

TOWN OF OCEAN VIEW
AUDITED FINANCIAL STATEMENTS
AND SINGLE AUDIT SUPPLEMENT
FOR THE YEAR ENDED APRIL 30, 2007

**TOWN OF OCEAN VIEW
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FOR THE YEAR ENDED APRIL 30, 2007**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Council Members
Town of Ocean View
Ocean View, Delaware

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Town of Ocean View as of and for the year ended April 30, 2007, which collectively comprise the Town's basic financial statements as listed in the index. These financial statements are the responsibility of the Town of Ocean View'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, the business-type activities and each major fund of the Town of Ocean View as of April 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund 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 January 31, 2008, on our consideration of the Town of Ocean View'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.

The management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Ocean View's basic financial statements. The supplementary information, listed in the index is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Town of Ocean View. The supplementary information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Jefferson, Urian, Doane & Sterner, P.A.

Georgetown, Delaware
January 31, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

**TOWN OF OCEAN VIEW, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2007**

As management of the Town, we have provided the readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended April 30, 2007. 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 April 30, 2007, governmental activity assets exceeded liabilities by \$10,569,759. Of this amount, \$1,608,713 or 15 percent was unrestricted and may be used for ongoing obligations to citizens and creditors.
- The Town's net assets increased by \$1,376,010 during the year. The increase resulted from \$2,310,629 invested in capital assets, with the remaining balance offset by budgeted transfers from the Town's invested reserves of funds that were needed for operations.
- The Town commenced construction of (a) the new headquarters building for its police department at 201 Central Avenue and (b) the Ocean View water system that has been in the planning stages for several years.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Ocean View's basic financial statements. The Town of Ocean View'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 of Ocean View's finances, in a manner similar to a private sector business. The government-wide statements include two statements: (1) the Statement of Net Assets and (2) the Statement of Activities.

The Statement of Net Assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 of Ocean View 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 governmental activities of the Town include general government, public safety and public works. The business-type activities of the Town include the water facilities. The government-wide financial statements can be found on pages 11 - 12 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 of Ocean View, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the Town of Ocean View can be divided into three categories: governmental fund, proprietary fund, and fiduciary fund.

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 inflow 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 fund 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 of Ocean View adopts an annual appropriated budget for the General Fund. To demonstrate compliance, a budgetary comparison statement is presented for the General Fund. The basic governmental fund financial statements can be found on pages 13 - 16 of this report.

Proprietary Funds - The Town of Ocean View maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Ocean View uses an enterprise fund to account for its water facilities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information on the Town's water enterprise. The financial statements for the Water Enterprise Fund can be found on pages 17 - 18 of this report.

Fiduciary Funds - The Town of Ocean View has only one fiduciary fund, the Pension Trust Fund. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town of Ocean View's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 19 - 20 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 - 32 of this report.

Government-Wide Financial Analysis

As previously noted, net assets may serve as a useful indicator of the government-wide financial position. In the case of the Town of Ocean View, assets exceeded liabilities by \$10,569,759 as of April 30, 2007.

The following table is a summary of the government-wide statement of net assets for the years ended April 30, 2007 and 2006:

Statement of Net Assets

	Governmental Activities		Business-type Activities		Total Government	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 5,283,516	\$ 5,960,307	\$ (5,738)	\$ (279,950)	\$ 5,277,778	\$ 5,680,357
Capital assets	6,473,227	3,511,453	2,832,101	279,950	9,305,328	3,791,403
Total assets	<u>11,756,743</u>	<u>9,471,760</u>	<u>2,826,363</u>		<u>14,583,106</u>	<u>9,471,760</u>
Current and other liabilities	501,904	257,738	1,560,120	-	2,062,024	257,738
Long-term liabilities	685,080	20,273	1,266,243	-	1,951,323	20,273
Total liabilities	<u>1,186,984</u>	<u>278,011</u>	<u>2,826,363</u>	<u>-</u>	<u>4,013,347</u>	<u>278,011</u>
Net assets:						
Invested in capital assets, net of related debt	5,812,023	3,501,394	-	-	5,812,023	3,501,394
Restricted	3,149,023	3,356,906	-	-	3,149,023	3,356,906
Unrestricted	1,608,713	2,335,449	-	-	1,608,713	2,335,449
Total net assets	<u>\$ 10,569,759</u>	<u>\$ 9,193,749</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,569,759</u>	<u>\$ 9,193,749</u>

A portion of the Town's net assets (55 percent or \$5,812,023) are not available for future spending as they represent amounts invested in capital assets (e.g. land, buildings, infrastructure, machinery and equipment). This investment is net of any related debt that was used to acquire those assets that is still outstanding. 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 \$4,757,736 in net assets, \$1,618,806 represents realty transfer taxes, which are restricted for specific use. Realty transfer tax funds must be used for public safety, capital projects and infrastructure projects. Additionally, \$1,425,825 of the net assets is held in two trust funds established by ordinance on March 6, 2007 and use of these funds is restricted to cases of emergency and for capital replacement, as described in the ordinances. The unrestricted funds of \$1,608,713 may be used to meet the Town's ongoing obligations to citizens and creditors.

The following schedule shows the breakdown of changes in net assets for governmental activities for the years ended April 30, 2007 and 2006:

Changes in Net Assets

	Governmental Activities	
	2007	2006
Revenues:		
Program Revenues:		
Charges for services	\$ 224,040	\$ 263,467
Operating grants and contributions	175,850	188,730
Capital grants and contributions	1,085,668	1,044,422
General revenues		
Real estate taxes	856,487	795,219
Realty transfer taxes	825,170	1,612,465
Investment income	112,263	182,846
Total revenues	3,279,478	4,087,149
Expenses:		
General government	589,838	612,976
Public safety	990,670	959,517
Public works	321,250	288,572
Interest on long-term debt	1,710	-
Total expenses	1,903,468	1,861,065
Increase in net assets	1,376,010	2,226,084
Net assets - Beginning	9,193,749	6,967,665
Net assets - Ending	\$ 10,569,759	\$ 9,193,749

Governmental Activities

Governmental activities net assets increased by \$1,376,010 during fiscal year 2007. This represents a 15 percent increase in net assets for the year. The key element of this increase was developers' contribution of deeded streets.

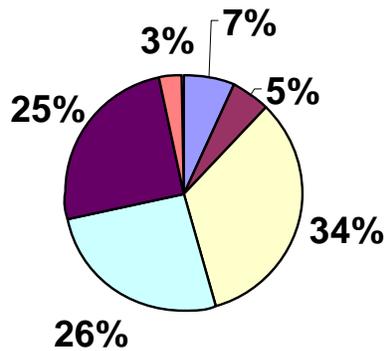
Property taxes and realty transfer taxes received during fiscal year 2007 totaled \$856,487 and \$825,170, respectively.

2007 Revenues - Governmental Activities

- Realty transfer tax decreased by \$787,295 or 49 percent from the prior fiscal year. This decrease is a result of the decrease in the number of new homes constructed and the continuing depression in the real estate market.
- Real estate taxes increased by 8 percent as a result of new homes being assessed and added to the tax base.
- Capital contributions from developers totaled \$981,391; this consists of streets deeded to the Town.

The following pie chart shows capital grants and contributions as the largest source of governmental revenue comprising 34 percent of the total revenue, followed by real estate taxes of 26 percent.

Revenues by Source



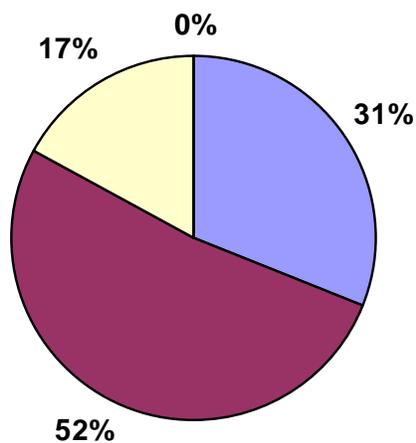
- Charges for Services
- Operating Grants & Contributions
- Capital Grants & Contributions
- Property Taxes
- Realty Transfer Taxes
- Investment Income

2007 Expenses - Governmental Activities

During the fiscal year, the Town continued to provide 24 hour, 7 days a week coverage for police service. The Town also continued to provide street maintenance for the Town owned streets and street lighting for all Town owned streets and streets owned by the State of Delaware.

The Town started a tax reassessment project in fiscal year 2006 and the reassessment of all Town properties was completed during the current fiscal year.

Expenses by Type



- General Government
- Public Safety
- Public Works
- Interest - Long Term Debt

Financial Analysis of the Town's Funds

As noted earlier, the Town of Ocean View 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. The unreserved fund balance may serve as a useful measure of the Town's net resources available for spending and for future needs.

During fiscal year 2007, the Town's governmental fund balance decreased \$914,681 to \$4,801,542. This reduction is primarily due to decreases in realty transfer tax revenues that required the use of invested fund balances for operations. The unreserved fund balance component of the General Fund decreased \$706,798 to \$1,652,519.

The governmental fund consists of the General Fund. The General Fund includes Town administration, public safety, and public works including capital expense funding for the nonproprietary fund (non-water projects), such as the public safety building, equipment, and vehicles, public works equipment and projects, and John West Park improvements.

Proprietary Fund

The Town of Ocean View's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Construction of the Town's water distribution system began in early 2007. The Town has secured financing for this project from the United States Department of Agriculture, Rural Utilities Service, in the amount \$6,300,000 which consists of \$4,600,000 in loans and \$1,700,000 in grants.

General Fund Budgetary Highlights

Revenue and Appropriation Budget

The difference between the appropriations originally budgeted and the final appropriation budget for the General Fund was an increase in expenditures of \$33,137. During the year the Town Council approved several budget amendments for expenditures related to the public safety department.

Budget to Actual - Revenues

General Fund revenues exceeded the budget by \$1,417,724, primarily because of developer contributions that were not budgeted. Realty transfer taxes collected were \$266,420 in excess of the amount budgeted.

Budget to Actual - Expenditures

Expenditures were under the final budget by \$123,108.

Capital Assets and Debt Administration

The Town’s capital assets for governmental and business-type activities at April 30, 2007, net of \$1,026,167 accumulated depreciation were \$9,305,328. Capital assets include land, land improvements, buildings and improvements, infrastructure, machinery and equipment, and construction in progress.

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

- There were \$981,391 of streets deeded to the Town.
- Construction in progress for the police department headquarters building totaled \$2,127,892.
- Construction in progress for the new water system totaled \$2,552,151.

Capital Assets, Net of Accumulated Depreciation

	Governmental Activities		Business-type Activities		Total Government	
	2007	2006	2007	2006	2007	2006
Land	\$ 1,400,846	\$ 1,400,846	\$ -	\$ -	\$ 1,400,846	\$ 1,400,846
Construction in progress	-	-	2,832,101	279,950	2,832,101	279,950
Buildings and improvements	2,838,486	723,869	-	-	2,838,486	723,869
Vehicles and equipment	372,631	485,893	-	-	372,631	485,893
Infrastructure	1,861,264	900,845	-	-	1,861,264	900,845
Total	\$ 6,473,227	\$ 3,511,453	\$ 2,832,101	\$ 279,950	\$ 9,305,328	\$ 3,791,403

Long-term Debt

The Town’s long-term debt at April 30, 2007, consists of the following:

- \$661,204 that has been drawn on a general obligation note at Delaware National Bank used to finance a portion of the police department headquarters building. Interest only, paid monthly at 5.48% per annum, is due until March 19, 2008, when principal payments will begin. The final payment is due March 19, 2027.
- \$1,266,243 that has been drawn on a general obligation bond anticipation note at Wilmington Trust. This note was arranged to finance the construction of the water system pending issuance of the \$4,600,000 in bonds authorized by the Town and funding committed by the United States Department of Agriculture, Rural Utilities Service. Interest only, paid monthly at 5.0% per annum, is due until November 8, 2008, when the total principal balance is due.

Economic Factors and Next Year’s Budget and Rates

Fiscal year 2008 budgeted revenue increased compared to fiscal 2007 by \$177,500 due to the anticipated revenue from a new gross receipts rental tax and increases expected for property taxes as a result of the reassessment completed during fiscal 2007.

The Town appropriated \$2,404,642 from its reserves for spending in fiscal 2008.

During fiscal year 2007, an updated assessment was completed for all properties in the Town. Because of this reassessment of properties to current value, the tax rate for fiscal 2008 was reduced from 50 cents per \$100 of assessed value to 9.81 cents per \$100 of assessed value.

Request for Information

This Financial Report is intended to provide an overview of the Town of Ocean View's finances. Questions concerning this report, or requests for additional information, should be addressed to:

Dr. Conway Gregory
Town Manager

Town of Ocean View
32 West Avenue
Ocean View, DE 19970

Telephone: (302) 539-9797
Email: townmgrtov@verizon.net

BASIC FINANCIAL STATEMENTS

**TOWN OF OCEAN VIEW
STATEMENT OF NET ASSETS
APRIL 30, 2007**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 226,228	\$ -	\$ 226,228
Receivables:			
Taxes	5,266	-	5,266
Other	74,143	-	74,143
Internal balances	373,615	(373,615)	-
Investment - DELGIP	1,425,590	-	1,425,590
Prepaid items	13,532	-	13,532
Restricted assets:			
Cash and cash equivalents	1,311,784	367,877	1,679,661
Investment - DELGIP	1,853,358	-	1,853,358
Capital assets:			
Land, improvements, and construction in progress	1,400,846	2,832,101	4,232,947
Other capital assets, net of depreciation	5,072,381	-	5,072,381
TOTAL ASSETS	11,756,743	2,826,363	14,583,106
LIABILITIES			
Accounts payable and other current liabilities	441,757	1,560,120	2,001,877
Accrued liabilities	36,045	-	36,045
Long-term liabilities:			
Due within one year	24,102	-	24,102
Due in more than one year	685,080	1,266,243	1,951,323
TOTAL LIABILITIES	1,186,984	2,826,363	4,013,347
NET ASSETS			
Invested in capital assets, net of related debt	5,812,023	-	5,812,023
Restricted for:			
Realty transfer tax	1,618,806	-	1,618,806
Capital replacement	425,246	-	425,246
Emergency reserve	1,000,579	-	1,000,579
Road repair	1,112	-	1,112
SALLE	28,163	-	28,163
Municipal street aid	75,117	-	75,117
Unrestricted	1,608,713	-	1,608,713
TOTAL NET ASSETS	\$ 10,569,759	\$ -	\$ 10,569,759

The accompanying notes are an integral part of these financial statements.

TOWN OF OCEAN VIEW
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED APRIL 30, 2007

Function/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Change in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
PRIMARY GOVERNMENT							
GOVERNMENTAL ACTIVITIES							
General government	\$ 589,838	\$ 184,063	\$ 3,439	\$ -	\$ (402,336)	\$ -	\$ (402,336)
Public safety	990,670	36,127	83,290	32,003	(839,250)	-	(839,250)
Public works	321,250	3,850	89,121	1,053,665	825,386	-	825,386
Interest on long-term debt	1,710	-	-	-	(1,710)	-	(1,710)
TOTAL GOVERNMENTAL ACTIVITIES	1,903,468	224,040	175,850	1,085,668	(417,910)	-	(417,910)
BUSINESS-TYPE ACTIVITIES							
Water facilities	-	-	-	-	-	-	-
TOTAL PRIMARY GOVERNMENT	\$ 1,903,468	\$ 224,040	\$ 175,850	\$ 1,085,668	(417,910)	-	(417,910)
GENERAL REVENUES							
Taxes: Property					856,487	-	856,487
Realty transfer					825,170	-	825,170
Unrestricted investment earnings					112,263	-	112,263
TOTAL GENERAL REVENUES					1,793,920	-	1,793,920
CHANGE IN NET ASSETS					1,376,010	-	1,376,010
NET ASSETS - BEGINNING					9,193,749	-	9,193,749
NET ASSETS - ENDING					\$ 10,569,759	\$ -	\$ 10,569,759

The accompanying notes are an integral part of these financial statements.

**TOWN OF OCEAN VIEW
BALANCE SHEET - GOVERNMENTAL FUND
APRIL 30, 2007**

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	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 226,228
Taxes receivable	5,266
Receivable - other	74,143
Investment - DELGIP	1,425,590
Prepaid items	13,532
Due from other funds	373,615
Restricted assets:	
Cash and cash equivalents	1,311,784
Investment - DELGIP	1,853,358
	<u>5,283,516</u>
TOTAL ASSETS	\$ 5,283,516
LIABILITIES	
Accounts payable	\$ 441,757
Accrued liabilities	36,045
Deferred revenue:	
Taxes	4,172
	<u>481,974</u>
TOTAL LIABILITIES	481,974
FUND BALANCES	
Reserved for:	
Realty transfer tax	1,618,806
Capital replacement	425,246
Emergency reserve	1,000,579
Road repair	1,112
SALLE	28,163
Municipal street aid	75,117
Unreserved	1,652,519
	<u>4,801,542</u>
TOTAL FUND BALANCES	4,801,542
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 funds.	6,473,227
Other assets are not available to pay for current period expenditures and therefore are deferred in the funds.	4,172
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(709,182)
	<u>(709,182)</u>
Net Assets of Governmental Activities	\$ 10,569,759

The accompanying notes are an integral part of these financial statements.

**TOWN OF OCEAN VIEW
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND
FOR THE YEAR ENDED APRIL 30, 2007**

	<u>General Fund</u>
REVENUES	
Taxes	\$ 1,680,993
Intergovernmental	207,852
Charges for services	156,016
Fines and forfeits	44,270
Interest	112,263
Miscellaneous	1,083,830
	<hr/>
TOTAL REVENUES	3,285,224
	<hr/>
EXPENDITURES	
Current:	
General government	558,465
Public safety	884,399
Public works	268,791
Debt service	1,710
Capital outlay	3,147,744
	<hr/>
TOTAL EXPENDITURES	4,861,109
	<hr/>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,575,885)
	<hr/>
OTHER FINANCING SOURCES	
Debt proceeds	661,204
	<hr/>
NET CHANGE IN FUND BALANCE	(914,681)
	<hr/>
FUND BALANCE - BEGINNING	5,716,223
	<hr/>
FUND BALANCE - ENDING	\$ 4,801,542
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

TOWN OF OCEAN VIEW
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED APRIL 30, 2007

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NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND	\$ (914,681)
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. This is the amount by which capital outlays (\$ 3,147,744) exceeded depreciation (\$ 179,560) in the current period.	2,968,184
The net effect of various transactions involving capital assets (i.e. sales, trade-ins) is to increase (decrease) net assets.	(6,410)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, as follows: Taxes	664
Debt proceeds are recognized as financing sources in governmental funds, but are not revenue in the government-wide statement of activities.	(661,204)
Some expenses 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. The difference is as follows: Compensated absences	<u>(10,543)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 1,376,010</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF OCEAN VIEW
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED APRIL 30, 2007

- 16 -

	Budgeted Amounts		Actual	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Building/sign permits	\$ 35,000	\$ 35,000	\$ 48,958	\$ 13,958
Business/rental licenses	37,600	37,600	42,081	4,481
CATV	41,000	41,000	51,337	10,337
Developer contributions	-	-	1,053,665	1,053,665
Donations	100	100	1,159	1,059
Interest	157,530	157,530	112,263	(45,267)
Municipal street aid	89,000	89,000	87,834	(1,166)
Other grants	-	-	4,726	4,726
Police pension fund	-	-	42,078	42,078
Property taxes	841,350	841,350	855,823	14,473
Property transfer taxes	558,750	558,750	825,170	266,420
Public safety fines	55,000	55,000	40,725	(14,275)
Public safety grants	32,600	32,600	73,214	40,614
Reimbursed expenses	10,000	10,000	27,834	17,834
Tax penalties	2,570	2,570	3,545	975
Zoning fees	5,000	5,000	13,640	8,640
Miscellaneous	2,000	2,000	1,172	(828)
TOTAL REVENUES	1,867,500	1,867,500	3,285,224	1,417,724
EXPENDITURES				
Current:				
General government	651,660	651,660	558,465	(93,195)
Public safety	823,830	826,796	884,403	57,607
Public works	407,190	407,190	268,787	(138,403)
Capital outlay	2,993,400	3,023,571	3,147,744	124,173
Debt service	75,000	75,000	1,710	(73,290)
TOTAL EXPENDITURES	4,951,080	4,984,217	4,861,109	(123,108)
EXCESS OF EXPENDITURES OVER REVENUES	(3,083,580)	(3,116,717)	(1,575,885)	1,540,832
OTHER FINANCING SOURCES				
Debt proceeds	1,200,000	1,200,000	661,204	(538,796)
Transfer from reserves	1,883,580	1,883,580	-	(1,883,580)
TOTAL OTHER FINANCING SOURCES	3,083,580	3,083,580	661,204	(2,422,376)
NET CHANGE IN FUND BALANCE	-	(33,137)	(914,681)	(881,544)
FUND BALANCE - BEGINNING	5,716,223	5,716,223	5,716,223	-
FUND BALANCE - ENDING	\$ 5,716,223	\$ 5,683,086	\$ 4,801,542	\$ (881,544)

The accompanying notes are an integral part of these financial statements.

**TOWN OF OCEAN VIEW
STATEMENT OF NET ASSETS - PROPRIETARY FUND
APRIL 30, 2007**

- 17 -

	Water Enterprise Fund
ASSETS	
CURRENT ASSETS	
Restricted assets:	
Cash and cash equivalents	\$ 367,877
NONCURRENT ASSETS	
Capital assets:	
Construction in progress	<u>2,832,101</u>
TOTAL ASSETS	<u>3,199,978</u>
LIABILITIES	
Accounts payable and other current liabilities	1,560,120
Due to general fund	373,615
Long-term liabilities	<u>1,266,243</u>
TOTAL LIABILITIES	<u>3,199,978</u>
NET ASSETS	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

**TOWN OF OCEAN VIEW
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED APRIL 30, 2007**

- 18 -

	<u>Water Enterprise Fund</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Advances from other funds	\$ 1,653,785
Acquisition of capital assets	(2,552,151)
Debt proceeds	<u>1,266,243</u>
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>367,877</u>
NET INCREASE (DECREASE) IN CASH	367,877
CASH AND CASH EQUIVALENTS - BEGINNING	<u>-</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 367,877</u></u>

The accompanying notes are an integral part of these financial statements.

**TOWN OF OCEAN VIEW
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUND
APRIL 30, 2007**

- 19 -

	<u>Pension Trust Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 26,168</u>
 NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	 <u><u>\$ 26,168</u></u>

The accompanying notes are an integral part of these financial statements.

**TOWN OF OCEAN VIEW
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUND
FOR THE YEAR ENDED APRIL 30, 2007**

- 20 -

	<u>Pension Trust Fund</u>
ADDITIONS	
Investment:	
Investment income	\$ <u>767</u>
NET INCREASE IN PLAN NET ASSETS	767
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS - BEGINNING	<u>25,401</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS - ENDING	<u>\$ 26,168</u>

The accompanying notes are an integral part of these financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Town has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Town has chosen not to do so. The more significant accounting policies of the Town are discussed below.

1. Reporting Entity

The accompanying financial statements include general administrative services, public safety and public works that are legally controlled by or dependent on the Town Council (the primary government). As defined by GASBS No. 14, the Town's financial reporting entity is required to consist of all organizations for which the Town is financially accountable or for which there is a significant relationship. The Town has no component units in its reporting entity.

2. Basic Financial Statements - Government-wide Statements

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The Town's governmental activities consist of general government, public safety and public works. The Town's water service is classified as a business-type activity.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Town's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Town utilizes restricted resources to finance qualifying activities, to the extent permitted by laws, regulations, contracts and grants.

The government-wide Statement of Activities reports both the gross and net cost of each of the Town's functions and business-type activities. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants. Direct expenses are those that are clearly identifiable with a specific function.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basic Financial Statements - Government-wide Statements - Continued

The net costs (by function or business-type activity) are normally covered by general revenue (property taxes, intergovernmental revenues, interest income, etc.).

This government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net assets resulting from the current year's activities.

3. Basic Financial Statements - Fund Financial Statements

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the Town:

Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Town:

General fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

Proprietary Funds

The focus of proprietary fund measurement is upon determination of changes in net assets, financial position and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the Town:

Enterprise funds are used to account for the provision of water services to customers in the Town's Water District. Activities in the current year include the construction of the water system. All expenses are capitalized as construction in progress until the water system is placed in service.

Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support the Town's programs. The reporting focus is on net assets and changes in net assets, reported using accounting principles similar to proprietary funds. The Pension Trust Fund is used to account for the assets of the non-qualified deferred compensation plan for full-time police personnel.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Basic Financial Statements - Fund Financial Statements - Continued

Fiduciary Funds - Continued

The Town's fiduciary fund is presented in the fiduciary fund financial statements by type (pension). Since by definition these assets are being held for the benefit of a third party (full-time police personnel) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

Major and Nonmajor Funds

The funds of the financial reporting entity are further classified as major or nonmajor. The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The Town does not have a nonmajor fund.

4. Measurement Focus and Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Government-wide financial statements measure and report all assets (both financial and capital), liabilities, revenues, expenses, gains and losses using the economic resources measurement focus and the accrual basis of accounting, as do the proprietary and fiduciary fund statements. Revenues are recognized when earned and expenses are recognized when incurred.

All governmental funds are accounted for using a current financial resources measurement focus and are reported on the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period that, for the Town's purposes, is considered to be within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

5. Cash and Cash Equivalents

The Town has defined cash and cash equivalents to include cash on hand, demand deposits and all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased.

Restricted cash mainly consists of amounts held by the Town for the proceeds from grant programs and realty transfer tax.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Capital Assets

Capital assets purchased or acquired with an original cost of \$ 1,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Infrastructure consists of streets and drainage projects. The Town has elected to not capitalize infrastructure acquired prior to May 1, 2004. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	5 - 40 years
Equipment	5 - 20 years
Vehicles	10 years
Infrastructure	40 years

7. Deferred Revenue

Deferred income represents monies held by the Town either to be recognized as revenue in future periods or to be remitted to others.

8. Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Reserved is further split between amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Proprietary fund equity is classified the same as in the government-wide statements. Equity reservations and restrictions for grant funds and realty transfer tax are enforced by outside source enabling legislation. All other equity reservations and restrictions are enforced by Town ordinance or code.

9. Accounts Receivable

Accounts receivable are reported at their gross value. All receivables are considered fully collectible.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Revenues

Those revenues susceptible to accrual are property taxes, interest revenue, intergovernmental, and miscellaneous. All other revenue items are considered to be measurable and available only when cash is received by the Town. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASBS No. 33. In applying GASBS No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

Program revenues include: charges to customers for goods, services or privileges provided, operating grants and contributions, and capital grants and contributions. General revenues include all taxes.

11. Interest Capitalization

Interest costs incurred by a proprietary fund for the acquisition and/or construction of capital assets are subject to capitalization. The interest capitalization period begins when the following conditions are present:

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

During fiscal 2007, \$ 2,081 of interest expense was capitalized.

12. Compensated Absences

Employees are granted vacation and sick leave in varying amounts. In the event of termination or retirement, an employee is reimbursed for accumulated vacation days up to a maximum of 240 hours. The Town accrues accumulated unpaid vacation leave when earned (or estimated to be earned) by the employee. Compensated absences for governmental funds are a reconciling item between the fund and government-wide presentations.

13. Interfund Activity

Interfund activity is reported as either loans or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

14. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from these estimates.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. Budgets and Budgetary Accounting

Prior to April 30, the Town Manager and Finance Director, in conjunction with the Council, establishes a budget. The budget must identify the specific level of service provision and describe how priorities have been established and incorporated into the budget. The recommended annual operating budget is presented to Council for approval.

The Council reviews the budget internally. Subsequently, the budget is adopted through legislation in Council prior to May 1. The operating budget ordinance and related revenue ordinances are officially adopted when approved by the Town Council. The Town legally adopts an annual budget for the general fund.

The budget for the Town's general fund has been prepared on a basis materially consistent with generally accepted accounting principles (GAAP). Original and final budgeted amounts are as presented.

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS

All deposits are carried at cost. Cash at April 30, 2007 consisted of the following:

UNRESTRICTED CASH

General Fund		
Operating - checking	\$	28,980
Operating - money market		85,395
Certificate of deposit		111,678
Petty cash		175
		<hr/>
TOTAL UNRESTRICTED CASH	\$	226,228

RESTRICTED CASH

General Fund		
SALLE - checking		28,163
Municipal street aid - checking		31,169
Municipal street aid - money market		43,948
Real estate transfer tax - savings		339,317
Bear Trap easement certificate of deposit		16,119
Road repair reserve		1,112
Certificate of deposit - realty transfer tax		851,956
Water Fund		
Water system		367,877
Fiduciary Fund		
MetLife pension benefits		26,168
		<hr/>
TOTAL RESTRICTED CASH		1,705,829
		<hr/>
TOTAL CASH	\$	<u>1,932,057</u>

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

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. In regards to investments, custodial credit risk is 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. The Town has no formal policy to address custodial credit risk.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Town's investment. The Town has no formal policy to address interest rate risk.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town does not have any investments that are credit quality rated. The Town has no formal policy to address credit risk.

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 no formal policy to address the concentration of credit risk attributed to a single issuer. The Town's sole investment in an external investment pool is not subject to concentration of credit risk disclosure.

The Town Council has authorized the following investments:

1. Certificates of deposit and other evidences of deposit of financial institutions; and
2. Local government investment pools administered by the State of Delaware.

The Town invests in the Delaware Local Government Investment Pool (DELGIP). DELGIP operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. DELGIP was created by the State of Delaware, and funds are under the control of the State Treasurer or other administrative bodies as determined by Delaware's Cash Management Policy Board. Funds may be combined with funds of the State of Delaware while invested in the pool. The investment's fair value is \$ 3,278,948 at April 30, 2007, based on the pool's share price, which DELGIP is required to maintain at \$ 1 per share. The maturity of this investment is less than one year. Information is not available concerning the indirect use of derivatives through the investment pool.

NOTE C - PROPERTY TAXES

The Town's property tax year runs from May 1 to April 30. Property taxes are recorded and attached as an enforceable lien on property on May 1, the date levied. Taxes are payable under the following terms: May 1 through August 31, face amount; after August 31, a 1.5% penalty per month is charged on the unpaid balance due. Property taxes are recognized as revenue in the budget year (beginning May 1 after the levy date) for which they are levied. The Town bills and collects its own taxes. The property tax rate for the year ended April 30, 2007, based on assessments, was \$.50 per \$ 100 of assessed valuation. The total assessed value of all real property and improvements at May 1, 2006 was \$ 169,302,929. The Town does not have an allowance for delinquent taxes because all taxes are considered collectible.

NOTE D - CAPITAL ASSETS

Capital asset activity for the year ended April 30, 2007, was as follows:

	<u>Balance at April 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at April 30, 2007</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,400,846	\$ -	\$ -	\$ 1,400,846
Other capital assets:				
Buildings and improvements	1,053,470	2,127,892	-	3,181,362
Equipment	551,348	38,461	7,500	582,309
Vehicles	448,335	-	7,577	440,758
Infrastructure	912,728	981,391	-	1,894,119
Total other capital assets	<u>2,965,881</u>	<u>3,147,744</u>	<u>15,077</u>	<u>6,098,548</u>
Less accumulated depreciation for:				
Buildings and improvements	329,601	13,275	-	342,876
Equipment	259,478	76,912	4,500	331,890
Vehicles	254,312	68,401	4,167	318,546
Infrastructure	11,883	20,972	-	32,855
Total accumulated depreciation	<u>855,274</u>	<u>179,560</u>	<u>8,667</u>	<u>1,026,167</u>
Other capital assets, net	<u>2,110,607</u>	<u>2,968,184</u>	<u>6,410</u>	<u>5,072,381</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,511,453</u>	<u>\$ 2,968,184</u>	<u>\$ 6,410</u>	<u>\$ 6,473,227</u>

	<u>Balance at April 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at April 30, 2007</u>
Business-type Activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 279,950	\$ 2,552,151	\$ -	\$ 2,832,101

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 30,349
Public safety	97,247
Public works	<u>51,964</u>
Total governmental activities depreciation expense	<u>\$ 179,560</u>

NOTE E - TOWN EMPLOYEE PENSION PLAN

The Town of Ocean View has a Section 457(b) Deferred Compensation Plan, which was available to employees over the age of 21 with 1,000 hours of annual service. Under the plan provisions, employees were immediately vested in the plan and could contribute a percentage of their salaries and the Town was contributing an equal amount of each employee's contribution up to a maximum of 3% of the employee's base salary. The Town has no administrative duties in regards to the plan and it is not presented in the financial statements. MetLife is the agent on the plan. The Town suspended contributions to the Plan at April 30, 2003.

The Town has a non-qualified deferred compensation plan for full-time police personnel. Police employees, over age 21, attain a 100% vested interest upon completion of five consecutive years of participation under the plan. All monies received by the Town under Title 18 of the Delaware Code, § 707 to § 710 were contributed to the plan. The funds were used to purchase annuities and/or life insurance policies issued by the Metropolitan Life Insurance Company. The plan does not provide for contributions by the participants. Because the policies are owned by the Town, they are presented in a pension trust fund. The assets are presented at the value provided by Metropolitan Life Insurance Company, which at April 30, 2007 had a fair value of \$ 26,168. The Town suspended contributions to the Plan at April 30, 2003.

On May 1, 2003, the Town became a participant in 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 Pension Trustees. All full-time police employees are eligible to participate. 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. Plan members are required to contribute 7% of base earnings to the DCMPPP. The Town is expected to make annual contributions as required by State statutes. The current rate is 13.97% of annual covered payroll. Pension contributions for the fiscal years ended April 30, 2007, 2006 and 2005 were \$ 45,892, \$ 44,086 and \$ 35,930, respectively.

On May 1, 2003, the Town became a participant in the State of Delaware County and Municipal Pension Plan (DCMPP), a cost-sharing multiple-employer defined benefit plan administered by the State of Delaware Board of Pension Trustees. All full-time or regular part-time employees and elected or appointed officials are eligible to participate. DCMPP 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. Plan members are required to contribute 3% of compensation that exceeds \$ 6,000 per annum to the DCMPP. The Town is expected to make annual contributions as required by State statutes. The current rate is 5.09% of annual covered payroll. Pension contributions for the fiscal years ended April 30, 2007, 2006 and 2005 were \$ 17,032, \$ 15,483 and \$ 13,091, respectively.

The Board of Pension Trustees issues a publicly available financial report that includes financial statements and required supplementary information for DCMPP and DCMPPP. That report may be obtained by writing to the State of Delaware, Office of Pensions, 860 Silver Lake Boulevard, Dover, Delaware 19904 or by calling 1-800-722-7300.

NOTE F - LONG-TERM LIABILITIES

Long-term liability activity for the year ended April 30, 2007, was as follows:

	<u>April 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>April 30, 2007</u>	<u>Due Within One Year</u>
Governmental Activities:					
Compensated absences	\$ 37,435	\$ 10,543	\$ -	\$ 47,978	\$ 22,448
General obligation note	-	661,204	-	661,204	1,654
Total Governmental Activities	<u>\$ 37,435</u>	<u>\$ 671,747</u>	<u>\$ -</u>	<u>\$ 709,182</u>	<u>\$ 24,102</u>
Business-type Activities					
General obligation note	\$ -	\$ 1,266,243	\$ -	\$ 1,266,243	\$ -

For the governmental activities, compensated absences are primarily liquidated by the General Fund.

Description of General Obligation Note

At April 30, 2007, the governmental-type general obligation note is as follows:

	<u>Governmental</u>
General obligation note, Series 2007, 12 monthly interest only payments, beginning April 19, 2007 through March 19, 2008, then monthly principal and interest payments beginning April 19, 2008 through March 19, 2017; 5.48% stated interest rate; thereafter variable interest at 60% of Delaware National Bank index rate; final payment due March 19, 2027.	\$ 661,204

<u>Year ending April 30,</u>	<u>Governmental Activities - General Obligation</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,654	\$ 36,234	\$ 37,888
2009	20,443	35,635	56,078
2010	21,592	34,486	56,078
2011	22,805	33,273	56,078
2012	24,087	31,991	56,078
2013 - 2017	142,327	138,064	280,391
2018 - 2022	187,075	93,316	280,391
2023 - 2027	241,221	34,499	275,720
TOTAL	<u>\$ 661,204</u>	<u>\$ 437,498</u>	<u>\$ 1,098,702</u>

NOTE F - LONG-TERM LIABILITIES - CONTINUED

Description of General Obligation Bond Anticipation Note

At April 30, 2007, the business-type general obligation bond is follows:

2006 general obligation bond anticipation note, interest of \$ 5,276 due monthly at 5% interest rate; final payment of balance due November 8, 2008.	<u>Business-type</u>
	<u>\$ 1,266,243</u>

Year ending April 30,	Business-type Activities - General Obligation		
	Principal	Interest	Total
2008	\$ -	\$ 63,312	\$ 63,312
2009	1,266,243	36,932	1,303,175
TOTAL	\$ 1,266,243	\$ 100,244	\$ 1,366,487

NOTE G - INTERFUND BALANCES

Interfund balances at April 30, 2007 consisted of the following:

Receivable Fund	Payable Fund	Total Amount	Long-term Amount
General fund	Water fund	\$ 373,615	\$ 373,615

Balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Interfund balances also provide interim financing, until the Town can draw on permanent funding.

NOTE H - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; omissions; injuries to employees; and natural disasters for which the Town carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE I - SUBSEQUENT EVENTS

Subsequent to year end, the Town purchased a property adjacent to Town Hall for the possible use for the future public works building at a cost of \$ 272,000.

Also subsequent to year end, the Town is involved in a lawsuit with a developer. At this time, there has been no claim for monetary damages. The Town plans to defend itself against this lawsuit.

NOTE J - COMMITMENTS AND CONTINGENCIES

The Town has entered into a contract for the construction of the water system. The total contract is for \$ 5,349,478, of which the obligated unpaid amount to the Town as of April 30, 2007 was \$ 3,421,561. Additional commitments on this project for engineering services, legal fees, purchase of CPCN rights and interest expense are estimated at \$ 951,000. The Town's payment of these commitments will be contingent upon satisfactory performance. USDA bonds authorized but unissued at April 30, 2007 to finance this project totaled \$ 4,600,000 and were received on December 21, 2007. Grant funds of \$ 1,700,000 were also available for the construction of the water system, of which \$ 336,060 was received in December 2007.

The Town had entered into a contract for the construction of a police station for \$ 2,076,189, of which \$ 614,931 was the obligated unpaid amount as of April 30, 2007. Additional commitments on this project for furniture, locker system, computer system and telephone and security system are estimated at \$ 272,000. The Town's payment of these commitments will be contingent upon satisfactory performance. A general obligation note in the amount of \$ 1,200,000 was authorized, of which \$ 661,204 was borrowed at year end. Subsequent to year end, an additional \$ 530,066 has been borrowed.

SUPPLEMENTARY INFORMATION

**TOWN OF OCEAN VIEW
SCHEDULE OF GENERAL FUND EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED APRIL 30, 2007**

	Final Budget	Actual	Variance with Final Budget - Over (Under)
GENERAL GOVERNMENT			
Advertising	\$ 6,500	\$ 10,998	\$ 4,498
Communications	4,950	7,107	2,157
Comprehensive plan	1,500	-	(1,500)
Computer programming	6,000	2,866	(3,134)
Donations	10,200	10,085	(115)
Dues and subscriptions	3,000	2,312	(688)
Education	5,000	1,979	(3,021)
Employee retirement	12,450	15,902	3,452
Gas and oil	1,000	812	(188)
Historical committee	3,000	-	(3,000)
Insurance - hospitalization	61,020	55,140	(5,880)
Insurance - workers comp	2,720	2,075	(645)
Insurance - other	8,300	7,764	(536)
Maintenance and repairs	8,070	15,192	7,122
Mileage	350	323	(27)
Miscellaneous	1,000	673	(327)
Non-capital equipment	3,000	165	(2,835)
Payroll wages	220,770	194,694	(26,076)
Payroll wages - overtime	16,600	33,578	16,978
Payroll - council	7,210	6,883	(327)
Payroll taxes - state	1,060	1,276	216
Payroll taxes - federal	19,100	18,013	(1,087)
Postage	8,820	5,032	(3,788)
Printing	2,000	1,266	(734)
Professional fees	88,000	93,382	5,382
Property assessment	120,000	46,226	(73,774)
Public relations	2,000	3,073	1,073
Repairs and maintenance	2,000	119	(1,881)
Supplies	8,560	11,286	2,726
Transfer fees	8,380	5,858	(2,522)
Uniforms	750	105	(645)
Utilities	8,350	4,281	(4,069)
TOTAL GENERAL GOVERNMENT	651,660	558,465	(93,195)

TOWN OF OCEAN VIEW
SCHEDULE OF GENERAL FUND EXPENDITURES - BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED APRIL 30, 2007

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Budget - Over (Under)</u>
PUBLIC SAFETY			
Advertising	\$ 1,180	\$ 1,405	\$ 225
Canine expense	950	871	(79)
Citizen auxiliary	4,000	4,117	117
Communications	12,000	11,897	(103)
Computer programming	3,996	1,784	(2,212)
Dues and subscriptions	1,300	1,515	215
Education	11,500	15,903	4,403
Employee retirement	52,500	45,892	(6,608)
Gas and oil	21,630	24,974	3,344
Insurance - hospitalization	101,730	107,032	5,302
Insurance - workers comp	30,500	31,956	1,456
Insurance - other	27,500	26,007	(1,493)
Maintenance and repairs	1,000	1,823	823
Mileage	200	-	(200)
Miscellaneous	30,500	34,752	4,252
Non-capital equipment	5,000	35,560	30,560
Payroll wages	378,360	402,682	24,322
Payroll wages - overtime	62,000	54,703	(7,297)
Payroll taxes - state	1,640	1,401	(239)
Payroll taxes - federal	33,780	35,057	1,277
Postage	300	716	416
Printing	1,000	819	(181)
Professional fees	5,000	584	(4,416)
Public relations	200	169	(31)
Repairs and maintenance	11,730	13,778	2,048
Street signs	-	440	440
Supplies	12,000	17,340	5,340
Uniforms	4,000	3,397	(603)
Utilities	11,300	7,829	(3,471)
TOTAL PUBLIC SAFETY	<u>826,796</u>	<u>884,403</u>	<u>57,607</u>

TOWN OF OCEAN VIEW
SCHEDULE OF GENERAL FUND EXPENDITURES - BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED APRIL 30, 2007

- 35 -

	Final Budget	Actual	Variance with Budget - Over (Under)
PUBLIC WORKS			
Advertising	\$ -	\$ 349	\$ 349
Communications	1,040	540	(500)
Drainage	11,000	5,925	(5,075)
Education	1,200	84	(1,116)
Employee retirement	4,370	1,130	(3,240)
Gas and oil	4,500	3,846	(654)
Insurance - hospitalization	23,160	30,141	6,981
Insurance - workers comp	5,080	7,470	2,390
Insurance - other	6,840	5,046	(1,794)
Maintenance and repairs	3,500	2,338	(1,162)
Miscellaneous	300	-	(300)
Non-capital equipment	5,000	16,316	11,316
Park expense	2,570	4,894	2,324
Payroll wages	73,450	68,284	(5,166)
Payroll wages - overtime	12,400	6,878	(5,522)
Payroll taxes - state	430	280	(150)
Payroll taxes - federal	6,570	5,750	(820)
Postage	-	40	40
Printing	-	226	226
Professional fees	39,000	16,356	(22,644)
Public relations	2,000	900	(1,100)
Repairs and maintenance	3,500	2,508	(992)
State grants	89,000	12,771	(76,229)
Street lighting	81,240	54,824	(26,416)
Street maintenance	9,270	1,748	(7,522)
Street signs	3,000	2,549	(451)
Supplies	9,970	9,048	(922)
Trash	3,800	3,246	(554)
Uniforms	2,400	675	(1,725)
Utilities	2,600	4,625	2,025
TOTAL PUBLIC WORKS	407,190	268,787	(138,403)
CAPITAL OUTLAY	3,023,571	3,147,744	124,173
DEBT SERVICE	75,000	1,710	(73,290)
TOTAL EXPENDITURES	\$ 4,984,217	\$ 4,861,109	\$ (123,108)

SINGLE AUDIT SUPPLEMENT

**TOWN OF OCEAN VIEW
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED APRIL 30, 2007**

<u>Federal Grantor/Pass through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE			
Direct Programs:			
Water and Waste Disposal Systems for Rural Communities *	10.760	Unknown	\$ <u>2,552,151</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u><u>2,552,151</u></u>

*Denotes major program.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the Town of Ocean View (the Town). The Town's reporting entity is defined in Note A of the notes to basic financial statements. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which are described in Note A of the notes to basic financial statements.

NOTE B - LOANS

The Town had the following federal expenditures funded by loans from the U.S. Department of Agriculture during the year ended April 30, 2007.

<u>Cluster/Program Title</u>	<u>Federal CFDA Number</u>	<u>Loan Amount</u>
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 2,552,151

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and Council Members
Town of Ocean View
Ocean View, Delaware

Compliance

We have audited the compliance of the Town of Ocean View with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended April 30, 2007. The Town of Ocean View's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Ocean View's management. Our responsibility is to express an opinion on the Town of Ocean View's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Ocean View's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town of Ocean View's compliance with those requirements.

In our opinion, the Town of Ocean View complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended April 30, 2007.

Internal Control Over Compliance

The management of the Town of Ocean View is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Ocean View's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Ocean View's internal control over compliance.

Internal Control Over Compliance - Continued

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of management, the Town Council and federal awarding agencies and is not intended to be, and should not be used by anyone other than these specified parties.

Jefferson, Urian, Doane & Sterner, P.A.

Georgetown, Delaware
January 31, 2008

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**INDEPENDENT AUDITOR'S 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***

To the Honorable Mayor and Council Members
Town of Ocean View
Ocean View, Delaware

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the Town of Ocean View as of and for the year ended April 30, 2007, which collectively comprise the Town of Ocean View's basic financial statements and have issued our report thereon dated January 31, 2008. 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 of Ocean View'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 of Ocean View's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Ocean View's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town of Ocean View's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town of Ocean View's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting as detailed in Finding 2007-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town of Ocean View's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Ocean View'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*.

The Town of Ocean View's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Town of Ocean View's response and accordingly we express no opinion on it.

This report is intended solely for the information and use of management, the Town Council and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Georgetown, Delaware
January 31, 2008

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness? Yes No
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness? Yes None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? Yes No

Identification of Major Program:

<u>PROGRAM NAME</u>	<u>CFDA Number(s)</u>
Water and Waste Disposal Systems for Rural Communities	10.760
Dollar threshold used to distinguish between type A and type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

**SECTION II - FINDINGS RELATED TO THE FINANCIAL STATEMENTS REPORTED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

None - Prior

2007-1 FINDING - Segregation of Accounting Functions

Significant Deficiency: Due to staffing limitations, there is a lack of proper segregation of duties. A good system of internal control provides for proper segregation of the accounting functions. No one person should have access to both physical assets and the related accounting records or to all phases of a transaction.

Criteria: Division of duties among several individuals helps prevent intentional or unintentional errors or irregularities that may occur when only one person has access to financial records.

Recommendation: The Town should make every effort to strengthen internal controls as opportunities arise. Segregation of duties could be improved if Town Manager and Council members were to perform certain duties currently performed by the Accounting Assistant and Finance Director.

Auditee Response: *"The Town will try to strengthen internal controls as opportunities arise."*

SECTION III - FINDINGS RELATED TO THE FEDERAL AWARDS

None - Current and Prior