

TOWN OF BETHANY BEACH, DELAWARE

FINANCIAL REPORT

MARCH 31, 2019

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INDEPENDENT AUDITORS' REPORT

Town of Bethany Beach, Delaware
Bethany Beach, Delaware

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2019, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2019, 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.

Emphasis of Matter

As discussed in Note 12 to the financial statements, during the year ended March 31, 2019, the Town adopted new guidance from Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

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 1, 2019, 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, stylized font.

Salisbury, Maryland
July 1, 2019

**Town of Bethany Beach
Management's Discussion and Analysis
March 31, 2019**

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, 2019. 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 2019

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 2019 by \$30,732,155 (net position). Of this amount, \$11,487,597 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors. \$18,983,133 of the remaining net position is invested in capital assets, net of related debt and \$261,425 is restricted for specific uses. The Town's total net position increased by \$1,510,043 (5.2%) during fiscal year 2019. The net position of governmental activities increased by \$1,131,427 (5.6%) while the net position of business-type activities increased by \$378,616 (4.2%).

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 enough reserves has proven very beneficial to the Town, allowing for completion of capital projects and purchases with minimal debt.

As of the close of fiscal year 2019, the Town's governmental funds reported an ending fund balance of \$8,363,200. Of this amount, \$103,505 is nonspendable prepaid balances. Committed funds are \$51,502 in post-employment benefits funds, \$35,588 in Cultural & Historic funds, \$1,500,000 for capital purchases in fiscal year 2020, \$4,834,000 for future capital projects and \$1,709,000 in the Storm Emergency Relief Fund.

This leaves \$129,605 as unassigned in the governmental funds at the end of fiscal year 2019. The unassigned fund balance for the general fund represents 2.0% of the general fund operating expenditure budget for fiscal year 2020 of \$6,399,000. This helps the town start the new fiscal year as many costs precede revenue collection.

The Town's bonds and notes payable decreased by \$445,583 (23.2%) as a result of regular, scheduled payments on current debt. Of the Town's total debt of \$1,476,883, \$555,553 (37.6%) 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 like 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 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 \$30,732,155 at the end of fiscal year 2019, compared to \$29,222,112 at the end of fiscal year 2018, an increase of \$1,510,043 (5.2%).

The largest portion of the Town's net position, \$18,983,133 (61.8%), 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, 2019, the Town held \$1,583,579 in unrestricted cash and cash equivalents and \$10,290,000 in investments. Investments during the year were entirely certificates of deposit in accordance with the Town's Investment Policy.

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 2020, operating reserves are \$960,000 in the general fund, \$130,000 in the sanitation fund and \$181,000 in the water fund. Total town-wide operating reserves are \$1,271,000, which is 15.0% of the FY 2020 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 2020, capital replacement reserves are \$4,834,000 in the general fund, \$897,000 in the sanitation fund and \$1,627,000 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 \$7,708,000, which is 40.6% of the Town's net investment in capital assets.

In March of 2017 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. At the end of fiscal year 2019 the SERF fund held \$1,397,084. Based on budgeted revenues it is expected to hold \$1,709,000 by the end of fiscal year 2020.

The Town has agreed to pay the cost of post-employment health care insurance for three retirees and their families. The Town started setting aside funds for this the liability in fiscal year 2012. As of March 31, 2019, \$310,858 was held in a separate bank account to fund this benefit, which is 126.7% of the \$245,367 actuarial accrued liability. Further information on this obligation can be found on pages 42-44, 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, 2019

	Governmental Activities		Business-Type Activities		Total		% Change
	2018	2019	2018	2019	2018	2019	
Current Assets	9,060,651	8,720,937	3,350,941	3,862,195	12,411,592	12,583,132	-1.4%
Capital Assets	12,348,857	13,327,307	7,289,133	7,132,709	19,637,990	20,460,016	4.2%
Other Assets	306,873	121,579	362,946	139,846	669,819	261,425	-61.0%
Total Assets	<u>21,716,381</u>	<u>22,169,823</u>	<u>11,003,020</u>	<u>11,134,750</u>	<u>32,719,401</u>	<u>33,304,573</u>	1.8%
Deferred Outflows - Pension	598,159	544,021	-	-	598,159	544,021	9.1%
Noncurrent Liabilities	758,417	627,983	1,823,846	1,599,029	2,582,263	2,227,012	-13.8%
Current Liabilities	<u>1,209,580</u>	<u>479,316</u>	<u>207,294</u>	<u>185,225</u>	<u>1,416,874</u>	<u>664,541</u>	-53.1%
Total Liabilities	<u>1,967,997</u>	<u>1,107,299</u>	<u>2,031,140</u>	<u>1,784,254</u>	<u>3,999,137</u>	<u>2,891,553</u>	-27.7%
Deferred Inflows - Pension	96,311	224,886	-	-	96,311	224,886	133.5%
Invested in capital assets, net of related debt	12,112,795	13,327,307	5,602,729	5,655,826	17,715,524	18,983,133	7.2%
Restricted	259,873	121,579	135,946	139,846	395,819	261,425	-34.0%
Unrestricted	<u>7,877,564</u>	<u>7,932,773</u>	<u>3,233,205</u>	<u>3,554,824</u>	<u>11,110,769</u>	<u>11,487,597</u>	3.4%
Total Net Position	<u>20,250,232</u>	<u>21,381,659</u>	<u>8,971,880</u>	<u>9,350,496</u>	<u>29,222,112</u>	<u>30,732,155</u>	5.2%

Funds in the Town's unrestricted net position of \$11,487,597 may be used to meet the government's ongoing obligations to citizens and creditors. Unrestricted net position increased \$376,828 (3.4%) during fiscal year 2019: increasing \$55,209 (0.7%) in Governmental Activities and \$321,619 (9.9%) in Business-Type Activities. During this time net investment in capital assets increased \$1,267,609 (7.2%): increasing \$1,214,512 (10.0%) in Governmental Activities and \$53,097 (0.9%) in Business-Type Activities.

Current assets increased \$171,540 (1.4%). Current assets for Governmental Activities decreased \$339,714 (3.7%), while current assets of Business-Type Activities increased \$511,254 (15.3%). The majority of the \$12,583,132 in total current assets is cash, cash equivalents and investments, most of which are held in reserves for future needs.

Receivables, which make up \$631,742 of the current assets, increased \$24,243 (4.0%). The majority of the receivables are \$524,468 in water bills mailed in April 2019 for the previous six months of water use. The second largest receivable is \$62,427 in interest earned on investments that have not yet matured.

Noncurrent liabilities decreased \$355,251 (13.8%): decreasing \$130,434 (17.2%) in Governmental Activities and decreasing \$224,817 (12.3%) 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, 2019

	Governmental Activities		Business-Type Activities		Total		% Change
	2018	2019	2018	2019	2018	2019	
Revenues:							
Program Revenues							
Charges for services	3,258,090	3,201,994	2,278,365	2,358,112	5,536,455	5,560,106	0.4%
Assessments & impact fees	-	-	412,223	366,856	412,223	366,856	-11.0%
Operating grants	79,319	92,739	-	-	79,319	92,739	16.9%
Capital grants	25,000	257,384	-	-	25,000	257,384	929.5%
General Revenues							
Property taxes	1,901,125	1,913,708	-	-	1,901,125	1,913,708	0.7%
Rental real estate taxes	1,612,598	1,625,632	-	-	1,612,598	1,625,632	0.8%
Transfer taxes	1,141,827	869,252	-	-	1,141,827	869,252	-23.9%
Other	117,851	158,243	30,956	55,825	148,807	214,068	43.9%
Total Revenues	8,135,810	8,118,952	2,721,544	2,780,793	10,857,354	10,899,745	0.4%
Expenses:							
General and administration	1,142,638	1,152,057	-	-	1,142,638	1,152,057	0.8%
Licenses and inspections	259,424	299,872	-	-	259,424	299,872	15.6%
Public Safety							
Police and Alderman	1,792,166	1,825,919	-	-	1,792,166	1,825,919	1.9%
Parking	587,240	589,388	-	-	587,240	589,388	0.4%
Beach Patrol	528,643	518,120	-	-	528,643	518,120	-2.0%
Ambulance	149,195	149,195	-	-	149,195	149,195	0.0%
Public Works							
Stormwater management	152,717	183,220	-	-	152,717	183,220	20.0%
Streets & Parks	1,365,962	1,498,866	-	-	1,365,962	1,498,866	9.7%
Beach and boardwalk	362,358	426,879	-	-	362,358	426,879	17.8%
Recreation - entertainment	281,054	286,077	-	-	281,054	286,077	1.8%
Cultural/Historic & Parade	34,777	57,932	-	-	34,777	57,932	66.6%
Sanitation Fund			864,961	899,361	864,961	899,361	4.0%
Water Fund			1,406,531	1,502,816	1,406,531	1,502,816	6.8%
Total Expenses	6,656,174	6,987,525	2,271,492	2,402,177	8,927,666	9,389,702	5.2%
Change in net position	1,479,636	1,131,427	450,052	378,616	1,929,688	1,510,043	-21.7%
Net position, beginning of year, as restated	18,770,596	20,250,232	8,521,828	8,971,880	27,292,424	29,222,112	7.1%
Net position, end of year	20,250,232	21,381,659	8,971,880	9,350,496	29,222,112	30,732,155	5.2%

The Town's total net position increased \$1,510,043 (5.2%). Approximately 40.4% of the Town's total revenue came from three types of taxes: property, rental and transfer. Total revenues increased \$42,391 (0.4%) and total expenses increased \$462,036 (5.2%).

Governmental Activities

Total revenue for governmental activities decreased \$16,858 (0.2%) to \$8,118,952. 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 \$2,081,297 and were the Town's largest revenue source. These revenues increased \$64,322 (3.2%). As a percentage of governmental revenue, parking increased from 25.1% in fiscal year 2018 to 26.8% in fiscal year 2019.
2. Property Tax revenue totaled \$1,913,708 and was the Town's second largest source of funding. The assessed value of taxable properties as of May 2018 was \$1,024,046,959 which is \$908,200 (0.1%) 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 \$12,583 (0.7%). As a percentage of total governmental revenue, property tax increased from 23.7% in fiscal year 2018 to 24.6% in fiscal year 2019.
3. Real estate rental taxes were the Town's third largest revenue source at \$1,625,632. These revenues increased \$13,034 (0.8%). As a percentage of total governmental revenue, rental taxes increased from 20.1% in fiscal year 2018 to 20.9% in fiscal year 2019.
4. Licenses, permits and other fees were the fourth largest revenue source at \$906,414. These revenues decreased \$103,413 (10.2%). The main revenue in this category is building permits, which brought in \$481,841. Building permit revenues were \$137,100 lower than the prior year because the prior year had an unusually high level of construction activity. 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 12.6% in fiscal year 2018 to 11.7% in fiscal year 2019.
5. Real estate transfer taxes were the Town's fifth largest revenue source at \$869,252 a decrease of \$272,575 (23.9%). The Town uses transfer tax revenue only for funding capital projects and not for day-to-day operational costs. This revenue is difficult to predict since it can fluctuate widely from year to year from changes in the housing market. As a percentage of governmental revenue, transfer taxes decreased from 14.2% in fiscal year 2018 to 11.2% in fiscal year 2019.

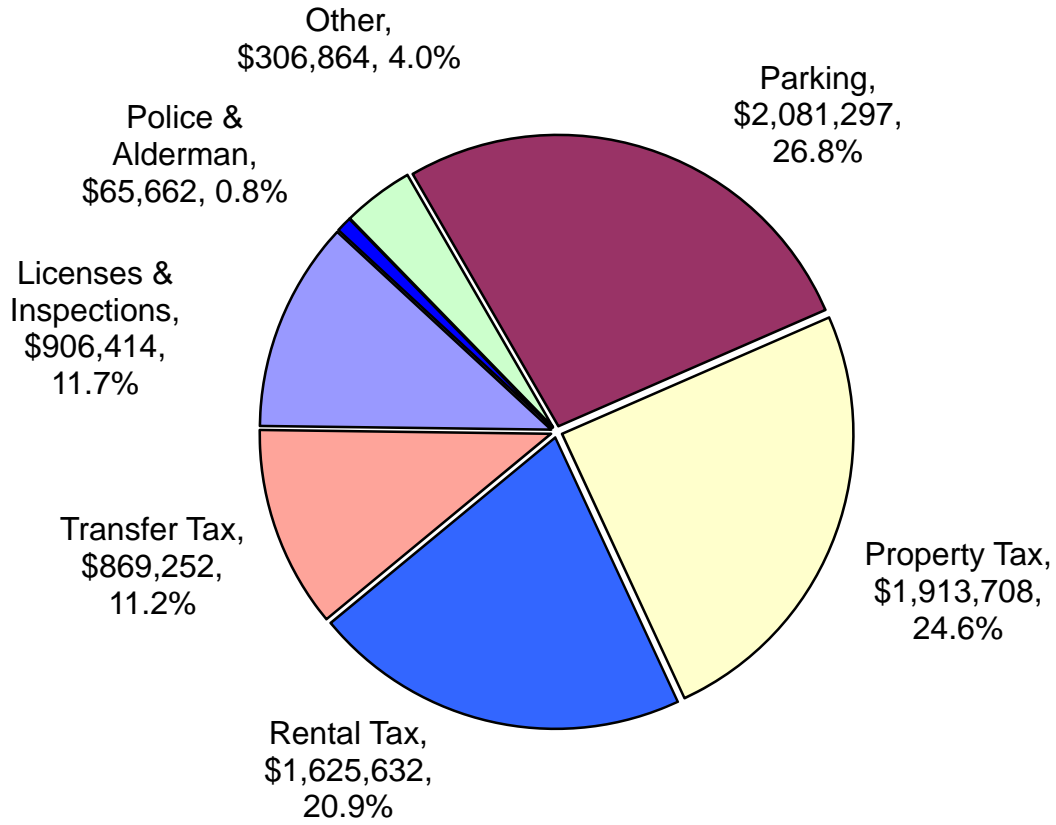
The Town budgets and sets fees with a goal of summer season revenues fully paying the cost of operations for the summer season. Summer season related revenue was approximately \$4.1 million, which is 53% of total General Fund revenues. This revenue includes parking fees, rental taxes, business licenses, beach concessions and other fines and fees. The operating cost for the summer season, including the depreciation of capital assets, was estimated at \$3.6 million in fiscal year 2019, which is 54% of total General Fund operating costs. Property tax, Transfer Tax and Building Permit 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, 2019, 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.

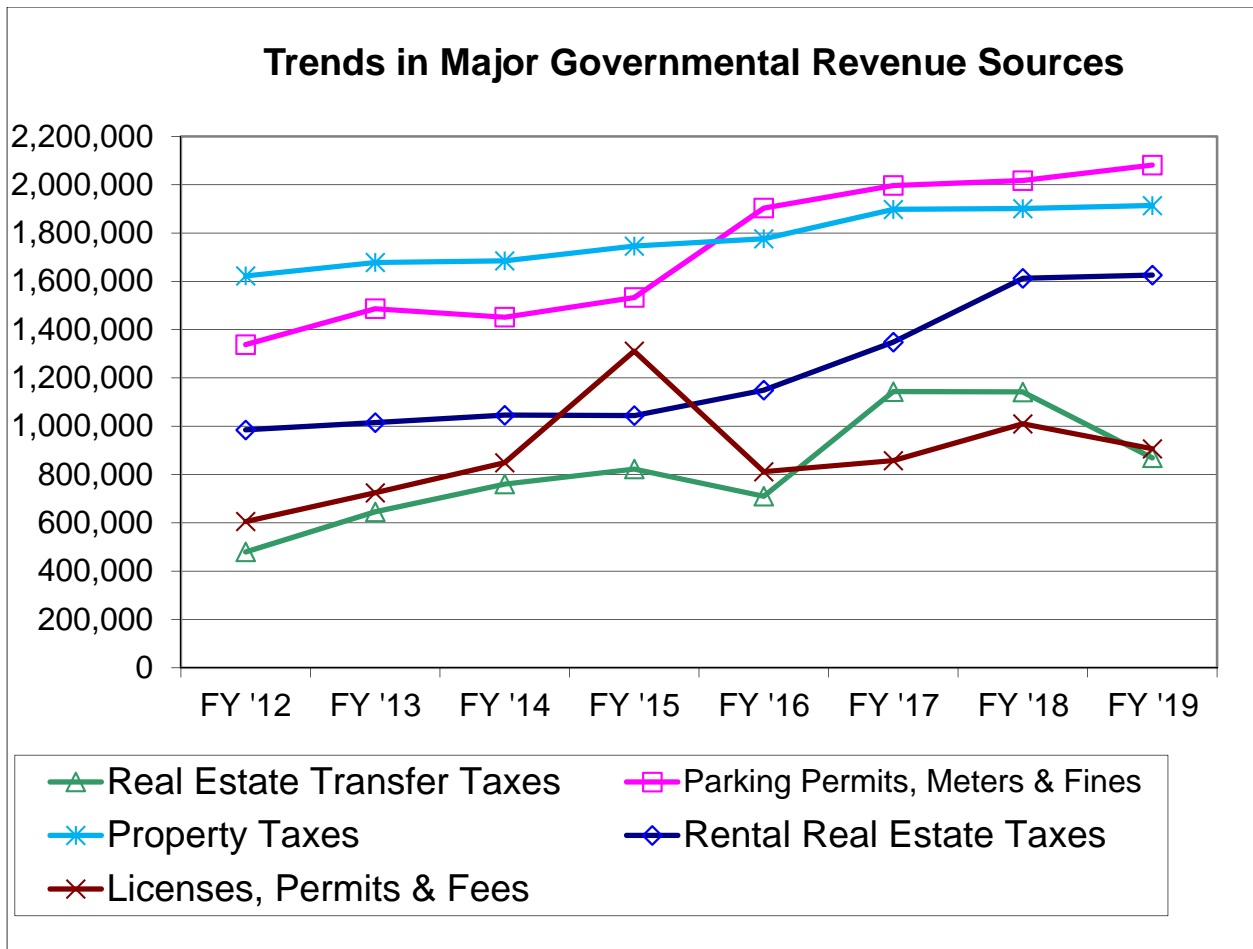
The Town's expense for all governmental activities combined was \$6,987,525. This covers a range of services and increased \$331,351 (5.0%) from fiscal year 2018.

FY 2019 Governmental Revenue Sources

(excludes grant funds)



This year's revenue chart is very similar to fiscal years 2017 and 2018, particularly in the three largest pieces. Transfer Tax and License & Inspection revenues are expected to fluctuate significantly year to year as home sales and the home construction market varies.



Parking has been the largest revenue source since the hourly parking rate was increased to \$2.00 in fiscal year 2016.

Property Tax rates are increase gradually every few years. The rate increased by 3.0% in fiscal year 2013, 2.9% in fiscal year 2015, 5.7% in fiscal year 2017 for the Storm Emergency Relief Fund and will increase by 2.7% for fiscal year 2020.

Rental Tax rates for residential and commercial properties increased 16.7% in fiscal year 2018. The rental tax rate for hotels and motels increased 8.3% in fiscal year 2017.

Licenses, Permit & Fees revenue is predominately from Building Permit revenues. Building permit fees have not significantly changed since fiscal year 2006, instead fluctuations in this revenue reflect the size and number of construction projects in town. The large spike in revenue seen in fiscal year 2015 is from the Bethany Beach Ocean Suites hotel construction.

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 decreased \$10,838 (1.1%). Sanitation department expenses increased \$34,400 (4.0%). Sanitation revenues covered all operating costs, including depreciation, with a net operating gain of \$60,041, which is 6.1% of total sanitation revenue. The total change in net position was \$80,776. Income and expense detail are shown on page 67 of this report.

Water department revenues increased \$90,585 (6.9%) from a small rate increase. Water department expenses increased \$96,285 (6.8%). Operating revenues were not enough to cover all operating expenses, resulting in a net operating loss of \$68,537, which is 3.8% of total water revenue. The total change in net position was \$297,840. Income and expense detail are shown on page 66 of this report.

The operating loss in the Water department 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 2019, depreciation expense was \$341,780, which is \$90,398 (36.0%) 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 \$87,303.

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 2019, the Town's governmental fund balance decreased \$30,806 (0.4%) to \$8,363,200. Funds committed for capital improvements budgeted in the coming year decreased \$23,000 (1.5%) to \$1,500,000. Funds committed for unspecified future capital projects increased \$545,000 (12.7%) to \$4,834,000. The Storm Emergency Relief Fund increased \$313,000 (22.4%) to \$1,709,000.

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

1. Nonspendable prepaid balances	\$103,505
2. Committed for payment of post-employment health care benefits	\$51,502
3. Committed for uses determined by the Cultural & Historical Affairs Committee	\$35,588
4. Committed for capital improvements in the coming fiscal year	\$1,500,000
5. Committed for the Storm Emergency Relief Fund	\$1,709,000
6. Committed for future capital replacements	\$4,834,000

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 \$129,605 is 1.5% of the \$8,363,200 total fund balance and 2.2% of the \$5,857,530 in general fund operating expenditures for fiscal year 2019.

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 \$297,840 (4.1%) to \$7,548,089. Fiscal year 2019 resulted in a net operating loss of \$68,537. The water department had net operating losses of \$58,849 in fiscal year 2018, \$93,332 in fiscal year 2017, and \$22,097 in fiscal year 2016. Non-operating revenues of \$366,377 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 \$80,776 (4.7%) to end the year at \$1,802,407. Fiscal year 2019 resulted in net operating income of \$60,041. The sanitation department had net operating income of \$105,279 in fiscal year 2018, \$9,217 in fiscal year 2017 and a net operating loss of \$2,165 in fiscal year 2016. Trash fees were increased in fiscal year 2018.

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 \$728,922 (10.5%). 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 interest earnings 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 March 2019 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 were under the amended budget by \$338,470 (5.5%). Total revenues exceeded total expenditures by \$1,808,392, more than covering depreciation expense of \$835,782 and 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 2019 Additions
Construction in Progress	\$1,716,799
Machinery & Equipment	\$79,968
Stormwater	\$35,000
Vehicles	<u>\$24,985</u>
Total	\$1,856,752

Sanitation Fund	FY 2019 Additions
Vehicles & Equipment	\$209,991

Water Fund	FY 2019 Additions
Water Plant & Distribution System	\$45,471
Vehicles & Equipment	<u>\$50,287</u>
Total	\$95,758

The Town Council made several amendments to the capital budget in governmental activities. In June 2018 \$37,000 was added for the purchase of a vehicle. In January 2019 \$266,000 was added for the purchase of 45 new parking pay stations. In March \$275,000 was added for the South Atlantic Avenue Streetscape Project.

In governmental activities, the largest area of capital expenditure in fiscal year 2019 is the \$1,716,799 in Construction in Progress for the South Atlantic Avenue Streetscape and Central Park projects. The second largest category was \$79,968 in Machinery & Equipment for a new street sweeper. The third largest category was \$35,000 for bank stabilization along the Loop Canal. The Vehicle purchase of \$24,985 was for 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 2019, \$1,716,799 was added to Construction in Progress for two projects; \$1,685,893 for the South Atlantic streetscape project and \$30,906 for the park development project. As of the end of the fiscal year \$1,647,781 remained in Construction in Progress for these two projects.

The sanitation department purchased a rear-loading trash truck for \$174,019 and a pickup truck for \$35,972.

In the water department, \$45,471 was used to replace the water main on Cedarwood Street, \$36,211 was used to purchase a pickup truck and \$14,076 was used to restore the clarifier hill.

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, 2019, the Town had \$1,476,883 in outstanding debt from construction of the water tower in 2014 and 2015. Of this total debt, \$555,553 (37.6%) is payable within five years; however, the Town Council intends to continue making 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 like those of fiscal year 2019 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 its 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 \$650,000 to \$900,000 in fiscal year 2020. 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 2020 budget was approved in March 2019. The operating budget for all Town activities combined is \$8,469,000. This is \$339,000 (4.2%) more than the fiscal year 2019 operating budget. Budgeted operating costs increased 3.3% in the general fund, 5.6% in the sanitation fund and 8.1% in the water fund.

The fiscal year 2020 budget included rate increases for Business Licenses, Rental Licenses, Shuttle Bus Permits and Property Taxes.

General Fund capital projects budgeted for fiscal year 2020 are:

- \$300,000 for Comfort Stations renovations and addition
- \$300,000 for the annual paving project
- \$120,000 for repairs to the Boardwalk
- \$45,000 to replace two ATVs for Public Works and Beach Patrol
- \$40,000 to install pavers on South Atlantic Avenue
- \$40,000 to purchase a mini Track Loader
- \$32,000 to finish the interiors spaces at the Blackwater Public Works Yard
- \$31,000 to be combined with a grant from Sussex County to purchase two police cars
- \$30,000 to refurbish the Beach Cleaner
- \$30,000 to replace the Building Inspector's vehicle

Sanitation Fund capital purchases budgeted for fiscal year 2020 are:

- \$200,000 to replace a rear-loading trash truck
- \$37,000 to replace a 2004 pickup truck

Water Fund capital projects budgeted for fiscal year 2020 are:

- \$125,000 for refurbishment or replacement of the Aerator
- \$75,000 to purchase a backhoe
- \$50,000 to refurbish and repaint the outside of the filter gallery and pipes
- \$50,000 to construct a storage pole barn at the water plant
- \$50,000 for water system repairs as needed
- \$50,000 for equipment replacement as needed
- \$37,000 to replace a pickup truck
- \$33,000 for three handheld meter readers

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, 2019

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 909,614	\$ 628,965	\$ 1,538,579
Investments	7,628,283	2,661,717	10,290,000
Receivables:			
Taxes - real and personal property	17,716	-	17,716
Service charges	-	536,038	536,038
Interest	46,258	16,169	62,427
Other	15,561	-	15,561
Prepaid expenses	103,505	19,306	122,811
Total current assets	8,720,937	3,862,195	12,583,132
Noncurrent assets			
Restricted cash and cash equivalents	121,579	139,846	261,425
Capital assets:			
Nondepreciable assets	7,592,892	-	7,592,892
Depreciable assets, net	5,734,415	7,132,709	12,867,124
Total noncurrent assets	13,448,886	7,272,555	20,721,441
Total assets	22,169,823	11,134,750	33,304,573
DEFERRED OUTFLOWS OF RESOURCES			
Pension (see Note 9)	544,021	-	544,021
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	203,633	71,860	275,493
Internal balances	(1,533)	1,533	-
Unearned revenue	269,886	4,341	274,227
Compensated absences liability	7,330	1,967	9,297
Bonds and notes payable	-	105,524	105,524
Total current liabilities	479,316	185,225	664,541
Noncurrent liabilities			
Compensated absences liability	211,017	80,450	291,467
Net pension liability	318,819	-	318,819
OPEB obligation	98,147	147,220	245,367
Bonds and notes payable	-	1,371,359	1,371,359
Total noncurrent liabilities	627,983	1,599,029	2,227,012
Total liabilities	1,107,299	1,784,254	2,891,553
DEFERRED INFLOWS OF RESOURCES			
Pension (see Note 9)	224,886	-	224,886
NET POSITION			
Net investment in capital assets	13,327,307	5,655,826	18,983,133
Restricted	121,579	139,846	261,425
Unrestricted	7,932,773	3,554,824	11,487,597
Total net position	\$ 21,381,659	\$ 9,350,496	\$ 30,732,155

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

TOWN OF BETHANY BEACH, DELAWARE

STATEMENT OF ACTIVITIES

Year Ended March 31, 2019

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	\$ 1,152,057	\$ -	\$ -	\$ -	\$ (1,152,057)	\$ -	\$ (1,152,057)
Licenses and inspections	299,872	906,414	-	-	606,542	-	606,542
Public safety:							
Police and Alderman fines and revenue	1,825,919	65,662	91,817	24,985	(1,643,455)	-	(1,643,455)
Parking	589,388	2,081,297	-	-	1,491,909	-	1,491,909
Beach patrol	518,120	-	-	-	(518,120)	-	(518,120)
Ambulance	149,195	148,621	-	-	(574)	-	(574)
Public works:							
Stormwater management	183,220	-	-	-	(183,220)	-	(183,220)
Streets and parks	1,498,866	-	-	232,399	(1,266,467)	-	(1,266,467)
Beach and boardwalk	426,879	-	922	-	(425,957)	-	(425,957)
Recreation - entertainment	286,077	-	-	-	(286,077)	-	(286,077)
Cultural, historical, and parade	57,932	-	-	-	(57,932)	-	(57,932)
Total governmental activities	6,987,525	3,201,994	92,739	257,384	(3,435,408)	-	(3,435,408)
BUSINESS-TYPE ACTIVITIES							
Water	1,502,816	1,398,710	366,856	-	-	262,750	262,750
Sanitation	899,361	959,402	-	-	-	60,041	60,041
Total business-type activities	2,402,177	2,358,112	366,856	-	-	322,791	322,791
Total primary government	\$ 9,389,702	\$ 5,560,106	\$ 459,595	\$ 257,384	\$ (3,435,408)	\$ 322,791	\$ (3,112,617)
General Revenues							
Taxes:							
Property					1,913,708	-	1,913,708
Rental real estate					1,625,632	-	1,625,632
Transfer					869,252	-	869,252
Interest					145,288	55,825	201,113
Other					12,955	-	12,955
Total general revenues					4,566,835	55,825	4,622,660
Change in net position					1,131,427	378,616	1,510,043
Net position, beginning of year, as restated					20,250,232	8,971,880	29,222,112
Net position, end of year					\$ 21,381,659	\$ 9,350,496	\$ 30,732,155

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

TOWN OF BETHANY BEACH, DELAWARE

**BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2019**

	<u>Major Fund</u>		Non-Major Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
	<u>General Fund</u>	<u>Capital Projects</u>		
ASSETS				
Cash and cash equivalents	\$ 909,614	\$ -	\$ -	\$ 909,614
Investments	7,628,283	-	-	7,628,283
Receivables:				
Taxes - real and personal property	17,716	-	-	17,716
Interest	46,258	-	-	46,258
Other	13,870	-	1,691	15,561
Prepaid expenses	103,505	-	-	103,505
Due from other funds	1,533	28,752	-	30,285
Restricted assets:				
Cash and cash equivalents	-	-	121,579	121,579
Total assets	\$ 8,720,779	\$ 28,752	\$ 123,270	\$ 8,872,801
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenses	\$ 174,881	\$ 28,752	\$ -	\$ 203,633
Due to other funds	28,752	-	-	28,752
Unearned revenues	146,616	-	123,270	269,886
Compensated absences liability	7,330	-	-	7,330
Total liabilities	357,579	28,752	123,270	509,601
FUND BALANCES				
Nonspendable	103,505	-	-	103,505
Committed for:				
Cultural and historic	35,588	-	-	35,588
Retiree benefits	51,502	-	-	51,502
Capital improvements	1,500,000	-	-	1,500,000
Storm emergency	1,709,000	-	-	1,709,000
Future capital replacements	4,834,000	-	-	4,834,000
Unassigned	129,605	-	-	129,605
Total fund balances	8,363,200	-	-	8,363,200
Total liabilities and fund balances	\$ 8,720,779	\$ 28,752	\$ 123,270	\$ 8,872,801

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, 2019

Total fund balances, governmental funds	\$ 8,363,200
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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.	13,327,307
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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)	544,021
Deferred inflow of resources - pension (see Note 9)	(224,886)
Net pension liability	(318,819)
Compensated absences	(211,017)
Other post-employment benefits obligation	(98,147)

Net position of governmental activities in the Statement of Net Position	<hr style="border: 0.5px solid black;"/> \$ 21,381,659 <hr style="border: 0.5px solid black;"/>
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TOWN OF BETHANY BEACH, DELAWARE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended March 31, 2019

	Major Fund		Non-Major Governmental Funds	Total Governmental Funds
	General Fund	Capital Projects		
REVENUES:				
Taxes:				
Property	\$ 1,913,708	\$ -	\$ -	\$ 1,913,708
Rental real estate	1,625,632	-	-	1,625,632
Transfer	869,252	-	-	869,252
Parking revenues	2,081,297	-	-	2,081,297
Licenses, permits, and fees	906,414	-	-	906,414
Police and Alderman fines and revenue	65,662	-	-	65,662
Interest	148,482	-	1,710	150,192
Service receipts	-	-	148,621	148,621
Intergovernmental revenues	-	-	350,123	350,123
Contributions	32,368	-	-	32,368
Miscellaneous	23,107	-	-	23,107
Total revenues	7,665,922	-	500,454	8,166,376
EXPENDITURES:				
General and administration	1,019,329	-	-	1,019,329
Licenses and inspections	300,648	-	-	300,648
Public safety:				
Police	1,610,486	-	91,817	1,702,303
Alderman	45,234	-	-	45,234
Parking	577,764	-	-	577,764
Beach patrol	518,120	-	-	518,120
Ambulance	-	-	149,195	149,195
Public works:				
Stormwater management	108,290	-	-	108,290
Streets and parks	1,014,385	-	-	1,014,385
Beach and boardwalk	357,906	-	922	358,828
Recreation - entertainment	252,204	-	-	252,204
Cultural, historical, and parade	53,164	-	-	53,164
Debt service:				
Principal	-	236,062	-	236,062
Interest	-	4,904	-	4,904
Capital outlay	-	1,598,232	258,520	1,856,752
Total expenditures	5,857,530	1,839,198	500,454	8,197,182
Excess (deficiency) of revenues over expenditures	1,808,392	(1,839,198)	-	(30,806)
Other financing (uses) sources:				
Transfer (out) in	(1,839,198)	1,839,198	-	-
Total other financing (uses) sources	(1,839,198)	1,839,198	-	-
Net change in fund balances	(30,806)	-	-	(30,806)
Fund balances, beginning of year	8,394,006	-	-	8,394,006
Fund balances, end of year	\$ 8,363,200	\$ -	\$ -	\$ 8,363,200

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, 2019

Net change in fund balances, governmental funds \$ (30,806)

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

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

Capital outlay	1,856,752
Depreciation expense	(835,782)

In the statement of activities, only the gains (losses) on sale of assets are reported whereas in the governmental funds, the proceeds from the sales of assets increase financial resources. Thus, the change in net position differs from the change in fund balance by the basis of the assets sold. (42,520)

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. 236,062

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)	(54,138)
Change in deferred inflow of resources - pension (see Note 9)	(128,575)
Change in net pension liability/asset	112,677
Change in compensated absences	6,430
Change in other post-employment benefits obligation	11,327
	11,327

Change in net position of governmental activities \$ 1,131,427

TOWN OF BETHANY BEACH, DELAWARE
STATEMENT OF FUND NET POSITION
BUSINESS-TYPE ACTIVITIES
March 31, 2019

	Enterprise Fund		
	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 465,226	\$ 163,739	\$ 628,965
Investments	1,652,388	1,009,329	2,661,717
Receivables:			
Service charges	526,534	9,504	536,038
Interest	10,051	6,118	16,169
Prepaid expenses	13,882	5,424	19,306
Total current assets	2,668,081	1,194,114	3,862,195
Noncurrent assets			
Restricted cash and cash equivalents	139,846	-	139,846
Capital assets, at cost	10,912,564	1,776,445	12,689,009
Less: accumulated depreciation	(4,444,061)	(1,112,239)	(5,556,300)
Total noncurrent assets	6,608,349	664,206	7,272,555
Total assets	\$ 9,276,430	\$ 1,858,320	\$ 11,134,750
LIABILITIES AND NET POSITION			
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	\$ 48,308	\$ 23,552	\$ 71,860
Due to other funds	830	703	1,533
Unearned revenues	4,341	-	4,341
Long-term liabilities due within one year:			
Compensated absences liability	1,025	942	1,967
Bonds and notes payable	105,524	-	105,524
Total current liabilities	160,028	25,197	185,225
Noncurrent liabilities			
Compensated absences liability	49,734	30,716	80,450
OPEB obligation	147,220	-	147,220
Bonds and notes payable	1,371,359	-	1,371,359
Total noncurrent liabilities	1,568,313	30,716	1,599,029
Total liabilities	1,728,341	55,913	1,784,254
NET POSITION			
Net investment in capital assets	4,991,620	664,206	5,655,826
Restricted	139,846	-	139,846
Unrestricted	2,416,623	1,138,201	3,554,824
Total net position	\$ 7,548,089	\$ 1,802,407	\$ 9,350,496

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, 2019

	Enterprise Fund		
	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
OPERATING REVENUE			
Charges for services	\$ 1,364,748	\$ 959,402	\$ 2,324,150
Other	33,962	-	33,962
Total operating revenues	1,398,710	959,402	2,358,112
OPERATING EXPENSES			
Operations	1,125,467	778,968	1,904,435
Depreciation and amortization	341,780	120,393	462,173
Total operating expenses	1,467,247	899,361	2,366,608
Net operating (loss) income	(68,537)	60,041	(8,496)
NON-OPERATING REVENUES (EXPENSES)			
Non-operating revenue	366,856	-	366,856
Financial (expense) income, net	(479)	20,735	20,256
Total non-operating revenue	366,377	20,735	387,112
Change in net position	297,840	80,776	378,616
Total net position, beginning of year, as restated	7,250,249	1,721,631	8,971,880
Total net position, end of year	\$ 7,548,089	\$ 1,802,407	\$ 9,350,496

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, 2019

	Enterprise Fund		
	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 1,388,368	\$ 963,522	\$ 2,351,890
Payments to suppliers	(609,677)	(351,129)	(960,806)
Payments to employees	(551,252)	(423,682)	(974,934)
Net cash provided by operating activities	227,439	188,711	416,150
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Non-operating revenue	366,856	-	366,856
Advances to general fund, net	(461)	(526)	(987)
Net cash provided (used) by noncapital financing activities	366,395	(526)	365,869
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets	(95,758)	(209,991)	(305,749)
Principal paid on long-term debt	(209,521)	-	(209,521)
Interest paid on long-term debt	(35,569)	-	(35,569)
Net cash used in capital and related financing activities	(340,848)	(209,991)	(550,839)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments	(284,445)	(28,175)	(312,620)
Interest income	35,090	20,735	55,825
Net cash used in investing activities	(249,355)	(7,440)	(256,795)
Net increase (decrease) in cash and cash equivalents	3,631	(29,246)	(25,615)
Cash and cash equivalents, beginning of year	601,441	192,985	794,426
Cash and cash equivalents, end of year	\$ 605,072	\$ 163,739	\$ 768,811
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating (loss) income	\$ (68,537)	\$ 60,041	\$ (8,496)
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:			
Depreciation and amortization expense	341,780	120,393	462,173
Changes in assets and liabilities:			
Receivables, net	(2,735)	4,120	1,385
Prepaid expenses	(1,643)	(891)	(2,534)
Unearned revenue	(7,607)	-	(7,607)
Accounts payable and other accrued expenses	(20,652)	2,613	(18,039)
Compensated absences liability	3,823	2,435	6,258
OPEB obligation	(16,990)	-	(16,990)
Net cash provided by operating activities	\$ 227,439	\$ 188,711	\$ 416,150

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, 2019 are as follows:

	Governmental Activities	Business-Type Activities	Total
Parking permits	\$ 21,035	\$ -	\$ 21,035
Licenses	28,790	-	28,790
Concession fees	78,965	-	78,965
Grants	37,267	-	37,267
Ambulance fees	86,003	-	86,003
Other	17,826	4,341	22,167
Total unearned revenues	\$ 269,886	\$ 4,341	\$ 274,227

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, 2019. 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 \$69,000 for the year ended March 31, 2019.

Note 3. Real Estate Taxes

The tax on real estate in the Town area for the fiscal year ended March 31, 2019 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, 2019:

Description	Financial Institution Balances			Totals	Carrying Amounts
	1	2	3		
Cash and cash equivalents:					
Unrestricted	\$ 612,018	\$ 1,077,573	\$ -	\$ 1,689,591	\$ 1,538,579
Restricted	-	261,425	-	261,425	261,425
Totals	\$ 612,018	\$ 1,338,998	\$ -	\$ 1,951,016	\$ 1,800,004

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, 2019, the Town's investments consist of the following:

Description	Category	Amounts	
		Market	Carrying
Certificates of deposit	1, 2	\$ 10,290,000	\$ 10,290,000
Investments:			
Unrestricted		\$ 10,290,000	\$ 10,290,000
Total investments		\$ 10,290,000	\$ 10,290,000

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 \$10,290,000 in investments, \$8,581,000 has been designated for capital replacement and \$1,709,000 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, 2019:

GOVERNMENTAL ACTIVITIES	March 31, 2018	Additions	Deletions/ Transfers	March 31, 2019
Capital assets, not being depreciated:				
Land	\$ 4,886,783	\$ -	\$ -	\$ 4,886,783
Construction in progress	1,647,781	1,716,799	(658,471)	2,706,109
Total capital assets, not being depreciated	<u>6,534,564</u>	<u>1,716,799</u>	<u>(658,471)</u>	<u>7,592,892</u>
Capital assets, being depreciated:				
Beach and boardwalk	1,109,911	-	-	1,109,911
Building and improvements	3,892,245	-	638,975	4,531,220
Land improvements	638,351	-	(11,859)	626,492
Machinery and equipment	1,209,104	79,968	(289,999)	999,073
Stormwater	1,083,338	35,000	-	1,118,338
Streets and parks	4,707,196	-	(238,601)	4,468,595
Vehicles	1,185,601	24,985	(68,405)	1,142,181
Total capital assets, being depreciated	<u>13,825,746</u>	<u>139,953</u>	<u>30,111</u>	<u>13,995,810</u>
Less accumulated depreciation:				
Beach and boardwalk	464,232	54,695	(19,496)	499,431
Building and improvements	2,538,228	126,228	-	2,664,456
Land improvements	451,586	39,035	(11,859)	478,762
Machinery and equipment	954,804	74,734	(247,479)	782,059
Stormwater	676,108	55,632	-	731,740
Streets and parks	1,986,791	406,778	(238,601)	2,154,968
Vehicles	939,704	78,680	(68,405)	949,979
Total accumulated depreciation	<u>8,011,453</u>	<u>835,782</u>	<u>(585,840)</u>	<u>8,261,395</u>
Total capital assets, being depreciated, net	<u>5,814,293</u>	<u>(695,829)</u>	<u>615,951</u>	<u>5,734,415</u>
Governmental activities capital assets, net	<u>\$ 12,348,857</u>	<u>\$ 1,020,970</u>	<u>\$ (42,520)</u>	<u>\$ 13,327,307</u>

Depreciation expense was charged to governmental functions as follows:

General, administrative, and park development	\$ 75,797
Police and Alderman	70,707
Parking	22,690
Public works:	
Stormwater management	74,874
Streets and parks	483,772
Beach and boardwalk	68,826
Recreation - entertainment	34,348
Cultural, historical, and parade	4,768
	<u>\$ 835,782</u>

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets (continued)

BUSINESS-TYPE ACTIVITIES	March 31, 2018	Additions	Deletions/ Transfers	March 31, 2019
Water Fund				
Capital assets, being depreciated:				
Plant and water distribution system	\$ 10,422,450	\$ 45,471	\$ (35,819)	\$ 10,432,102
Vehicles and equipment	430,175	50,287	-	480,462
Total capital assets, being depreciated	<u>10,852,625</u>	<u>95,758</u>	<u>(35,819)</u>	<u>10,912,564</u>
Total accumulated depreciation	<u>4,138,100</u>	<u>341,780</u>	<u>(35,819)</u>	<u>4,444,061</u>
Total capital assets, being depreciated, net	<u>6,714,525</u>	<u>(246,022)</u>	<u>-</u>	<u>6,468,503</u>
Water Fund capital assets, net	<u>\$ 6,714,525</u>	<u>\$ (246,022)</u>	<u>\$ -</u>	<u>\$ 6,468,503</u>
Sanitation Fund				
Capital assets, being depreciated:				
Vehicles and equipment	\$ 1,566,454	\$ 209,991	\$ -	\$ 1,776,445
Total capital assets, being depreciated	<u>1,566,454</u>	<u>209,991</u>	<u>-</u>	<u>1,776,445</u>
Total accumulated depreciation	<u>991,846</u>	<u>120,393</u>	<u>-</u>	<u>1,112,239</u>
Total capital assets, being depreciated, net	<u>574,608</u>	<u>89,598</u>	<u>-</u>	<u>664,206</u>
Sanitation Fund capital assets, net	<u>\$ 574,608</u>	<u>\$ 89,598</u>	<u>\$ -</u>	<u>\$ 664,206</u>
Business-type activities capital assets, net	<u>\$ 7,289,133</u>	<u>\$ (156,424)</u>	<u>\$ -</u>	<u>\$ 7,132,709</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, 2018	Additions	Retirements and Repayments	Balances March 31, 2019	Amount Due in One Year
Compensated absences			\$ 76,159	\$ 6,258	\$ -	\$ 82,417	\$ 1,967
General obligation bonds:							
Series 2012-SRF	2.13%	2033	1,686,404	-	209,521	1,476,883	105,524
Total business-type activities long-term debt			\$ 1,762,563	\$ 6,258	\$ 209,521	\$ 1,559,300	\$ 107,491

Total annual requirements to amortize all business-type activities debt outstanding as of March 31, 2019 are as follows:

Fiscal Year Ending March 31,	Principal	Interest	Total
2020	\$ 105,524	\$ 32,066	\$ 137,590
2021	108,957	28,633	137,590
2022	111,290	26,300	137,590
2023	113,674	23,917	137,591
2024	116,108	21,482	137,590
2025 - 2029	618,915	69,036	687,951
2030 - 2032	302,415	9,044	311,459
	<u>\$ 1,476,883</u>	<u>\$ 210,478</u>	<u>\$ 1,687,361</u>

Interest expense in the business-type activities for the year ended March 31, 2019 totaled \$35,569.

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, 2018	Additions	Retirements and Repayments	Balances March 31, 2019	Amount Due in One Year
Compensated absences			\$ 222,643	\$ -	\$ 4,296	\$ 218,347	\$ 7,330
Garfield parking lot	5.00%	2019	236,062	-	236,062	-	-
Total governmental activities long-term debt			\$ 458,705	\$ -	\$ 240,358	\$ 218,347	\$ 7,330

Interest expense in the governmental activities for the year ended March 31, 2019 totaled \$4,904.

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 the Town also provides healthcare benefits for one (active) individual based upon an agreement made during the time of employment. The Town has the authority to establish and amend the funding of the Plan. The Plan is closed to new entrants. No assets are accumulated in a trust that meet the criteria as defined in GASB No. 75 paragraph 4. The Town pays for the cost of the Plan on a pay-as-you-go basis from the general and water funds. The Plan does not issue a publicly available financial report.

ASSUMPTION

Age Adjustment Factor	0.5213925%
Average Retirement Age:	70
Employer Future Premium Contribution	Remain a level % of the total cost over time
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Assets Backing OPEB Liability	\$0
Plan Asset Return	0.00%
Bond Yield	3.79%
Discount Rate	2.00%
Measurement Date	3/31/2019
Prior Measurement Date	3/31/2018
Prior Year Discount Rate	2.00%
Projected Salary Increases	3.00%
Amortization Period	20
Percentage Participation	100.00%
NOL and ADC	Calculated using the Alternative Measurement Method in accordance with GASB methodology.
Mortality Table	RP2000 Mortality Table for Males and Females Projected 18 years; this assumption does not include a margin for future improvements in longevity.
Turnover Assumption:	Derived from data maintained by the U.S. Office of Personnel Management regarding the most recent experience of the employee group covered by the Federal Employees Retirement System.

HEALTHCARE COST TREND RATES

	Medical	Pharmacy	Dental	Vision
YEAR 1	4.60%	7.60%	4.00%	3.00%
YEAR 10+	4.70%	4.70%	3.00%	3.00%

NOTES TO FINANCIAL STATEMENTS

Note 8. Post-Employment Healthcare Benefits (continued)

The following presents the Plan's total OPEB liability, calculated using the current discount rate, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher:

DISCOUNT RATE			
System	1% Decrease	Discount Rate	1% Increase
Total OPEB liability	\$ 279,975	\$ 245,367	\$ 217,210

The following presents the Plan's total OPEB liability, calculated using the current health care trend rate, as well as what the total OPEB liability would be if it were calculated using a health care trend rate that is 1% point lower or 1% point higher:

HEALTH CARE TREND			
System	1% Decrease	Discount Rate	1% Increase
Total OPEB liability	\$ 217,364	\$ 245,367	\$ 278,472

Changes in the total OPEB liability are as follows:

	Total OPEB Liability (a)	Change in Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balances - beginning of year	\$ 273,684	\$ -	\$ 273,684
Service cost	4,991	-	4,991
Interest on total OPEB liability	5,479	-	5,479
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	(29,287)	-	(29,287)
Effect of assumption changes or inputs	-	-	-
Benefit payments	(9,500)	(9,500)	-
Employer contributions	-	9,500	(9,500)
Employee contributions	-	-	-
Net investment income	-	-	-
Administrative expense	-	-	-
Balances - end of year	\$ 245,367	\$ -	\$ 245,367

As of March 31, 2019, the Town has designated \$310,858 in cash to pay for these future benefits which is included in cash and cash equivalents on the statement of net position.

NOTES TO FINANCIAL STATEMENTS

Note 8. Post-Employment Healthcare Benefits (continued)

The amount of OPEB expense recognized in the reporting period are as follows:

Service cost	\$	4,991
Interest on total OPEB liability		5,479
Effect of plan changes		-
Administrative expense		-
Employee contributions		-
Expected investment return net of investment expense		-
Recognition of effect of economic/demographic gains or losses		(29,287)
<u>Recognition of effect of assumption changes or inputs</u>		<u>-</u>
<u>OPEB Expense</u>	\$	<u>(18,817)</u>

Per GASB 75 Paragraph 43(a), deferred inflows/outflows of resources related to differences between actual and expected experience with regard to economic or demographic factors or changes in assumptions and other inputs should not be used under the Alternative Measurement Method. These items should be recognized in OPEB expense immediately. Per Paragraph 43(b), the difference between projected and actual earnings on OPEB plan investments should be recognized in OPEB expense over a closed 5 year period; the amount not immediately recognized should be reported as deferred inflows/outflows. As such, if your plan does not have OPEB assets in a trust, deferred inflows/outflows are \$0.

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, 2018. 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 (excluding overtime and special pay).

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, 2017 through June 30, 2018, adjusted to remove contributions to separately finance specific liabilities of an individual employer. 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 7.1% and 11.42% of earnings for fiscal year 2018 for the Employee Plan and the Police & Fire Plan, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

D. Collective Net Pension Liability (Asset) and Actuarial Information

The components of the net pension liability (asset) of the Town at June 30, 2018 were as follows:

Plan	County & Municipal Other Employees'	County & Municipal Police & Firefighters'
Employers' total pension liability	\$ 2,361,272	\$ 3,166,565
Plan net position	2,229,214	2,979,804
Employers' net pension liability	\$ 132,058	\$ 186,761
Employer's proportionate (percentage) of the collective NPL	4.1964%	0.8109%

The amounts above represent the Town's proportional percentage

Actuarial Assumptions

The total pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of June 30, 2017, with update procedures used to roll forward the total pension liability to June 30, 2018. 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)	7.0%	7.0%
Projected salary increases (1)	2.5% + Merit	2.5% + Merit
Cost-of-living adjustments	0.00%	0.00%

(1) Inflation is included at 2.5%

The total pension liabilities are measured based on assumptions pertaining to the interest rates, inflation rates, and employee demographic behavior in future years. 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 assumptions are based on the RP-2014 tables with gender adjustments for healthy annuitants and disabled retirees and an adjusted version on MP-2015 mortality improvement scale on a fully generational basis.

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%	30.7%
International equity	5.7%	13.9%
Fixed income	2.0%	23.3%
Alternative investments	7.8%	24.4%
Cash and equivalents	0.0%	7.7%

Discount rates – The discount rate used to measure the total pension liability was 7.0%. 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 7.0%, 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'	\$ 449,078	\$ 132,058	\$ (164,373)
County & Municipal Police & Firefighters'	684,594	186,761	(216,218)
Total pensions liability / (asset)	\$ 1,133,672	\$ 318,819	\$ (380,591)

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, Deferred Inflows of Resources and Net Pension Liability

The following presents a summary of changes in the deferred outflows of resources, deferred inflows of resources and the net pension liability (asset):

	Amortization period	March 31, 2018	Additions	Deductions	March 31, 2019
County & Municipal Other Employees'					
Deferred outflows (inflows) of resources:					
Difference between expected and actual experience	8-9 years	\$ 55,871	\$ (56,270)	\$ (11,860)	\$ (12,259)
Changes of assumptions	9 years	43,652	60,303	(28,562)	75,393
Net difference between projected and actual earnings on pension plan investments	5 years	111,752	(129,419)	(6,200)	(23,867)
Change in proportion	8-9 years	(4,794)	(12,661)	3,599	(13,856)
Year ending contribution	N/A	111,631	94,622	(111,631)	94,622
Net deferred outflows (inflows)		\$ 318,112	\$ (43,425)	\$ (154,654)	\$ 120,033
Net pension liability (asset)	N/A	\$ 298,781	\$ -	\$ (166,723)	\$ 132,058
County & Municipal Police & Firefighters'					
Deferred outflows (inflows) of resources:					
Difference between expected and actual experience	10-11 years	\$ 57	\$ 125,952	\$ (9,233)	\$ 116,776
Changes of assumptions	10 years	(34,891)	76,687	(6,803)	34,993
Net difference between projected and actual earnings on pension plan investments	5 years	137,258	(179,274)	9,471	(32,545)
Change in proportion	10-11 years	(5,334)	(755)	1,682	(4,407)
Year ending contribution	N/A	86,646	84,285	(86,646)	84,285
Net deferred outflows (inflows)		\$ 183,736	\$ 106,895	\$ (91,529)	\$ 199,102
Net pension liability (asset)	N/A	\$ 132,715	\$ -	\$ 54,046	\$ 186,761

The amounts above represent the Town's proportional percentage

The \$178,907 of deferred outflows of 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, 2020.

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

E. Deferred Outflows of Resources, Deferred Inflows of Resources and Net Pension Liability (continued)

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
2020	\$ 19,843	\$ 34,246	\$ 54,089
2021	9,843	19,246	29,089
2022	(18,157)	(19,754)	(37,911)
2023	(5,757)	(1,754)	(7,511)
2024	10,931	16,246	27,177
Thereafter	8,708	66,587	75,295
	<u>\$ 25,411</u>	<u>\$ 114,817</u>	<u>\$ 140,228</u>

The amounts above represent the Town's proportional percentage

F. Pension Expense

The components of pension expense are as follows:

	County & Municipal Other Employees'	County & Municipal Police & Firefighters'	Total
Service costs	\$ 181,218	\$ 145,311	\$ 326,529
Interest on total pension liability	156,400	209,301	365,701
Member contributions	(43,307)	(49,205)	(92,512)
Administrative expense	3,315	1,176	4,491
Changes in benefit terms	-	-	-
Projected earnings on plan investments	(138,229)	(187,050)	(325,279)
Recognition of deferred outflows and inflows of resources:			
Difference between projected and actual earnings on plan investments	(11,860)	9,471	(2,389)
Difference between expected and actual experiences with regards to factors or other inputs in the measurement of total pension liability	(6,200)	(9,233)	(15,433)
Change in assumptions with regards to factors or other inputs in the measurement of total pension liability	(28,562)	(6,803)	(35,365)
Total pension expense	<u>\$ 112,775</u>	<u>\$ 112,968</u>	<u>\$ 225,743</u>

The amounts above represent the Town's proportional percentage

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension and Retirement Plans (continued)

For the year ended March 31, 2019, the Town's payroll for all employees was \$3,389,284. As of the plans measurement date, June 30, 2018, total covered payroll was \$2,345,985. Covered payroll refers to all compensation paid by the Town to active employees covered by the Plans.

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.

Note 12. Prior Period Restatement

During fiscal year 2019, the Town implemented Governmental Accounting Standard Board's Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and in accordance, has applied its effects retrospectively. The statement's objective is to improve the accounting and financial reporting for postemployment benefits other than pensions (OPEB) as well as improve the information provided by employers about financial support for OPEB (see Note 8).

The following table is a summary of the effects of these changes on net position as of March 31, 2018.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
	Net	Net
	Position	Position
As previously reported	\$ 20,312,706	\$ 8,909,090
Adjustment to net OPEB liability	(62,474)	62,790
As restated	\$ 20,250,232	\$ 8,971,880

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF BETHANY BEACH, DELAWARE
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year Ended March 31, 2019

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable <u>(Unfavorable)</u>
REVENUES:				
Taxes:				
Property	\$ 1,905,000	\$ 1,905,000	\$ 1,913,708	\$ 8,708
Rental real estate	1,600,000	1,600,000	1,625,632	25,632
Transfer	550,000	550,000	869,252	319,252
Parking revenues	1,986,000	1,986,000	2,081,297	95,297
Licenses, permits, and fees	709,000	709,000	906,414	197,414
Police and Alderman fines and revenue	70,000	70,000	65,662	(4,338)
Interest	75,000	75,000	148,482	73,482
Contributions	26,000	26,000	32,368	6,368
Miscellaneous	16,000	16,000	23,107	7,107
Total revenues	6,937,000	6,937,000	7,665,922	728,922
EXPENDITURES:				
General and administration	1,092,000	1,092,000	1,019,329	72,671
Licenses and inspections	314,000	314,000	300,648	13,352
Public safety:				
Police	1,679,000	1,679,000	1,610,486	68,514
Alderman	46,000	46,000	45,234	766
Parking	565,000	580,000	577,764	2,236
Beach patrol	584,000	544,000	518,120	25,880
Public works:				
Stormwater management	181,000	151,000	108,290	42,710
Streets and parks	1,082,000	1,082,000	1,014,385	67,615
Beach and boardwalk	328,000	368,000	357,906	10,094
Recreation - entertainment	275,000	275,000	252,204	22,796
Cultural, historical, and parade	50,000	65,000	53,164	11,836
Total expenditures	6,196,000	6,196,000	5,857,530	338,470
Excess of revenues over expenditures	741,000	741,000	1,808,392	1,067,392
OTHER FINANCING SOURCES (USES):				
Transfer out	(677,000)	(2,372,000)	(1,839,198)	532,802
Fund balance appropriated	(64,000)	1,631,000	-	(1,631,000)
Total other financing uses	(741,000)	(741,000)	(1,839,198)	(1,098,198)
Net change in fund balance	\$ -	\$ -	(30,806)	\$ (30,806)
Fund balance, beginning of year			8,394,006	
Fund balance, end of year			\$ 8,363,200	

TOWN OF BETHANY BEACH, DELAWARE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
March 31, 2019

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.

TOWN OF BETHANY BEACH, DELAWARE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CHANGES IN THE TOTAL OPEB LIABILITY
Last ten fiscal years
March 31, 2019

Measurement date	March 31, 2019	March 31, 2018	March 31, 2017	March 31, 2016	March 31, 2015	March 31, 2014	March 31, 2013	March 31, 2012	March 31, 2011	March 31, 2010
Balances - beginning of year	\$ 273,684									
Service cost	4,991									
Interest on total OPEB liability	5,479									
Effect of plan changes	-									
Effect of economic/demographic gains/losses	(29,287)									
Effect of assumption changes or inputs	-									
Benefit payments	(9,500)									
Employer contributions	-									
Employee contributions	-									
Net investment income	-									
Administrative expense	-									
Balances - end of year	\$ 245,367									

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, only information for those years for which the information is available, will be presented.

TOWN OF BETHANY BEACH, DELAWARE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE TOTAL OPEB LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL
Last ten fiscal years
March 31, 2019

Measurement date	March 31,	March 31,	March 31,	March 31,	March 31,	March 31,	March 31,	March 31,	March 31,	March 31,
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Total OPEB liability (a)	\$ 245,367									
Covered-employee payroll (b)	64,251									
% of covered-employee payroll (a/b)	382%									

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, only information for those years for which the information is available, will be presented.

TOWN OF BETHANY BEACH, DELAWARE
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - OPEB PLAN
March 31, 2019

No assets are accumulated in a trust that meets the criteria in GASB No. 75, paragraph 4, to pay related benefits.

As of March 31, 2019, the Town has designated \$310,858 in cash to pay for these future benefits which is included in cash and cash equivalents on the statement of net position.

The following factors affect trends in the amounts reported:

March 31, 2019

None

TOWN OF BETHANY BEACH, DELAWARE

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (as of measurement date)
Year Ended March 31, 2019**

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							
June 30, 2015	5.2189%	\$ 2,227	\$ 1,547,091	0%	\$ 37,840,000	\$ 37,883,000	100%
June 30, 2016	4.8223%	298,781	1,611,214	19%	39,292,000	45,488,000	86%
June 30, 2017	4.4402%	287,692	1,651,341	17%	45,874,000	52,353,000	88%
June 30, 2018	4.1964%	132,058	1,672,517	8%	53,122,000	56,269,000	94%
POLICE PLAN							
June 30, 2015	0.8631%	\$ (45,490)	\$ 612,807	-7%	\$ 273,109,000	\$ 267,839,000	102%
June 30, 2016	0.8349%	132,715	608,271	22%	284,298,000	300,194,000	95%
June 30, 2017	0.7658%	77,207	629,242	12%	325,867,000	335,948,000	97%
June 30, 2018	0.8109%	186,761	673,468	28%	367,470,000	390,500,000	94%

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
SCHEDULE OF CONTRIBUTIONS - PENSION PLAN (as of fiscal year end)
Year Ended March 31, 2019

Fiscal Year	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					
2016	\$ 100,252	\$ 100,252	-	\$ 1,547,091	6%
2017	100,180	100,180	-	1,611,214	6%
2018	111,630	111,630	-	1,651,341	7%
2019	118,582	118,582	-	1,672,517	7%
POLICE PLAN					
2016	\$ 86,896	\$ 86,896	-	\$ 612,807	14%
2017	84,246	84,246	-	608,271	14%
2018	86,646	86,646	-	629,242	14%
2019	76,910	76,910	-	673,468	11%

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

TOWN OF BETHANY BEACH, DELAWARE
REQUIRED SUPPLEMENTARY INFORMATION
ACTUARIAL ASSUMPTIONS - PENSION PLAN
Year Ended March 31, 2019

Plan	County & Municipal Other Employees'	County & Municipal Police & Firefighters'
Actuarial assumptions:		
Investment rate of return / discount rate (1)	7.0%	7.0%
Projected salary increases (1)	2.5% + Merit	2.5% + Merit
Cost-of-living adjustments	0.00%	0.00%

(1) Inflation is included at 2.5%

Mortality assumptions are based on the RP-2014 tables with gender adjustments for healthy annuitants and disabled retirees and an adjusted version on MP-2015 mortality improvement scale on a fully generational basis.

ADDITIONAL SUPPLEMENTARY INFORMATION

TOWN OF BETHANY BEACH, DELAWARE
ADDITIONAL SUPPLEMENTARY INFORMATION
BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
March 31, 2019

	Special Revenue <u>Fund</u>	Ambulance <u>Fund</u>	Total Non-Major Governmental <u>Funds</u>
ASSETS			
Receivables:			
Other	\$ -	\$ 1,691	\$ 1,691
Restricted assets:			
Cash and cash equivalents	37,267	84,312	121,579
Total assets	\$ 37,267	\$ 86,003	\$ 123,270
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Unearned revenues	\$ 37,267	\$ 86,003	\$ 123,270
Total liabilities	37,267	86,003	123,270
FUND BALANCES			
Restricted	-	-	-
Total fund balances	-	-	-
Total liabilities and fund balances	\$ 37,267	\$ 86,003	\$ 123,270

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, 2019

	Special Revenue <u>Fund</u>	Ambulance <u>Fund</u>	Total Non-Major Governmental <u>Funds</u>
REVENUES:			
Interest	\$ 1,136	\$ 574	\$ 1,710
Service receipts	-	148,621	148,621
Intergovernmental revenues	350,123	-	350,123
<u>Total revenues</u>	<u>351,259</u>	<u>149,195</u>	<u>500,454</u>
EXPENDITURES:			
Public safety:			
Police	91,817	-	91,817
Ambulance	-	149,195	149,195
Public works:			
Beach and boardwalk	922	-	922
Capital outlay	258,520	-	258,520
<u>Total expenditures</u>	<u>351,259</u>	<u>149,195</u>	<u>500,454</u>
<u>Excess (deficiency) of revenues over expenditures</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	-	-
<u>Fund balances, beginning of year</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Fund balances, end of year</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF BETHANY BEACH, DELAWARE
ADDITIONAL SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - CAPITAL PROJECTS FUND
Year Ended March 31, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
EXPENDITURES:				
Public safety:				
Police	\$ 10,000	\$ 10,000	\$ -	\$ 10,000
Parking	-	266,000	-	266,000
Public works:				
Streets and parks	355,000	1,784,000	1,563,232	220,768
Beach, boardwalk and comfort station	-	-	-	-
Stormwater management	70,000	70,000	35,000	35,000
Debt service:				
Principal	237,000	237,000	236,062	938
Interest	5,000	5,000	4,904	96
Total expenditures	677,000	2,372,000	1,839,198	532,802
OTHER FINANCING SOURCES:				
Transfers in	677,000	2,372,000	1,839,198	(532,802)
Total other financing sources	677,000	2,372,000	1,839,198	(532,802)
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, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable <u>(Unfavorable)</u>
REVENUES:				
Intergovernmental revenues:				
State and County	\$ 220,000	\$ 387,391	\$ 350,123	\$ (37,268)
Interest income	-	1,135	1,136	1
Total revenues	220,000	388,526	351,259	(37,267)
EXPENDITURES:				
Public safety:				
Police	114,000	153,862	116,802	37,060
Public works:				
Streets and parks	106,000	233,742	233,535	207
Beach and boardwalk	-	922	922	-
Total expenditures	220,000	388,526	351,259	37,267
Excess of revenues over expenditures	-	-	-	-
Net change in fund balance	\$ -	\$ -	-	\$ -
Fund balance, beginning of year			-	
Fund balance, end of year			<u>\$ -</u>	

TOWN OF BETHANY BEACH, DELAWARE
ADDITIONAL SUPPLEMENTARY INFORMATION
INCOME AND EXPENSE DETAIL
WATER FUND
Year Ended March 31, 2019

WATER SERVICE:

Operating revenues:	
Charges for services	\$ 1,364,748
Other service fees	32,152
Miscellaneous	1,810
Total operating revenues	1,398,710
Operating expenses:	
Salaries and wages	410,058
Payroll taxes	30,778
Employee benefits	97,249
Engineering	9,908
Contract services	83,729
Insurance	73,912
Telephone	5,806
Utilities	48,006
Repairs and maintenance	15,184
Sewer service charge	1,066
Plant maintenance	93,672
Distribution system maintenance	87,553
Office supplies	4,230
Miscellaneous	30,031
Supplies	36,471
Chemicals	94,495
Uniforms	3,319
Depreciation	341,780
Total operating expenses	1,467,247
Net operating loss	(68,537)
Non-operating revenues (expenses):	
Taxes and assessments	246,106
Impact fees	120,750
Interest income	35,090
Interest expense	(35,569)
Net non-operating revenues	366,377
NET INCOME	\$ 297,840

TOWN OF BETHANY BEACH, DELAWARE
ADDITIONAL SUPPLEMENTARY INFORMATION
INCOME AND EXPENSE DETAIL
SANITATION FUND
Year Ended March 31, 2019

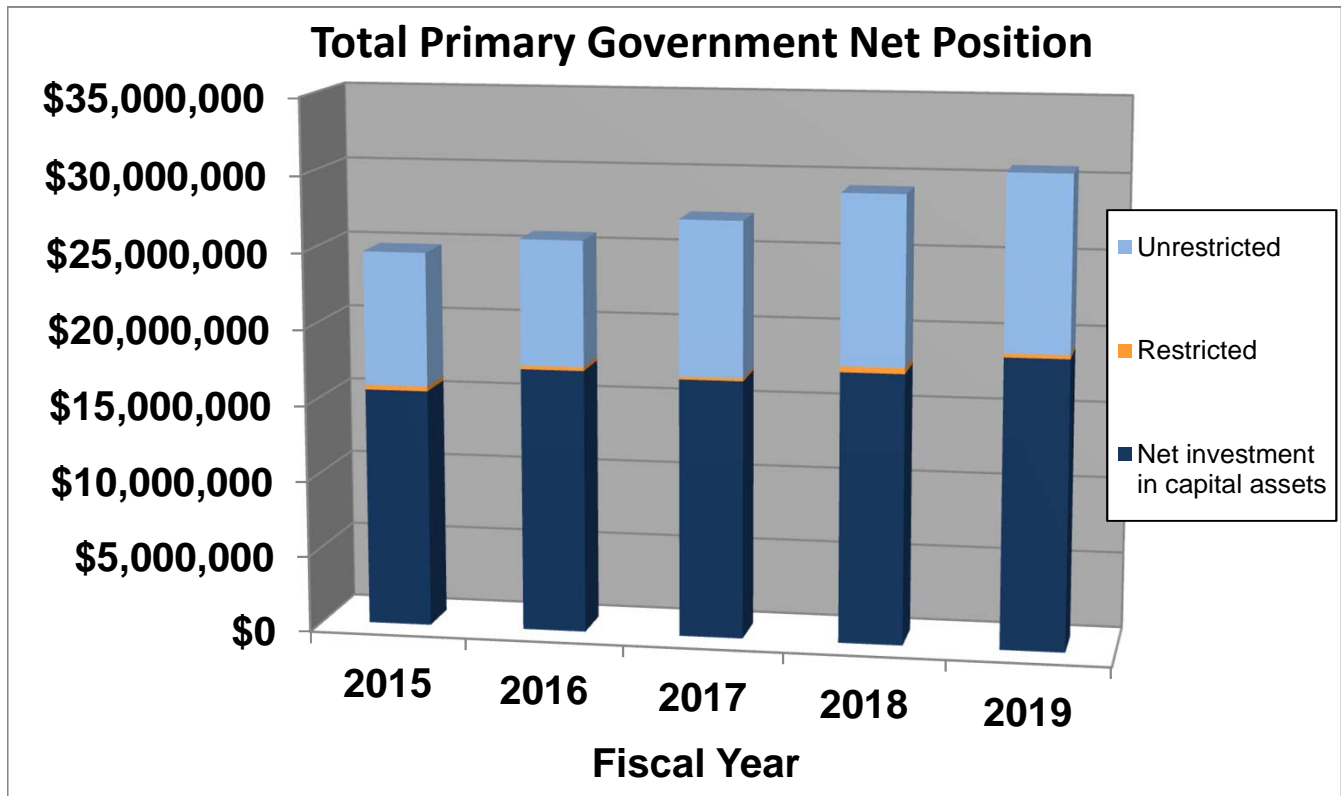
SANITATION SERVICE:

Operating revenues:	
Charges for services	\$ 959,402
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Total operating revenues	959,402
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Operating expenses:	
Salaries and wages	291,321
Payroll taxes	22,059
Employee benefits	112,737
Disposal fees	169,698
Fuel	30,779
Insurance	33,877
Telephone	806
Utilities	6,653
Repairs and maintenance	67,633
Office supplies	8,436
Miscellaneous	34,969
Depreciation	120,393
<hr/>	
Total operating expenses	899,361
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Net operating income	60,041
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Non-operating revenues:	
Interest income	20,735
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Net non-operating revenues	20,735
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NET INCOME	\$ 80,776
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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>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Governmental Activities					
Net investment in capital assets	\$ 10,567,846	\$ 11,774,735	\$ 11,155,113	\$ 12,112,795	\$ 13,327,307
Restricted	279,103	165,026	173,588	259,873	121,579
Unrestricted	5,959,016	5,622,428	7,504,369	7,940,038	7,932,773
Total governmental activities net position	\$ 16,805,965	\$ 17,562,189	\$ 18,833,070	\$ 20,312,706	\$ 21,381,659
Business-Type Activities					
Net investment in capital assets	\$ 5,055,144	\$ 5,507,815	\$ 5,776,443	\$ 5,602,729	\$ 5,655,826
Restricted	36,011	87,356	19,668	135,946	139,846
Unrestricted	2,836,717	2,619,283	2,662,927	3,170,415	3,554,824
Total business-type activities net position	\$ 7,927,872	\$ 8,214,454	\$ 8,459,038	\$ 8,909,090	\$ 9,350,496
Summary					
Net investment in capital assets	\$ 15,622,990	\$ 17,282,550	\$ 16,931,556	\$ 17,715,524	\$ 18,983,133
Restricted	315,114	252,382	193,256	395,819	261,425
Unrestricted	8,795,733	8,241,711	10,167,296	11,110,453	11,487,597
Total primary government net position	\$ 24,733,837	\$ 25,776,643	\$ 27,292,108	\$ 29,221,796	\$ 30,732,155



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>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Revenues					
Property taxes	\$ 1,745,806	\$ 1,776,040	\$ 1,897,538	\$ 1,901,125	\$ 1,913,708
Rental real estate taxes	1,044,036	1,149,424	1,348,255	1,612,598	1,625,632
Transfer taxes	822,846	710,089	1,143,222	1,141,827	869,252
Parking revenues	1,532,817	1,903,225	1,996,769	2,016,975	2,081,297
Licenses, permits, and fees	1,310,881	811,950	857,441	1,009,827	906,414
Police and Alderman fines	91,059	115,059	96,678	82,231	65,662
Interest	32,013	42,294	63,979	91,865	150,192
Service receipts - ambulance	149,127	149,170	149,168	149,057	148,621
Intergovernmental revenues	131,060	346,227	229,007	104,319	350,123
Contributions	31,328	33,972	35,472	27,567	32,368
Miscellaneous	85,715	22,151	17,674	19,031	23,107
<i>Total revenues</i>	<u>6,976,688</u>	<u>7,059,601</u>	<u>7,835,203</u>	<u>8,156,422</u>	<u>8,166,376</u>
Expenditures					
General and administration	885,800	992,891	1,081,846	1,050,092	1,019,329
Licenses and inspections	229,067	242,137	263,106	259,906	300,648
Police	1,409,172	1,468,680	1,582,304	1,651,418	1,702,303
Alderman	50,625	53,103	52,707	51,163	45,234
Parking	458,159	483,122	535,451	566,254	577,764
Beach patrol	517,196	537,084	486,587	528,643	518,120
Ambulance	149,195	149,195	149,195	149,195	149,195
Stormwater management	153,594	107,459	126,363	78,412	108,290
Streets and parks	769,853	844,358	829,826	856,106	1,014,385
Beach and boardwalk	314,199	299,080	316,176	283,586	358,828
Recreation - entertainment	224,324	237,696	237,395	246,579	252,204
Cultural, historical, and parade	36,406	34,566	26,303	30,009	53,164
Debt service - principal	89,408	225,000	214,116	224,822	236,062
Debt service - interest	596	19,700	27,450	16,544	4,904
Capital outlay	856,606	2,031,748	724,855	1,625,029	1,856,752
<i>Total expenditures</i>	<u>6,144,200</u>	<u>7,725,819</u>	<u>6,653,680</u>	<u>7,617,758</u>	<u>8,197,182</u>
Excess (deficit) of revenues over expenditures	<u>832,488</u>	<u>(666,218)</u>	<u>1,181,523</u>	<u>538,664</u>	<u>(30,806)</u>
Other financing sources					
Proceeds from loan	-	900,000	-	-	-
<i>Total other financing sources</i>	<u>-</u>	<u>900,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ 832,488</u>	<u>\$ 233,782</u>	<u>\$ 1,181,523</u>	<u>\$ 538,664</u>	<u>\$ (30,806)</u>
Debt service as a percentage of non-capital expenditures	2%	4%	4%	4%	4%

Herbert J. Geary III
Corey N. Duncan
Roy J. Geiser
Chris A. Hall
Ronald W. Hickman
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, 2019, 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 1, 2019.

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 1, 2019