

Funding for Set Aside Accounts

Proposed Motion:

The Town Manager shall allocate surplus funds from the 2019 fiscal year to provide full funding of all set aside accounts through FY 2019 and fulfill the commitment made by Commissioners in adopting the FY 2019 budget.

If funds are allocated to set aside accounts from the FY 2019 surplus, the total funds in each account would be approximately as follows:

Legal and Litigation	\$271,559
Street Infrastructure	\$371,148
Comp Plan	\$ 91,930
Tech Improvement	\$ 5,688
Rainy Day	\$165,953
Transfer Tax Recoup	\$168,883
Signs and Striping	\$162,672

Any significant deviations from these totals should be brought to the attention of the Commissioners for discussion and resolution.

Background

When Commissioners approved the FY 2019 budget at the March 26, 2018 meeting, they voted unanimously to adopt the budget as presented, with an agreement for the Budget and Finance Committee, Town Manager, and the Commissioners to work hard to recommit to the set asides as in the past. That commitment has not been fulfilled. Development of the FY 2019 budget did not recognize that prior budgets separated contributions to the set aside accounts from operating revenues; i.e., building permit revenues, transfer taxes, and parking revenues credited to operating funds were net of the contributions to the set aside accounts. This created a monthly obligation to fund those accounts and created an additional level of fiscal discipline that prioritized future needs. That obligation was lost with the FY 2019 budget.

The auditors have made clear that what we call "set aside" accounts do not fit well in a GAAP-compliant financial statement. Based on the balance sheet on page 39 of the report (see attached), it appears that only those set asides that have separate bank accounts are recognized by the auditors as "committed" for a specific purpose. Funds set aside from transfer tax as a hedge against future shortfalls and parking permits are swallowed up in unassigned fund balance. Although the Rainy Day Fund apparently has a separate account, it is not recognized by the auditors as a GAAP-compliant committed fund. The Infrastructure Fund is the only set aside account that was funded in FY 2019, and this allocation is reflected in the increase in the "Committed for streets" balance from 2018 to 2019. The unaudited building permit revenues shown on the March financial reports indicate that the total transfer should total about \$112K, and a special report provided by the Town confirms that amount.

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>

The set aside accounts are tracked in the monthly financial reports only in the Town’s balance sheet that shows the balance between assets on one “side” of the sheet and liabilities and equity on the other “side.” The September 2019 balance sheet shows the following for the set aside accounts, general fund balance, and investments with Brown Advisors:

	Assets	Equity
General Funds Balance	\$1,185,991	\$1,210,698
Legal & Litigation	\$ 271,559	\$ 270,477
Street Infrastructure	\$ 372,148	\$ 370,663
Comp Plan	\$ 68,410	\$ 68,390
Tech Improvement	\$ 5,688	\$ 5,643
Rainy Day	\$ 165,953	\$ 165,291
Brown Advisors	\$1,089,325	\$ 664,983 (Unrestrict. Assets)
Transfer Tax Recoup (5%)		\$ 129,684
Signs/Striping (5% of parking)		\$ 119,145

Two of the accounts above do not have separate bank accounts and thus are not recognized separately as assets. It is not clear where these funds are included on the asset side; the September report may be including them as part of the Brown Advisors total. The commitment from building permits is a draw on operating funds and is required by town code to be allocated to the infrastructure account on a monthly basis. However, allocation of funds to the infrastructure account did not appear in the monthly financial balance sheets until February 2019, and presentation of the set aside account amounts was not consistent throughout the year. There are no new allocations to the infrastructure account in FY 2020, and in the balance sheets through June for FY 2020 there was a large unexplained discrepancy between the infrastructure fund total reported on the asset side and that reported on the equity side. It is only in the most recent balance sheet reports that there is reasonable consistency between the assets and equity sides of the balance sheet.

The Budgetary Comparison Schedule on page 34 of the audit report (see attached) shows that revenues exceeded expenditures by \$528,938 for FY 2019. The amounts shown as committed to streets in the audit report and to street infrastructure in the most recent monthly balance sheet are approximately the same, \$370,000, confirming that the FY 2019 transfers to this account were included in the audit. Three other set aside accounts should have received FY 2019 funds. Fully funding the Comp Plan, Transfer Tax Recoupment, and the Signs and Striping accounts for FY 2019 would require \$106,000 from the FY 2019 surplus.

Fully funding the set aside accounts through FY 2019 fulfills the commitment previously endorsed by the Commissioners and allows for a comprehensive discussion about these accounts to determine which ones should remain, the levels and timing of future contributions if any to each account, and proper accounting and recognition of each account. A formal general fund balance policy based on the Government Finance Officers Association best

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	1,328,284	1,328,284	1,375,117	46,833
Public safety	1,365,788	1,365,788	1,442,926	77,138
Streets	192,825	192,825	169,290	(23,535)
Beach safety	388,985	388,985	380,004	(8,981)
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.

practices is clearly needed. Thorough review and discussion of the set aside accounts should be a prerequisite to establishing a general fund balance policy

FOR DISCUSSION