

Town of Dewey Beach, Delaware

**Financial Statements
and Independent Auditor's Report**

March 31, 2019

PRELIMINARY DRAFT -
SUBJECT TO CHANGE

Town of Dewey Beach, Delaware

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Independent Auditor's Report

To the Audit Committee
Town of Dewey Beach, Delaware

We have audited the accompanying financial statements of the governmental activities and each major fund of the Town of Dewey Beach, Delaware, as of and for the year ended March 31, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the index.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Town of Dewey Beach, Delaware as of March 31, 2019, 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 on pages 4 - 10 and the required supplementary information on pages 34 - 37, as listed in the index, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Dewey Beach, Delaware's basic financial statements. The other supplementary information is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information, as listed in the index, is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Baltimore, Maryland
[REPORT DATE]

Management's Discussion and Analysis

PRELIMINARY DRAFT -
SUBJECT TO CHANGE

Town of Dewey Beach, Delaware

Management's Discussion and Analysis March 31, 2019

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 ending March 31, 2019. 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, 2019, governmental activity assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$10,107,780 (net position). Of this amount, \$3,211,918, or 31.8%, was unrestricted and may be used for ongoing obligations to citizens and creditors.
- The Town's fund balance increased by \$791,071 during the year. The increase was mainly attributable to the Town's tax receipts and assessments coming in over budget by \$190,145 and licenses, permits, and fees coming in over budget by \$437,712.

Overview of the Financial Statements

The 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 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 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.

Fund Financial Statements

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

Town of Dewey Beach, Delaware

**Management's Discussion and Analysis
March 31, 2019**

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.

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 \$10,096,678 as of March 31, 2019.

Town of Dewey Beach, Delaware

**Management's Discussion and Analysis
March 31, 2019**

The following is a summary of the government-wide Statement of Net Position for the years ended March 31, 2019 and 2018:

	<u>Statement of Net Position</u>	
	<u>Governmental Activities</u>	
	<u>2019</u>	<u>2018</u>
Assets		
Current and other assets	\$ 8,358,483	\$ 7,652,252
Capital assets	2,193,447	2,421,034
Total assets	<u>10,551,930</u>	<u>10,073,286</u>
Deferred outflows - pension	<u>208,779</u>	<u>133,547</u>
Liabilities		
Long-term liabilities	425,499	382,403
Other liabilities	155,339	156,352
Total liabilities	<u>580,838</u>	<u>538,755</u>
Deferred inflows - pension	<u>72,091</u>	<u>57,995</u>
Net position		
Net investment in capital assets	2,193,447	2,245,313
Restricted	4,702,415	4,444,270
Unrestricted	<u>3,211,918</u>	<u>2,920,500</u>
Total net position	<u>\$ 10,107,780</u>	<u>\$ 9,610,083</u>

A portion of the Town's net position (\$2,193,447) is not available for future spending as it represents amounts invested in capital assets (e.g. land, buildings, 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 \$7,914,333 in net position, \$4,702,415 is restricted for specific use. The unrestricted funds of \$3,211,918 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, 2019**

The following schedule shows the breakdown of changes in net position for governmental activities for the years ended March 31, 2019 and 2018:

	<u>Changes in Net Position</u>	
	<u>Governmental Activities</u>	
	<u>2019</u>	<u>2018</u>
Revenues		
Program revenues		
Charges for services	\$ 2,292,633	\$ 2,355,495
Operating grants, contributions, and interest	189,177	68,148
General revenues		
Beach replenishment	183,672	204,920
Realty transfer	783,984	729,324
Accommodations	510,696	499,055
Franchise fees	55,465	58,053
Concession fees	70,000	70,000
Investment income	141,427	9,739
Net unrealized gain on investments	12,943	198,341
Dewey Beach Enterprises	37,500	37,500
Other	56,025	37,466
Total revenues	<u>4,333,522</u>	<u>4,268,041</u>
Expenses		
General and administrative	1,395,608	1,776,714
Public safety	1,562,416	1,377,541
Streets	236,939	359,600
Beach safety	557,496	378,325
Beach replenishment	80,551	91,076
Interest on long-term debt	2,815	4,196
Total expenses	<u>3,835,825</u>	<u>3,987,452</u>
Change in net position	497,697	280,589
Net position, beginning of year	<u>9,610,083</u>	<u>9,329,494</u>
Net position, end of year	<u>\$ 10,107,780</u>	<u>\$ 9,610,083</u>

Governmental activities net position increased by \$497,697 during the fiscal year 2019. This represents a 5.2% increase in net position for the year.

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

Town of Dewey Beach, Delaware

**Management's Discussion and Analysis
March 31, 2019**

fund balance may serve as a useful measure of the Town's net resources available for spending and for future needs.

As the end of the fiscal year 2019, the Town's governmental funds reported a combined ending fund balance of \$7,953,144, an increase in \$791,071 compared to the year ended March 31, 2018. Of this amount, \$2,385,046 constitutes unassigned fund balance.

General Fund Budgetary Highlights

**Budget to Actual
Revenues**

General fund revenues exceeded the budget by \$701,136 and related mostly to the following:

- Transfer tax income is over budget by approximately \$184,000.
- Building permit income is over budget by approximately \$260,000.
- The Town received an unbudgeted \$150,000 permit fee from DBE.

**Budget to Actual
Expenditures**

General fund expenditures exceeded the budget by \$217,545 and related mostly to the following:

- Professional fees were over budget by approximately \$121,000
- Beautification expenses were over budget by approximately \$98,000

Capital Assets

The Town's investment in capital assets, net of accumulated depreciation, for its governmental activities at March 31, 2019, amounts to \$2,193,447. 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:

- Beach mats for to beach safety and accessibility were purchased for approximately \$98,000

Capital Net of Accumulated Depreciation

	Governmental Activities	
	2019	2018
Land	\$ 1,161,677	\$ 1,161,677
Buildings and improvements	904,255	904,255
Machinery and equipment	1,448,768	1,420,970
Streets and parks	1,435,260	1,336,915
Accumulated depreciation	(2,756,513)	(2,402,783)
Total	<u>\$ 2,193,447</u>	<u>\$ 2,421,034</u>

Town of Dewey Beach, Delaware
Management's Discussion and Analysis
March 31, 2019

Long-Term Debt

	Governmental Activities	
	2019	2018
Bayard Avenue loan	\$ 126,289	\$ 154,585
Compensated absences	179,622	175,721
Total long-term debt	\$ 305,911	\$ 330,306

Additional information on the Town's long-term debt obligations can be found on 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 \$528,938, which was a favorable variance from the budget of \$45,347. A general fund budgetary comparison schedule is included in this report, as listed in the table of contents.

For fiscal year 2020, the Town has budgeted total operating revenues of \$3,520,500 and total operating expenditures of \$3,479,194.

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

PRELIMINARY DRAFT -
SUBJECT TO CHANGE

Town of Dewey Beach, Delaware

**Statement of Net Position
March 31, 2019**

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 4,232,825
Investments	3,755,689
Receivables	
Taxes	15,656
Other	13,685
Prepaid expenses	90,628
Dewey Beach Enterprises receivable	250,000
Capital assets, net	
Non-depreciable	1,161,677
Depreciable	1,031,770
Total assets	10,551,930
Deferred outflows of resources - pension related	208,779
Liabilities	
Accounts payable	37,313
Accrued wages and payroll taxes	56,566
Unearned revenue	61,460
Long-term liabilities, due within one year	
Note payable	49,503
Long-term liabilities, due in more than one year	
Compensated absences	179,622
Net pension liability	119,588
Note payable	76,786
Total liabilities	580,838
Deferred inflows of resources - pension related	72,091
Net position	
Net investment in capital assets	2,193,447
Restricted	4,702,415
Unrestricted	3,211,918
Total net position	\$ 10,107,780

See Notes to Financial Statements.

Town of Dewey Beach, Delaware

**Statement of Activities
Year Ended March 31, 2019**

<u>Functions/Programs</u>	<u>Expenses</u>	Program revenues		<u>Net (expense) revenue and changes in net position</u>
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	
Governmental activities				<u>Governmental activities</u>
General and administrative	\$ 1,395,608	\$ 1,845,841	\$ -	\$ 450,233
Public safety	1,562,416	334,724	144,907	(1,082,785)
Streets	236,939	112,068	35,082	(89,789)
Beach safety	557,496	-	9,188	(548,308)
Beach replenishment	80,551	-	-	(80,551)
Interest on long-term debt	2,815	-	-	(2,815)
Total governmental activities	<u>\$ 3,835,825</u>	<u>\$ 2,292,633</u>	<u>\$ 189,177</u>	<u>\$ (1,354,015)</u>
General revenues				
Taxes and assessments				
Beach replenishment				183,672
Realty transfer				783,984
Accomodations				510,696
Franchise fees				55,465
Concession fees				70,000
Investment income				141,427
Net unrealized gain on investments				12,943
Dewey Beach Enterprises				37,500
Other revenues				56,025
Total general revenues				<u>1,851,712</u>
Change in net position				497,697
Net position, beginning of year				<u>9,610,083</u>
Net position, end of year				<u>\$ 10,107,780</u>

See Notes to Financial Statements.

Town of Dewey Beach, Delaware

**Balance Sheet
Governmental Funds
March 31, 2019**

	Major Fund		Total Governmental Funds
	General Fund	Beach Replenishment Fund	
Assets			
Cash and cash equivalents	\$ 3,324,672	\$ 908,153	\$ 4,232,825
Investments	-	3,755,689	3,755,689
Receivables			
Taxes	-	15,656	15,656
Other	13,685	-	13,685
Prepaid expenses	90,628	-	90,628
	<u>90,628</u>	<u>-</u>	<u>90,628</u>
Total assets	<u>\$ 3,428,985</u>	<u>\$ 4,679,498</u>	<u>\$ 8,108,483</u>
Liabilities, deferred inflows of resources and fund balances			
Liabilities			
Accounts payable	\$ 37,313	\$ -	\$ 37,313
Accrued wages and payroll taxes	56,566	-	56,566
Unearned revenue	61,460	-	61,460
	<u>155,339</u>	<u>-</u>	<u>155,339</u>
Total liabilities	<u>155,339</u>	<u>-</u>	<u>155,339</u>
Fund balances			
Nonspendable	90,628	-	90,628
Restricted	22,917	4,679,498	4,702,415
Committed for streets	369,192	-	369,192
Assigned for comprehensive plan	68,125	-	68,125
Assigned for legal and litigation	269,401	-	269,401
Assigned for technology	5,643	-	5,643
Assigned for public safety	26,975	-	26,975
Assigned for beach safety	35,719	-	35,719
Unassigned	2,385,046	-	2,385,046
	<u>3,273,646</u>	<u>4,679,498</u>	<u>7,953,144</u>
Total fund balances	<u>3,273,646</u>	<u>4,679,498</u>	<u>7,953,144</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,428,985</u>	<u>\$ 4,679,498</u>	<u>\$ 8,108,483</u>

See Notes to Financial Statements.

Town of Dewey Beach, Delaware

**Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
March 31, 2019**

Total fund balances - Governmental Funds		\$ 7,953,144
<p>Amounts reported for governmental activities in the statement of net position are different because</p>		
<p>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.</p>		2,193,447
<p>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.</p>		250,000
<p>Deferred outflows of resources related to pensions, as further described in Note 8, are not reported at the fund level.</p>		208,779
<p>Deferred inflows of resources related to pensions, as further described in Note 8, are not reported at the fund level.</p>		(72,091)
<p>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</p>		
Net pension liability	\$ (119,588)	
Compensated absences	(179,622)	
Bayard Avenue loan	(126,289)	
	Total long-term liabilities	(425,499)
Net position of governmental activities in the Statement of Net Position		\$ 10,107,780

See Notes to Financial Statements.

Town of Dewey Beach, Delaware

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended March 31, 2019**

	General Fund	Beach Replenishment Fund	Total Governmental Funds
Revenues			
Taxes and assessments	\$ 1,420,145	\$ 207,499	\$ 1,627,644
Licenses, permits, and fees	1,957,909	-	1,957,909
Fines	334,724	-	334,724
Intergovernmental	60,082	-	60,082
Donations and other revenues:			
Public safety	119,907	-	119,907
Beach safety	9,188	-	9,188
Investment income	18,109	123,318	141,427
Net unrealized gain (loss) on investments	1,076	11,867	12,943
Other	153,525	-	153,525
Total revenues	4,074,665	342,684	4,417,349
Expenditures			
General and administrative	1,231,593	-	1,231,593
Public safety	1,442,926	-	1,442,926
Streets	169,290	-	169,290
Beach safety	523,528	-	523,528
Beach Replenishment	-	80,551	80,551
Debt service			
Principal	49,432	-	49,432
Interest	2,815	-	2,815
Capital outlay	126,143	-	126,143
Total expenditures	3,545,727	80,551	3,626,278
Net changes in fund balances	528,938	262,133	791,071
Fund balances, beginning of year	2,744,708	4,417,365	7,162,073
Fund balances, end of year	\$ 3,273,646	\$ 4,679,498	\$ 7,953,144

See Notes to Financial Statements.

Town of Dewey Beach, Delaware

**Reconciliation of Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balances to the Statement of Activities
Year Ended March 31, 2019**

Total net change in fund balances - Governmental Funds	\$	791,071
<p>Amounts reported for governmental activities in the statement of activities are</p> <p>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</p>		
Capital outlay		126,143
Depreciation expense		(353,730)
<p>Governmental fund 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.</p>		
Principal payments on long-term debt		49,432
<p>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.</p>		
		(60,000)
<p>Certain tax revenues in the government-wide Statement of Activities include economic resources that are not reported as revenues in the governmental funds.</p>		
		(23,827)
<p>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</p>		
Change in deferred outflows of resources - pension (see Note 8)		75,232
Change in deferred inflows of resources - pension (see Note 8)		(14,096)
Change in net pension liability		(67,491)
Change in compensated absences		(25,037)
		497,697
Change in net position of Governmental Activities	\$	497,697

See Notes to Financial Statements.

Town of Dewey Beach, Delaware

Notes to Financial Statements March 31, 2019

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 provided as authorized under the Town 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 accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body establishing governmental accounting and financial reporting principles. The Town's significant accounting policies are described below.

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 and fund 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 Statement of Net Position presents the financial condition of the 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 activities. 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. Each of the Town's funds are reported as major governmental funds and are presented in separate columns.

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.

Town of Dewey Beach, Delaware

Notes to Financial Statements March 31, 2019

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:

1. 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.
2. Special revenue fund - the special revenue fund is used to account for the proceeds from the 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.

Measurement focus

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.

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.

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.

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

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2019**

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.

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 activities.

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.

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2019**

Budgetary process

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

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.

The Commissioners shall, so far as possible, adhere to the Town 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

Beach replenishment taxes

Taxes are levied on November 1 of each year and are due by December 31. 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, 2019 was \$0.40 per \$100 of the 1992 assessed valuation of all real property and improvements as determined by Sussex County, Delaware.

Interfund receivables and 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.

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.

Restricted assets

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

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2019**

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 are as follows:

	<u>General Fund</u>
Police grants	\$ 29,513
Municipal street aid grant	<u>31,947</u>
Total unearned revenues	<u>\$ 61,460</u>

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.

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.

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.

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.

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2019**

Restricted - amounts that can be spent only for specific purposes because of the Town charter or code, state or federal laws, or externally imposed condition 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.

Accounting estimates

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

Reclassification

Reclassifications have been made to the prior year balances to conform to current year presentation.

Note 3 - Cash, cash equivalents 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 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.

Concentrations 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 limits its exposure to concentration of credit risk by limiting investments in a single equity to 10% or less of the entire equities portfolio.

Foreign currency risk - Concentrations of credit risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. As of March 31, 2019, the Town held foreign stocks with a total market value of \$61,745.

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2019**

The Town's investment policy is as follows:

<u>Allocation of Assets</u>		
<u>Short-Term (0 - 3 years)</u>	<u>Range</u>	<u>Target</u>
Cash and equivalents	20% to 60%	40%
Fixed income	40% to 80%	60%
Equities	0%	0%
<u>Long-Term (>3 years)</u>		
Fixed income	65% to 85%	75%
Equities	15% to 35%	25%

Types of investable assets

- Cash equivalents
- Repurchase agreements collateralized by the financial institution (sweep accounts)
- Certificate of deposit and other evidences of deposit of financial institutions
- U.S. Treasury securities
- Fixed income
- Equities

The Town has the following cash and investments at March 31, 2019, all of which have investment maturities of less than one year:

	<u>Cash and cash equivalents</u>	<u>Investments held at fair value</u>	<u>Total</u>
Cash and cash equivalents	\$ 2,346,241	\$ -	\$ 2,346,241
Investments			
Cash and cash equivalents	1,886,584	-	1,886,584
Fixed income	-	2,929,733	2,929,733
Equities			
Common stocks	-	512,742	512,742
Foreign stocks	-	61,745	61,745
Equity Funds	-	251,469	251,469
Total investments	<u>1,886,584</u>	<u>3,755,689</u>	<u>5,642,273</u>
Total	<u>\$ 4,232,825</u>	<u>\$ 3,755,689</u>	<u>\$ 7,988,514</u>

As of March 31, 2019, all savings and checks accounts were fully insured or collateralized. The 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.

Fair value measurement

Cash and equivalents are recorded at cost, which approximates fair value.

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2019**

Investments are measured and reported at fair value, and are classified according to the following hierarchy:

Level 1: investments reflect prices quotes in active markets.

Level 2: investments reflect prices that are based on similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.

Level 3: investments reflect prices based upon unobservable sources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment risk.

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,346,241	\$ -	\$ -	\$ 2,346,241
Investments				
Cash and cash equivalents	1,886,584	-	-	1,886,584
Fixed income	2,929,733	-	-	2,929,733
Equities				
Common stocks	512,742	-	-	512,742
Foreign stocks	61,745	-	-	61,745
Equity Funds	251,469	-	-	251,469
Total investments	<u>\$ 7,988,514</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,988,514</u>

Note 4 - Dewey Beach Enterprises receivable

In March 2015, the Town amended a prior agreement with Dewey Beach Enterprises ("DBE") whereby, DBE agreed to pay the Town \$500,000 with \$5,000 minimum payments being due monthly commencing on April 1, 2015 until \$400,000 was paid towards this obligation, and the additional \$100,000 due no later than April 1, 2020. Additionally, an annual payment of \$37,500 is due in perpetuity. During fiscal year 2018, the \$400,000 obligation became fully satisfied and the remaining \$100,000 payment is due by April 1, 2020.

In September 2016, the Town further amended the agreement whereby, DBE agreed to pay the Town an additional \$300,000. This amount will be paid as monthly payments of \$5,000, which began in October 2016, with an 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 of March 31, 2019, \$150,000 remains receivable.

As of March 31, 2019, the total DBE receivable balance was \$250,000.

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2019**

Note 5 - Capital assets

The following is a summary of changes in capital assets for the year ended March 31, 2019:

	Balance March 31, 2018	Additions and Transfers	Deletions and Transfers	Balance March 31, 2019
Capital assets (not being depreciated)				
Land	\$ 1,161,677	\$ -	\$ -	\$ 1,161,677
Total non-depreciable capital assets	<u>1,161,677</u>	<u>-</u>	<u>-</u>	<u>1,161,677</u>
Capital assets (being depreciated)				
Buildings	904,255	-	-	904,255
Machinery and equipment	1,420,970	27,798	-	1,448,768
Infrastructure	1,336,915	98,345	-	1,435,260
Total depreciable capital assets	<u>3,662,140</u>	<u>126,143</u>	<u>-</u>	<u>3,788,283</u>
Less accumulated depreciation for				
Buildings	(606,612)	(41,274)	-	(647,886)
Machinery and equipment	(959,140)	(175,687)	-	(1,134,827)
Infrastructure	(837,031)	(136,769)	-	(973,800)
Total accumulated depreciation	<u>(2,402,783)</u>	<u>(353,730)</u>	<u>-</u>	<u>(2,756,513)</u>
Total capital assets being depreciated	<u>1,259,357</u>	<u>(227,587)</u>	<u>-</u>	<u>1,031,770</u>
Total capital assets	<u>\$ 2,421,034</u>	<u>\$ (227,587)</u>	<u>\$ -</u>	<u>\$ 2,193,447</u>

Depreciation expense was charged to governmental functions as follows:

General and administrative	\$ 132,623
Public safety	119,490
Streets	67,649
Beach safety	33,968
	<u>353,730</u>
	<u>\$ 353,730</u>

Note 6 - Long-term debt obligations

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

	Balance March 31, 2018	Increase	Decrease	Balance March 31, 2019	Due within one year	Coupon interest rate	Date of maturity
Notes payable							
Bayard Avenue	\$ 175,721	\$ -	\$ 49,432	\$ 126,289	\$ 49,503	2.00%	September 2021
Other long-term liabilities							
Compensated absences	154,585	25,037	-	179,622	-		
Net pension liability	52,097	67,491	-	119,588	-		
	<u>\$ 382,403</u>	<u>\$ 92,528</u>	<u>\$ 49,432</u>	<u>\$ 425,499</u>	<u>\$ 49,503</u>		

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

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2019**

The annual requirements to amortize all governmental activities debt outstanding as of March 31, 2019.

Fiscal years	Principal	Interest	Total
2020	\$ 49,503	\$ 2,744	\$ 52,247
2021	50,964	1,283	52,247
2022	25,822	258	26,080
	<u>\$ 126,289</u>	<u>\$ 4,285</u>	<u>\$ 130,574</u>

Note 7 - Operating leases

The Town is the lessee in an operating lease, for an improved lot leased known as the Old U.S. Coast Guard Station from the Delaware Economic Development Authority. The lease payments are \$1 per year and expires on September 1, 2021.

The Town is the beneficiary of a lease agreement for a fenced in portion of land known as the Tunnell Farm of Lewes, Delaware. The portion of land is made available to the Town by J.G. Townsend Jr. & Co. at no charge, through November 30, 2020.

Note 8 - Pension plan

Plan description 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 provision; 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, 2018. 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.

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2019**

Service benefits - 2.5% of the 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 less than 10 years) equals 75; or 20 years of credited service.

Disability benefits

Duty - Total Disability - 75% of final average compensation plus 10% for each dependent not to exceed 25% for all dependents.

Duty - Partial Disability - Calculated the same as Service Benefits, subject to minimum 50% of final average compensation.

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.

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.

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. GAAP 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 elements, actual results could differ from those estimates.

Allocation methodology

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires participating employers in the Plan to recognize their proportionate share of 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, 2017 through June 30, 2018. Employer contributions to the Plan are recognized when due pursuant to legal requirements. Employer contributions are determined by the Board. Employer contributions were 11.42% of earnings for fiscal year 2018.

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2019**

Net pension liability

The components of the Town's proportionate share of the net pension liability at June 30, 2018 were as follows:

Employers' total pension liability	\$ 2,027,867
Plan net position	<u>1,908,279</u>
Employers' net pension liability (asset)	<u>\$ 119,588</u>
Employer's proportionate percentage of the collective NPL	0.5193%

Actuarial assumptions

The total pension liability at the June 30, 2018 measurement date was determined by an actuarial valuation as of June 30, 2017, with update procedures used to roll forward the total pension liability to June 30, 2018. These actuarial valuations used the following actuarial assumptions:

Actuarial assumptions	
Investment rate of return/Discount rate (1)	7.00%
Projected salary increases (1)	2.5% + Merit
Cost-of-living adjustments	0.00%

(1) Inflation is included at 2.5%

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

Mortality assumptions are based on the RP-2014 tables with gender adjustments for healthy annuitants and disabled retirees and an adjusted version on MP-2015 mortality improvement scale on a fully generational basis.

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.

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2019**

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	5.7%	30.7%
International equity	5.7%	13.9%
Fixed income	2.0%	23.3%
Alternative investments	7.8%	24.4%
Cash and equivalents	0.0%	7.7%

Discount rate

The discount rate used to measure the total pension liability was 7.0%. 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 Town's proportionate share of the net pension liability (asset), calculated using the discount rate 7.0%, 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:

<u>Plan</u>	<u>1% Decrease (6.0%)</u>	<u>Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
Pension liability/(asset)	\$ 438,414	\$ 119,588	\$ (138,466)

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2019**

Pension expense and deferred outflows of resources, deferred inflows of resources and related to pensions

For the year ended March 31, 2019, the Town recognized pension expense of \$71,644. At March 31, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 39,285	\$ 16,878
Changes in proportion	1,167	6,171
Differences between expected and actual experience	102,977	28,204
Net difference between projected and actual earnings on pension plan investments	-	20,838
Town's contributions subsequent to the measurement date	65,350	-
Total	\$ 208,779	\$ 72,091

The \$65,350 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 in the year ending March 31, 2020.

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

Year ending March 31,		
2020	\$	21,308
2021		12,308
2022		(12,692)
2023		(1,692)
2024		10,308
Thereafter		41,798
Total	\$	71,338

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 year ended March 31, 2019 was \$2,182, equal to the required contributions each year.

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2019**

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; inquiries 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 received 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 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

PRELIMINARY DRAFT -
SUBJECT TO CHANGE

Town of Dewey Beach, Delaware

**Required Supplementary Information
Budgetary Comparison Schedule - General Fund
Year Ended March 31, 2019**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Taxes and assessments	\$ 1,230,000	\$ 1,230,000	\$ 1,420,145	\$ 190,145
Licenses, permits, and fees	1,520,197	1,520,197	1,957,909	437,712
Fines	374,144	374,144	334,724	(39,420)
Intergovernmental	16,250	16,250	60,082	43,832
Donations and other revenues				
Public safety	69,381	69,381	119,907	50,526
Beach safety	39,972	39,972	9,188	(30,784)
Investment income	153	153	18,109	17,956
Net unrealized gain (loss) on investments	-	-	1,076	1,076
Other	123,432	123,432	153,525	30,093
Total revenues	3,373,529	3,373,529	4,074,665	701,136
Expenditures				
General and administrative	1,098,193	1,098,193	1,231,593	133,400
Public safety	1,365,788	1,365,788	1,442,926	77,138
Streets	192,825	192,825	169,290	(23,535)
Beach safety	619,076	619,076	523,528	(95,548)
Debt service				
Principal	49,110	49,110	49,432	323
Interest	3,191	3,191	2,815	(376)
Capital outlay	-	-	126,143	126,143
Total expenditures	3,328,182	3,328,182	3,545,727	217,545 (1)
Net changes in fund balances	45,347	45,347	528,938	483,591

(1) Total expenditures were in excess of the budget appropriations. Revenues also exceeded budgeted revenues in an amount to fully fund the excess expenditures

No budgetary comparison schedule is presented for the Beach Replenishment Fund as there is not a legally adopted budget.

Town of Dewey Beach, Delaware

**Required Supplementary Information
Schedule of the Proportionate Share of the Net Pension Liability
Year Ended March 31, 2019**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Town's proportionate share (%) of collective net pension liability	0.5193%	0.5168%	0.6018%	0.5484%
Town's proportionate share (\$) of collective net pension liability	\$ 119,588	\$ 52,097	\$ 95,661	\$ (28,902)
Town's covered payroll (\$)	\$ 449,798	\$ 427,982	\$ 425,430	\$ 418,302
Town's proportionate share (%) of collective net pension liability as a percentage of its covered payroll	26.59%	12.17%	22.49%	-6.91%
Plan's fiduciary net position (%) of the total pension liability	94.10%	97.00%	94.70%	101.97%

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
Schedule of Contributions - Pension Plan
Year Ended March 31, 2019**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 49,247	\$ 58,497	\$ 60,724	\$ 55,209
Contributions in relation to the contractually required contribution	<u>49,247</u>	<u>58,497</u>	<u>60,724</u>	<u>55,209</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Town's covered payroll	\$ 449,798	\$ 427,982	\$ 425,430	\$ 418,302
Contributions as a percentage of covered payroll	10.95%	13.67%	14.27%	13.20%

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.

PRELIMINARY DRAFT
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Town of Dewey Beach, Delaware

Required Supplementary Information
Actuarial Assumptions - Pension Plan
Year Ended March 31, 2019

<u>Plan</u>	<u>County and Municipal Police and Firefighters</u>
Actuarial assumptions	
Investment rate of return/discount rate (1)	7.00%
Projected salary increase (1)	2.5% + Merit
Cost-of-living adjustments	0.00%

(1) Inflation is included at 2.5%

Mortality assumptions are based on the RP-2014 tables with gender adjustments for healthy annuitants and disabled retirees and an adjusted version on MP-2015 mortality improvement scale on a fully generational basis.

PRELIMINARY DRAFT -
SUBJECT TO CHANGE

Other Supplementary Information

PRELIMINARY DRAFT -
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Town of Dewey Beach, Delaware

**Other Supplementary Information
Balance Sheets
General Fund
Four Year Comparative Amounts for
March 31, 2019, 2018, 2017, and 2016**

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Assets				
Cash and cash equivalents	\$ 1,568,985	\$ 1,991,144	\$ 2,729,190	\$ 3,324,672
Investments	210,343	341,087	-	-
Receivables				
Other	-	337	57,060	13,685
Prepaid expenses	118,858	119,042	114,915	90,628
Total assets	<u>\$ 1,898,186</u>	<u>\$ 2,451,610</u>	<u>\$ 2,901,165</u>	<u>\$ 3,428,985</u>
Liabilities, deferred inflows of resources and fund balances				
Liabilities				
Accounts payable	\$ 14,090	\$ 35,414	\$ 50,717	\$ 37,313
Interfund payables	-	23,930	105	-
Accrued wages and payroll taxes	32,719	64,299	56,956	56,566
Unearned revenue	67,630	62,943	48,679	61,460
Total liabilities	<u>114,439</u>	<u>186,586</u>	<u>156,457</u>	<u>155,339</u>
Fund balances				
Nonspendable	118,858	119,042	114,915	90,628
Restricted	-	10,955	26,905	22,917
Committed for comprehensive plan	50,370	55,697	70,535	68,125
Committed for legal and litigation	267,492	267,892	268,295	269,401
Committed for technology	10,900	5,623	5,624	5,643
Committed for streets	284,032	266,905	293,938	369,192
Assigned for public safety	-	-	32,753	26,975
Assigned for beach safety	-	-	31,018	35,719
Unassigned	1,052,095	1,538,910	1,900,725	2,385,046
Total fund balances	<u>1,783,747</u>	<u>2,265,024</u>	<u>2,744,708</u>	<u>3,273,646</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,898,186</u>	<u>\$ 2,451,610</u>	<u>\$ 2,901,165</u>	<u>\$ 3,428,985</u>

Town of Dewey Beach, Delaware

**Other Supplementary Information
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
Four Year Comparative Amounts for
Years Ended March 31, 2019, 2018, 2017, and 2016**

	2016	2017	2018	2019
Revenues				
Taxes and assessments	\$ 1,201,196	\$ 1,375,992	\$ 1,356,432	\$ 1,420,145
Licenses, permits, and fees	1,651,436	1,755,886	1,978,407	1,957,909
Fines	406,514	409,176	377,088	334,724
Intergovernmental	155,480	113,504	35,686	60,082
Donations and other revenues				
Public safety	-	-	26,925	119,907
Beach safety	-	-	5,537	9,188
Investment income	1,112	2,190	5,809	18,109
Net unrealized gain (loss) on investments	(332)	(1,418)	360	1,076
Other	179,334	354,506	414,958	153,525
Total revenues	3,594,740	4,009,836	4,201,202	4,074,665
Expenditures				
General and administrative	1,017,768	994,506	1,662,071	1,231,593
Public safety	1,470,820	1,586,279	1,254,389	1,442,926
Streets	165,237	346,562	240,302	169,290
Beach safety	375,418	347,444	370,026	523,528
Debt service				
Principal	50,294	47,064	48,051	49,432
Interest	6,120	5,341	4,196	2,815
Capital Outlay	999,094	201,363	142,483	126,143
Total expenditures	4,084,751	3,528,559	3,721,518	3,545,727
Net changes in fund balances	(490,011)	481,277	479,684	528,938
Fund balances, beginning of year	2,273,758	1,783,747	2,265,024	2,744,708
Fund balances, end of year	\$ 1,783,747	\$ 2,265,024	\$ 2,744,708	\$ 3,273,646

Town of Dewey Beach, Delaware

**Other Supplementary Information
Balance Sheets
Beach Replenishment Fund
Four Year Comparative Amounts for
March 31, 2019, 2018, 2017, and 2016**

	2016	2017	2018	2019
Assets				
Cash and cash equivalents	\$ 466,208	\$ 432,857	\$ 707,083	\$ 908,153
Investments	3,358,098	3,645,222	3,700,648	3,755,689
Receivables				
Taxes	9,282	23,420	33,356	15,656
Interfund receivables	-	23,930	105	-
	<u>3,833,588</u>	<u>4,125,429</u>	<u>4,441,192</u>	<u>4,679,498</u>
Total assets				
	<u>\$ 3,833,588</u>	<u>\$ 4,125,429</u>	<u>\$ 4,441,192</u>	<u>\$ 4,679,498</u>
Liabilities, deferred inflows of resources and fund balances				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred inflows of resources				
Unavailable revenue - beach replenishment tax	8,729	22,875	23,827	-
	<u>8,729</u>	<u>22,875</u>	<u>23,827</u>	<u>-</u>
Total deferred inflows of resources				
	<u>8,729</u>	<u>22,875</u>	<u>23,827</u>	<u>-</u>
Fund balances				
Restricted	3,824,859	4,102,554	4,417,365	4,679,498
	<u>3,824,859</u>	<u>4,102,554</u>	<u>4,417,365</u>	<u>4,679,498</u>
Total fund balances				
	<u>3,824,859</u>	<u>4,102,554</u>	<u>4,417,365</u>	<u>4,679,498</u>
Total liabilities, deferred inflows of resources and fund balances				
	<u>\$ 3,833,588</u>	<u>\$ 4,125,429</u>	<u>\$ 4,441,192</u>	<u>\$ 4,679,498</u>

Town of Dewey Beach, Delaware

**Other Supplementary Information
Statement of Revenues, Expenditures and Changes in Fund Balances
Beach Replenishment Fund
Four Year Comparative Amounts for
Years Ended March 31, 2019, 2018, 2017, and 2016**

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Revenues				
Taxes and assessments	\$ 194,065	\$ 181,239	\$ 203,968	\$ 207,499
Investment income	70,756	26,042	3,930	123,318
Net unrealized gain (loss) on investments	(164,679)	145,227	197,981	11,867
Other	41	-	8	-
Total revenues	<u>100,183</u>	<u>352,508</u>	<u>405,887</u>	<u>342,684</u>
Expenditures				
Beach Replenishment	<u>71,663</u>	<u>74,813</u>	<u>91,076</u>	<u>80,551</u>
Total expenditures	<u>71,663</u>	<u>74,813</u>	<u>91,076</u>	<u>80,551</u>
Net changes in fund balances	28,520	277,695	314,811	262,133
Fund balances, beginning of year	<u>3,796,339</u>	<u>3,824,859</u>	<u>4,102,554</u>	<u>4,417,365</u>
Fund balances, end of year	<u>\$ 3,824,859</u>	<u>\$ 4,102,554</u>	<u>\$ 4,417,365</u>	<u>\$ 4,679,498</u>

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 Commissioners
Town of 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, as of and for the year ended March 31, 2019, and the related notes to the financial statements, which collectively comprise the Town of Dewey Beach, Delaware's basic financial statements, and have issued our report thereon dated [REPORT DATE].

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Dewey Beach, Delaware'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Dewey Beach, Delaware's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Dewey Beach, Delaware's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001, 2019-002, 2019-003 and 2019-004 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Dewey Beach, Delaware'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*.

Town of Dewey Beach, Delaware's Response to Findings

Town of Dewey Beach, Delaware's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Town of Dewey Beach, Delaware's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Baltimore, Maryland
[REPORT DATE]

PRELIMINARY DRAFT
SUBJECT TO CHANGE

Schedule of Findings and Questioned Costs
Year Ended March 31, 2019

2019-001 Segregation and Delineation of Duties

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

Condition: We noted that many processes are not formally documented to delineate responsibility, and that the individuals that are, in practice, carrying out duties pertinent to the Town's finances are performing duties that create conflicts when performed by single individuals.

Cause: There is a lack of appropriately designed and documented internal control systems.

Effect: The ability for the Town to prevent or detect material misstatements to the financial statements or the misappropriation of assets is substantially inhibited.

This is similar to a finding from the prior audit.

Recommendation: We recommend the Town hire a Finance Director or a person with similar capabilities to assist in designing and implementing control procedures that do not include individuals performing incompatible duties. Where possible, the recording of, authorization of, reconciliation of, and custody of the Town's finances and assets should remain segregated. Where that is not possible, mitigating controls and procedures should be designed, documented and implemented.

View of Responsible Officials:

2019-002 Timely and Accurate Financial Reporting

Criteria: Accounting policies and procedures should be designed and implemented in a fashion that ensures timely and accurate financial reporting.

Condition: During the course of the audit we observed several transaction types that were not recorded timely. Additionally, the records were not reconciled timely, including the yearend trial balance not being reconciled until August 1, 2019 (four months after yearend and two weeks before the Town's reporting deadline).

Cause: There is a lack of appropriately designed and documented accounting policies and procedures.

Effect: The lack of properly designed and documented accounting policies and procedures has resulted in financial reporting that is not performed timely, leading to the Town not being able to meet its financial reporting requirements as designated in its Charter. Additionally, the Town's ability to provide reliable interim financial reports is inhibited by current accounting practices.

This is similar to a finding from the prior audit.

Recommendation: We recommend the Town hire a Finance Director or a person with similar capabilities to assist in designing and implementing control procedures that are timely and reliable. Where possible, transactions should be processed in the financial system the day they occur.

View of Responsible Officials:

Schedule of Findings and Questioned Costs
Year Ended March 31, 2019

2019-003 Record Keeping

Statement of Condition: The accounting records required numerous material adjustments to be proposed and recorded in order for the financial statements to be fairly presented in accordance with generally accepted accounting principles in the United States of America.

Criteria: Internal controls over financial reporting should exist to ensure that material misstatements are prevented or detected and corrected by management in a timely manner.

Cause: Management did not have sufficient controls over financial reporting.

Effect: Management may produce interim and annual financial statements that are materially misstated.

This is similar to a finding from the prior audit.

Recommendation: We recommend the Town hire a Finance Director or person with similar capabilities to assist management in undertaking a review of internal controls over financial reporting and ensure the financial data is properly recorded in the books and records of the Town to prevent misstatements from occurring in the future.

View of Responsible Officials:

2019-004 Journal Entries

Statement of Condition: Journal entries were prepared and entered without review.

Criteria: All journal entries should be reviewed by a person who understands the accounting function and the general ledger system.

Cause: Management has not instituted an internal control process which requires the review of journal entries.

Effect: Combined with the noted lack of segregation of duties and delineation of responsibilities, this could allow for significant accounting errors or theft.

Recommendation: We recommend the Town hire a Finance Director or person with similar capabilities with the understanding of sufficient segregation of duties and of local government accounting.

View of Responsible Officials: