

TOWN OF DEWEY BEACH, DELAWARE

FINANCIAL REPORT

MARCH 31, 2017

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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, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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, 2017, 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 required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2017, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 7, 2017

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**TOWN OF DEWEY BEACH, DELAWARE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**March 31, 2017**

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, 2017. 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, 2017, governmental activity assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$9,187,627 (net position). Of this amount, \$2,840,251, or 31 percent, was unrestricted and may be used for ongoing obligations to citizens and creditors.
- The Town's fund balance increased by \$758,972 during the year. The increase was mainly attributable to the Town's taxes and assessments coming in over budget by \$290,398; licenses, permits, and fees coming in over budget by \$164,631; general and administrative expenditures coming in under budget by \$232,009; and an additional \$233,040 of unbudgeted revenues associated with the Dewey Beach Enterprises project.

**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 are comprised of 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, 2017**

**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 funds 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, 2017**

**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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$9,187,627 as of March 31, 2017.

The following table is a summary of the government-wide Statement of Net Position for the years ended March 31, 2017 and 2016:

**Statement of Net Position**

	<u>Governmental Activities</u>	
	2017	2016
<b>ASSETS</b>		
Current and other assets	\$ 7,232,011	\$ 6,239,517
Capital assets	2,457,639	2,551,480
<b>Total assets</b>	<b>9,689,650</b>	<b>8,790,997</b>
Deferred outflows - pension	58,499	57,487
<b>LIABILITIES</b>		
Long-term liabilities	347,766	417,151
Other liabilities	162,656	114,439
<b>Total liabilities</b>	<b>510,422</b>	<b>531,590</b>
Deferred inflows - pension	50,100	105,745
<b>NET POSITION</b>		
Net investment in capital assets	2,233,867	2,280,644
Restricted	4,113,509	3,824,859
Unrestricted	2,840,251	2,105,646
<b>Total net position</b>	<b>\$ 9,187,627</b>	<b>\$ 8,211,149</b>

A portion of the Town's net position (\$2,233,867) 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 \$6,953,760 in net position, \$4,113,509 is restricted for specific use. The unrestricted funds of \$2,840,251 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, 2017**

The following schedule shows the breakdown of changes in net position for governmental activities for the years ended March 31, 2017 and 2016:

**Changes in Net Position**

	Governmental Activities	
	2017	2016
<b>REVENUES:</b>		
Program revenues:		
Charges for services	\$ 2,165,062	\$ 2,057,950
Operating grants, contributions, and interest	113,504	155,480
General revenues:		
Beach replenishment	195,385	184,688
Realty transfer	733,986	612,157
Accommodations	522,887	473,317
Franchise fees	54,119	50,722
Concession fees	65,000	65,000
Interest	28,232	71,868
Net unrealized gain (loss)		
on investments	143,809	(165,011)
Dewey Beach Enterprises	307,500	37,500
Other	257,006	81,875
<hr/>		
Total revenues	4,586,490	3,625,546
<hr/>		
<b>EXPENSES:</b>		
General and administrative	1,045,472	1,216,851
Public safety	1,663,948	1,524,073
Streets	466,745	286,969
Beach safety	353,693	381,162
Beach replenishment	74,813	71,663
Interest on long-term debt	5,341	6,120
<hr/>		
Total expenses	3,610,012	3,486,838
<hr/>		
Change in net position	976,478	138,708
Net position, beginning of year	8,211,149	8,072,441
<hr/>		
Net position, end of year	\$ 9,187,627	\$ 8,211,149
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Governmental activities net position increased by \$976,478 during fiscal year 2017. This represents a 12 percent increase in net position for the year.

**TOWN OF DEWEY BEACH, DELAWARE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**March 31, 2017**

**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 2017, the Town's governmental funds reported a combined ending fund balance of \$6,367,578, an increase of \$758,972 compared to the year ended on March 31, 2016. Of this amount, \$1,538,910 constitutes unassigned fund balance.

**General Fund Budgetary Highlights**

*Budget to Actual – Revenues* – General fund revenues exceeded the budget by \$489,478.

*Budget to Actual – Expenditures* – General fund expenditures were below the budget by \$155,210.

**TOWN OF DEWEY BEACH, DELAWARE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
March 31, 2017**

**Capital Assets**

The Town's investment in capital assets for its governmental activities at March 31, 2017, amounts to \$2,457,639 (net of accumulated depreciation). Investment in capital assets includes land, buildings, improvements, machinery and equipment, and streets and parks.

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

- Two police vehicles \$ 93,807
- Two public works vehicles 63,973

**Capital Assets - Net of Accumulated Depreciation**

	<u>Governmental Activities</u>	
	2017	2016
Land	\$ 1,161,677	\$ 1,161,677
Buildings	654,211	654,211
Improvements	250,044	250,044
Machinery and equipment	1,101,065	952,172
Streets and parks	1,336,915	1,336,915
Accumulated depreciation	(2,046,273)	(1,803,539)
<b>Total</b>	<b>\$ 2,457,639</b>	<b>\$ 2,551,480</b>

**TOWN OF DEWEY BEACH, DELAWARE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
March 31, 2017**

**Long-Term Debt**

	Governmental Activities	
	2017	2016
Compensated absences	\$ 123,994	\$ 146,315
Bayard Avenue loan	223,772	270,836
Total long-term debt	\$ 347,766	\$ 417,151

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 an increase of \$481,277, which was a favorable variance from the budget of \$858,216. A general fund budgetary comparison schedule is included in this report, as listed in the table of contents.

For fiscal year 2018, the Town has budgeted total operating revenues of \$2,936,550 and total operating expenditures of \$2,936,550.

**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

## FINANCIAL STATEMENTS

**TOWN OF DEWEY BEACH, DELAWARE**

**STATEMENT OF NET POSITION**

**March 31, 2017**

	Governmental <u>Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 2,424,001
Investments	3,986,309
Receivables:	
Taxes	23,420
Other	337
Prepaid expenses	119,042
Dewey Beach Enterprises receivable	650,000
Net pension asset	28,902
Nondepreciable capital assets	1,161,677
Depreciable capital assets, net	1,295,962
<hr/>	
Total assets	9,689,650
<hr/>	
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension (see Note 8)	58,499
<hr/>	
<b>LIABILITIES</b>	
Accounts payable	35,414
Accrued wages and payroll taxes	64,299
Unearned revenue	62,943
Long-term liabilities, due within one year:	
Note payable	48,010
Long-term liabilities, due in more than one year:	
Compensated absences	123,994
Note payable	175,762
<hr/>	
Total liabilities	510,422
<hr/>	
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension (see Note 8)	50,100
<hr/>	
<b>NET POSITION</b>	
Net investment in capital assets	2,233,867
Restricted	4,113,509
Unrestricted	2,840,251
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Total net position	\$ 9,187,627
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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, 2017**

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
<b>GOVERNMENTAL ACTIVITIES</b>					
General and administrative	\$ 1,045,472	\$ 2,165,062	\$ -	\$ -	\$ 1,119,590
Public safety	1,663,948	-	102,803	-	(1,561,145)
Streets	466,745	-	10,701	-	(456,044)
Beach safety	353,693	-	-	-	(353,693)
Beach replenishment	74,813	-	-	-	(74,813)
Interest on long-term debt	5,341	-	-	-	(5,341)
<b>Total Governmental Activities</b>	<b>3,610,012</b>	<b>2,165,062</b>	<b>113,504</b>	<b>-</b>	<b>(1,331,446)</b>

**General Revenues**

Taxes and assessments:

Beach replenishment	195,385
Realty transfer	733,986
Accommodations	522,887
Franchise fees	54,119
Concession fees	65,000
Investment income	28,232
Net unrealized gain (loss) on investments	143,809
Dewey Beach Enterprises	307,500
Other	257,006
<b>Total general revenues</b>	<b>2,307,924</b>
Change in net position	976,478
Net position, beginning of year	8,211,149
<b>Net position, end of year</b>	<b>\$ 9,187,627</b>

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



**TOWN OF DEWEY BEACH, DELAWARE**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**March 31, 2017**

	<u>Major Fund</u>		Total Governmental Funds
	General Fund	Beach Replenishment Fund	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,991,144	\$ 432,857	\$ 2,424,001
Investments	341,087	3,645,222	3,986,309
Receivables:			
Taxes	-	23,420	23,420
Other	337	-	337
Interfund receivables	-	23,930	23,930
Prepaid expenses	119,042	-	119,042
<b>Total assets</b>	<b>\$ 2,451,610</b>	<b>\$ 4,125,429</b>	<b>\$ 6,577,039</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 35,414	\$ -	\$ 35,414
Interfund payables	23,930	-	23,930
Accrued wages and payroll taxes	64,299	-	64,299
Unearned revenue	62,943	-	62,943
<b>Total liabilities</b>	<b>186,586</b>	<b>-</b>	<b>186,586</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - beach replenishment tax	-	22,875	22,875
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>22,875</b>	<b>22,875</b>
<b>FUND BALANCES</b>			
Nonspendable	119,042	-	119,042
Restricted	10,955	4,102,554	4,113,509
Committed by Council for:			
Comprehensive plan	55,697	-	55,697
Legal and litigation	267,892	-	267,892
Technology	5,623	-	5,623
Streets	266,905	-	266,905
Unassigned	1,538,910	-	1,538,910
<b>Total fund balances</b>	<b>2,265,024</b>	<b>4,102,554</b>	<b>6,367,578</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 2,451,610</b>	<b>\$ 4,125,429</b>	<b>\$ 6,577,039</b>

*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, 2017**

Total fund balances, governmental funds \$ 6,367,578

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. 2,457,639

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. 22,875

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. 650,000

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:

Deferred outflows of resources - pension (see Note 8)	58,499	
Deferred inflows of resources - pension (see Note 8)	(50,100)	
Net pension asset	28,902	
Compensated absences	(123,994)	
Bayard Avenue loan	(223,772)	
Total long-term liabilities	(310,465)	(310,465)

Net position of governmental activities in the Statement of Net Position \$ 9,187,627

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

	<u>Major Fund</u>		Total Governmental <u>Funds</u>
	<u>General Fund</u>	Beach Replenishment <u>Fund</u>	
<b>REVENUES:</b>			
Taxes and assessments	\$ 1,375,992	\$ 181,239	\$ 1,557,231
Licenses, permits, and fees	1,755,886	-	1,755,886
Fines	409,176	-	409,176
Intergovernmental grants	113,504	-	113,504
Investment income	2,190	26,042	28,232
Net unrealized gain (loss) on investments	(1,418)	145,227	143,809
Other	354,506	-	354,506
<b>Total revenues</b>	<b>4,009,836</b>	<b>352,508</b>	<b>4,362,344</b>
<b>EXPENDITURES:</b>			
General and administrative	994,506	-	994,506
Public safety	1,586,279	-	1,586,279
Streets	346,562	-	346,562
Beach safety	347,444	-	347,444
Beach replenishment	-	74,813	74,813
Debt service:			
Principal	47,064	-	47,064
Interest	5,341	-	5,341
Capital outlay	201,363	-	201,363
<b>Total expenditures</b>	<b>3,528,559</b>	<b>74,813</b>	<b>3,603,372</b>
Net change in fund balances	481,277	277,695	758,972
Fund balances, beginning of year	1,783,747	3,824,859	5,608,606
Fund balances, end of year	\$ 2,265,024	\$ 4,102,554	\$ 6,367,578

*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, 2017**

Net change in fund balances, governmental funds \$ 758,972

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	201,363
Depreciation expense	(295,204)

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	47,064
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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.

270,000

Certain revenues are reported in the governmental funds in the year in which the payments are received and become current financial resources, whereas these amounts were recognized in a prior period in the government-wide statements.

(60,000)

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

14,146

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 the governmental funds. These activities consist of:

Change in deferred outflows of resources - pension (see Note 8)	1,012
Change in deferred inflows of resources - pension (see Note 8)	55,645
Change in net pension liability/asset	(38,841)
Change in compensated absences	22,321
	22,321

Change in net position of governmental activities	\$ 976,478
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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. 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, primarily include 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.

## 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 this 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.

See Note 8 for further details relating to the deferred outflows/inflows of resources, as recorded on the Statement of Net Position, relating to the Town's pension plan.

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

#### E. Budgetary Process

The Town 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 1<sup>st</sup> of each year and are due by December 31<sup>st</sup>. 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, 2017 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. No interfund balances remain on the government-wide Statement of Net Position as the Town has no business-type activities.



## 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, 2017 are as follows:

	<u>General Fund</u>
Police grants and contributions	\$ 46,821
Municipal street aid	11,155
Lifeguard - youth	4,967
<hr/>	
Total unearned revenues	\$ 62,943

#### 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 net amount of assets, deferred outflows or resources, liabilities, and deferred inflows of resources. 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, 2017, 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

<b>Short-Term (0 – 3 years):</b>	<b>Range</b>
Equities	0%
Fixed Income	40% to 80%
Cash and Equivalents	20% to 60%
<b>Long-Term (&gt; 3 years):</b>	
Equities	15% to 35%
Fixed Income	65% to 85%

#### 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, 2017:

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	\$ 1,974,925	\$ -	\$ 1,974,925		\$ 1,974,925	\$ -	\$ -	\$ -	\$ 1,974,925
Brown Advisory investments:									
Cash and cash equivalents	449,076	-	449,076		449,076	-	-	-	449,076
Fixed income:									
Fixed income	-	2,501,301	2,501,301	Unrated	2,501,301	-	-	-	2,501,301
U.S. government issues	-	475,420	475,420	Unrated	475,420	-	-	-	475,420
Equities:									
Equity funds	-	408,965	408,965	Unrated	408,965	-	-	-	408,965
Common stocks	-	566,831	566,831	Unrated	566,831	-	-	-	566,831
Foreign stocks	-	33,792	33,792	Unrated	33,792	-	-	-	33,792
<b>Total Brown Advisory investments</b>	<b>449,076</b>	<b>3,986,309</b>	<b>4,435,385</b>		<b>4,435,385</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,435,385</b>
<b>Total</b>	<b>\$ 2,424,001</b>	<b>\$ 3,986,309</b>	<b>\$ 6,410,310</b>		<b>\$ 6,410,310</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,410,310</b>

As of March 31, 2017, 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	\$ 266,905	\$ -	\$ 266,905
Police grants	21,113	-	21,113
Other departmental funds	138,364	-	138,364
Council-approved purposes	267,892	-	267,892
Transfer tax	55,697	-	55,697
Beach replenishment	-	4,078,079	4,078,079
Dewey Beach Enterprises escrow	35,000	-	35,000
Undesignated	1,547,260	-	1,547,260
<b>Total</b>	<b>\$ 2,332,231</b>	<b>\$ 4,078,079</b>	<b>\$ 6,410,310</b>

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, which began 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.

In September 2016, the Town further amended the agreement with DBE whereby, to compensate the Town for construction delays and to ensure completion of the hotel and residential condominium project and associated parking spaces, DBE agreed to pay the Town \$300,000. This amount will be paid as monthly payments of \$5,000, which began in October 2016, with any unpaid balance due by the earlier of the expiration of the building permit for the project or the issuance of the final certificate of occupancy for the project. As part of the amended agreement, the existing building permit was extended to September 8, 2017, and may be extended for four additional one-year terms at an annual cost of \$50,000, \$150,000, \$400,000, and \$800,000, respectively. The first and second extension payments are each due once exercised. The third and fourth extensions, if utilized, are to be paid monthly on a pro-rated basis for the time necessary to complete the project.

As of March 31, 2017, the DBE receivable balance was \$650,000.

## NOTES TO FINANCIAL STATEMENTS

### Note 5. Capital Assets

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

	March 31, 2016	Additions	Deletions/ Transfers	March 31, 2017
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets, not being depreciated:				
Land	\$ 1,161,677	\$ -	\$ -	\$ 1,161,677
Total capital assets, not being depreciated	<u>1,161,677</u>	<u>-</u>	<u>-</u>	<u>1,161,677</u>
Capital assets, being depreciated:				
Buildings	654,211	-	-	654,211
Improvements	250,044	-	-	250,044
Machinery and equipment	952,172	201,363	(52,470)	1,101,065
Streets and parks	1,336,915	-	-	1,336,915
Total capital assets, being depreciated	<u>3,193,342</u>	<u>201,363</u>	<u>(52,470)</u>	<u>3,342,235</u>
Less accumulated depreciation:				
Buildings	398,424	22,086	-	420,510
Improvements	123,006	21,822	-	144,828
Machinery and equipment	684,560	131,113	(52,470)	763,203
Streets and parks	597,549	120,183	-	717,732
Total accumulated depreciation	<u>1,803,539</u>	<u>295,204</u>	<u>(52,470)</u>	<u>2,046,273</u>
Total capital assets, being depreciated, net	<u>1,389,803</u>	<u>(93,841)</u>	<u>-</u>	<u>1,295,962</u>
Governmental activities capital assets, net	<u>\$ 2,551,480</u>	<u>\$ (93,841)</u>	<u>\$ -</u>	<u>\$ 2,457,639</u>

Depreciation expense was charged to governmental functions as follows:

General and administrative	\$ 91,103
Public safety	77,669
Streets	120,183
Beach safety	<u>6,249</u>
	<u>\$ 295,204</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, 2016	Additions	Retirements and Repayments	Balances March 31, 2017	Amount Due in One Year
Compensated absences			\$ 146,315	\$ -	\$ 22,321	\$ 123,994	
Notes payable:							
Bayard Avenue	2.00%	2022	270,836	-	47,064	223,772	48,010
Total governmental activities long-term debt			\$ 417,151	\$ -	\$ 69,385	\$ 347,766	\$ 48,010

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, 2017 are as follows:

Fiscal Year Ending March 31,	Principal	Interest	Total
2018	\$ 48,010	\$ 4,237	\$ 52,247
2019	48,975	3,272	52,247
2020	49,960	2,287	52,247
2021	50,964	1,283	52,247
2022	25,863	258	26,121
	\$ 223,772	\$ 11,337	\$ 235,109

### 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.

## NOTES TO FINANCIAL STATEMENTS

### Note 8. Pension Plan

#### A. Plan Descriptions and Contribution Information

The County & Municipal Police and Firefighters' Pension Plan (the "Plan") is a cost-sharing multiple-employer defined benefit pension plan established in the Delaware Code. The Plan is administered by the Delaware Public Employees' Retirement System (DPERS).

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

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

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

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

The following is a brief description of the Plan in effect as of June 30, 2015. For a more complete description, please refer to the DPERS Comprehensive Annual Financial Report.

Plan Description and Eligibility – Covers police officers and firefighters employed by a county or municipality of the State that have joined the Plan.

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

Vesting – 5 years of credited service.

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

Disability Benefits –

- 1) **Duty – Total Disability** – 75% of final average compensation plus 10% for each dependent not to exceed 25% for all dependents.
- 2) **Duty – Partial Disability** – Calculated the same as Service Benefits, subject to minimum 50% of final average compensation.
- 3) **Non-Duty** – Same as Service Benefits, total disability subject to a minimum 50% of final average monthly compensation plus 5% of each dependent not to exceed 20% for all dependents. Partial disability to a minimum of 30% of final average monthly compensation.



## NOTES TO FINANCIAL STATEMENTS

### Note 8. Pension Plan (continued)

Survivor Benefits – If employee is receiving a pension, then eligible survivor receives 50% of pension. If employee is active, eligible survivor receives 50% of pension the employee would have received at age 62. If the member is killed in the line of duty, the eligible survivor receives 75% of the member's compensation.

### B. Basis of Presentation

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

### C. Allocation Methodology

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

### D. Net Pension Liability (Asset)

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

Employers' total pension liability	\$ 1,468,818
Plan net position	<u>1,497,721</u>
Employers' net pension liability (asset)	<u>\$ (28,902)</u>

*The amounts above represent the Town's proportionate share*

## NOTES TO FINANCIAL STATEMENTS

### Note 8. Pension Plan (continued)

#### *Actuarial Assumptions*

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

Actuarial assumptions:

Investment rate of return/Discount rate (1)	7.20%
Projected salary increases (1)	4% to 11.5%
Cost-of-living adjustments	N/A

(1) Inflation is included at 3%

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

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

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

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

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Asset Allocation</u>
Domestic equity	5.70%	36.5%
International equity	5.70%	16.5%
Fixed income	2.00%	22.6%
Alternative investments	7.80%	19.6%
Cash and equivalents	0.00%	4.8%

## NOTES TO FINANCIAL STATEMENTS

### Note 8. Pension Plan (continued)

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

**Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate** – The following presents the net pension liability (asset), calculated using the discount rate of 7.2%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

Plan	1% Decrease	Discount Rate	1% Increase
Pension liability/(asset)	\$ 125,407	\$ (28,902)	\$ (260,812)

*The amounts above represent the Town's proportionate share*

### E. Deferred Outflows of Resources and Deferred Inflows of Resources

The following presents a summary of changes in the deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts):

Employer's proportionate (percentage) of the collective net pension liability	0.5483960%
Employer's proportionate share of the collective net pension liability (asset)	\$ (28,902)
Pension expense recognized by the employer for the year ended March 31, 2017:	38,952
Deferred outflows of resources:	
Year end March 31, 2017 contributions	58,499
Deferred outflows of resources March 31, 2017	58,499
Deferred inflows of resources:	
Difference between expected and actual experience	16,496
Difference between expected and actual investment earnings	28,257
Changes in proportion	5,347
Deferred inflows of resources March 31, 2017	50,100
Net pension liability (asset), March 31, 2016	(67,743)
Change in net pension liability (asset) factored for contributions	38,841
Net pension liability (asset), March 31, 2017	\$ (28,902)

The \$58,499 of deferred outflows of resources resulting from the Town's contributions to the Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ending March 31, 2018.

## NOTES TO FINANCIAL STATEMENTS

### Note 8. Pension Plan (continued)

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

Years ending June 30:		
2018	\$	(14,976)
2019		(14,976)
2020		(14,976)
2021		7,882
2022		(2,198)
Thereafter		(10,856)
	\$	<u>(50,100)</u>

*The amounts above represent the Town's proportionate share*

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

### F. Pension Expense

The components of pension expense are as follows:

Service costs	\$	93,540
Interest on total pension liability		99,369
Member contributions		(27,310)
Administrative expense		921
Changes in benefit terms		1,749
Projected earnings on plan investments		(101,914)
Recognition of deferred outflows and inflows of resources:		
Difference between expected and actual experiences		(1,650)
Difference between projected and actual earnings		<u>(25,753)</u>
Total pension expense	\$	<u>38,952</u>

*The amounts above represent the Town's proportionate share*

For the year ended March 31, 2017, the Town's payroll for all employees was \$1,707,568. As of the Plan's measurement date, June 30, 2015, total covered payroll was \$425,430. Covered payroll refers to all compensation paid by the Town to active employees covered by the Plan.

## NOTES TO FINANCIAL STATEMENTS

### **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 plan described in Note 8, 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, 2017, 2016, and 2015 were \$6,482, \$7,710, and \$4,704, 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.

### **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.

**REQUIRED SUPPLEMENTARY INFORMATION**

**TOWN OF DEWEY BEACH, DELAWARE**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
Year Ended March 31, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES:</b>				
Taxes and assessments	\$ 1,085,594	\$ 1,085,594	\$ 1,375,992	\$ 290,398
Licenses, permits, and fees	1,423,215	1,423,215	1,587,846	164,631
Fines	437,000	437,000	409,176	(27,824)
Investment income	-	-	2,190	2,190
Net unrealized gain (loss) on investments	-	-	(1,418)	(1,418)
Other revenues	98,001	98,001	159,502	61,501
<hr/>				
Total revenues	3,043,810	3,043,810	3,533,288	489,478
<hr/>				
<b>EXPENDITURES:</b>				
General and administrative	1,266,248	1,281,248	1,049,239	232,009
Public safety	1,465,469	1,465,469	1,510,206	(44,737)
Streets	143,389	270,389	316,349	(45,960)
Beach safety	336,395	351,395	337,340	14,055
Debt service:				
Principal	47,064	47,064	47,064	-
Interest	5,184	5,184	5,341	(157)
<hr/>				
Total expenditures	3,263,749	3,420,749	3,265,539	155,210
<hr/>				
Net change in fund balance, budgetary basis	\$ (219,939)	\$ (376,939)	267,749	\$ 644,688
<hr/>				
<b>OTHER UNBUDGETED ITEMS:</b>				
Proceeds from Dewey Beach Enterprises Phase II and III permits			168,040	
Proceeds from Dewey Beach Enterprises review fund			35,000	
Proceeds from 4th amendment to Dewey Beach Enterprises agreement			30,000	
Other unbudgeted streets expenditures			(19,512)	
			<hr/>	
Change in fund balance, GAAP basis			\$ 481,277	
			<hr/>	

**TOWN OF DEWEY BEACH, DELAWARE**

**REQUIRED SUPPLEMENTARY INFORMATION**

**Year Ended March 31, 2017**

**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

Fiscal Year	Measurement Date	Employer's Proportion (Percentage) of the Collective NPL A	Employer's Proportionate Share of the Collective NPL B	Employer's Covered Employee Payroll C	Proportionate Share as a Percentage of Covered Payroll (B / C)	Plan's Total Fiduciary Net Position D	Plan's Total Pension Liability E	Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability (D / E)
2017	June 30, 2015	0.5484%	\$ (28,902)	\$ 425,430	-7%	\$ 273,109,000	\$ 267,839,000	102%
2016	June 30, 2014	0.6262%	(67,743)	418,302	-16%	252,662,000	241,845,000	104%

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



**TOWN OF DEWEY BEACH, DELAWARE**

**REQUIRED SUPPLEMENTARY INFORMATION**

**Year Ended March 31, 2017**

**SCHEDULE OF CONTRIBUTIONS - PENSION PLAN**

Fiscal Year	Measurement Date	Contractually Required Contribution A	Actual Contribution B	Contribution Deficiency (Excess) (A - B)	Employer's Covered Employee Payroll C	Actual Contribution as a Percentage of Covered Payroll (B / C)
2017	June 30, 2015	\$ 55,209	\$ 55,209	\$ -	\$ 425,430	13%
2016	June 30, 2014	64,393	64,393	-	418,302	15%

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

**TOWN OF DEWEY BEACH, DELAWARE**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**Year Ended March 31, 2017**  
**ACTUARIAL ASSUMPTIONS - PENSION PLAN**

Plan	County and Municipal Police and Firefighters
Actuarial assumptions:	
Investment rate of return/discount rate (1)	7.20%
Projected salary increases (1)	4% to 11.5%
Cost-of-living adjustments	N/A

(1) Inflation is included at 3%

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

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



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

Town of Dewey Beach, Delaware  
Dewey Beach, Delaware

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Town of Dewey Beach, Delaware (the "Town") as of and for the year ended March 31, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated August 7, 2017.

**Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less

severe than a material weakness, yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below to be material weaknesses.

#### Finding Number 2017-1

*Criteria:* Proper segregation of duties should be in place to strengthen internal controls to provide reasonable assurance that a material misstatement to the financial statements is prevented.

*Condition:* We noted that the system currently in place creates conflicts within duties assigned to a single individual and produces a high level of internal control risk. During our audit, we noted a lack of segregation of duties.

*Cause:* The lack of an appropriately designed internal control system has produced conflicts regarding assigned duties.

*Effect:* Segregation of duties issues do not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, errors and/or the misappropriation of assets on a timely basis.

*Recommendation:* We recommend that, when possible, responsibilities for authorization, recording, and maintaining custody of assets be assigned to different employees. In situations where this is not possible, we recommend the implementation of certain transaction review controls. It is important to note that review controls do not eliminate all risk when segregation of duties conflicts exist, and management and those charged with governance need to be aware of such risks.

*Identification of Repeat Finding:* Due to the nature and size of the Town, this is a repeat finding.

*Views of Responsible Officials:* It has been determined that it would not be cost effective for the Town to add additional personnel to ensure complete segregation of duties in the finance department.

## Finding Number 2017-2

*Criteria:* Timely account reconciliations of the subsidiary ledgers to the general ledger helps to provide reasonable assurance that a material misstatement to the financial statements is prevented.

*Condition:* We noted that several subsidiary ledgers, including Edmunds' reports, related to cash receipts for significant revenue sources did not agree to the amounts posted to the general ledger. Further, Town personnel often have difficulty reconciling these subsidiary reports to the general ledger.

*Cause:* The lack of timely account reconciliations, combined with inadequate personnel training related to the Edmunds software, makes it difficult to ensure amounts recorded on the general ledger accurately represent the Town's activities.

*Effect:* The failure to timely reconcile accounts does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, errors and/or the misappropriation of assets on a timely basis.

*Recommendation:* We recommend implementing accounting policies to ensure timely account reconciliations. We also recommend accounting personnel receive additional training in Edmunds.

*Views of Responsible Officials:* The Town believes the primary reason for this condition was significant turnover in the accounting function during the fiscal year. Additionally, the Town intends to begin performing reconciliations of all significant accounts.

## **Compliance and Other Matters**

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

## Purpose of this Report

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

A handwritten signature in black ink that reads "JHM Group LLC". The letters are cursive and somewhat stylized.

Salisbury, Maryland  
August 7, 2017