, 2017

	Enterprise Fund		
	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
OPERATING REVENUE			
Charges for services	\$ 1,257,499	\$ 825,534	\$ 2,083,033
Other	25,447	-	25,447
Total operating revenues	1,282,946	825,534	2,108,480
OPERATING EXPENSES			
Operations	1,043,718	715,740	1,759,458
Depreciation and amortization	332,560	100,577	433,137
Total operating expenses	1,376,278	816,317	2,192,595
Net operating (loss) income	(93,332)	9,217	(84,115)
NON-OPERATING REVENUES (EXPENSES)			
Non-operating revenue	333,017	16,113	349,130
Financial (expense) income, net	(30,055)	9,624	(20,431)
Total non-operating revenue	302,962	25,737	328,699
Change in net position	209,630	34,954	244,584
Total net position, beginning of year	6,646,016	1,568,438	8,214,454
Total net position, end of year	\$ 6,855,646	\$ 1,603,392	\$ 8,459,038

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, 2017

	Enterprise Fund		
	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 1,309,536	\$ 820,893	\$ 2,130,429
Payments to suppliers	(406,318)	(273,760)	(680,078)
Payments to employees	(499,463)	(416,286)	(915,749)
Net cash provided by operating activities	403,755	130,847	534,602
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Non-operating revenue	333,017	16,113	349,130
Advances to general fund, net	(18,290)	(14,186)	(32,476)
Net cash provided by noncapital financing activities	314,727	1,927	316,654
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets	(305,078)	(194,040)	(499,118)
Principal paid on long-term debt	(202,648)	-	(202,648)
Interest paid on long-term debt	(42,622)	-	(42,622)
Net cash used in capital and related financing activities	(550,348)	(194,040)	(744,388)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments	(278,571)	(29,308)	(307,879)
Interest income	12,567	9,624	22,191
Net cash used in investing activities	(266,004)	(19,684)	(285,688)
Net decrease in cash and cash equivalents	(97,870)	(80,950)	(178,820)
Cash and cash equivalents, beginning of year	480,796	97,478	578,274
Cash and cash equivalents, end of year	\$ 382,926	\$ 16,528	\$ 399,454
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating (loss) income	\$ (93,332)	\$ 9,217	\$ (84,115)
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:			
Depreciation and amortization expense	332,560	100,578	433,138
Changes in assets and liabilities:			
Receivables, net	26,097	(4,641)	21,456
Prepaid expenses	21,187	9,596	30,783
Unearned revenue	493	-	493
Accounts payable and other accrued expenses	68,830	14,977	83,807
Compensated absences liability	1,799	1,120	2,919
OPEB obligation	46,121	-	46,121
Net cash provided by operating activities	\$ 403,755	\$ 130,847	\$ 534,602

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

NOTES TO FINANCIAL STATEMENTS

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

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

A. Financial Reporting Entity

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

Note 2. Summary of Significant Accounting Policies

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

A. Basis of Presentation

The Town’s basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements, which provide a more detailed level of financial information.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities display information about the Town as a whole. These statements include the financial activities of the Town. The statements distinguish between those activities of the Town that are governmental and those that are considered business-type activities.

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

A. Basis of Presentation (continued)

FUND FINANCIAL STATEMENTS

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

The remaining governmental funds which are non-major consist of the following:

The Special Revenue – Grants Fund is used to account for the proceeds of specific revenue sources. The Ambulance Fund is used to account for the proceeds and expenditures of ambulance fees.

PROPRIETARY FUNDS

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

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

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

Sanitation Fund – The sanitation fund is used to account for all financial transactions, including capital outlays, related to the operation of the Town's sanitation services.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

FIDUCIARY FUNDS

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

C. Measurement Focus

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

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

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

D. Basis of Accounting

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

Deferred Outflows / Inflows of Resources

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

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

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

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

E. Budgetary Process

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

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

F. Cash Equivalents

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

G. Investments

Investments consist of certificates of deposit and are carried at cost, which approximates fair market value.

H. Receivables

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

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical costs) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Town maintains a capitalization threshold of \$10,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value to the asset or materially extend an asset's life are not.

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

J. Restricted Assets

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

K. Unearned Revenue

Unearned revenues at March 31, 2017 are as follows:

	Governmental Activities	Business-Type Activities	Total
Parking permits	\$ 27,930	\$ -	\$ 27,930
Licenses	20,340	-	20,340
Concession fees	73,008	-	73,008
Grants	7,916	-	7,916
Ambulance fees	70,654	-	70,654
Other	14,319	6,156	20,475
Total unearned revenues	\$ 214,167	\$ 6,156	\$ 220,323

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

L. Compensated Absences

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

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

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

M. Accrued Liabilities and Long-Term Obligations

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

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

N. Net Position

Net position represents the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources. Government-wide and proprietary fund net position is divided into three components:

Net investment in capital assets – consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

Restricted – consists of net position that is restricted due to limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by grantors, creditors, or laws or regulations of other governments.

Unrestricted – all remaining balances.

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

O. Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of the Town charter or code, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – Amounts that can be used only for specific purposes determined by formal action by the Town Council through ordinance or resolution.

Assigned – Amounts that are designated by the Council or management with intent to be used for specific purposes, but are neither restricted or committed by ordinance or resolution.

Unassigned – Amounts not included in other spendable classifications.

The Town did not have any assigned fund balances at March 31, 2017. The purpose for committed funds is indicated on the face of the Balance Sheet. Restricted funds are grant monies from other governments or agencies that are to be spent for specific purposes. Nonspendable fund balances consist of prepaid amounts.

P. Operating Revenues and Expenses

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

Q. 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.

R. Interfund Receivables/Payables

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

S. Interfund Transfers In/Out

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

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

T. Reclassifications

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

U. Operating Leases

The Town has several parking lot lease agreements with various lease terms, renewable annually. Rent expense totaled approximately \$77,000 for the year ended March 31, 2017.

Note 3. Real Estate Taxes

The tax on real estate in the Town area for the fiscal year ended March 31, 2017 was \$0.185 per \$100 of assessed valuation as levied by the Town Council. The Town bills and collects its own real estate taxes. Delinquent taxes are levied by the Town. The schedule of real estate taxes levied for the fiscal year is as follows:

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

NOTES TO FINANCIAL STATEMENTS

Note 4. Cash and Investments

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

Cash and Cash Equivalents

The following summary represents the Town deposits which are (Category 1) fully insured or collateralized with securities held by the Town or its agent in the Town's name, (Category 2) those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent(s) in the Town's name, and (Category 3) those deposits which are not collateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Town's name at March 31, 2017:

Description	Financial Institution Balances			Totals	Carrying Amounts
	Category				
	1	2	3		
Cash and cash equivalents:					
Unrestricted	\$ 518,282	\$ 598,114	\$ -	\$ 1,116,396	\$ 941,912
Restricted	-	497,256	-	497,256	497,256
Totals	\$ 518,282	\$ 1,095,370	\$ -	\$ 1,613,652	\$ 1,439,168

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, 2017, the Town's investments consist of the following:

Description	Category	Amounts	
		Market	Carrying
Certificates of deposit	1, 2	\$ 9,093,000	\$ 9,093,000
Investments:			
Unrestricted		\$ 9,093,000	\$ 9,093,000
Total investments		\$ 9,093,000	\$ 9,093,000

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

Of the \$9,093,000 in investments, \$8,026,000 has been designated for capital replacement and \$1,067,000 has been designated for Storm Emergency Relief.

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets

The following is a summary of changes in capital assets for the year ended March 31, 2017:

GOVERNMENTAL ACTIVITIES	March 31, 2016	Additions	Deletions/ Transfers	March 31, 2017
Capital assets, not being depreciated:				
Land	\$ 4,886,783	\$ -	\$ -	\$ 4,886,783
Construction in progress	291,613	423,294	(82,460)	632,447
Total capital assets, not being depreciated	<u>5,178,396</u>	<u>423,294</u>	<u>(82,460)</u>	<u>5,519,230</u>
Capital assets, being depreciated:				
Beach and boardwalk	1,009,502	56,356	(9,897)	1,055,961
Building and improvements	3,917,518	-	-	3,917,518
Land improvements	643,162	-	(24,815)	618,347
Machinery and equipment	1,475,777	93,426	(21,158)	1,548,045
Stormwater	1,268,563	-	(199,075)	1,069,488
Streets and parks	4,335,211	126,779	82,460	4,544,450
Vehicles	1,109,741	25,000	40,655	1,175,396
Total capital assets, being depreciated	<u>13,759,474</u>	<u>301,561</u>	<u>(131,830)</u>	<u>13,929,205</u>
Less accumulated depreciation:				
Beach and boardwalk	369,164	51,019	(9,897)	410,286
Building and improvements	2,316,592	142,432	-	2,459,024
Land improvements	401,530	37,265	(24,815)	413,980
Machinery and equipment	1,129,870	97,144	(21,158)	1,205,856
Stormwater	765,882	54,247	(199,075)	621,054
Streets and parks	1,408,326	410,154	-	1,818,480
Vehicles	771,771	91,332	40,655	903,758
Total accumulated depreciation	<u>7,163,135</u>	<u>883,593</u>	<u>(214,290)</u>	<u>7,832,438</u>
Total capital assets, being depreciated, net	<u>6,596,339</u>	<u>(582,032)</u>	<u>82,460</u>	<u>6,096,767</u>
Governmental activities capital assets, net	<u>\$ 11,774,735</u>	<u>\$ (158,738)</u>	<u>\$ -</u>	<u>\$ 11,615,997</u>

Depreciation expense was charged to governmental functions as follows:

General, administrative, and park development	\$ 93,705
Police and Alderman	73,866
Parking	27,293
Public works:	
Stormwater management	73,489
Streets and parks	488,444
Beach and boardwalk	87,680
Recreation - entertainment	34,348
Cultural, historical, and parade	4,768
	<u>\$ 883,593</u>

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets (continued)

BUSINESS-TYPE ACTIVITIES	March 31, 2016	Additions	Deletions/ Transfers	March 31, 2017
Water Fund				
Capital assets, being depreciated:				
Plant and water distribution system	\$ 10,368,123	\$ 246,188	\$ (39,309)	\$ 10,575,002
Vehicles and equipment	455,351	58,890	(68,307)	445,934
Total capital assets, being depreciated	<u>10,823,474</u>	<u>305,078</u>	<u>(107,616)</u>	<u>11,020,936</u>
Total accumulated depreciation	<u>3,818,867</u>	<u>332,560</u>	<u>(107,616)</u>	<u>4,043,811</u>
Total capital assets, being depreciated, net	<u>7,004,607</u>	<u>(27,482)</u>	<u>-</u>	<u>6,977,125</u>
Water Fund capital assets, net	<u>\$ 7,004,607</u>	<u>\$ (27,482)</u>	<u>\$ -</u>	<u>\$ 6,977,125</u>
Sanitation Fund				
Capital assets, being depreciated:				
Vehicles and equipment	\$ 1,555,992	\$ 194,040	\$ (183,578)	\$ 1,566,454
Total capital assets, being depreciated	<u>1,555,992</u>	<u>194,040</u>	<u>(183,578)</u>	<u>1,566,454</u>
Total accumulated depreciation	<u>958,099</u>	<u>100,578</u>	<u>(183,578)</u>	<u>875,099</u>
Total capital assets, being depreciated, net	<u>597,893</u>	<u>93,462</u>	<u>-</u>	<u>691,355</u>
Sanitation Fund capital assets, net	<u>\$ 597,893</u>	<u>\$ 93,462</u>	<u>\$ -</u>	<u>\$ 691,355</u>
Business-type activities capital assets, net	<u>\$ 7,602,500</u>	<u>\$ 65,980</u>	<u>\$ -</u>	<u>\$ 7,668,480</u>

NOTES TO FINANCIAL STATEMENTS

Note 6. Bonds and Notes Payable – Business-Type Activities

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

	Interest Rate	Maturity Date	Balances March 31, 2016	Additions	Retirements and Repayments	Balances March 31, 2017	Amount Due in One Year
Compensated absences			\$ 81,138	\$ 2,919	\$ -	\$ 84,057	\$ 1,949
General obligation bonds:							
Series 2012-SRF	2.13%	2034	2,094,685	-	202,648	1,892,037	97,808
Total business-type activities long-term debt			\$2,175,823	\$ 2,919	\$ 202,648	\$1,976,094	\$ 99,757

Total annual requirements to amortize all business-type activities debt outstanding as of March 31, 2017 are as follows:

Fiscal Year Ending March 31,	Principal	Interest	Total
2018	\$ 97,808	\$ 39,782	\$ 137,590
2019	99,902	37,688	137,590
2020	102,041	35,549	137,590
2021	104,226	33,364	137,590
2022	106,458	31,132	137,590
2023 - 2027	567,478	120,472	687,950
2028 - 2032	630,895	57,055	687,950
2033 - 2034	183,229	3,711	186,940
	\$ 1,892,037	\$ 358,753	\$ 2,250,790

Interest expense in the business-type activities for the year ended March 31, 2017 totaled \$42,622. The above amortization schedule assumes repayment of the Series 2012-SRF loan over the maximum loan term of twenty years. The Town Council currently intends to repay this loan over a term of 10 to 12 years. Early repayment of this loan will not result in a prepayment penalty.

NOTES TO FINANCIAL STATEMENTS

Note 7. Bonds and Notes Payable – Governmental Activities

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

	Interest Rate	Maturity Date	Balances March 31, 2016	Additions	Retirements and Repayments	Balances March 31, 2017	Amount Due in One Year
Compensated absences			\$ 192,286	\$ 28,282	\$ -	\$ 220,568	\$ 5,648
Garfield parking lot	5.00%	2019	675,000	-	214,116	460,884	224,822
Total governmental activities long-term debt			\$ 867,286	\$ 28,282	\$ 214,116	\$ 681,452	\$ 230,470

Total annual requirements to amortize all governmental activities debt outstanding as of March 31, 2017 are as follows:

Fiscal Year Ending March 31,	Principal	Interest	Total
2018	\$ 224,822	\$ 23,044	\$ 247,866
2019	236,062	11,804	247,866
	<u>\$ 460,884</u>	<u>\$ 34,848</u>	<u>\$ 495,732</u>

Interest expense in the governmental activities for the year ended March 31, 2017 totaled \$27,450.

NOTES TO FINANCIAL STATEMENTS

Note 8. Post-Employment Healthcare Benefits

Plan Description

The Town administers a single-employer defined benefit healthcare plan (the “Plan”) for employees hired prior to June 1, 1999 with at least 7 years of service who have not opted out of this benefit. Currently, two retirees and their families are eligible for these benefits and one is receiving such benefits. The Town also provides healthcare benefits for one individual based upon an agreement made during the time of employment. The Plan does not issue a publicly available financial report.

Funding Policy

During the fiscal year ended March 31, 2017, the cost of healthcare benefits for these employees and their families was approximately \$8,000.

Annual OPEB Cost and Net OPEB Obligation

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

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

Annual required contribution (ARC)	\$	46,000
Interest on net OPEB obligation (NOO)		-
Adjustment to annual required contribution (ARC)		-
<hr/>		
Annual OPEB cost		46,000
Contributions made		(8,000)
<hr/>		
Change in net OPEB obligation (NOO)		38,000
Net OPEB obligation (NOO), beginning of year		266,000
<hr/>		
Net OPEB obligation (NOO), end of year	\$	304,000
<hr/>		

The following presents the Town’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation:

Year Ended March, 31	Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
<hr/>				
2015	\$ 38,000	\$ 5,000	13.16%	\$ 226,000
2016	46,000	6,000	13.04%	266,000
2017	46,000	8,000	17.39%	304,000

NOTES TO FINANCIAL STATEMENTS

Note 8. Post-Employment Healthcare Benefits (continued)

Funding Status and Funding Progress

Year Ended March, 31	Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2015	3/31/2013	\$ 234,000	\$ 473,000	\$ 239,000	49.47%	\$ 64,000	373.44%
2016	3/31/2016	262,000	597,000	335,000	43.89%	65,000	515.38%
2017	3/31/2016	308,000	597,000	289,000	51.59%	64,000	451.56%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In determining its actuarial valuation of OPEB costs and liabilities, the Town used the entry age actuarial cost method and the level percentage of payroll amortization method using certain assumptions and default values provided for under the alternative measurement method in GASB 45. Additionally, other assumptions were used based on comparable plans to include: an average retirement age of 71, RP 2000 mortality table for males and females projected 10 years, standard turnover assumptions as per GASB 45 paragraph 35b, a discount rate of 2.0%, projected salary increases of 3.0%, plan asset return of 2.0%, employer asset return of 2.0%, and an annual healthcare cost trend of 8.0% initially, reduced to an ultimate rate of 4.7% after ten years.

The unfunded accrued actuarial liability is being amortized as a level percentage of projected payroll over an open 10-year period.

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans

A. Plan Descriptions and Contribution Information

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

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

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

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

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

The following are brief descriptions of the Plans in effect as of June 30, 2015. For a more complete description, please refer to the DPERS CAFR.

Plan Description and Eligibility

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

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

Service Benefits

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

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

Vesting – 5 years of credited service.

Retirement

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

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

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

Disability Benefits

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

The Police & Fire Plan –

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

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

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

Survivor Benefits

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

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

B. Basis of Presentation

The Schedules of Employer Allocations and Pension Amounts by Employer (collectively, the Schedules) present amounts that are considered elements of the financial statements of DPERS or of its participating employers. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of DPERS or the participating employers. The accompanying schedules have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the GASB. Such preparation requires management of DPERS to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

C. Allocation Methodology

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires participating employers in the Plans to recognize their proportionate share of the collective net pension liability, collective deferred inflows of resources, collective deferred outflows of resources, and collective pension expense excluding that attributable to employer-paid member contributions. The employer allocation percentages presented in the Schedule of Employer Allocations and applied to amounts presented in the Schedule of Pension Amounts by Employer are based on the ratio of each employer's contribution to the Plans' total employer contributions during the measurement period July 1, 2014 through June 30, 2015. Employer contributions to the Plans are recognized when due pursuant to legal requirements. Employer contributions are determined by the Board of Pension Trustees. Employer contributions were 6.5% and 14.2% of earnings for fiscal year 2015 for the Employee Plan and the Police & Fire Plan, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

D. Net Pension Liability (Asset)

The components of the net pension liability (asset) of the Town at June 30, 2015 were as follows:

Plan	County & Municipal Other Employees'	County & Municipal Police & Firefighters'
Employers' total pension liability	\$ 1,977,076	\$ 2,311,718
Plan net position	1,974,849	2,357,209
Employers' net pension liability	\$ 2,227	\$ (45,490)

The amounts above represent the Town's proportional percentage

Actuarial Assumptions

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. These actuarial valuations used the following actuarial assumptions:

Plan	County & Municipal Other Employees'	County & Municipal Police & Firefighters'
Actuarial assumptions:		
Investment rate of return / discount rate (1)	7.2%	7.2%
Projected salary increases (1)	3.5% to 11.5%	4% to 11.5%
Cost-of-living adjustments	N/A	N/A

(1) Inflation is included at 3%

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

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

Asset Class	Long-Term Expected Real Rate of Return	Asset Allocation
Domestic equity	5.7%	36.5%
International equity	5.7%	16.5%
Fixed income	2.0%	22.6%
Alternative investments	7.8%	19.6%
Cash and equivalents	0.0%	4.8%

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

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

Plans	1% Decrease	Discount Rate	1% Increase
County & Municipal Other Employees'	\$ 179,425	\$ 2,227	\$ (310,105)
County & Municipal Police & Firefighters'	197,384	(45,490)	(410,504)
Total pensions liability / (asset)	\$ 376,809	\$ (43,263)	\$ (720,609)

The amounts above represent the Town's proportional percentage

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

E. Deferred Outflows of Resources and Deferred Inflows of Resources

The following presents a summary of changes in the deferred outflows of resources and deferred inflows of resources:

	Measurement Period Ending June 30,	Amortization period	March 31, 2016	Additions	Deductions	March 31, 2017
<u>County & Municipal Other Employees'</u>						
Deferred outflows of resources:						
Change in proportion	2015	8 years	\$ -	\$ 2,475	\$ (309)	\$ 2,166
Total deferred outflows			\$ -	\$ 2,475	\$ (309)	\$ 2,166
Deferred inflows of resources:						
Expected and actual experience differences	2015	8 years	\$ -	\$ 36,465	\$ (4,558)	\$ 31,907
Projected and actual investment differences	2014	5 years	114,435	-	(26,389)	88,046
Projected and actual investment differences	2015	5 years	-	(66,386)	13,277	(53,109)
Change in proportion	2014	8 years	2,779	-	(397)	2,382
Total deferred inflows			\$ 117,214	\$ (29,921)	\$ (18,067)	\$ 69,226
<u>County & Municipal Police & Firefighters'</u>						
Deferred outflows of resources:						
Change in proportion	2015	11 years	\$ -	\$ 1,910	\$ (175)	\$ 1,735
Total deferred outflows			\$ -	\$ 1,910	\$ (175)	\$ 1,735
Deferred inflows of resources:						
Expected and actual experience differences	2015	8 years	\$ -	\$ 28,560	\$ (2,597)	\$ 25,963
Projected and actual investment differences	2014	5 years	138,472	-	(30,541)	107,931
Projected and actual investment differences	2015	5 years	-	(79,320)	15,864	(63,456)
Change in proportion	2014	11 years	7,702	-	(771)	6,931
Total deferred inflows			\$ 146,174	\$ (50,760)	\$ (18,045)	\$ 77,369

The amounts above represent the Town's proportional percentage

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension (income) expense as follows:

Years ending June 30:	County & Municipal Other Employees'	County & Municipal Police & Firefighters'	Total
2018	\$ (20,718)	\$ (23,305)	\$ (44,023)
2019	(20,718)	(23,305)	(44,023)
2020	(20,717)	(23,305)	(44,022)
2021	8,631	12,672	21,303
2022	(4,646)	(3,192)	(7,838)
Thereafter	(8,892)	(15,199)	(24,091)
	\$ (67,060)	\$ (75,634)	\$ (142,694)

The amounts above represent the Town's proportional percentage

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

E. Deferred Outflows of Resources and Deferred Inflows of Resources (continued)

Changes in Proportion – The previous amounts do not include employer specific deferred outflows of resources and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 8 years for the Employee Plan and 11 years for the Police & Fire Plan for the 2014 and 2015 amounts.

F. Pension Expense

The components of pension expense are as follows:

	County & Municipal Other Employees'	County & Municipal Police & Firefighters'	Total
Service costs	\$ 123,098	\$ 121,369	\$ 244,467
Interest on total pension liability	134,073	156,402	290,475
Member contributions	(39,507)	(42,985)	(82,492)
Administrative expense	4,958	1,450	6,408
Changes in benefit terms	-	2,753	2,753
Projected earnings on plan investments	(133,812)	(160,407)	(294,219)
Recognition of deferred outflows and inflows of resources:			
Differences between expected and actual experience	(4,558)	(2,596)	(7,154)
Differences between projected and actual earnings on plan investments	(13,112)	(14,677)	(27,789)
Total pension expense	\$ 71,140	\$ 61,309	\$ 132,449

The amounts above represent the Town's proportional percentage

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

	County & Municipal Other Employees'	County & Municipal Police & Firefighters'	Total
Employer's proportionate (percentage) of the collective NPL	5.2188652%	0.8631462%	
Employer's proportionate share of the collective NPL (asset) \$	2,227	\$ (45,490)	\$ (43,263)
Pension expense recognized by the employer for the year ended March 31, 2017	71,140	61,309	132,449
Deferred outflows of resources:			
Changes in proportion	2,166	1,735	3,901
Year ending March 31, 2017 contributions	100,180	84,246	184,426
Total deferred outflows of resources	102,346	85,981	188,327
Deferred inflows of resources:			
Difference between expected and actual experience	31,907	25,963	57,870
Difference between expected and actual earnings	34,937	44,475	79,412
Changes in proportion	2,382	6,931	9,313
Total deferred inflows of resources	69,226	77,369	146,595
Net pension liability (asset) March 31, 2016	(18,727)	(89,846)	(108,573)
Change in NPL (asset) factored for contributions	20,954	44,356	65,310
Net pension liability (asset) March 31, 2017	\$ 2,227	\$ (45,490)	\$ (43,263)

The amounts above represent the Town's proportional percentage

The \$184,426 of deferred outflows or resources resulting from the Town's contributions to the plans subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ending March 31, 2018.

For the year ended March 31, 2017, the Town's payroll for all employees was \$3,118,201. As of the plans measurement date, June 30, 2015, total covered payroll was \$2,159,898. Covered payroll refers to all compensation paid by the Town to active employees covered by the Plans.

NOTES TO FINANCIAL STATEMENTS

Note 10. Risk Management

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

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

Note 11. Commitments, Contingencies, and Subsequent Events

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF BETHANY BEACH, DELAWARE
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year Ended March 31, 2017

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable <u>(Unfavorable)</u>
REVENUES:				
Taxes:				
Property	\$ 1,874,000	\$ 1,874,000	\$ 1,897,538	\$ 23,538
Rental real estate	1,272,000	1,272,000	1,348,255	76,255
Transfer	550,000	550,000	1,143,222	593,222
Parking revenues	1,926,000	1,926,000	1,996,769	70,769
Licenses, permits, and fees	648,000	648,000	857,441	209,441
Police and Alderman fines and revenue	105,000	105,000	96,678	(8,322)
Interest	36,000	36,000	63,934	27,934
Contributions	26,000	26,000	35,472	9,472
Miscellaneous	16,000	16,000	17,674	1,674
Total revenues	6,453,000	6,453,000	7,456,983	1,003,983
EXPENDITURES:				
General and administration	983,000	1,092,000	1,081,846	10,154
Licenses and inspections	259,000	267,000	263,106	3,894
Public safety:				
Police	1,476,000	1,486,000	1,485,796	204
Alderman	57,000	54,000	52,707	1,293
Parking	521,000	537,000	535,451	1,549
Beach patrol	583,000	488,000	486,587	1,413
Public works:				
Stormwater management	185,000	142,000	126,363	15,637
Streets and parks	858,000	846,000	829,826	16,174
Beach and boardwalk	291,000	318,000	316,176	1,824
Recreation - entertainment	256,000	239,000	237,395	1,605
Cultural, historical, and parade	50,000	50,000	26,303	23,697
Total expenditures	5,519,000	5,519,000	5,441,556	77,444
Excess of revenues over expenditures	934,000	934,000	2,015,427	1,081,427
OTHER FINANCING SOURCES (USES):				
Transfer out	(823,000)	(1,361,000)	(833,921)	527,079
Fund balance appropriated	(111,000)	427,000	-	(427,000)
Total other financing uses	(934,000)	(934,000)	(833,921)	100,079
Net change in fund balance	\$ -	\$ -	1,181,506	\$ 1,181,506
Fund balance, beginning of year			<u>6,673,777</u>	
Fund balance, end of year			<u>\$ 7,855,283</u>	

TOWN OF BETHANY BEACH, DELAWARE
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended March 31, 2017

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

Year Ended March, 31	Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2015	3/31/2013	\$ 234,000	\$ 473,000	\$ 239,000	49.47%	\$ 64,000	373.44%
2016	3/31/2016	262,000	597,000	335,000	43.89%	65,000	515.38%
2017	3/31/2016	308,000	597,000	289,000	51.59%	64,000	451.56%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended March, 31	Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 38,000	\$ 5,000	13.16%	\$ 226,000
2016	46,000	6,000	13.04%	266,000
2017	46,000	8,000	17.39%	304,000

TOWN OF BETHANY BEACH, DELAWARE
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended March 31, 2017

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Fiscal Year	Measurement Date	Employer's Proportion (Percentage) of the Collective NPL A	Employer's Proportionate Share of the Collective NPL B	Employer's Covered Employee Payroll C	Proportionate Share as a Percentage of Covered Payroll (B / C)	Plan's Total Fiduciary Net Position D	Plan's Total Pension Liability E	Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (D / E)
MUNI PLAN								
2017	June 30, 2015	5.2189%	\$ 2,227	\$ 1,547,091	0%	\$ 37,840,000	\$ 37,883,000	100%
2016	June 30, 2014	5.0873%	(18,727)	1,374,520	-1%	34,688,000	34,320,000	101%
POLICE PLAN								
2017	June 30, 2015	0.8631%	\$ (45,490)	\$ 612,807	-7%	\$ 273,109,000	\$ 267,839,000	102%
2016	June 30, 2014	0.8305%	(89,846)	550,284	-16%	252,662,000	241,845,000	104%

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

TOWN OF BETHANY BEACH, DELAWARE
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended March 31, 2017

SCHEDULE OF CONTRIBUTIONS - PENSION PLAN

Fiscal Year	Measurement Date	Contractually Required Contribution A	Actual Contribution B	Contribution Deficiency (Excess) (A - B)	Employer's Covered Employee Payroll C	Actual Contribution as a Percentage of Covered Payroll (B / C)
MUNI PLAN						
2017	June 30, 2015	\$ 100,252	\$ 100,252	-	\$ 1,547,091	6%
2016	June 30, 2014	91,057	91,057	-	1,374,520	7%
POLICE PLAN						
2017	June 30, 2015	\$ 86,896	\$ 86,896	-	\$ 612,807	14%
2016	June 30, 2014	85,404	85,404	-	550,284	16%

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

TOWN OF BETHANY BEACH, DELAWARE
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended March 31, 2017

ACTUARIAL ASSUMPTIONS - PENSION PLAN

Plan	County & Municipal Other Employees'	County & Municipal Police & Firefighters'
Actuarial assumptions:		
Investment rate of return / discount rate (1)	7.2%	7.2%
Projected salary increases (1)	3.5% to 11.5%	4% to 11.5%
Cost-of-living adjustments	N/A	N/A

(1) Inflation is included at 3%

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

TOWN OF BETHANY BEACH, DELAWARE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1. Budgetary Basis

Required supplementary information includes financial information and disclosures that are required by the Governmental Accounting Standards Board but are not considered part of the basic financial statements. The budgetary information is prepared and adopted on a basis that is consistent with generally accepted accounting principles.

ADDITIONAL SUPPLEMENTARY INFORMATION

TOWN OF BETHANY BEACH, DELAWARE
ADDITIONAL SUPPLEMENTARY INFORMATION
BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
March 31, 2017

	Special Revenue <u>Fund</u>	Ambulance <u>Fund</u>	Total Non-Major Governmental <u>Funds</u>
ASSETS			
Receivables:			
Other	\$ 1,300	\$ 3,068	\$ 4,368
Restricted assets:			
Cash and cash equivalents	7,975	67,586	75,561
Total assets	\$ 9,275	\$ 70,654	\$ 79,929
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable and accrued expenses	\$ 200	\$ -	\$ 200
Due to other funds	1,100	-	1,100
Unearned revenues	7,916	70,654	78,570
Total liabilities	9,216	70,654	79,870
FUND BALANCES			
Restricted	59	-	59
Total fund balances	59	-	59
Total liabilities and fund balances	\$ 9,275	\$ 70,654	\$ 79,929

TOWN OF BETHANY BEACH, DELAWARE
ADDITIONAL SUPPLEMENTARY INFORMATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
Year Ended March 31, 2017

	Special Revenue Fund	Ambulance Fund	Total Non-Major Governmental Funds
REVENUES:			
Interest	\$ 18	\$ 27	\$ 45
Service receipts	-	149,168	149,168
Intergovernmental revenues	229,007	-	229,007
Total revenues	229,025	149,195	378,220
EXPENDITURES:			
Public safety:			
Police	96,508	-	96,508
Ambulance	-	149,195	149,195
Capital outlay	132,500	-	132,500
Total expenditures	229,008	149,195	378,203
Excess (deficiency) of revenues over expenditures	17	-	17
Net change in fund balances	17	-	17
Fund balances, beginning of year	42	-	42
Fund balances, end of year	\$ 59	\$ -	\$ 59

TOWN OF BETHANY BEACH, DELAWARE
ADDITIONAL SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - CAPITAL PROJECTS FUND
Year Ended March 31, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable <u>(Unfavorable)</u>
EXPENDITURES:				
Public safety:				
Police	\$ 20,000	\$ 20,000	\$ 10,025	\$ 9,975
Public works:				
Streets and parks	410,000	948,000	460,460	487,540
Beach, boardwalk and comfort station	140,000	140,000	121,870	18,130
Debt service:				
Principal	225,000	225,000	214,116	10,884
Interest	28,000	28,000	27,450	550
Total expenditures	823,000	1,361,000	833,921	527,079
OTHER FINANCING SOURCES:				
Transfers in	823,000	1,361,000	833,921	(527,079)
Total other financing sources	823,000	1,361,000	833,921	(527,079)
Net change in fund balance	\$ -	\$ -	-	\$ -
Fund balance, beginning of year			-	
Fund balance, end of year			\$ -	

TOWN OF BETHANY BEACH, DELAWARE
ADDITIONAL SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND
Year Ended March 31, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Intergovernmental revenues:				
State and County	\$ 218,000	\$ 236,924	\$ 229,007	\$ (7,917)
Interest income	-	-	18	18
Total revenues	218,000	236,924	229,025	(7,899)
EXPENDITURES:				
Public safety:				
Police	109,000	128,424	121,508	6,916
Public works:				
Streets and parks	109,000	107,500	107,500	-
Beach and boardwalk	-	1,000	-	1,000
Total expenditures	218,000	236,924	229,008	7,916
Excess of revenues over expenditures	-	-	17	17
Net change in fund balance	\$ -	\$ -	17	\$ 17
Fund balance, beginning of year			42	
Fund balance, end of year			\$ 59	

TOWN OF BETHANY BEACH, DELAWARE
ADDITIONAL SUPPLEMENTARY INFORMATION
INCOME AND EXPENSE DETAIL
WATER FUND
Year Ended March 31, 2017

WATER SERVICE:

Operating revenues:

Charges for services	\$ 1,257,499
Other service fees	24,636
Miscellaneous	811
<hr/>	
Total operating revenues	1,282,946

Operating expenses:

Salaries and wages	342,237
Payroll taxes	25,588
Employee benefits	179,558
Engineering	608
Contract services	70,848
Insurance	70,145
Telephone	4,950
Utilities	45,971
Repairs and maintenance	8,996
Sewer service charge	1,050
Plant maintenance	89,635
Distribution system maintenance	58,385
Office supplies	6,317
Miscellaneous	29,147
Supplies	20,399
Chemicals	88,544
Uniforms	1,340
Depreciation	332,560
<hr/>	
Total operating expenses	1,376,278

<hr/> Net operating loss	<hr/> (93,332)
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Non-operating revenues (expenses):

Taxes and assessments	245,971
Impact fees	87,046
Interest income	12,567
Interest expense	(42,622)
<hr/>	
Net non-operating revenues	302,962

<hr/> NET INCOME	<hr/> \$ 209,630
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TOWN OF BETHANY BEACH, DELAWARE
ADDITIONAL SUPPLEMENTARY INFORMATION
INCOME AND EXPENSE DETAIL
SANITATION FUND
Year Ended March 31, 2017

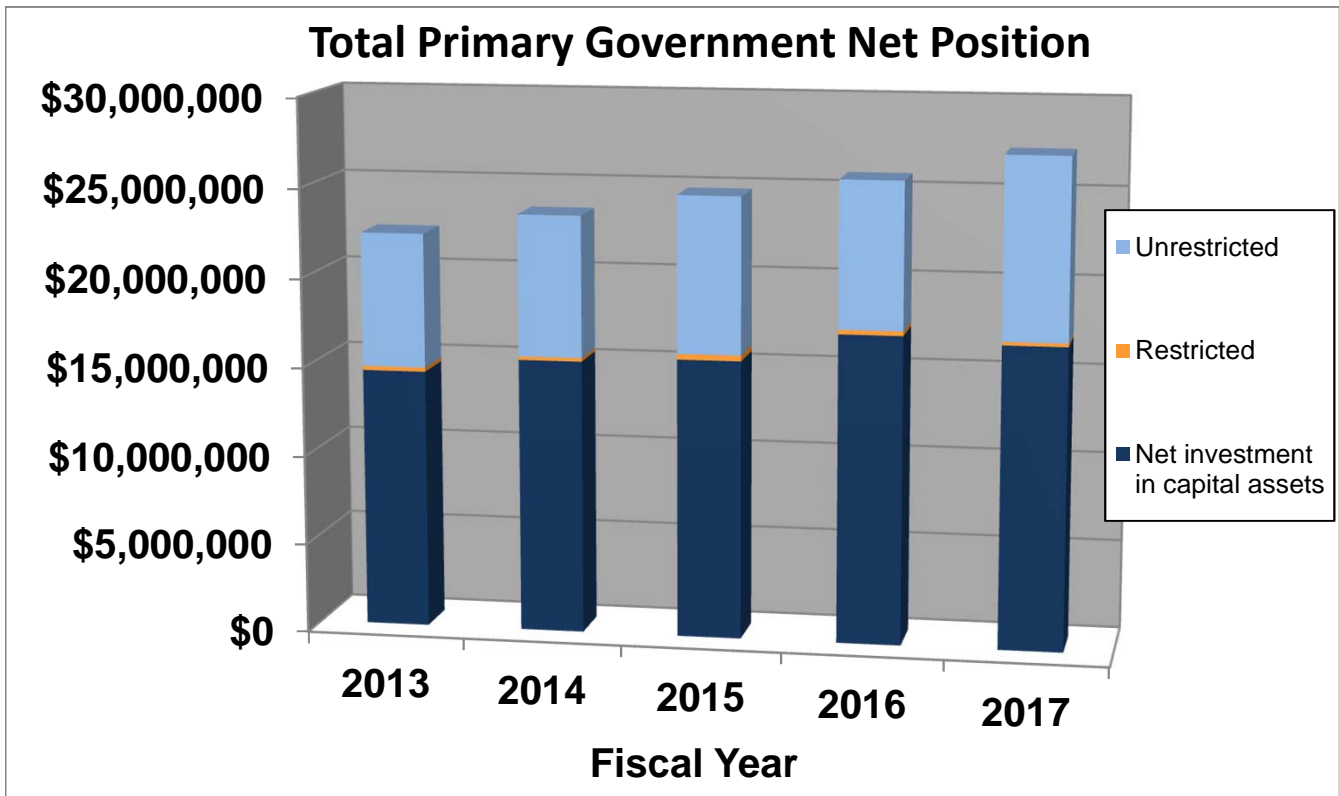
SANITATION SERVICE:

Operating revenues:	
Charges for services	\$ 825,534
Total operating revenues	825,534
Operating expenses:	
Salaries and wages	286,709
Payroll taxes	21,530
Employee benefits	109,167
Disposal fees	162,351
Fuel	20,395
Insurance	31,326
Telephone	956
Utilities	5,757
Repairs and maintenance	52,003
Office supplies	9,485
Miscellaneous	16,061
Depreciation	100,577
Total operating expenses	816,317
Net operating gain	9,217
Non-operating revenues:	
Sale of fixed assets	16,113
Interest income	9,624
Net non-operating revenues	25,737
NET INCOME	\$ 34,954

STATISTICAL SECTION

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

Years ended March 31,	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Governmental Activities					
Net investment in capital assets	\$ 10,534,644	\$ 10,584,971	\$ 10,567,846	\$ 11,774,735	\$ 11,155,113
Restricted	200,897	180,708	279,103	165,026	173,588
Unrestricted	4,368,895	5,139,091	5,959,016	5,622,428	7,504,369
Total governmental activities net position	\$ 15,104,436	\$ 15,904,770	\$ 16,805,965	\$ 17,562,189	\$ 18,833,070
Business-Type Activities					
Net investment in capital assets	\$ 3,967,104	\$ 4,753,707	\$ 5,055,144	\$ 5,507,815	\$ 5,776,443
Restricted	33,341	19,357	36,011	87,356	19,668
Unrestricted	3,154,444	2,791,754	2,836,717	2,619,283	2,662,927
Total business-type activities net position	\$ 7,154,889	\$ 7,564,818	\$ 7,927,872	\$ 8,214,454	\$ 8,459,038
Summary					
Net investment in capital assets	\$ 14,501,748	\$ 15,338,678	\$ 15,622,990	\$ 17,282,550	\$ 16,931,556
Restricted	234,238	200,065	315,114	252,382	193,256
Unrestricted	7,523,339	7,930,845	8,795,733	8,241,711	10,167,296
Total primary government net position	\$ 22,259,325	\$ 23,469,588	\$ 24,733,837	\$ 25,776,643	\$ 27,292,108



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

Years ended March 31,	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Revenues					
Property taxes	\$ 1,678,185	\$ 1,684,712	\$ 1,745,806	\$ 1,776,040	\$ 1,897,538
Rental real estate taxes	1,014,946	1,045,656	1,044,036	1,149,424	1,348,255
Transfer taxes	645,691	760,558	822,846	710,089	1,143,222
Parking revenues	1,486,610	1,451,462	1,532,817	1,903,225	1,996,769
Licenses, permits, and fees	724,240	848,991	1,310,881	811,950	857,441
Police and Alderman fines	121,369	113,164	91,059	115,059	96,678
Interest	24,516	23,749	32,013	42,294	63,979
Service receipts - ambulance	118,881	129,769	149,127	149,170	149,168
Intergovernmental revenues	318,535	268,123	131,060	346,227	229,007
Contributions	85,673	34,693	31,328	33,972	35,472
Refunds	177,560	-	-	-	-
Miscellaneous	19,013	16,753	85,715	22,151	17,674
<i>Total revenues</i>	<u>6,415,219</u>	<u>6,377,630</u>	<u>6,976,688</u>	<u>7,059,601</u>	<u>7,835,203</u>
Expenditures					
General and administration	840,915	912,861	885,800	992,891	1,081,846
Licenses and inspections	197,541	216,045	229,067	242,137	263,106
Police	1,450,704	1,360,144	1,409,172	1,468,680	1,582,304
Alderman	49,878	49,987	50,625	53,103	52,707
Parking	377,525	354,153	458,159	483,122	535,451
Beach patrol	438,735	443,174	517,196	537,084	486,587
Ambulance	119,000	129,864	149,195	149,195	149,195
Stormwater management	108,512	156,176	153,594	107,459	126,363
Streets and parks	780,514	712,838	769,853	844,358	829,826
Beach and boardwalk	279,083	220,171	314,199	299,080	316,176
Recreation - entertainment	142,189	182,089	224,324	237,696	237,395
Cultural, historical, and parade	8,170	40,551	36,406	34,566	26,303
Debt service - principal	297,104	158,515	89,408	225,000	214,116
Debt service - interest	14,864	5,105	596	19,700	27,450
Capital outlay	767,153	763,022	856,606	2,031,748	724,855
<i>Total expenditures</i>	<u>5,871,887</u>	<u>5,704,695</u>	<u>6,144,200</u>	<u>7,725,819</u>	<u>6,653,680</u>
Excess (deficit) of revenues over expenditures	<u>543,332</u>	<u>672,935</u>	<u>832,488</u>	<u>(666,218)</u>	<u>1,181,523</u>
Other financing sources					
Proceeds from loan	-	-	-	900,000	-
<i>Total other financing sources</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>900,000</u>	<u>-</u>
Net change in fund balance	<u>\$ 543,332</u>	<u>\$ 672,935</u>	<u>\$ 832,488</u>	<u>\$ 233,782</u>	<u>\$ 1,181,523</u>
Debt service as a percentage of non-capital expenditures	6%	3%	2%	4%	4%

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



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

Town of Bethany Beach, Delaware
Bethany Beach, Delaware

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Bethany Beach, Delaware (the "Town") as of and for the year ended March 31, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated July 24, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Salisbury, Maryland
July 24, 2017