

October 4, 2019

To the Audit Committee  
Town of Dewey Beach, Delaware

We have audited the financial statements of the governmental activities and each major fund of the Town of Dewey Beach, Delaware for the year ended March 31, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 24, 2019. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Matters

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town of Dewey Beach, Delaware are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2019. We noted no transactions entered into by the Town of Dewey Beach, Delaware during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Town's financial statements were:

Management's estimate of the depreciation expense is based on the estimated useful life of the related assets. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension liability, and related deferred outflows and inflows of resources, is based on the Town's proportionate share of the Delaware Public Employees' Retirement System net pension liability and pension expense. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the net pension liability is considered a sensitive disclosure to the financial statements because it involves actuarial assumptions. Note 8 to the financial statements discloses the net pension liability.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Schedule A summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Schedule B summarizes material misstatements detected as a result of audit procedures that were corrected by management.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated **REPORT DATE**.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Town's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Town's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis and the Required Supplementary Information - Schedule of the Proportionate Share of the Net Pension Liability, which are required supplementary information ("RSI") that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on budgetary schedules and combining fiduciary fund financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of the Audit Committee and management of Town and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

CohnReznick LLP  
**REPORT DATE**

PRELIMINARY DRAFT  
SUBJECT TO CHANGE

## SCHEDULE A

### Town of Dewey Beach, Delaware Year Ended March 31, 2019

#### Uncorrected Misstatements – FACTUAL

- During fiscal year 2019, management identified equipment that was previously not capitalized into the books and records. The assets had an estimated acquisition cost of approximately \$28,000 which has been corrected and is now included in the Town's financial records. In making the retroactive adjustment, approximately \$24,000 of depreciation was recorded in fiscal year 2019 as a "catch-up". Recording the "catch-up" in fiscal year 2019 instead of restating the opening net position balance is a misstatement that management deems immaterial to the financial statements.
- During our audit we inquire with the Town's legal counsel about pending litigation and the likelihood of adverse results to the Town, including whether a likely loss amount could be reasonably determined. After presenting an initial draft financial statement to the audit committee, a legal matter of the Town was settled. Management determined the probable total financial exposure to the Town would range from \$80,000 - \$100,000, including legal costs. No liability is included in the Town's financial statements pertaining to this legal matter and the Town intends to record the transactions in fiscal year 2020.

#### Uncorrected Misstatements – JUDGEMENTAL

- During our audit we noted approximately \$29,000 recorded as unearned revenue on the Town's records which appeared to have a lack of reconciliation throughout the year and as of the fiscal year end. Support for the balances was not available with the initial audit documentation provided to us, and there were audit comments in the previous year about the lack of reconciliations of these accounts. As a matter of materiality, based on our understanding of the funds, we deemed it unlikely that the balance was understated, and that the maximum overstatement (approximately \$29,000) would not be material to the financial statements. Accordingly, no additional audit evidence was obtained. We recommend these accounts be reconciled in fiscal year 2020.

## SCHEDULE B

### Town of Dewey Beach, Delaware Year Ended March 31, 2019

During the course of our audit, we proposed the following adjustments to the books and records, which were approved by management and are incorporated in the draft financial statements presented to the Audit Committee:

- The books and records include some accounts maintained on the full accrual basis of accounting, and others on the modified accrual basis of accounting. Both methods of accounting are included in the financial statements for the Town. We proposed entries in both directions so that two sets of books (one for each method of accounting) were available for financial reporting purposes.
- Activity related to the Town's proportionate share of the County & Municipal Police and Firefighters' Pension Plan (the "Plan") was not recorded. We proposed an adjustment to the pension related balances based on information provided by the Plan.
- The Town's receivable from Dewey Beach Enterprises ("DBE"), as described in Note 4 to the draft financial statements, was erroneously reduced by \$100,000 more than the receipts from DBE during the year. We proposed an adjustment to reverse the misstatement.
- The Town's compensated absence liability (accrued vacation and sick time) was not calculated in accordance with the Town's policies. We proposed an adjustment of approximately \$34,000 to reflect a liability that was representative of the Town's policies.
- The Town miscalculated the portion of its insurance premiums that were prepaid towards fiscal year 2020. We proposed an adjustment of approximately \$23,000 to correct this balance.
- Approximately \$15,000 related to FY 2019 activity was recorded to fund balance. We proposed an adjustment to reflect the activity in FY 2019.
- Depreciation did not reconcile to the roll forward detail by approximately \$3,500. We proposed an adjustment to true up the balance.