

TOWN OF BETHANY BEACH, DELAWARE

FINANCIAL REPORT

MARCH 31, 2010

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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, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town as of March 31, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2010 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The additional supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Salisbury, Maryland
July 19, 2010

**Town of Bethany Beach
Management's Discussion and Analysis
March 31, 2010**

As management of the Town of Bethany Beach, Delaware (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended March 31, 2010. We encourage readers to consider this information in conjunction with the additional information that we have furnished in the Town's financial statements that follow this section.

Financial Highlights for FY 2010

The assets of the Town of Bethany Beach exceed its liabilities at the end of the fiscal year on March 31, 2010 by \$18,833,418 (net assets). Of this amount, \$7,340,670 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.

The Town's total net assets increased by \$1,306,115 (an increase of 7.5%) in fiscal year 2010. Net assets of governmental activities increased by \$765,581, while net assets of business-type activities increased by \$540,534.

As of the close of fiscal year 2010 the Town's governmental funds reported an ending fund balance of \$5,382,763. Of this amount, \$1,898,000 is held for capital purchases in FY 2011, \$3,000 is held for retiree benefits, and \$3,087,000 is held for future capital replacements.

This leaves \$394,672 as undesignated at the end of fiscal year 2010. The unreserved, undesignated fund balance for the general fund represents 9.3% of the general fund operating expenditure budget for fiscal year 2011.

The Town's bonds and notes payable decreased by \$458,383 (18.5%) as a result of regular, scheduled payments on current debt. Of the Town's total bonds and notes payable of \$2,014,591, 100.0% is payable within the next five years.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

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

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

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

Fund financial statements

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

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

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

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

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

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

Notes to the Financial Statements

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

The notes to the financial statements can be found on pages 26–41 of this report.

Government-Wide Financial Analysis

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's combined net assets (government and business-type activities) totaled \$18,833,418 at the end of fiscal year 2010, compared to \$17,527,303 at the end of fiscal year 2009, an increase of \$1,306,115 or 7.5%.

The largest portion of the Town's net assets, \$11,492,748 (61.0%), reflects its investment in capital assets such as land, buildings, equipment and infrastructure, less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

The Town approved a written Fund Balance Policy in January of 2010. This policy is intended to increase the long-term financial stability of the town while decreasing the need for future long-term borrowing. This policy gives guidance on the minimum and maximum recommended amounts to hold in reserve for operating and capital needs. The recommendation for an Operating Reserve is 15% to 30% of budgeted operating costs. The Capital Replacement Reserve recommendation is based on the cost and useful lives of assets currently in use by the Town. The policy also encourages the funding of specific reserves to accumulate funding for future capital projects, such as the current \$800,000 reserve for a water tower or other method of water storage.

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

Town of Bethany Beach
Summary of Statement of Net Assets
March 31, 2010

	Governmental Activities		Business-Type Activities		Total		% Change
	2010	2009	2010	2009	2010	2009	
Current Assets	5,634,528	4,704,931	2,732,231	2,278,187	8,366,759	6,983,118	19.8%
Capital Assets	8,611,827	9,008,994	4,035,335	3,931,897	12,647,162	12,940,891	-2.3%
Other Assets	15,417	90	379,647	546,389	395,064	546,479	-27.7%
Total Assets	14,261,772	13,714,015	7,147,213	6,756,473	21,408,985	20,470,488	4.6%
Long-Term Liabilities	781,768	1,012,532	1,004,075	1,208,197	1,785,843	2,220,729	-19.6%
Other Liabilities	496,609	483,669	293,115	238,787	789,724	722,456	9.3%
Total Liabilities	1,278,377	1,496,201	1,297,190	1,446,984	2,575,567	2,943,185	-12.5%
Invested in capital assets, net of related debt	8,611,827	9,008,331	2,880,921	2,577,163	11,492,748	11,585,494	-0.8%
Unrestricted	4,371,568	3,209,483	2,969,102	2,732,326	7,340,670	5,941,809	23.5%
Total Net Assets	12,983,395	12,217,814	5,850,023	5,309,489	18,833,418	17,527,303	7.5%

The remaining balance of unrestricted net assets (\$7,340,670) may be used to meet the government's ongoing obligations to citizens and creditors. Unrestricted net assets increased \$1,398,861 during fiscal year 2010.

Current assets increased \$1,383,641, or 19.8% to \$8,366,759 from an increase in cash and investments. The majority of this amount is cash and cash equivalents, most of which are held in reserves for future needs. Receivables are \$454,018 of the current assets and decreased \$4,170, or 0.9%.

The Town's investment in capital assets decreased 2.3% to \$12,647,162 in fiscal year 2010 as annual depreciation exceeded new capital purchases. Long-term liabilities decreased 19.6% (\$434,886) from scheduled payments while other liabilities increased 9.3% (\$67,268).

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

Town of Bethany Beach Summary of Statement of Activities March 31, 2010							
	Governmental Activities		Business-Type Activities		Total		%
	2010	2009	2010	2009	2010	2009	Change
Revenues:							
Program Revenues							
Charges for services	2,190,765	2,153,760	1,606,296	1,736,956	3,797,061	3,890,716	-2.4%
Assessments & impact fees	-	-	467,177	495,715	467,177	495,715	-5.8%
Operating grants	66,874	64,166	-	-	66,874	64,166	4.2%
Capital grants	15,000	199,519	-	-	15,000	199,519	-92.5%
General Revenues							
Property taxes	1,595,954	1,525,832	-	-	1,595,954	1,525,832	4.6%
Rental real estate taxes	892,977	908,263	-	-	892,977	908,263	-1.7%
Transfer taxes	654,646	673,426	-	-	654,646	673,426	-2.8%
Other	58,622	116,667	50,516	73,552	109,138	190,219	-42.6%
Total Revenues	5,474,838	5,641,633	2,123,989	2,306,223	7,598,827	7,947,856	-4.4%
Expenses:							
General and administration	894,775	1,503,038	-	-	894,775	1,503,038	-40.5%
Licenses and inspections	195,750	176,314	-	-	195,750	176,314	11.0%
Public Safety							
Police and Alderman	1,352,918	1,518,869	-	-	1,352,918	1,518,869	-10.9%
Parking	298,190	276,477	-	-	298,190	276,477	7.9%
Beach Patrol	402,231	362,809	-	-	402,231	362,809	10.9%
Ambulance	83,390	49,868	-	-	83,390	49,868	67.2%
Public Works							
Stormwater management	227,263	219,082	-	-	227,263	219,082	3.7%
Streets	789,207	839,220	-	-	789,207	839,220	-6.0%
Sanitation	-	-	552,776	580,612	552,776	580,612	-4.8%
Beach and boardwalk	290,029	353,880	-	-	290,029	353,880	-18.0%
Recycling	20,946	16,866	-	-	20,946	16,866	24.2%
Recreation - entertainment	137,854	140,352	-	-	137,854	140,352	-1.8%
Cultural and Historical	16,704	12,396	-	-	16,704	12,396	34.8%
Water Department	-	-	1,030,679	972,400	1,030,679	972,400	6.0%
Total Expenses	4,709,257	5,469,171	1,583,455	1,553,012	6,292,712	7,022,183	-10.4%
Transfer of Sanitation	-	(1,145,568)	-	1,145,568	-	-	0.0%
Change in Net Assets	765,581	172,462	540,534	753,211	1,306,115	925,673	41.1%
Net Assets, beginning of year	12,217,814	13,190,920	5,309,489	3,410,710	17,527,303	16,601,630	5.6%
Net Assets, end of year	<u>12,983,395</u>	<u>12,217,814</u>	<u>5,850,023</u>	<u>5,309,489</u>	<u>18,833,418</u>	<u>17,527,303</u>	<u>7.5%</u>

The Town's total net assets increased \$1,306,115 or 7.5%. Approximately 41.4% of the Town's total revenue came from taxes. Total revenues decreased \$349,029 or 4.4% while total expenses decreased \$729,471 or 10.4%. The decrease in revenue is a reflection of the nationwide recession and the \$181,811 decrease in grant funding. The decrease in expenses is the result of the \$840,020 one-time item in the prior fiscal year. The increase in net assets is a direct result of Town Council and Budget Committee efforts to provide adequate funding for the financial needs of the Town for the next five to ten years.

Governmental activities

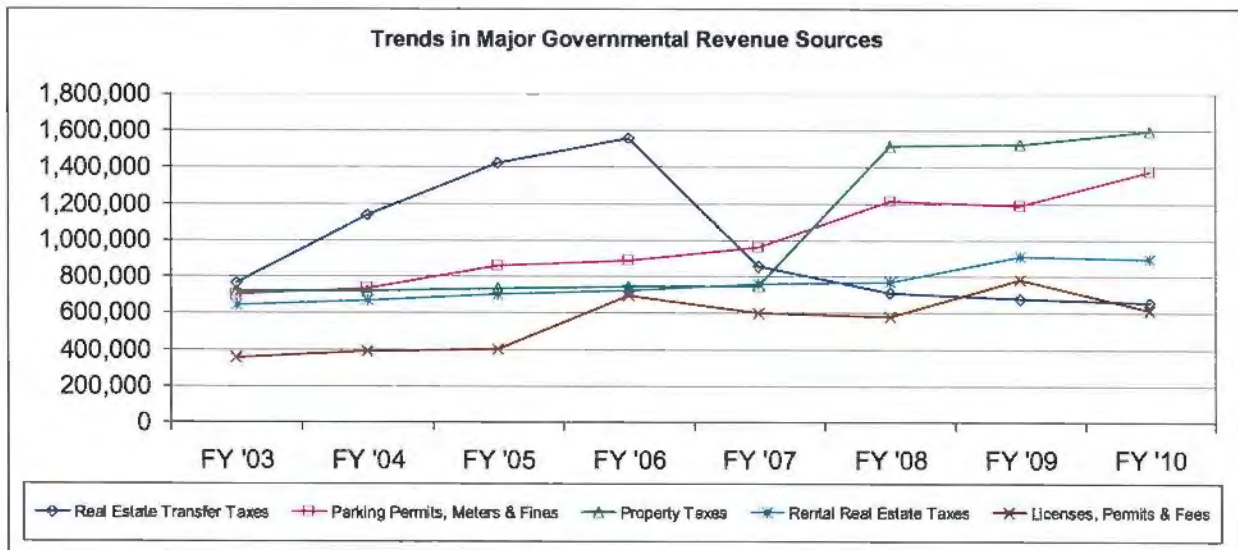
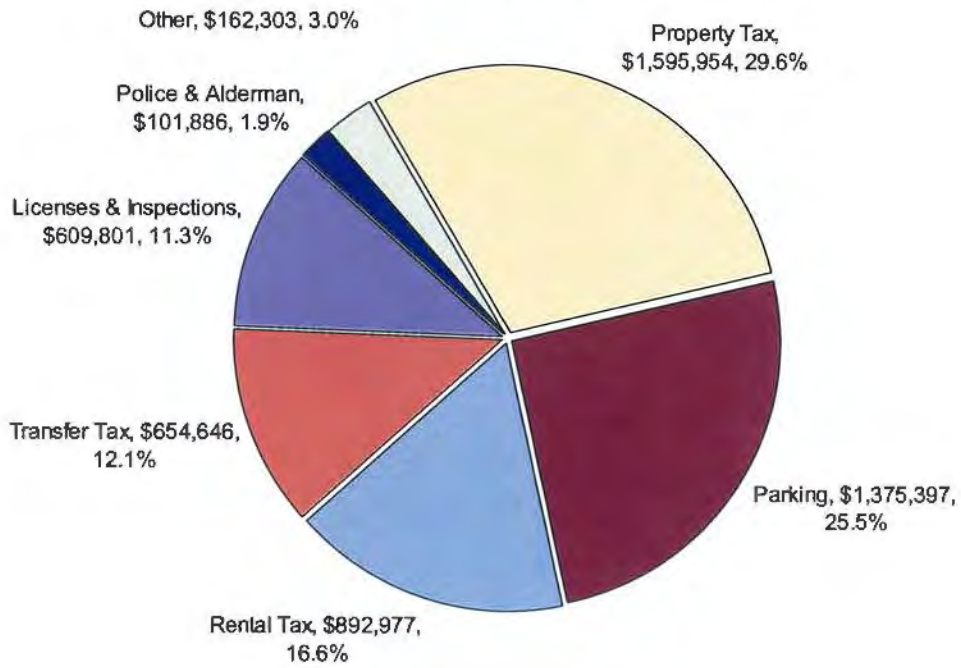
Total revenue for government activities decreased \$166,795 (3.0%). The major revenue sources and key factors are as follows. Grant revenue is not included due to the variable nature of State and Federal grants.

1. Property Tax revenue totaled \$1,595,954 and was the Town's largest single source of funding. These revenues increased 4.6%, or \$70,122, since fiscal year 2009. This increase was a result of new construction rather than an increase in the tax rate. As a percentage of governmental revenue, property tax increased from 28.4% in fiscal year 2009 to 29.6% in fiscal year 2010.
2. Revenues from parking fines, parking meters, and parking permits totaled \$1,375,397 and were the Town's second largest revenue source. These revenues increased 15.6%, or \$186,097, due to a 20% increase in parking meter and daily/weekly permit rates. Revenue increased by a smaller percentage than the fee increase because of a small decline in summer visitors. As a percentage of governmental revenue, parking increased from 22.1% in fiscal year 2009 to 25.5% in fiscal year 2010.
3. Real estate rental taxes were the Town's third largest revenue source at \$892,977. These revenues decreased 1.7% or \$15,286. As a percentage of total governmental revenue, rental taxes decreased from 16.9% in fiscal year 2009 to 16.6% in fiscal year 2010.
4. Real estate transfer taxes were the Town's fourth largest revenue source at \$654,646. These revenues decreased 2.8% or \$18,780. As a percentage of governmental revenue, transfer taxes decreased from 12.5% in fiscal year 2009 to 12.1% in fiscal year 2010.
5. Licenses, permits and other fees were the fifth largest revenue source at \$609,801. This revenue decreased 21.7% or \$169,363 due to a single, large building permit in the prior year. As a percentage of governmental revenue, licenses, permits and other fees decreased from 14.5% in fiscal year 2009 to 11.3% in fiscal year 2010.

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 exceeded \$2.6 million. This revenue includes parking, rental taxes, business licenses, beach concessions and other fines and fees. The operating cost for the summer season, including the depreciation of capital assets, is estimated as slightly over \$2.5 million. Property tax revenue is used only for year round operations, mainly the police department.

The following two charts show the Town's general fund revenues for the fiscal year ended March 31, 2010 and the trend of our six largest revenue sources over the past eight fiscal years. Special fund revenue is not included in these charts due to the variable nature of State and Federal grants.

FY 2010 Governmental Revenue Sources (excludes grant funds)



The Town's expenses for all governmental activities combined cover a range of services and decreased 13.9%, or \$759,914 from fiscal year 2009 primarily due to the following:

1. Fiscal year 2009, the Town negotiated a change in benefits with current employees. Involved employees agreed to waive their right to post employment health care insurance in exchange for the purchase of additional prior service into the State of Delaware's Municipal Pension Plan and direct payments to employees. The Town has set up a five-year payment schedule for the \$840,020 one-time expenses which occurred in 2009.
2. The State decided not to fund the Municipal Street Aid grant for this year. The Town made up for this loss of \$131,975 in capital grant money by using governmental funds.
3. With the effect of the previous two items removed, expenses decreased \$51,869 or 0.9%. This reflects ongoing efforts to control costs.

Business-type activities

Sanitation and water departments are the Town's business-type activities and are accounted for in their own funds.

Sanitation department revenues decreased 13.5%, or \$94,115. This decrease was a result of the reduction in the residential trash fee from \$225 to \$200 per year and a reduction in interest earned on investments.

Sanitation department expenses decreased 4.8%, or \$27,836. This main reason for this cost decrease is the reduced number of trash pickups in the off-season resulting in personnel and fuel cost savings.

Water department revenues decreased 5.4%, or \$59,581. Water usage in gallons declined 9.4% from the prior year resulting in a reduction in water use fees. The decline in use is believed to be from a combination of conservation efforts, a reduction in summer visitors and adequate rainfall.

Water department revenues from water impact and sinking fund fees declined 5.8% or \$28,538 to \$467,177. This revenue is used for capital projects and for debt payments respectively.

Water department expenses increased 6.0% or \$58,279. This increase is mainly from funding the post employment health care liability and from an increase in plant maintenance and repair costs.

Financial Analysis of the Town's Funds

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

Governmental Funds

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

During fiscal year 2010, the Town's governmental fund balance increased \$910,205 to \$5,382,763. Funds designated for capital improvements budgeted in the coming year increased \$1,217,000 predominately to fund the moving of utilities on Garfield Parkway in preparation for the streetscape project. The new Fund Balance

policy merged the reserve for beach & boardwalk into the reserve for future capital replacements, which increased a total of \$521,000 to \$3,087,000.

A significant portion of fund balance, \$4,988,000 or 92.7%, is designated to indicate that it is not available for new spending because it has been committed elsewhere. Currently these designations are:

- | | |
|--|-------------|
| 1. Designated for capital improvements in the coming fiscal year | \$1,898,000 |
| 2. Designated for retiree benefits | \$3,000 |
| 3. Designated for future capital replacements | \$3,087,000 |

The general fund is the main operating fund of the Town and accounts for major functions of the government including public safety, streets, storm water drainage, parks, recreation and general administrative services. As a measure of the general fund's liquidity, it may be useful to compare both undesignated fund balance and total fund balance to general fund expenditures. The undesignated fund balance is \$394,672.

Proprietary Funds

The Town's proprietary fund financial statements provide the same sort of information as the entity-wide statements.

Net assets for the water department increased \$489,882 to \$4,536,872. Fiscal year 2010 resulted in net operating income of \$58,564. The water department had net operating income of \$188,487 for fiscal year 2009 and a net operating loss of \$45,154 for fiscal year 2008. The water department increased the amount held in reserve for a water tower or other water storage system from \$500,000 to \$800,000.

Net assets for the sanitation department ended the year at \$1,313,151. Fiscal year 2010 resulted in net operating income of \$30,219. The sanitation department had net operating income of \$76,637 for fiscal year 2009, which was the first year that sanitation operated as a stand-alone fund. The increase in net assets will be used for replacement of trash trucks.

General Fund Budgetary Highlights

General fund revenues exceeded the amount budgeted by \$411,462 (8.3%). Real estate transfer taxes exceeded the amount budgeted by \$204,646 (45.5%) as we expected to be more adversely affected by the nation-wide housing crisis. Parking revenues exceeded the amount budgeted by \$108,397 (8.6%) mainly from a mid-year increase in fine amounts. Licenses, permits and fees exceeded the amount budgeted by \$83,801 (15.9%) from issuing more building permits than expected. Interest income was \$30,679 (27.9%) under budget due to a sharp decline in interest rates.

The Town Council approved mid-year a \$25,000 increase in the general fund operating budget to support the need for additional lifeguard staffing.

General fund expenditures as a whole were under the amended budget by 5.4% or \$222,413. The budgetary comparison schedule for the general fund can be found on page 43.

Capital Assets

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

Governmental Activities	FY 2010 Additions
Building & improvements	23,019
Machinery & Equipment	16,750
Streets and parks	168,690
Vehicles	26,793
Total	<u>235,252</u>

Water Fund	FY 2010 Additions
Water Plant & Distribution System	160,317
Vehicles & Equipment	201,708
	<u>362,025</u>

The Town Council made several amendments to the capital budget mid-year. In the General Fund, \$12,000 was added for replacement of the building inspector's work truck, \$75,000 was added to the debt service budget for the resolution of a portion of the post employment health benefit liability and \$100,000 was reallocated from the Collins Street pedestrian path project to street repair to make up for lost grant funding. In the Water Fund, \$60,000 was added to the budget for replacement of the aerator at the water treatment plant.

In governmental activities, the largest capital expenditure in FY 2010 was \$168,690 for road resurfacing. The Town usually funds much of this project with the State of Delaware Municipal Street Aid Grant, however this grant was not funded this year. The purchase of a used work truck for the building inspector and a used police car totaled \$26,793. A memorial wall of service was installed in the lobby of Town Hall for a cost of \$23,019. Machinery & Equipment capital expenditures were \$16,750 for public works equipment.

In the water department, \$201,708 was spent on replacement of the aerator and refurbishment of the filter gallery in the water plant. A raw water line was relocated for a cost of \$160,317.

The sanitation department used no capital funds this year.

Debt Administration

As of March 31, 2010 the Town had \$2,014,591 in outstanding debt. In the general fund, \$860,177 is owed for payments to the State of Delaware Office of Pensions and to employees for settlement of post employment benefits. In the water fund, \$1,154,414 in bonds payable remain for debt originally issued in 1989 for construction of the water plant and water distribution system. All current debt of the town is payable within five years.

Economic Factors

We expect revenues for the coming fiscal year to be similar to those of fiscal year 2010 as reported in these financial statements with the following exceptions.

Real estate transfer tax revenue is very unpredictable and dependant on the housing market. We expect to receive anywhere from \$500,000 to \$800,000 in fiscal year 2011.

Summer visitors are expected in higher numbers this summer as the recession seems to be ending, so summer season related revenues are expected to increase.

Water Impact fee revenue is expected to be significantly lower since fees for the Blue Surf condominium project were a large portion of the amount collected in fiscal year 2010. A project of this size is not expected to occur again within the next few years.

Several fees were changed for fiscal year 2011.

1. The voluntary recycling fee was increased from \$32 to \$44. The Town will take over this service from the Delaware Solid Waste Authority in June.
2. The ambulance fee was decreased from \$37 to \$30. This fee is collected by the Town and passed on in full to the Bethany Beach Volunteer Fire Company. Changes in projections prepared by the fire company resulted in the fee decrease.
3. The alderman court cost fee increased from \$15 to \$20 to compensate for cost increases over the past several years.

The fiscal year 2011 budget was approved in March of 2010. The operating budget for all town activities combined is \$5,669,000. This is \$296,000 (5.5%) more than the fiscal year 2010 operating budget. Budgeted operating costs in the General and Water funds increased 4.3%. The Sanitation fund increased 16.8% mainly from a 30% increase in the dump fee charged by the Delaware Solid Waste Authority, an additional quarter of a position being allocated to sanitation work and an increase in vehicle maintenance costs.

Capital projects for fiscal year 2011 include:

- \$1,060,000 for ntility relocation on Garfield Parkway.
- \$200,000 for street maintenance.
- \$200,000 for drilling of a new well.
- \$125,000 for storm water drainage projects.
- \$100,000 for replacement of a section of boards on the boardwalk.
- \$95,000 for acquisition of 18 parking pay stations.
- \$65,000 for public works equipment.
- \$50,000 for a sidewalk survey of Atlantic Avenue.

Requests for Information

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

TOWN OF BETHANY BEACH, DELAWARE

STATEMENT OF NET ASSETS

March 31, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,777,401	\$ 457,656	\$ 2,235,057
Investments	3,735,076	1,840,604	5,575,680
Receivables:			
Taxes - real and personal property	7,338	-	7,338
Sanitation fees	-	3,450	3,450
Water charges	-	378,067	378,067
Interest	25,821	-	25,821
Other	32,026	7,316	39,342
Prepaid expenses	80,135	21,869	102,004
Internal balances	(23,269)	23,269	-
Total current assets	5,634,528	2,732,231	8,366,759
Noncurrent assets			
Restricted cash and cash equivalents	15,417	345,233	360,650
Capital assets at cost	14,411,299	7,246,198	21,657,497
Less accumulated depreciation	(5,799,472)	(3,210,863)	(9,010,335)
Bond issue cost, net of amortization	-	34,414	34,414
Total noncurrent assets	8,627,244	4,414,982	13,042,226
Total assets	\$ 14,261,772	\$ 7,147,213	\$ 21,408,985
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	\$ 44,850	\$ 43,112	\$ 87,962
Employee withholdings and payroll taxes	16,817	37,330	54,147
Accrued interest	48,599	-	48,599
Deferred revenue	146,690	3,439	150,129
Bonds and notes payable	226,535	205,320	431,855
Compensated absences liability	13,118	3,914	17,032
Total current liabilities	496,609	293,115	789,724
Noncurrent liabilities			
Bonds and notes payable	633,642	949,094	1,582,736
Compensated absences liability	148,126	54,981	203,107
Total noncurrent liabilities	781,768	1,004,075	1,785,843
Total liabilities	1,278,377	1,297,190	2,575,567
NET ASSETS			
Invested in capital assets, net of related debt	8,611,827	2,880,921	11,492,748
Unrestricted	4,371,568	2,969,102	7,340,670
Total net assets	\$ 12,983,395	\$ 5,850,023	\$ 18,833,418

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

TOWN OF BETHANY BEACH, DELAWARE

**STATEMENT OF ACTIVITIES
Year Ended March 31, 2010**

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants Contributions, and Interest	Capital Grants, Contributions, and Interest	Primary Government		
					Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES							
General and administration	\$ 894,775	\$ -	\$ -	\$ -	\$ (894,775)	\$ -	\$ (894,775)
Licenses and inspections	195,750	609,801	-	-	414,051	-	414,051
Public Safety							
Police and Alderman fines and revenue	1,352,918	101,886	59,650	15,000	(1,176,382)	-	(1,176,382)
Parking	298,190	1,375,397	-	-	1,077,207	-	1,077,207
Beach Patrol	402,231	-	-	-	(402,231)	-	(402,231)
Ambulance	83,390	82,861	-	-	(529)	-	(529)
Public works							
Stormwater management	227,263	-	-	-	(227,263)	-	(227,263)
Streets and parks	789,207	-	7,224	-	(781,983)	-	(781,983)
Beach and boardwalk	290,029	-	-	-	(290,029)	-	(290,029)
Recycling	20,946	20,820	-	-	(126)	-	(126)
Recreation - entertainment	137,854	-	-	-	(137,854)	-	(137,854)
Historical/Cultural	16,704	-	-	-	(16,704)	-	(16,704)
Total Governmental Activities	4,709,257	2,190,765	66,874	15,000	(2,436,618)	-	(2,436,618)
BUSINESS-TYPE ACTIVITIES							
Water	1,030,679	1,023,301	467,177	-	-	459,799	459,799
Sanitation	552,776	582,995	-	-	-	30,219	30,219
Total Business-Type Activities	1,583,455	1,606,296	467,177	-	-	490,018	490,018
Total Primary Government	\$6,292,712	\$ 3,797,061	\$ 534,051	\$ 15,000	\$ (2,436,618)	\$ 490,018	\$ (1,946,600)
General Revenues							
Taxes:							
Property					1,595,954	-	1,595,954
Rental real estate					892,977	-	892,977
Transfer					654,646	-	654,646
Interest					28,836	50,516	79,352
Other					29,786	-	29,786
Total General Revenues					3,202,199	50,516	3,252,715
Change in Net Assets					765,581	540,534	1,306,115
Net Assets Beginning of Year					12,217,814	5,309,489	17,527,303
Net Assets End of Year					\$ 12,983,395	\$ 5,850,023	\$ 18,833,418

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

TOWN OF BETHANY BEACH, DELAWARE
BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2010

	General Fund	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,726,874	\$ -	\$ 50,527	\$ 1,777,401
Investments	3,735,076	-	-	3,735,076
Receivables:				
Taxes - real and personal property	7,338	-	-	7,338
Interest	25,821	-	-	25,821
Other	23,621	-	8,405	32,026
Prepaid expenses	80,135	-	-	80,135
Due from other funds	-	48,599	-	48,599
Restricted Assets:				
Cash and cash equivalents	2,146	-	13,271	15,417
Total assets	\$ 5,601,011	\$ 48,599	\$ 72,203	\$ 5,721,813
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenses	\$ 43,530	\$ -	\$ 1,320	\$ 44,850
Employee withholdings and payroll taxes	13,925	-	-	13,925
Accrued interest	-	48,599	-	48,599
Deferred revenue	83,622	-	63,068	146,690
Due to other funds	64,144	-	7,724	71,868
Compensated absences liability	13,118	-	-	13,118
Total liabilities	218,339	48,599	72,112	339,050
FUND BALANCES				
Designated for:				
Designated for capital improvements	1,898,000	-	-	1,898,000
Designated for retiree benefits	3,000	-	-	3,000
Designated for future capital replacements	3,087,000	-	-	3,087,000
Unreserved:				
Undesignated	394,672	-	91	394,763
Total fund balances	5,382,672	-	91	5,382,763
Total liabilities and fund balances	\$ 5,601,011	\$ 48,599	\$ 72,203	\$ 5,721,813

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

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
March 31, 2010**

Total fund balances, governmental funds		\$ 5,382,763
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets.		8,611,827
Some liabilities are not due and payable in the current period and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets. Those liabilities consist of:		
Bonds and notes payable	(860,177)	
Other post-employment benefit obligation	(2,892)	
Compensated absences	<u>(148,126)</u>	
Total long-term liabilities		<u>(1,011,195)</u>
Net assets of governmental activities in the Statement of Net Assets		<u>\$ 12,983,395</u>

TOWN OF BETHANY BEACH, DELAWARE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended March 31, 2010

	General <u>Fund</u>	Capital <u>Projects</u>	Other Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
REVENUES:				
Taxes:				
Property	\$ 1,595,954	\$ -	\$ -	\$ 1,595,954
Rental real estate	892,977	-	-	892,977
Transfer	654,646	-	-	654,646
Parking revenues	1,375,397	-	-	1,375,397
Licenses, permits and fees	609,801	-	-	609,801
Police and Alderman fines and revenue	101,886	-	-	101,886
Interest	79,321	-	655	79,976
Service receipts	-	-	103,681	103,681
Intergovernmental revenues: State	-	-	81,874	81,874
Contributions	15,608	-	-	15,608
Miscellaneous	15,872	-	-	15,872
Total revenues	5,341,462	-	186,210	5,527,672
Expenditures:				
General and administration	806,921	-	-	806,921
Licenses and inspections	200,254	-	-	200,254
Public safety:				
Police	1,126,134	-	59,650	1,185,784
Alderman	54,993	-	-	54,993
Parking	281,356	-	-	281,356
Beach Patrol	402,231	-	-	402,231
Ambulance	-	-	83,390	83,390
Public works:				
Stormwater management	120,719	30,052	-	150,771
Streets and parks	556,730	-	7,224	563,954
Beach and boardwalk	207,831	-	-	207,831
Recycling	-	-	20,946	20,946
Recreation - entertainment	95,057	-	-	95,057
Historical/Cultural	10,361	-	-	10,361
Debt service:				
Principal	-	258,726	-	258,726
Interest	-	51,140	-	51,140
Capital outlay	-	228,752	15,000	243,752
Total expenditures	3,862,587	568,670	186,210	4,617,467
Excess (deficiency) of revenues over expenditures	1,478,875	(568,670)	-	910,205
Other financing (uses) sources				
Transfer in (out)	(568,670)	568,670	-	-
Total other financing sources (uses)	(568,670)	568,670	-	-
Net change in fund balances	910,205	-	-	910,205
Fund balances, beginning	4,472,467	-	91	4,472,558
Fund balances, end of year	\$ 5,382,672	\$ -	\$ 91	\$ 5,382,763

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

**RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
Year Ended March 31, 2010**

Net change in fund balances, governmental funds \$ 910,205

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	243,752	
Depreciation expense	<u>(639,225)</u>	
Excess of depreciation expense over capital outlay		(395,473)

In the statement of activities, only the gains (losses) on sale of assets is reported
whereas in the governmental funds, the proceeds from the sales of assets increase
financial resources. Thus, the change in net assets differs from the change in fund
balance by the basis of the assets sold. (1,694)

Governmental funds report repayment of debt principal as an expenditure. In contrast,
the Statement of Activities treats such repayments as a reduction in long-term liabilities. 258,063

Governmental funds report repayment of capital leases as an expenditure. In contrast,
the Statement of Activities treats such repayments as a reduction in capital leases. 663

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

Increase in other post-employment benefits obligation	(2,892)	
Increase in compensated absences	<u>(3,291)</u>	

Change in net assets of governmental activities \$ 765,581

TOWN OF BETHANY BEACH, DELAWARE

STATEMENT OF FUND NET ASSETS

BUSINESS-TYPE ACTIVITIES

March 31, 2010

	Enterprise Fund		
	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 188,978	\$ 268,678	\$ 457,656
Investments	1,021,188	819,416	1,840,604
Receivables:			
Water charges	378,067	-	378,067
Sanitation	-	3,450	3,450
Other	5,471	1,845	7,316
Prepaid expenses	15,573	6,296	21,869
Due from other funds	24,466	-	24,466
Total current assets	1,633,743	1,099,685	2,733,428
Noncurrent assets			
Restricted cash and cash equivalents	345,233	-	345,233
Capital assets, at cost	6,612,810	633,388	7,246,198
Less accumulated depreciation	(2,824,005)	(386,858)	(3,210,863)
Bond issue costs, net of amortization	34,414	-	34,414
Total noncurrent assets	4,168,452	246,530	4,414,982
Total assets	\$ 5,802,195	\$ 1,346,215	\$ 7,148,410
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	\$ 32,187	\$ 10,925	\$ 43,112
Employee withholdings and payroll taxes	35,656	1,674	37,330
Due to other funds	-	1,197	1,197
Deferred revenues	3,439	-	3,439
Long-term liabilities due within one year:			
General obligation bonds	205,320	-	205,320
Compensated absences liability	2,333	1,581	3,914
Total current liabilities	278,935	15,377	294,312
Noncurrent liabilities			
General obligation bonds	949,094	-	949,094
Compensated absences liability	37,294	17,687	54,981
Total noncurrent liabilities	986,388	17,687	1,004,075
Total liabilities	1,265,323	33,064	1,298,387
NET ASSETS			
Invested in capital assets, net of related debt	2,634,391	246,530	2,880,921
Unrestricted	1,902,481	1,066,621	2,969,102
Total	\$ 4,536,872	\$ 1,313,151	\$ 5,850,023

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

TOWN OF BETHANY BEACH, DELAWARE

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS**

BUSINESS-TYPE ACTIVITIES

Year Ended March 31, 2010

	Enterprise Fund		
	Water Fund	Sanitation Fund	Total
OPERATING REVENUE			
Charges for services:			
Water	\$ 1,001,465	\$ -	\$ 1,001,465
Sanitation	-	582,995	582,995
Other operating	21,836	-	21,836
<hr/>			
Total operating revenues	1,023,301	582,995	1,606,296
<hr/>			
OPERATING EXPENSES			
Water	757,148	-	757,148
Sanitation	-	483,284	483,284
Depreciation and amortization	207,589	69,492	277,081
<hr/>			
Total operating expenses	964,737	552,776	1,517,513
<hr/>			
Net operating income	58,564	30,219	88,783
<hr/>			
NON-OPERATING REVENUE (EXPENSES)			
Non-operating revenue	467,177	-	467,177
Amortization of bond issue cost	(5,320)	-	(5,320)
Financial expense, net	(30,539)	20,433	(10,106)
<hr/>			
Total non-operating revenue	431,318	20,433	451,751
<hr/>			
Change in net assets	489,882	50,652	540,534
<hr/>			
Total net assets, beginning	4,046,990	1,262,499	5,309,489
<hr/>			
Total net assets, ending	\$ 4,536,872	\$ 1,313,151	\$ 5,850,023

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, 2010

	Enterprise Fund		
	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 1,037,202	\$ 606,172	\$ 1,643,374
Payments to suppliers	(288,262)	(228,417)	(516,679)
Payments to employees	(395,114)	(242,476)	(637,590)
Net cash provided by operating activities	353,826	135,279	489,105
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Non-operating revenue	467,177	-	467,177
Advances from general fund, net	(58,848)	18,702	(40,146)
Net cash provided by noncapital financing activities	408,329	18,702	427,031
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets	(402,929)	-	(402,929)
Principal paid on long-term debt	(200,320)	-	(200,320)
Interest paid on long-term debt	(60,622)	-	(60,622)
Net cash used in capital and related financing activities	(663,871)	-	(663,871)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments	(21,188)	(39,972)	(61,160)
Interest income	30,083	20,433	50,516
Net cash provided by (used in) investing activities	8,895	(19,539)	(10,644)
Net increase in cash and cash equivalents	107,179	134,442	241,621
Cash and cash equivalents, beginning of year	427,032	134,236	561,268
Cash and cash equivalents, end of year	\$ 534,211	\$ 268,678	\$ 802,889
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	\$ 58,564	\$ 30,219	\$ 88,783
Adjustments to reconcile operating income to net cash provided by operating activities:			
Loss on disposal of asset	22,411	-	22,411
Depreciation and amortization expense	207,589	69,491	277,080
Changes in assets and liabilities:			
Receivables, net	10,462	23,177	33,639
Prepaid expenses	8,807	7,859	16,666
Deferred revenue	3,439	-	3,439
Accounts and other payables	42,002	3,069	45,071
Compensated absences liability	552	1,464	2,016
Net cash provided by operating activities	\$ 353,826	\$ 135,279	\$ 489,105

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

NOTES TO FINANCIAL STATEMENTS

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

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

A. Financial Reporting Entity

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

Note 2. Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

FUND FINANCIAL STATEMENTS

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

PROPRIETARY FUNDS

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

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

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

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

FIDUCIARY FUNDS

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

C. Measurement Focus

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

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

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

D. Basis of Accounting

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

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

E. Budgetary Process

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

1. The Budget Committee submits to the Town Council a proposed operating budget for the ensuing fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. Council meets in open session to review the proposed operating budget.
3. Not 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.

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.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

I. Capital Assets

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

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

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

J. Restricted Assets

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

K. Bond Issue Costs

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

L. Deferred Revenues

Deferred revenues represent funds received in advance, which will be recognized in future years when the revenue recognition criteria is met. In the governmental funds, deferred revenues of \$146,690 consist of permits and fees collected in advance.

M. Compensated Absences

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

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

N. Accrued Liabilities and Long-Term Obligations

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

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

O. Interest Capitalization

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

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

The amount of interest expense to be capitalized is based on the weighted-average amount of accumulated expenditures for the period multiplied by the interest rate for the obligation incurred specifically to finance the construction of capital assets. There was no capitalization of interest expense during the fiscal year ended March 31, 2010.

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by grantors, creditors or laws or regulations of other governments.

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

Q. Fund Balance Reserves

The Town reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Fund balance reserves have been established for capital replacement, specific needs, and operations in compliance with the Town's Fund Balance policy.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

R. Operating Revenues and Expenses

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

S. Estimates

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

T. Interfund Receivables/Payables

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

U. Interfund Transfers In/Out

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

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

V. Reclassifications

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

Note 3. Real Estate Taxes

The tax on real estate in the Town area for the fiscal year ended March 31, 2010 was \$0.165 per \$100 of assessed valuation as levied by the Town Council. The Town bills and collects its own real estate taxes. Delinquent taxes are levied by the Town. The schedule of real estate taxes levied for the fiscal year are:

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

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, 2010 are as follows:

Description	Financial Institution Balances			Totals	Carrying Amounts
	Category				
	1	2	3		
Cash & Cash Equivalents:					
Unrestricted	\$ 324,672	\$ 2,106,943	\$ -	\$ 2,431,615	\$ 2,235,057
Restricted	-	360,650	-	360,650	360,650
Totals	\$ 324,672	\$ 2,467,593	\$ -	\$ 2,792,265	\$ 2,595,707

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, 2010, the Town's investments consist of the following:

Description	Category	Amounts	
		Market	Carrying
Certificates of Deposit	1, 2	\$ 5,575,680	\$ 5,575,680
Investments:			
Unrestricted		\$ 5,575,680	\$ 5,575,680
Total Investments		\$ 5,575,680	\$ 5,575,680

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

NOTES TO FINANCIAL STATEMENTS

Note 5. Intergovernmental Receivables

Amount due from other governmental units represents receivables for revenues earned by the Town or collections made by another governmental unit on behalf of the Town. The intergovernmental receivables as of March 31, 2010, are as follows:

Description	Special Revenue
State of Delaware	\$ 7,725

Note 6. Capital Assets

The following is a summary of changes in capital assets for the year ended March 31, 2010:

	March 31, 2009	Additions	Deletions/ Transfers	March 31, 2010
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated:				
Land	\$ 3,391,767	\$ -	\$ -	\$ 3,391,767
Construction in progress	-	8,500	-	8,500
Total capital assets, not being depreciated	3,391,767	8,500	-	3,400,267
Capital assets, being depreciated				
Beach and boardwalk	984,760	-	(2,741)	982,019
Building and improvements	3,601,455	23,019	(3,000)	3,621,474
Land improvements	643,162	-	-	643,162
Machinery and equipment	1,097,358	16,750	(29,821)	1,084,287
Stormwater	1,192,348	-	-	1,192,348
Streets and parks	2,479,432	168,690	(3,826)	2,644,296
Vehicles	799,451	26,793	17,202	843,446
Total capital assets, being depreciated	10,797,966	235,252	(22,186)	11,011,032
Less accumulated depreciation:				
Beach and boardwalk	566,749	51,797	(2,741)	615,805
Building and improvements	1,244,269	144,267	(1,575)	1,386,961
Land improvements	126,782	39,845	-	166,627
Machinery and equipment	652,772	116,751	(29,552)	739,971
Stormwater	299,109	67,895	-	367,004
Streets and parks	1,712,467	134,189	(3,826)	1,842,830
Vehicles	578,591	84,481	17,202	680,274
Total accumulated depreciation	5,180,739	639,225	(20,492)	5,799,472
Total capital assets, being depreciated, net	5,617,227	(403,973)	(1,694)	5,211,560
Governmental activities capital assets, net	\$ 9,008,994	\$ (395,473)	\$ (1,694)	\$ 8,611,827

There was a transfer of a fully depreciated asset with a purchase price of \$22,185 from the Water Fund to the General Fund vehicles during 2010.

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

General, administrative and park development	\$ 88,800
Police and Alderman	107,831
Parking	13,842
Public works	
Stormwater management	74,882
Streets and parks	222,953
Beach and boardwalk	81,777
Recreation - entertainment	42,797
Historical/Cultural	6,343
	\$ 639,225

	March 31, 2009	Additions	Deletions/ Transfers	March 31, 2010
BUSINESS-TYPE ACTIVITIES				
Water Fund				
Capital assets, not being depreciated:				
Construction in progress	\$ 89,003	\$ 40,904	\$ (41,728)	\$ 88,179
Total capital assets, not being depreciated	89,003	40,904	(41,728)	88,179
Capital assets, being depreciated:				
Plant and water distribution system	5,846,200	160,317	(26,164)	5,980,353
Vehicles and equipment	343,891	201,708	(1,321)	544,278
Total capital assets, being depreciated	6,190,091	362,025	(27,485)	6,524,631
Total accumulated depreciation	2,663,218	207,589	(46,802)	2,824,005
Total capital assets, being depreciated, net	3,526,873	154,436	19,317	3,700,626
Water capital assets, net	\$ 3,615,876	\$ 195,340	\$ (22,411)	\$ 3,788,805
Sanitation Fund				
Capital assets, being depreciated:				
Vehicles and equipment	\$ 654,971	\$ -	\$ (21,583)	\$ 633,388
Total capital assets, being depreciated	654,971	-	(21,583)	633,388
Total accumulated depreciation	338,950	69,491	(21,583)	386,858
Total capital assets, being depreciated, net	316,021	(69,491)	-	246,530
Sanitation capital assets, net	\$ 316,021	(69,491)	-	\$ 246,530
Business-type activities capital assets, net	\$ 3,931,897	\$ 125,849	\$ (22,411)	\$ 4,035,335

NOTES TO FINANCIAL STATEMENTS

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

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

	Interest Rate	Maturity Date	Balances March 31, 2009	Additions	Retirements and Repayments	Balances March 31, 2010	Amount Due in One Year
Compensated absences			\$ 56,879	\$ 2,016	\$ -	\$ 58,895	\$ 3,914
General Obligation Bonds:							
Series 1994			\$ 1,325,000	\$ -	\$ 195,000	\$ 1,130,000	\$ 200,000
Bond Premium			127,151	-	22,735	104,416	22,735
Refunding Deferral	2.75-						
Series 1994, net	9.75%	2014	(97,417)	17,415	-	(80,002)	(17,415)
			1,354,734	17,415	217,735	1,154,414	205,320
Total Business-type Activities Long-Term Debt			\$ 1,411,613	\$ 19,431	\$ 217,735	\$ 1,213,309	\$ 209,234

Total annual requirements to amortize all business-type activities debt outstanding as of March 31, 2010 are as follows:

Fiscal Year Ending March 31,	Principal	Interest	Total
2011	\$ 205,320	\$ 59,890	\$ 265,210
2012	220,320	49,290	269,610
2013	230,320	37,895	268,215
2014	245,320	25,970	271,290
2015	253,134	13,250	266,384
	\$ 1,154,414	\$ 186,295	\$ 1,340,709

Interest expense in the business-type activities for the year ended March 31, 2010 totaled \$65,942.

NOTES TO FINANCIAL STATEMENTS

Note 8. Bonds and Notes Payable – Governmental Activities

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

	Interest Rate	Maturity Date	Balances March 31, 2009	Additions	Retirements and Repayments	Balances March 31, 2010	Amount Due in One Year
Compensated absences			\$ 156,104	\$ 5,140	\$ -	\$ 161,244	\$ 13,118
Cash settlement employees	0.00%	2013	271,776	-	75,464	196,312	67,944
State of Delaware Pension	8.00%	2012	846,464	-	182,599	663,865	158,591
			<u>1,118,240</u>	<u>-</u>	<u>258,063</u>	<u>860,177</u>	<u>226,535</u>
Total Governmental Activities Long-Term Debt			<u>\$ 1,274,344</u>	<u>\$ 5,140</u>	<u>\$ 258,063</u>	<u>\$ 1,021,421</u>	<u>\$ 239,653</u>

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

Fiscal Year Ending March 31,	Principal	Interest	Total
2011	\$ 226,535	\$ 53,109	\$ 279,644
2012	239,222	40,422	279,644
2013	222,098	26,720	248,818
2014	82,914	13,786	96,700
2015	89,408	7,153	96,561
	<u>\$ 860,177</u>	<u>\$ 141,190</u>	<u>\$ 1,001,367</u>

Interest expense in the governmental activities for the year ended March 31, 2010 totaled \$51,050.

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

Original cost of assets acquired under these capital leases for the general fund is \$13,273, which are fully depreciated as of March 31, 2010.

There are no future minimum lease payments for all capital leases.

NOTES TO FINANCIAL STATEMENTS

Note 9. Reserved and Designated Fund Balances/Net Assets

Reservations of fund balances show amounts that are not available for current appropriations or are legally restricted for specific uses. Designations of fund balances are used to show the amounts within unreserved fund balances, which are intended to be used for specific purposes but are not legally restricted. The purpose for each reservation or designation is indicated by the account title on the face of the balance sheet.

Note 10. Post-Employment Healthcare Benefits

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 three retirees and their families are eligible for these benefits and all are receiving such benefits. The Town also provides healthcare benefits for one individual based upon an agreement made during the time of employment. The Plan does not issue a publicly available financial report.

Funding Policy

During the fiscal year ended March 31, 2010 the cost of healthcare benefits for these employees and their families was approximately \$23,781.

Annual OPEB Cost and Net OPEB Obligation

The Town's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined using the alternative measurement method provided for in GASB 45. The town has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The Town is implementing GASB 45 prospectively in fiscal year 2010, therefore the net OPEB obligation at the beginning of the fiscal year is zero. The Town pays post-employment retirement benefits (normal cost) from the general and water funds.

Annual OPEB Cost and Net OPEB Obligation (continued)

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

Annual required contribution (ARC)	\$	62,016
Interest on Net OPEB Obligation (NOO)		-
Adjustment to Annual Required Contribution (ARC)		-
Annual OPEB cost (Expense)		62,016
Age Adjusted Contributions Made		(26,254)
Change in Net OPEB Obligation (NOO)		35,762
Net OPEB Obligation (NOO) - Beginning of Year		-
Net OPEB Obligation (NOO) - End of Year	\$	35,762

NOTES TO FINANCIAL STATEMENTS

Note 10. Post-Employment Healthcare Benefits (continued)

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

<u>Year Ended 31-Mar</u>	<u>Annual OPEB Cost</u>	<u>Age Adjusted Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 62,016	\$ 26,254	42.33%	\$ 35,762

Funding Status and Funding Progress

<u>Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
3/31/2010	\$ 35,000	\$ 544,932	\$ 509,932	6.42%	\$ 57,587	885.50%

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

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

In determining its actuarial valuation of OPEB costs and liabilities, the Town used the entry age actuarial cost method and the level percentage of payroll amortization method using certain assumptions and default values provided for under the alternative measurement method in GASB 45. Additionally, other assumptions were used based on comparable plans to include: an average retirement age of 65, RP 2000 mortality table for males and females projected 10 years, standard turnover assumptions as per GASB 45 paragraph 35b, a discount rate of 3.0%, projected salary increases of 3%, plan asset return of 0%, employer asset return of 3% and an annual healthcare cost trend of 9.0% initially, reduced to an ultimate rate of 4.7% after ten years. The unfunded accrued actuarial liability is being amortized as a level percentage of projected payroll over a 10 year period. The remaining amortization period at March 31, 2010 was 9 years.

NOTES TO FINANCIAL STATEMENTS

Note 11. Pension and Retirement Plans

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

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

The Town's contribution to the State of Delaware County & Municipal Employees Plan and State of Delaware Police and Firefighters Plan was \$69,924 and \$59,817 for the fiscal year, respectively.

Plan Description

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

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

Funding Policy

The State Office of Pensions requires active members to contribute to the System at rates determined annually by actuarial valuations. For the State fiscal year ending June 30, 2010 the Town was required to contribute 6.15% of total compensation for general employees and 13.70% of regular salary for police officers. Employee contributions are done through payroll withholding in the amount of 3% for general employees and 7% for police officers.

NOTES TO FINANCIAL STATEMENTS

Note 11. Pension and Retirement Plans (continued)

Employer's Payroll and Contributions Under the Plan

The Town joined the State of Delaware pension plans on June 30, 2006. Contributions paid for the years ended March 31, 2010, 2009, and 2008 are as follows:

	2010	2009	2008
Creditable wages	\$ 1,561,259	\$ 1,549,436	\$ 1,563,296
Contributions paid:			
General employees	69,924	72,272	67,927
Police officers	59,817	57,576	56,971

Note 12. Risk Management

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

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

Note 13. Commitments, Contingencies and Subsequent Events

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF BETHANY BEACH, DELAWARE

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year Ended March 31, 2010**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable <u>(Unfavorable)</u>
REVENUES:				
Taxes:				
Property	\$ 1,573,000	\$ 1,573,000	\$ 1,595,954	\$ 22,954
Rental real estate	860,000	860,000	892,977	32,977
Transfer	450,000	450,000	654,646	204,646
Parking Revenues	1,267,000	1,267,000	1,375,397	108,397
Licenses, permits and fees	526,000	526,000	609,801	83,801
Police and Alderman fines and revenue	120,000	120,000	101,886	(18,114)
Interest	110,000	110,000	79,321	(30,679)
Contributions	17,000	17,000	15,608	(1,392)
Miscellaneous	7,000	7,000	15,872	8,872
Total revenues	4,930,000	4,930,000	5,341,462	411,462
EXPENDITURES:				
General and administration	861,000	861,000	806,921	54,079
Licenses and inspections	201,000	201,000	200,254	746
Public safety:				
Police	1,170,000	1,170,000	1,126,134	43,866
Alderman	55,000	55,000	54,993	7
Parking	287,000	287,000	281,356	5,644
Beach Patrol	381,000	406,000	402,231	3,769
Public works:				
Stormwater management	150,000	150,000	120,719	29,281
Streets and parks	563,000	563,000	556,730	6,270
Beach and boardwalk	258,000	258,000	207,831	50,169
Recreation - entertainment	114,000	114,000	95,057	18,943
Historical/Cultural	20,000	20,000	10,361	9,639
Total expenditures	4,060,000	4,085,000	3,862,587	222,413
Excess of revenues over expenditures	870,000	845,000	1,478,875	633,875
OTHER FINANCING SOURCES (USES):				
Transfer out	-	-	(568,670)	(568,670)
Total other financing sources	-	-	(568,670)	(568,670)
Net change in fund balance	\$ 870,000	\$ 845,000	910,205	\$ 65,205
Fund balance - beginning			<u>4,472,467</u>	
Fund balance - ending			<u>\$ 5,382,672</u>	

TOWN OF BETHANY BEACH, DELAWARE

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - CAPITAL PROJECTS FUND
Year Ended March 31, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
EXPENDITURES:				
General and administration	\$ 100,000	\$ 100,000	\$ -	\$ 100,000
Licenses and inspections	-	12,000	11,793	207
Public works:				
Stormwater management	155,000	155,000	30,052	124,948
Streets and parks	335,000	335,000	180,290	154,710
Beach and boardwalk	65,000	65,000	13,650	51,350
Historical/Cultural	26,000	26,000	23,019	2,981
Debt service:				
Principal	184,000	259,000	258,726	274
Interest	39,000	39,000	51,140	(12,140)
Total expenditures	904,000	991,000	568,670	422,330
OTHER FINANCING SOURCES:				
Operating transfers in	-	-	568,670	568,670
Total other financing sources	-	-	568,670	568,670
Net change in fund balance	\$ (904,000)	\$ (991,000)	-	\$ 991,000
Fund balance - beginning			<u>-</u>	
Fund balance - ending			<u>\$ -</u>	

ADDITIONAL SUPPLEMENTARY INFORMATION

TOWN OF BETHANY BEACH, DELAWARE

**ADDITIONAL SUPPLEMENTARY SCHEDULE
BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND
Year Ended March 31, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
REVENUES:				
Intergovernmental revenues:				
State	\$ 178,000	\$ 81,875	\$ 81,874	\$ (1)
<hr/>				
Total revenues	178,000	81,875	81,874	(1)
<hr/>				
EXPENDITURES:				
Public safety:				
Police	45,000	87,831	74,650	13,181
Public works:				
Streets and parks	133,000	7,224	7,224	-
<hr/>				
Total expenditures	178,000	95,055	81,874	13,181
<hr/>				
Excess (deficiency) of revenues over expenditures	-	(13,180)	-	13,180
<hr/>				
Net change in fund balance	\$ -	\$ (13,180)	-	\$ 13,180
<hr/>				
Fund balance - beginning			<u>91</u>	
Fund balance - ending			<u>\$ 91</u>	

TOWN OF BETHANY BEACH, DELAWARE

**ADDITIONAL SUPPLEMENTARY SCHEDULE
BUDGETARY COMPARISON SCHEDULE - RECYCLING FUND
Year Ended March 31, 2010**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Interest	\$ -	\$ -	\$ 126	\$ 126
Recycling receipts	21,000	21,000	20,820	(180)
Total revenues	21,000	21,000	20,946	(54)
EXPENDITURES:				
Public works:				
Recycling	21,000	21,000	20,946	54
Total expenditures	21,000	21,000	20,946	54
Excess of revenues over expenditures	-	-	-	-
Net change in fund balance	\$ -	\$ -	-	\$ -
Fund balance - beginning			-	
Fund balance - ending			<u>\$ -</u>	

TOWN OF BETHANY BEACH, DELAWARE

**ADDITIONAL SUPPLEMENTARY SCHEDULE
BUDGETARY COMPARISON SCHEDULE - AMBULANCE FUND
Year Ended March 31, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Interest	\$ -	\$ -	\$ 529	\$ 529
Ambulance receipts	84,000	84,000	82,861	(1,139)
Total revenues	84,000	84,000	83,390	(610)
EXPENDITURES:				
Public safety:				
Ambulance	84,000	84,000	83,390	610
Total expenditures	84,000	84,000	83,390	610
Excess of revenues over expenditures	-	-	-	-
Net change in fund balance	\$ -	\$ -	-	\$ -
Fund balance - beginning			-	
Fund balance - ending			\$ -	

TOWN OF BETHANY BEACH, DELAWARE

INCOME AND EXPENSE DETAIL

WATER FUND

Year Ended March 31, 2010

WATER SERVICE:

Operating revenues:	
Charges for services	\$ 1,001,465
Other service fees	19,205
Miscellaneous	2,631
<hr/>	
Total operating revenues	1,023,301
<hr/>	
Operating expenses:	
Salaries and wages	259,518
Payroll taxes	19,731
Employee benefits	116,417
Administrative fees	2,332
Contract services	36,547
Insurance	28,572
Telephone	5,647
Utilities	62,074
Repairs and maintenance	11,708
Engineering	11,738
Sewer service charge	394
Plant maintenance	51,755
Distribution system maintenance	38,630
Office supplies	6,069
Miscellaneous	31,902
Supplies	8,610
Chemicals	64,221
Uniforms	1,283
Depreciation	207,589
<hr/>	
Total operating expenses	964,737
<hr/>	
Net operating income (loss)	58,564
<hr/>	
Non-operating revenue (expenses):	
Taxes and assessments	245,493
Impact fees	221,684
Interest income	30,083
Amortization on bond issue costs	(5,320)
Interest expense	(60,622)
<hr/>	
Net non-operating revenues	431,318
<hr/>	
NET INCOME	\$ 489,882

TOWN OF BETHANY BEACH, DELAWARE

**INCOME AND EXPENSE DETAIL
SANITATION FUND**

Year Ended March 31, 2010

SANITATION SERVICE:

Operating revenues:	
Charges for services	\$ 582,995
<hr/>	
Total operating revenues	582,995
<hr/>	
Operating expenses:	
Salaries and wages	172,290
Payroll taxes	13,006
Employee benefits	58,644
Disposal fees	143,361
Fuel	21,352
Insurance	16,201
Telephone	1,626
Utilities	9,230
Repairs and maintenance	36,799
Office supplies	5,229
Miscellaneous	5,546
Depreciation	69,492
<hr/>	
Total operating expenses	552,776
<hr/>	
Net operating income (loss)	30,219
<hr/>	
Non-operating revenue (expenses):	
Interest income	20,433
<hr/>	
Net non-operating revenues	20,433
<hr/>	
NET INCOME	\$ 50,652

TOWN OF BETHANY BEACH, DELAWARE
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
March 31, 2010

	Special <u>Revenue</u>	<u>Ambulance</u>	<u>Recycling</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ -	\$ 46,719	\$ 3,808	\$ 50,527
Receivables:				
Ambulance fees	-	642	-	642
Recycling fees	-	-	38	38
Intergovernmental	7,725	-	-	7,725
Restricted Assets:				
Cash and cash equivalents	13,271	-	-	13,271
Total assets	\$ 20,996	\$ 47,361	\$ 3,846	\$ 72,203
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenses	\$ -	\$ -	\$ 1,320	\$ 1,320
Deferred revenue	13,181	47,361	2,526	63,068
Due to other funds	7,724	-	-	7,724
Total liabilities	20,905	47,361	3,846	72,112
FUND BALANCES				
Unreserved:				
Undesignated	91	-	-	91
Total fund balances	91	-	-	91
Total liabilities and fund balances	\$ 20,996	\$ 47,361	\$ 3,846	\$ 72,203

TOWN OF BETHANY BEACH, DELAWARE
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
Year Ended March 31, 2010

	<u>Special Revenue</u>	<u>Ambulance</u>	<u>Recycling</u>	<u>Total</u>
REVENUES:				
Interest	\$ -	\$ 529	\$ 126	\$ 655
Recycling receipts	-	-	20,820	20,820
Ambulance receipts	-	82,861	-	82,861
Intergovernmental revenues:				
State	81,874	-	-	81,874
Total revenues	81,874	83,390	20,946	186,210
Expenditures:				
Public safety:				
Police	74,650	-	-	74,650
Ambulance	-	83,390	-	83,390
Public works:				
Streets and parks	7,224	-	-	7,224
Recycling	-	-	20,946	20,946
Total expenditures	81,874	83,390	20,946	186,210
Excess (deficiency) of revenues over expenditures	-	-	-	-
Net change in fund balances	-	-	-	-
Fund balances, beginning	91	-	-	91
Fund balances, end of year	\$ 91	\$ -	\$ -	\$ 91

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

Town of Bethany Beach, Delaware
Bethany Beach, Delaware

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Bethany Beach, Delaware (the "Town") as of and for the year ended March 31, 2010, which collectively comprise the Town's basic financial statements and have issued our report thereon dated July 19, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant

deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Salisbury, Maryland
July 19, 2010