

TOWN OF DEWEY BEACH, DELAWARE

FINANCIAL REPORT

MARCH 31, 2015

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INDEPENDENT AUDITORS' REPORT

To the Audit Committee
Town of Dewey Beach, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Town of Dewey Beach, Delaware (the "Town") as of and for the year ended March 31, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the

entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Town as of March 31, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2015, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Dewey Beach, Delaware's internal control over financial reporting and compliance.

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

Salisbury, Maryland
August 14, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

**TOWN OF DEWEY BEACH, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2015**

As management of the Town of Dewey 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, 2015. Please read the information presented here in conjunction with the audited financial statements, which immediately follow this section, to enhance understanding of the Town's financial performance.

Financial Highlights

- As of March 31, 2015, governmental activity assets exceeded liabilities by \$7,967,061. Of this amount, \$2,666,571, or 33 percent, was unrestricted and may be used for ongoing obligations to citizens and creditors.
- The Town's fund balance increased by \$473,588 during the year. The increase was due to an excess of beach replenishment tax revenues over related expenditures and an excess of revenues over expenditures in the general fund.

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 basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

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 a private sector business. The government-wide statements include two statements: (1) the Statement of Net Position and (2) the Statement of Activities. The Statement of Net Position presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the Town is improving or deteriorating. The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as 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 impact cash flows until future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Town that are governmental activities (those principally supported by taxes and revenues from other governments) and functions of the Town that are business-type activities (those that are intended to recover all or a significant portion of their costs through user fees and charges). The Town does not have any business-type activities. The governmental activities of the Town include general and administrative activities, public safety, streets, beach safety, and beach replenishment. The government-wide financial statements are included in this report, as listed in the table of contents.

TOWN OF DEWEY BEACH, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2015

Fund Financial Statements

The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Fund – The governmental fund is used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the 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 the government's near-term financing requirements.

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

The Town adopts an annual appropriated budget for the general fund on a budgetary basis of accounting, which does not conform to generally accepted accounting principles (GAAP). To demonstrate compliance, a budgetary comparison schedule is provided for the general fund. The basic governmental fund financial statements are included in this report, as listed in the table of contents.

Notes to the Financial Statements

The notes provide additional information that is essential to a thorough understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are included in this report, as listed in the table of contents.

**TOWN OF DEWEY BEACH, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2015**

Government-Wide Financial Analysis

As previously noted, net position may serve as a useful indicator of the government-wide financial position. In the case of the Town, assets exceeded liabilities by \$7,967,061 as of March 31, 2015.

The following table is a summary of the government-wide statement of net position for the years ended March 31, 2015 and 2014:

Statement of Net Position

	<u>Governmental Activities</u>	
	2015	2014
ASSETS		
Current and other assets	\$ 6,765,625	\$ 5,744,000
Capital assets	1,825,281	2,053,891
Total assets	8,590,906	7,797,891
LIABILITIES		
Long-term liabilities	446,423	558,220
Other liabilities	177,422	134,396
Total liabilities	623,845	692,616
NET POSITION		
Net investment in capital assets	1,504,151	1,638,493
Restricted	3,796,339	3,579,605
Unrestricted	2,666,571	1,887,177
Total net position	\$ 7,967,061	\$ 7,105,275

A portion of the Town's net position (\$1,504,151) is not available for future spending as it represents amounts invested in capital assets (e.g. land, buildings, machinery and equipment). This investment is net of any related outstanding debt that was used to acquire those assets. It should be noted that the resources needed to repay outstanding debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Of the remaining \$6,462,910 in net position, \$3,796,339 is restricted for specific use. The unrestricted funds of \$2,666,571 may be used to meet the Town's ongoing obligations to citizens and creditors.

**TOWN OF DEWEY BEACH, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2015**

The following schedule shows the breakdown of changes in net position for governmental activities for the years ended March 31, 2015 and 2014:

Changes in Net Position

	<u>Governmental Activities</u>	
	2015	2014
REVENUES:		
Program Revenues		
Charges for services	\$ 1,900,135	\$ 1,854,750
Operating grants, contributions, and interest	88,432	211,041
General Revenues		
Beach replenishment	189,419	188,520
Realty transfer	602,864	485,648
Accommodations	414,052	411,760
Franchise fees	42,944	34,389
Concession fees	66,000	68,000
Interest	61,279	68,671
Dewey Beach Enterprises	500,000	-
Other	227,510	160,762
Total revenues	4,092,635	3,483,541
EXPENSES:		
General and administrative	1,052,076	1,215,720
Public safety	1,456,784	1,353,719
Streets	261,180	277,568
Beach safety	399,273	321,707
Beach replenishment	53,546	51,596
Interest on long-term debt	7,990	10,434
Total expenses	3,230,849	3,230,744
Change in net position	861,786	252,797
Net position, beginning of year	7,105,275	6,852,478
Net position, end of year	\$ 7,967,061	\$ 7,105,275

Governmental activities net position increased by \$861,786 during fiscal year 2015. This represents a 12 percent increase in net position for the year.

**TOWN OF DEWEY BEACH, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2015**

Financial Analysis of the Town's Funds

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

Governmental Fund

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

At the end of fiscal year 2015, the Town's governmental funds reported combined ending fund balance of \$6,070,097, an increase of \$473,588 compared to the year ended on March 31, 2014. Of this amount, \$1,557,218 constitutes unassigned fund balance.

General Fund Budgetary Highlights

Budget to Actual – Revenues - General fund revenues exceeded the budget by \$605,984.

Budget to Actual – Expenditures - General fund expenditures exceeded the budget by \$370,673.

**TOWN OF DEWEY BEACH, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2015**

Capital Assets

The Town's investment in capital assets for its governmental activities at March 31, 2015, amounts to \$1,825,281 (net of accumulated depreciation). Investment in capital assets includes land, construction-in-progress, buildings, improvements, machinery and equipment, and streets and parks.

Major capital asset activity during the current fiscal year included the following:

- Deposit on two Coastal Highway lots \$ 25,000
- Website redesign 11,400
- Lifesaving Station kitchen 7,167
- Shed for Lifesaving Station 5,750

Capital Assets - Net of Accumulated Depreciation

	<u>Governmental Activities</u>	
	2015	2014
Land	\$ 273,890	\$ 273,890
Construction-in-progress	43,567	-
Buildings	654,211	648,461
Improvements	239,877	239,877
Machinery and equipment	819,840	1,391,894
Streets and parks	1,336,915	1,336,915
Accumulated depreciation	(1,543,019)	(1,837,146)
Total	\$ 1,825,281	\$ 2,053,891

**TOWN OF DEWEY BEACH, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2015**

Long-Term Debt

	<u>Governmental Activities</u>	
	2015	2014
Compensated absences	\$ 125,293	\$ 142,822
Bayard Avenue loan	316,973	362,201
Parking meter loan	4,157	53,197
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Total long-term debt	\$ 446,423	\$ 558,220

Additional information on the Town's long-term debt obligations can be found in Note 6 of this report.

Economic Factors and Next Year's Budget

The actual change in fund balance for the general fund was \$256,854, which was a favorable variance from budget of \$224,271. A general fund budgetary comparison schedule is included in this report, as listed in the table of contents.

For fiscal year 2016, the Town has budgeted total revenues of \$2,913,067 and total expenditures of \$2,917,601.

Request for Information

This Financial Report is designed to provide an overview of the Town's finances and provide a meaningful picture of our Town. Any questions concerning this report, or requests for additional information, should be addressed to:

Town Manager
Town of Dewey Beach, Delaware
105 Rodney Avenue
Dewey Beach, Delaware 19971

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TOWN OF DEWEY BEACH, DELAWARE

STATEMENT OF NET POSITION

March 31, 2015

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 4,098,380
Investments	2,041,221
Receivables:	
Taxes	30,775
Prepaid expenses	95,249
Dewey Beach Enterprises receivable	500,000
Nondepreciable capital assets	317,457
Depreciable capital assets, net	1,507,824
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Total assets	\$ 8,590,906
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LIABILITIES	
Accounts payable	\$ 34,561
Accrued wages and payroll taxes	35,829
Unearned revenue	107,032
Long-term liabilities, due within one year:	
Note payable	50,293
Long-term liabilities, due in more than one year:	
Compensated absences	125,293
Note payable	270,837
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Total liabilities	623,845
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NET POSITION	
Net investment in capital assets	1,504,151
Restricted	3,796,339
Unrestricted	2,666,571
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Total net position	\$ 7,967,061
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The Notes to Financial Statements are an integral part of this statement.

TOWN OF DEWEY BEACH, DELAWARE

STATEMENT OF ACTIVITIES

Year Ended March 31, 2015

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest	Primary Government
					Governmental Activities
GOVERNMENTAL ACTIVITIES					
General and administrative	\$ 1,052,076	\$ 1,900,135	\$ -	\$ -	\$ 848,059
Public safety	1,456,784	-	63,775	-	(1,393,009)
Streets	261,180	-	24,657	-	(236,523)
Beach safety	399,273	-	-	-	(399,273)
Beach replenishment	53,546	-	-	-	(53,546)
Interest on long-term debt	7,990	-	-	-	(7,990)
Total Governmental Activities	3,230,849	1,900,135	88,432	-	(1,242,282)
General Revenues					
Taxes and assessments:					
					189,419
					602,864
					414,052
					42,944
					66,000
					61,279
					500,000
					227,510
					<u>2,104,068</u>
					861,786
					7,105,275
					<u>\$ 7,967,061</u>

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

TOWN OF DEWEY BEACH, DELAWARE
BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2015

	<u>Major Fund</u>		Total Governmental Funds
	<u>General Fund</u>	<u>Beach Replenishment Fund</u>	
ASSETS			
Cash and cash equivalents	\$ 2,310,584	\$ 1,787,796	\$ 4,098,380
Investments	45,347	1,995,874	2,041,221
Receivables:			
Taxes	-	30,775	30,775
Prepaid expenses	95,249	-	95,249
Total assets	\$ 2,451,180	\$ 3,814,445	\$ 6,265,625
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 34,561	\$ -	\$ 34,561
Accrued wages and payroll taxes	35,829	-	35,829
Unearned revenue	107,032	-	107,032
Total liabilities	177,422	-	177,422
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - beach replenishment tax	-	18,106	18,106
Total deferred inflows of resources	-	18,106	18,106
FUND BALANCES			
Nonspendable	95,249	-	95,249
Restricted	-	3,796,339	3,796,339
Committed by Council for:			
Beautification	4,974	-	4,974
Comprehensive plan	32,676	-	32,676
Legal and litigation	259,014	-	259,014
Technology	54,373	-	54,373
Streets	266,839	-	266,839
Beach safety	3,415	-	3,415
Unassigned	1,557,218	-	1,557,218
Total fund balances	2,273,758	3,796,339	6,070,097
Total liabilities, deferred inflows of resources and fund balances	\$ 2,451,180	\$ 3,814,445	\$ 6,265,625

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

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
March 31, 2015**

Total fund balances, governmental funds \$6,070,097

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

Capital assets used in governmental activities are not financial resources and,
therefore, are not reported in the fund financial statements, but are reported in the
governmental activities of the Statement of Net Position. 1,825,281

Certain tax collections are not available to pay for current-period
expenditures and therefore are reported as deferred inflows of resources in
the governmental activities of the Statement of Net Position. 18,106

Certain receivables are accrued as revenue in the government-wide statements because they are
earned, but are considered unearned revenue in the governmental funds because the
repayments do not provide current financial resources and are not available to liquidate
liabilities in the governmental funds. 500,000

Some liabilities are not due and payable in the current period and, therefore, are
not reported in the fund financial statements, but are reported in the governmental
activities of the Statement of Net Position. Those liabilities consist of:

Compensated absences	(125,293)	
Bayard Avenue loan	(316,973)	
Parking meter loan	(4,157)	
Total long-term liabilities	(446,423)	(446,423)

Net position of governmental activities in the Statement of Net Position \$7,967,061

TOWN OF DEWEY BEACH, DELAWARE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended March 31, 2015

	<u>Major Fund</u>		Total Governmental Funds
	<u>General Fund</u>	Beach Replenishment <u>Fund</u>	
REVENUES:			
Taxes and assessments	\$ 1,125,860	\$ 184,408	\$ 1,310,268
Licenses, permits, and fees	1,454,523	-	1,454,523
Fines and forfeitures	445,612	-	445,612
Intergovernmental grants	88,432	-	88,432
Other	193,957	-	193,957
Total revenues	3,308,384	184,408	3,492,792
EXPENDITURES:			
General and administrative	976,876	-	976,876
Public safety	1,402,499	-	1,402,499
Streets	135,628	-	135,628
Beach safety	393,912	-	393,912
Beach replenishment	-	53,546	53,546
Debt service:			
Principal	94,268	-	94,268
Interest	7,990	-	7,990
Capital outlay	49,317	-	49,317
Total expenditures	3,060,490	53,546	3,114,036
Excess of revenues over expenditures	247,894	130,862	378,756
Other financing sources (uses):			
Interest income	8,836	52,443	61,279
Unrealized gain (loss) on investments	124	33,429	33,553
Total other financing sources (uses)	8,960	85,872	94,832
Net change in fund balances	256,854	216,734	473,588
Fund balances, beginning of year	2,016,904	3,579,605	5,596,509
Fund balances, end of year	\$ 2,273,758	\$ 3,796,339	\$ 6,070,097

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, 2015**

Net change in fund balances, governmental funds \$ 473,588

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	49,317
Depreciation expense	(277,927)

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

Principal payments on long-term debt	94,268
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Certain receivables are accrued as revenue in the government-wide statements because they are earned, but are considered unavailable revenue in the governmental funds because the repayments do not provide current financial resources and are not available to liquidate liabilities in the governmental funds. No amount was recognized in the current year in the governmental funds, whereas the entire amount was recognized in the current fiscal year in the government-wide statements.

500,000

Certain tax revenues in the government-wide Statements of Activities include economic resources that are not reported as revenue in the governmental funds.

5,011

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

Change in compensated absences	17,529
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Change in net position of governmental activities	\$ 861,786
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NOTES TO FINANCIAL STATEMENTS

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

The Town of Dewey Beach, Delaware (the "Town") was incorporated in 1981 under the provisions of the State of Delaware. The Town operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police), beach safety (lifeguards), streets, recreation, public improvements, planning and zoning, and general administrative services. The Town directly provides all basic local governmental services.

Note 2. Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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. The Town has no non-major funds, fiduciary funds, or enterprise funds.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

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 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 – This is the main operating fund of the Town. It is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from the General Fund.

Special Revenue Fund – The Special Revenue Fund is used to account for the proceeds from specific revenue sources that are legally restricted to expenditures for specific purposes. The Town's Special Revenue Fund is the Beach Replenishment Fund.

PROPRIETARY FUNDS

Proprietary funds focus on the determination of changes in net position, financial position, and cash flows and are classified as enterprise funds. The Town does not have any proprietary funds.

FIDUCIARY FUNDS

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

C. Measurement Focus

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

C. Measurement Focus (continued)

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the Town finances and meets the cash flow needs of its proprietary activities. The Town does not have any proprietary funds.

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. The Town does not have any proprietary or fiduciary funds.

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. The available period for the Town is defined as collected within 60 days subsequent to year end.

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

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: charges for services, interest, and licenses and permits.

Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial position and / or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense / expenditure) until then. The Town has no deferred outflows of resources for the current year.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

In addition to liabilities, the statement of financial position and / or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Town has some items which arise under a modified accrual basis of accounting that qualify for reporting in the category. Accordingly, the items, unavailable revenues, are reported on the governmental funds balance sheet. The governmental funds report unavailable revenues that are deferred and recognized as an inflow of resources in the period that the amounts become available.

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 Commissioners follow these procedures in establishing the budgetary data reflected in these financial statements:

- 1) Annually, and not later than the last week of February, the Commissioners are required to prepare a draft of a Town Budget. From this draft, the Commissioners are required, no later than the second Saturday of March, to prepare the Town Budget containing the financial plan for conducting the affairs of the Town for the ensuing fiscal year.
- 2) The Commissioners shall, so far as possible, adhere to the Budget so adopted in the making of appropriations. Budgetary amendments are made by majority approval of the Commissioners. The budget is prepared on the budgetary basis of accounting.

F. Beach Replenishment Taxes

Taxes are levied on November 1st of each year and are due by December 31st. The Town bills and collects its own beach replenishment taxes. Expenditure of beach replenishment taxes is restricted to beach-related operations, maintenance, and replenishment expenses. The tax rate for the year ended March 31, 2015 was \$0.40 per \$100 of the 1992 assessed valuation of all real property and improvements as determined by Sussex County, Delaware.

G. Interfund Receivables/Payables

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as “Interfund Receivables/Payables.” Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net position. The only interfund balances which remain on the government-wide statement of net position are those between governmental and business-type activities. These amounts are reflected as “Internal Balances.” There are no interfund receivables or payables for the fiscal year ended March 31, 2015.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

H. Capital Assets

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

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 \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value to the asset or materially extend an asset's life are not.

All reported capital assets except land and construction-in-progress are depreciated. Depreciation is computed using the straight-line method over estimated useful lives of the assets, ranging from 5 to 40 years.

I. Restricted Assets

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

J. Unearned Revenues

The Town receives grants and donations from time to time from other governmental entities and other sources which are earmarked for specific purposes. Such accounts are not recognized as income until expenditures are incurred.

Unearned revenues at March 31, 2015 are as follows:

	<u>General Fund</u>
Administrative	\$ 3,353
Police grants and contributions	86,825
Municipal street aid	1,901
Lifeguard - youth	14,953
	<hr/>
Total unearned revenues	\$ 107,032

K. Compensated Absences

Employees are granted vacations and sick leave in varying amounts and may accumulate a maximum of 30 vacation days and 90 sick leave days. In the event of termination or retirement, an employee is paid for unused vacation days and one-half of unused sick leave days if leaving in good standing with the Town. Compensated absences are a reconciling item between the fund and the government-wide presentations.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide 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.

M. Net Position

Net position represents the difference between assets and liabilities. Government-wide net position is divided into three components:

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

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

Unrestricted net position – all other remaining net position.

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

N. Governmental Fund Balances

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

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

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

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

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

Unassigned – Amounts not included in other spendable classifications.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

O. 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.

P. Reclassifications

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

Note 3. Cash and Investments

The Town's deposits and investments are in various banks and in one brokerage firm. Deposits held in banks are carried at cost, while holdings in investment accounts are carried at fair value. Transactions are made directly with the banks and with the brokerage firm.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Town will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

With regards to investments, custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Town's investments.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town holds bond investments that have a credit quality rating.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Town has limited its exposure to concentration of credit risk by limiting investments, except for U.S. Treasury and Agency obligations, in any single security to 10% or less of the investable assets balance.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. As of March 31, 2015, the Town held foreign stocks.

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Investments (continued)

The Town's investment policy is as follows:

Allocation of Assets

Short-Term (0 – 3 years):	Range
Equities	0% to 20%
Fixed Income	40% to 60%
Cash and Equivalents	20% to 70%
Long-Term (> 3 years):	
Equities	30% to 50%
Fixed Income	50% to 70%

Types of Investable Assets

- 1) Cash equivalents
- 2) Repurchase agreements collateralized by the financial institution (sweep accounts)
- 3) Certificates of deposit and other evidences of deposit of financial institutions
- 4) U.S. Treasury securities
- 5) Fixed income
- 6) Equities

The Town had the following cash and investments at March 31, 2015:

Investment Type	Cash and Cash Equivalents	Investments Held at Fair Value	Total	S&P Rating	Investment Maturity				Total
					< 1	1 - 5	6 - 10	10+	
Savings and checking accounts	\$ 2,126,484	\$ -	\$ 2,126,484		\$ 2,126,484	\$ -	\$ -	\$ -	\$ 2,126,484
Brown Advisory investments:									
Cash and cash equivalents	1,971,896	-	1,971,896		1,971,896	-	-	-	1,971,896
Fixed income:									
Taxable municipal bonds	-	158,594	158,594	AA / AA+	-	-	-	158,594	158,594
Fixed income	-	636,179	636,179	Unrated	636,179	-	-	-	636,179
Non-taxable municipal bonds	-	78,610	78,610	A+	-	-	-	78,610	78,610
Equities:									
Equity funds	-	434,838	434,838	Unrated	434,838	-	-	-	434,838
Common stocks	-	646,090	646,090	Unrated	646,090	-	-	-	646,090
Foreign stocks	-	86,910	86,910	Unrated	86,910	-	-	-	86,910
Total Brown Advisory investments	1,971,896	2,041,221	4,013,117		3,775,913	-	-	237,204	4,013,117
Total	\$ 4,098,380	\$ 2,041,221	\$ 6,139,601		\$ 5,902,397	\$ -	\$ -	\$ 237,204	\$ 6,139,601

As of March 31, 2015, all savings and checking accounts were fully insured or collateralized.

The Brown Advisory investment accounts are not collateralized and, therefore, are subject to credit and/or custodial risk.

The Town's investments are managed by an Investment Committee that is appointed by the Town Commissioners.

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Investments (continued)

Cash and investments are designated as follows:

	<u>General</u> <u>Fund</u>	<u>Beach</u> <u>Replenishment</u> <u>Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Street repairs and infrastructure	\$ 266,839	\$ -	\$ 266,839
Police grants	14,142	-	14,142
Other departmental funds	159,237	-	159,237
Council-approved purposes	259,014	-	259,014
Transfer tax	32,676	-	32,676
Beach replenishment	-	3,783,670	3,783,670
Undesignated	1,624,023	-	1,624,023
Total	\$ 2,355,931	\$ 3,783,670	\$ 6,139,601

Beach replenishment taxes are to be used exclusively for beach and dune maintenance, repair, improvement, and administrative expenses directly related to said purposes and collection of the tax.

Note 4. Dewey Beach Enterprises Receivable

In March 2015, the Town amended a prior agreement with Dewey Beach Enterprises (“DBE”) whereby, in lieu of providing the use of office space to the Town as previously negotiated, DBE agreed to pay the Town \$500,000 in addition to an annual payment of \$37,500 in perpetuity. Of the \$500,000, \$400,000 will be paid as monthly payments of \$5,000 beginning in April 2015, with a balloon payment of \$265,000 due by June 30, 2017. The remaining \$100,000 payment is due by April 1, 2020.

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets

The following is a summary of changes in capital assets for the year ended March 31, 2015:

	March 31, 2014	Additions	Deletions/ Transfers	March 31, 2015
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated:				
Land	\$ 273,890	\$ -	\$ -	\$ 273,890
Construction-in-progress	-	43,567	-	43,567
Total capital assets, not being depreciated	<u>273,890</u>	<u>43,567</u>	<u>-</u>	<u>317,457</u>
Capital assets, being depreciated:				
Buildings	648,461	5,750	-	654,211
Improvements	239,877	-	-	239,877
Machinery and equipment	1,391,894	-	(572,054)	819,840
Streets and parks	1,336,915	-	-	1,336,915
Total capital assets, being depreciated	<u>3,617,147</u>	<u>5,750</u>	<u>(572,054)</u>	<u>3,050,843</u>
Less accumulated depreciation:				
Buildings	354,635	21,703	-	376,338
Improvements	78,975	22,578	-	101,553
Machinery and equipment	1,047,617	112,831	(572,054)	588,394
Streets and parks	355,919	120,815	-	476,734
Total accumulated depreciation	<u>1,837,146</u>	<u>277,927</u>	<u>(572,054)</u>	<u>1,543,019</u>
Total capital assets, being depreciated, net	<u>1,780,001</u>	<u>(272,177)</u>	<u>-</u>	<u>1,507,824</u>
Governmental activities capital assets, net	<u>\$ 2,053,891</u>	<u>\$ (228,610)</u>	<u>\$ -</u>	<u>\$ 1,825,281</u>

Depreciation expense was charged to governmental functions as follows:

General and administrative	\$ 92,729
Public safety	54,285
Streets	125,552
Beach safety	<u>5,361</u>
	<u>\$ 277,927</u>

NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt Obligations

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

	Interest Rate	Maturity Date	Balances March 31, 2014	Additions	Retirements and Repayments	Balances March 31, 2015	Amount Due in One Year
Compensated absences			\$ 142,822	\$ -	\$ 17,529	\$ 125,293	
Bayard Avenue	2.00%	2021	\$ 362,201	\$ -	\$ 45,228	\$ 316,973	\$ 46,136
Parking Meter Loan	3.20%	2016	53,197	-	49,040	4,157	4,157
			415,398	-	94,268	321,130	50,293
Total Governmental Activities Long-Term Debt			\$ 558,220	\$ -	\$ 111,797	\$ 446,423	\$ 50,293

Compensated absences do not have a fixed payment date, but are due to employees if they terminate employment.

The annual requirements to amortize all governmental activities debt outstanding as of March 31, 2015 are as follows:

Fiscal Year Ending March 31,	Principal	Interest	Total
2016	\$ 50,293	\$ 6,121	\$ 56,414
2017	47,064	5,183	52,247
2018	48,010	4,236	52,246
2019	48,975	3,272	52,247
2020	49,960	2,287	52,247
2021 and thereafter	76,828	1,542	78,370
	\$ 321,130	\$ 22,641	\$ 343,771

Note 7. Operating Leases

The Town is the lessee of a lot improved by the U.S. Lifesaving Station Museum under an operating lease with the State of Delaware. The lease payments are \$1.00 per year.

The Town leased a vehicle under an operating lease that was terminated during fiscal year 2015. Lease expense for the period ended March 31, 2015 totaled \$1,661.

NOTES TO FINANCIAL STATEMENTS

Note 8. Police Pension Plan

The Town of Dewey Beach contributes to the State of Delaware County and Municipal Police Pension Plan (DCMPPP), a cost-sharing multiple-employer defined benefit plan administered by the State of Delaware Board of Trustees. All full-time police officers participate in the plan. DCMPPP provides retirement, disability, and survivor benefits to plan members and beneficiaries. The State of Delaware General Assembly is responsible for setting benefits and contributions, and amending plan provisions. The Board of Pension Trustees issues a publicly available financial report that includes financial statements and required supplementary information for DCMPPP. That report may be obtained by writing to the State of Delaware State Board of Pension Trustees, P.O. Box 1401, Dover, Delaware 19903 or by calling 1-800-722-7300.

Plan members are required to contribute 7% of base earnings to the pension plan. The Town makes annual contributions as required by state statutes and as subsidized by state grants. The current rate is 14.18% of annual covered payroll. The Town's contributions to DCMPPP for the years ended March 31, 2015, 2014, and 2013 were \$58,884, \$60,483, and \$56,212, respectively; equal to the required contributions each year. During the current fiscal year, the Town received a grant in the amount of \$33,884 from the State of Delaware to partially offset the cost of the police pension.

Note 9. Deferred Compensation Plan

The Town sponsors the Town of Dewey Beach, Delaware, City Employee Deferred Compensation Plan, an Internal Revenue Code section 457 plan, for its full-time administrative employees who are not covered by the DCMPPP, are at least 21 years of age, and have completed more than one year of service. Participation in the plan is optional. The Plan is administered in accordance with the laws of the State of Delaware. The Town contributes \$0.50 for every dollar of employee contributions up to 6% of pay. The Town's contributions to the Plan for the years ended March 31, 2015, 2014, and 2013 were \$4,704, \$3,332, and \$4,489, respectively; equal to the required contributions each year.

Note 10. Risk Management

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

The Town is fully insured for workers' compensation 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.

NOTES TO FINANCIAL STATEMENTS

Note 11. Commitments and Contingencies

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.

Note 12. Individual Fund Disclosures

The General Fund had an excess of actual over budgeted expenditures in the amount of \$370,673 for the year ended March 31, 2015. Funds to provide for the excess expenditures were made available from additional funding sources within the fund.

Note 13. Subsequent Events

In April 2015, the Town purchased two parcels of land within the Town limits for \$875,000. No long-term debt was incurred with the purchase.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF DEWEY BEACH, DELAWARE

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year Ended March 31, 2015**

	<u>Original / Final Budget</u>	<u>Favorable / (Unfavorable) Variance with Final Budget</u>	<u>Actual Results on Budgetary Basis</u>	<u>Budget to GAAP Differences</u>	<u>Actual Results on GAAP Basis</u>
REVENUES:					
Taxes and assessments	\$ 970,000	\$ 108,535	\$ 1,078,535	\$ 47,325	\$ 1,125,860
Licenses, permits, and fees	1,194,000	110,039	1,304,039	150,484	1,454,523
Fines and forfeitures	464,500	(18,888)	445,612	-	445,612
Intergovernmental grants	-	-	-	88,432	88,432
Other revenues	73,900	4,916	78,816	115,141	193,957
Total revenues	2,702,400	204,602	2,907,002	401,382	3,308,384
EXPENDITURES:					
General and administrative	921,500	1,435	920,065	93,211	1,013,276
Public safety	1,285,867	(11,383)	1,297,250	105,249	1,402,499
Streets	99,050	29	99,021	36,607	135,628
Beach safety	333,400	(7,246)	340,646	66,183	406,829
Debt service:					
Principal	45,228	(4,783)	50,011	44,257	94,268
Interest	4,772	4,772	-	7,990	7,990
Total expenditures	2,689,817	(17,176)	2,706,993	353,497	3,060,490
Excess of revenues over expenditures	12,583	221,778	200,009	47,885	247,894
OTHER FINANCING SOURCES (USES):					
Interest income	20,000	(11,164)	8,836	-	8,836
Unrealized gain (loss) on investments	-	124	124	-	124
Total other financing sources (uses)	20,000	(11,040)	8,960	-	8,960
Net change in fund balance	\$ 32,583	\$ 210,738	\$ 208,969	\$ 47,885	\$ 256,854

Explanation of Budget to GAAP differences:

The Town does not budget for grants, donations, and certain other revenues and expenditures.
The Town also does not budget for the self-committed portion of various taxes and fees.