

Town of Dewey Beach, Delaware

**Financial Statements
(With Supplementary Information)
and Independent Auditor's Report**

March 31, 2021

Town of Dewey Beach, Delaware

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Independent Auditor's Report

To the Audit Committee
Town of Dewey Beach, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Town of Dewey Beach, Delaware, as of and for the year ended March 31, 2021, and the related notes to the financial statements, which collectively comprise the Town of Dewey Beach, Delaware'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Town of Dewey Beach, Delaware as of March 31, 2021, 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 5 to 10 and the required supplementary information on pages 35 to 38, 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, as listed in the index, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2021, on our consideration of the Town of Dewey Beach, Delaware's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Dewey Beach, Delaware's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Dewey Beach, Delaware's internal control over financial reporting and compliance.



Baltimore, Maryland
August 13, 2021

Management's Discussion and Analysis

Town of Dewey Beach, Delaware

Management's Discussion and Analysis March 31, 2021

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, 2021. 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, 2021, governmental activity assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$11,492,047 (net position). Of this amount, \$3,867,428, or 33.7%, was unrestricted and may be used for ongoing obligations to citizens and creditors.
- The Town's fund balances increased by \$1,780,541 during the year. The increase was mainly attributable to the Town's overall revenues.

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 a private sector business. The government-wide statements include two statements: (1) the Statement of Net Position and (2) the Statement of Activities.

The Statement of Net Position presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the Town is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not impact cash flows until future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Town that are governmental activities (those principally supported by taxes and revenues from other governments) and functions of the Town that are business-type activities (those that are intended to recover all or a significant portion of their costs through user fees and charges). The Town does not have any business-type activities. The governmental activities of the Town include general and administrative activities, public safety, streets, beach safety, and beach replenishment. The government-wide financial statements are included in this report, as listed in the index.

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, 2021**

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 index.

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 index.

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 \$11,492,047 as of March 31, 2021.

Town of Dewey Beach, Delaware
Management's Discussion and Analysis
March 31, 2021

The following is a summary of the government-wide Statement of Net Position as of March 31, 2021 and 2020:

Statement of Net Position

	Governmental Activities	
	2021	2020
Assets		
Current and other assets	\$ 10,112,637	\$ 8,380,682
Capital assets	1,861,088	1,907,537
Total assets	<u>11,973,725</u>	<u>10,288,219</u>
Deferred outflows - pension	<u>152,990</u>	<u>174,598</u>
Liabilities		
Long-term liabilities	280,114	403,344
Other liabilities	<u>262,836</u>	<u>149,122</u>
Total liabilities	<u>542,950</u>	<u>552,466</u>
Deferred inflows - pension	<u>91,718</u>	<u>48,755</u>
Net position		
Net investment in capital assets	1,861,088	1,907,537
Restricted	5,763,531	4,764,234
Unrestricted	<u>3,867,428</u>	<u>3,189,825</u>
Total net position	<u>\$ 11,492,047</u>	<u>\$ 9,861,596</u>

A portion of the Town's net position (\$1,861,088) 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 \$9,630,959 in net position, \$5,763,531 is restricted for specific use. The unrestricted funds of \$3,867,428 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, 2021

The following schedule shows the breakdown of changes in net position for governmental activities for the years ended March 31, 2021 and 2020:

	<u>Governmental Activities</u>	
	<u>2021</u>	<u>2020</u>
<u>Changes in Net Position</u>		
Revenues		
Program revenues		
Charges for services	\$ 1,814,689	\$ 1,886,865
Operating grants and contributions	188,214	157,657
General revenues		
Beach replenishment	204,990	188,195
Realty transfer	1,687,847	639,718
Accommodations	483,033	426,335
Franchise fees	60,855	58,510
Concession fees	70,000	70,000
Investment income	72,080	160,353
Net unrealized gain (loss) on investments	818,832	(136,148)
Dewey Beach Enterprises	37,500	37,500
Other	33,060	150,598
Total revenues	<u>5,471,100</u>	<u>3,639,583</u>
Expenses		
General and administrative	1,426,374	1,612,108
Public safety	1,633,576	1,538,078
Streets	241,123	230,785
Beach safety	448,924	415,580
Beach replenishment	89,547	86,954
Interest on long-term debt	1,105	2,262
Total expenses	<u>3,840,649</u>	<u>3,885,767</u>
Change in net position	1,630,451	(246,184)
Net position, beginning of year	<u>9,861,596</u>	<u>10,107,780</u>
Net position, end of year	<u>\$ 11,492,047</u>	<u>\$ 9,861,596</u>

Governmental activities net position increased by \$1,630,451 during the fiscal year 2021. This represents a 16.5% 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.

Town of Dewey Beach, Delaware

**Management's Discussion and Analysis
March 31, 2021**

Governmental Fund

Governmental fund accounting provides information on available or spendable resources. This information is useful in assessing the Town's financing requirements for operations. Unassigned fund balance may serve as a useful measure of the Town's net resources available for spending and for future needs.

At the end of the fiscal year 2021, the Town's governmental funds reported a combined ending fund balance of \$9,819,801, an increase in \$1,780,541 compared to the year ended March 31, 2020. Of this amount, \$2,328,908 constitutes unassigned fund balance. Subsequent to the fiscal year end, the Town amended its fund balance policy to establish a rainy day fund in the amount of 50% of general fund expenditures in the subsequent years' approved budget. If implemented as of March 31, 2021 the rainy day fund would be \$1,791,468, with the remaining \$537,440 as additional unassigned fund balance.

General Fund Budgetary Highlights

Budget to Actual

Revenues

General fund revenues exceeded the budget by \$836,938 and related mostly to the following:

- Transfer tax income exceeded the budget by approximately \$1,006,000.
- Licenses, permits, and fees were under budget by approximately \$272,000, primarily due to approximately \$204,000 less parking revenue than budgeted.

Budget to Actual

Expenditures

General fund expenditures exceeded the budget by \$212,504 and related mostly to the following:

- Capital outlay was over budget by approximately \$219,000.
- Debt service payments were over budget by approximately \$77,000.

Capital Assets

The Town's investment in capital assets, net of accumulated depreciation, for its governmental activities at March 31, 2021, amounts to \$1,861,088. 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:

- Equipment for general and administrative functions were purchased for approximately \$52,000.
- Equipment and vehicles for the public safety function was purchased for approximately \$98,000.
- Equipment for street function was purchased for approximately \$54,000.
- Building improvements for the beach safety function was purchased for approximately \$14,000.

Town of Dewey Beach, Delaware
Management's Discussion and Analysis
March 31, 2021

Capital Assets Net of Accumulated Depreciation

	Governmental Activities	
	2021	2020
Land	\$ 1,161,677	\$ 1,161,677
Buildings and improvements	918,405	904,255
Machinery and equipment	1,491,073	1,286,190
Streets and parks	1,435,260	1,435,260
Accumulated depreciation	<u>(3,145,327)</u>	<u>(2,879,845)</u>
 Total	 <u>\$ 1,861,088</u>	 <u>\$ 1,907,537</u>

Long-Term Debt

	Governmental Activities	
	2021	2020
Bayard Avenue loan	\$ -	\$ 76,304
Compensated absences	<u>212,834</u>	<u>183,999</u>
 Total long-term debt	 <u>\$ 212,834</u>	 <u>\$ 260,303</u>

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 \$777,676, which was a favorable variance from the budget of \$624,434. A general fund budgetary comparison schedule is included in this report, as listed in the index.

For fiscal year 2022, the Town has budgeted total operating revenues of \$3,814,200 and total operating expenditures of \$3,582,935.

Request for Information

This Financial Report is designed to provide an overview of the Town's finances and provide a meaningful picture of our Town. Any questions concerning this report, or requests for additional information, should be addressed to:

Town Manager
Town of Dewey Beach, Delaware
105 Rodney Avenue
Dewey Beach, Delaware 19971

Financial Statements

Town of Dewey Beach, Delaware

**Statement of Net Position
March 31, 2021**

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 4,646,048
Investments	5,119,390
Receivables	
Taxes	230,699
Prepaid expenses	86,500
Dewey Beach Enterprises receivable	30,000
Capital assets, net	
Non-depreciable	1,161,677
Depreciable	<u>699,411</u>
Total assets	<u>11,973,725</u>
Deferred outflows of resources - pension related	<u>152,990</u>
Liabilities	
Accounts payable	172,467
Accrued wages and payroll taxes	41,523
Unearned revenue	48,846
Long-term liabilities, due in more than one year	
Compensated absences	212,834
Net pension liability	<u>67,280</u>
Total liabilities	<u>542,950</u>
Deferred inflows of resources - pension related	<u>91,718</u>
Net position	
Net investment in capital assets	1,861,088
Restricted for:	
Beach replenishment	5,760,490
Review fund	3,041
Unrestricted	<u>3,867,428</u>
Total net position	<u><u>\$ 11,492,047</u></u>

See Notes to Financial Statements.

Town of Dewey Beach, Delaware

**Statement of Activities
Year Ended March 31, 2021**

	Program revenues			Net (expense) revenue and changes in net position	
Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	
<u>Functions/Programs</u>					
Governmental activities					
General and administrative	\$ 1,426,374	\$ 1,580,920	\$ -	\$ -	\$ 154,546
Public safety	1,633,576	186,451	163,793	-	(1,283,332)
Streets	241,123	47,318	16,728	-	(177,077)
Beach safety	448,924	-	7,693	-	(441,231)
Beach replenishment	89,547	-	-	-	(89,547)
Interest on long-term debt	1,105	-	-	-	(1,105)
Total governmental activities	\$ 3,840,649	\$ 1,814,689	\$ 188,214	\$ -	(1,837,746)
General revenues					
Taxes and assessments					
Beach replenishment					204,990
Realty transfer					1,687,847
Accommodations					483,033
Franchise fees					60,855
Concession fees					70,000
Investment income					72,080
Net unrealized gain on investments					818,832
Dewey Beach Enterprises					37,500
Other revenues					33,060
Total general revenues					3,468,197
Change in net position					1,630,451
Net position, beginning of year					9,861,596
Net position, end of year					\$ 11,492,047

See Notes to Financial Statements.

Town of Dewey Beach, Delaware

**Balance Sheet
Governmental Funds
March 31, 2021**

	Major Fund		Total Governmental Funds
	General Fund	Beach Replenishment Fund	
Assets			
Cash and cash equivalents	\$ 4,012,479	\$ 633,569	\$ 4,646,048
Investments	-	5,119,390	5,119,390
Receivables			
Taxes	223,059	7,640	230,699
Interfund receivables	109	-	109
Prepaid expenses	86,500	-	86,500
	<u>\$ 4,322,147</u>	<u>\$ 5,760,599</u>	<u>\$ 10,082,746</u>
Total assets			
	<u>\$ 4,322,147</u>	<u>\$ 5,760,599</u>	<u>\$ 10,082,746</u>
Liabilities and fund balances			
Liabilities			
Accounts payable	\$ 172,467	\$ -	\$ 172,467
Interfund payables	-	109	109
Accrued wages and payroll taxes	41,523	-	41,523
Unearned revenue	48,846	-	48,846
	<u>262,836</u>	<u>109</u>	<u>262,945</u>
Total liabilities			
	<u>262,836</u>	<u>109</u>	<u>262,945</u>
Fund balances			
Nonspendable	86,500	-	86,500
Restricted	3,041	5,760,490	5,763,531
Committed for streets and infrastructure	303,963	-	303,963
Assigned for streets and infrastructure	344,910	-	344,910
Assigned for broadband infrastructure	40,000	-	40,000
Assigned for comprehensive plan	20,000	-	20,000
Assigned for legal and litigation	36,304	-	36,304
Assigned for public safety	212,592	-	212,592
Assigned for beach safety	39,115	-	39,115
Assigned for capital improvements	643,978	-	643,978
Unassigned	2,328,908	-	2,328,908
	<u>4,059,311</u>	<u>5,760,490</u>	<u>9,819,801</u>
Total fund balances			
	<u>4,059,311</u>	<u>5,760,490</u>	<u>9,819,801</u>
Total liabilities and fund balances			
	<u>\$ 4,322,147</u>	<u>\$ 5,760,599</u>	<u>\$ 10,082,746</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, 2021**

Total fund balances - Governmental Funds		\$	9,819,801
<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>			1,861,088
<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>			30,000
<p>Deferred outflows of resources related to pensions, as further described in Note 8, are not reported at the fund level.</p>			152,990
<p>Deferred inflows of resources related to pensions, as further described in Note 8, are not reported at the fund level.</p>			(91,718)
<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	\$	(67,280)	
Compensated absences		(212,834)	
Total long-term liabilities			(280,114)
Net position of governmental activities in the Statement of Net Position		\$	11,492,047

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, 2021**

	Major Fund		Total Governmental Funds
	General Fund	Beach Replenishment Fund	
Revenues			
Taxes and assessments	\$ 2,301,735	\$ 204,990	\$ 2,506,725
Licenses, permits, and fees	1,628,238	-	1,628,238
Fines	186,451	-	186,451
Intergovernmental	91,523	-	91,523
Donations and other revenues			
Public safety	88,998	-	88,998
Beach safety	7,693	-	7,693
Investment income	3,490	68,590	72,080
Net unrealized gain on investments	-	818,832	818,832
Other	232,860	-	232,860
	<u>4,540,988</u>	<u>1,092,412</u>	<u>5,633,400</u>
Expenditures			
General and administrative	1,254,247	-	1,254,247
Public safety	1,579,958	-	1,579,958
Streets	190,336	-	190,336
Beach safety	442,329	-	442,329
Beach replenishment	-	89,547	89,547
Debt service			
Principal	76,304	-	76,304
Interest	1,105	-	1,105
Capital outlay	219,033	-	219,033
	<u>3,763,312</u>	<u>89,547</u>	<u>3,852,859</u>
Net changes in fund balances	777,676	1,002,865	1,780,541
Fund balances, beginning of year	<u>3,281,635</u>	<u>4,757,625</u>	<u>8,039,260</u>
Fund balances, end of year	<u>\$ 4,059,311</u>	<u>\$ 5,760,490</u>	<u>\$ 9,819,801</u>

See Notes to Financial Statements.

Town of Dewey Beach, Delaware

**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balances to the Statement of Activities
Year Ended March 31, 2021**

Total net change in fund balances - Governmental Funds	\$	1,780,541
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:

Capital outlay		219,033
Depreciation expense		(265,482)

Governmental funds report the repayment of debt principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.

Principal payments on long-term debt		76,304
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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.

(162,300)

Some items reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. These activities consist of:

Change in deferred outflows of resources - pension (see Note 8)		(21,608)
Change in deferred inflows of resources - pension (see Note 8)		(42,963)
Change in net pension liability		75,761
Change in compensated absences		(28,835)
		(21,608)

Change in net position of Governmental Activities	\$	1,630,451
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See Notes to Financial Statements.

Town of Dewey Beach, Delaware

Notes to Financial Statements March 31, 2021

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 accounting principles generally 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, 2021

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 Revenues, Expenses and 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.

Town of Dewey Beach, Delaware

Notes to Financial Statements

March 31, 2021

Basis of accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures. The Town does not have any proprietary or fiduciary funds.

Revenues - exchange and non-exchange transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the 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 taxes and assessments and 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 the 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.

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.

Town of Dewey Beach, Delaware

Notes to Financial Statements

March 31, 2021

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.

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, 2021 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 acquisition 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.

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2021**

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. Estimated useful lives are as follows:

Buildings and improvements	5 - 40 years
Machinery and equipment	5 - 20 years
Infrastructure	5 - 15 years

Restricted assets

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

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	\$ 6,421
Municipal street aid grant	<u>42,425</u>
Total unearned revenues	<u>\$ 48,846</u>

Compensated absences

Employees are granted vacations and sick leave in varying amounts and may generally 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 of 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.

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2021**

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.

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 nor committed by ordinance or resolution.

Unassigned - amounts not included in other spendable classifications.

The Town applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted sources (the total of committed, assigned and unassigned fund balance) is available. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

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.

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.

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2021**

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. As of March 31, 2021, \$4,154,548 of the Town's bank balances of \$4,654,548 was exposed to custodial risk as follows:

Uninsured and uncollateralized	\$	1,360,085
Uninsured and collateral held by the pledging bank		2,794,463
		\$ 4,154,548

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, 2021, the Town held foreign stocks with a total market value of \$107,855.

The Town's investment policy is as follows:

Allocation of Assets

<u>Short-Term (0 - 3 years)</u>	Range	Target
Cash and cash 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 and 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

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2021**

The Town has the following cash and investments at March 31, 2021. Cash and cash equivalents have investment maturities of less than one year and the fixed income fund has an average maturity between one to five years and the fund is unrated.

	<u>Cash and cash equivalents</u>	<u>Investments held at fair value</u>	<u>Total</u>
Cash and cash equivalents	\$ 3,035,962	\$ -	\$ 3,035,962
Investments			
Cash and cash equivalents	1,610,086	-	1,610,086
Fixed income fund	-	3,349,724	3,349,724
Equities			
Common stocks	-	986,963	986,963
Foreign stocks	-	107,855	107,855
Equity funds	-	674,848	674,848
	<u>1,610,086</u>	<u>5,119,390</u>	<u>6,729,476</u>
Total investments			
	<u>\$ 4,646,048</u>	<u>\$ 5,119,390</u>	<u>\$ 9,765,438</u>

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.

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

Level 1: investments reflect prices quoted 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.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income fund	\$ 3,349,724	\$ -	\$ -	\$ 3,349,724
Equities				
Common stocks	986,963	-	-	986,963
Foreign stocks	107,855	-	-	107,855
Equity funds	674,848	-	-	674,848
	<u>5,119,390</u>	<u>-</u>	<u>-</u>	<u>5,119,390</u>
Total investments				

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2021**

Certain investments are covered by the Securities Investor Protection Corporation ("SIPC") up to \$500,000, including \$250,000 of cash from sale or for purchase of investments, but not cash held solely for the purpose of earning interest. SIPC protects securities such as notes, stocks, bonds, debentures, certificates of deposit and money funds.

	<u>Total</u>	<u>Less insured amounts</u>	<u>Amount subject to custodial credit risk</u>
Common stocks	\$ 986,963	\$ 500,000	\$ 486,963
Foreign stocks	107,855	-	107,855
Equity funds	674,848	-	674,848
Fixed income fund	3,349,724	-	3,349,724
Total	<u>\$ 5,119,390</u>	<u>\$ 500,000</u>	<u>\$ 4,619,390</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. During fiscal year 2021, the remaining \$100,000 obligation became fully satisfied.

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, 2021, \$30,000 remains receivable.

As of March 31, 2021, the total DBE receivable balance was \$30,000.

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2021**

Note 5 - Capital assets

The following is a summary of changes in capital assets for the year ended March 31, 2021:

	Balance March 31, 2020	Additions and transfers	Deletions and transfers	Balance March 31, 2021
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 and improvements	904,255	14,150	-	918,405
Machinery and equipment	1,286,190	204,883	-	1,491,073
Infrastructure	1,435,260	-	-	1,435,260
Total depreciable capital assets	<u>3,625,705</u>	<u>219,033</u>	<u>-</u>	<u>3,844,738</u>
Less accumulated depreciation for				
Buildings and improvements	(688,393)	(40,037)	-	(728,430)
Machinery and equipment	(1,082,767)	(91,518)	-	(1,174,285)
Infrastructure	(1,108,685)	(133,927)	-	(1,242,612)
Total accumulated depreciation	<u>(2,879,845)</u>	<u>(265,482)</u>	<u>-</u>	<u>(3,145,327)</u>
Total capital assets being depreciated	<u>745,860</u>	<u>(46,449)</u>	<u>-</u>	<u>699,411</u>
Total capital assets	<u>\$ 1,907,537</u>	<u>\$ (46,449)</u>	<u>\$ -</u>	<u>\$ 1,861,088</u>

Depreciation expense was charged to governmental functions as follows:

General and administrative	\$ 143,292
Public safety	64,808
Streets	50,787
Beach safety	6,595
	<u>265,482</u>
	<u>\$ 265,482</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, 2020	Increase	Decrease	Balance March 31, 2021	Due within one year	Coupon interest rate	Date of maturity
Notes payable							
Bayard Avenue	\$ 76,304	\$ -	\$ 76,304	\$ -	\$ -	2.00%	September 2021
Other long-term liabilities							
Compensated absences	183,999	28,835	-	212,834	-		
Net pension liability	143,041	-	75,761	67,280	-		
	<u>\$ 403,344</u>	<u>\$ 28,835</u>	<u>\$ 152,065</u>	<u>\$ 280,114</u>	<u>\$ -</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, 2021

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.

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 provisions; administrative rules and regulations are adopted and maintained by the Board of Pension Trustees (the "Board").

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

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

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

The following is a brief description of the Plan in effect as of June 30, 2020. For a more complete description, please refer to the DPERS Comprehensive Annual Financial Report.

Plan description and eligibility - Covers police officers and firefighters employed by a county or municipality of the State that have joined the Plan.

Service benefits - 2.5% of 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.

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2021**

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, 2019 through June 30, 2020. Employer contributions to the Plan are recognized when due pursuant to legal requirements. Employer contributions are determined by the Board. Employer contributions were 16.84% of earnings for fiscal year 2020.

Net pension liability

The components of the Town's proportionate share of the net pension liability at June 30, 2020 were as follows:

Employers' total pension liability	\$ 2,021,550
Plan net position	<u>1,954,270</u>
Employers' net pension liability	<u>\$ 67,280</u>
Employer's proportionate percentage of the collective NPL	0.4378%

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2021**

Actuarial assumptions

The total pension liability at the June 30, 2020 measurement date was determined by an actuarial valuation as of June 30, 2019, with update procedures used to roll forward the total pension liability to June 30, 2020. 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.

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%	28.5%
International equity	5.7%	15.2%
Fixed income	2.0%	28.8%
Alternative investments	7.8%	23.0%
Cash and equivalents	0.0%	4.5%

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'

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2021**

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:

Plan	1% Decrease (6.0%)	Discount rate (7.0%)	1% Increase (8.0%)
Pension liability/(asset)	\$ 374,498	\$ 67,280	\$ (183,464)

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

For the year ended March 31, 2021, the Town recognized pension expense of \$69,612. At March 31, 2021, 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	\$ 24,841	\$ 10,164
Changes in proportion	839	12,655
Differences between expected and actual experience	66,939	21,199
Net difference between projected and actual earnings on pension plan investments	-	47,700
Town's contributions subsequent to the measurement date	60,371	-
Total	\$ 152,990	\$ 91,718

The \$60,371 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, 2022.

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2021**

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:

<u>Year ending March 31,</u>	
2021	\$ (14,692)
2022	(4,692)
2023	5,308
2024	(2,692)
2025	7,308
Thereafter	<u>10,361</u>
Total	<u>\$ 901</u>

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, 2021 was \$4,517, equal to the required contributions each year.

Note 10 - Risk management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; 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, contingencies and uncertainties

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 is management's opinion that such litigation will not, in the aggregate, have a material adverse effect on the financial position of the Town.

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2021**

In December 2019 and early 2020, the coronavirus that causes COVID-19 was reported to have surfaced from China. The spread of the virus globally has caused business disruption domestically in the United States, including the area in which the Town operates. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of this disruption. Therefore, while the Town expects this matter to negatively impact the Town's financial condition, results of operations, or cash flows, the extent of the financial impact and duration cannot be reasonably estimated at this time.

Note 12 - Fund balances

Fund balances for the Town's governmental funds consisted of the following as of March 31, 2021:

Nonspendable fund balances

Nonspendable fund balances as of March 31, 2021 are comprised of prepaid expenses of \$86,500 in the General Fund.

Restricted fund balances

Restricted fund balances total \$5,763,531 as of March 31, 2021. The General Fund restricted fund balance at March 31, 2021 is \$3,041, which is held in a review fund escrow. The Beach Replenishment Fund restricted fund balance is \$5,760,490 which is restricted for beach replenishment projects.

Committed fund balances

Committed fund balances total \$303,963 as of March 31, 2021, which pertains to street and infrastructure. Town code requires 20% of revenues derived from building permits each month shall be transferred to the streets and infrastructure account.

Assigned fund balances

The General Fund has \$1,336,899 in assigned fund balances as of March 31, 2021. This is comprised of the following:

Streets and infrastructure reserve	\$	344,910
Broadband infrastructure reserve		40,000
Comprehensive plan reserve		20,000
Legal and litigation reserve		36,304
Public safety reserve		212,592
Beach safety reserve		39,115
Capital improvements reserve		643,978
		<hr/>
	\$	<u>1,336,899</u>

Subsequent to fiscal year end, the Town amended its fund balance policy to establish a rainy day reserve. The reserve is intended to protect the Town financially from the effects of catastrophic events such as hurricanes or other events that significantly impact the Town's revenues or causes significant unanticipated expenditures. The reserve is to be funded at 50% of operating expenditures in the Town's most recently approved operating budget. If implemented as of March 31, 2021, \$1,791,468 of the Town's unassigned fund balance would be designated for this reserve based upon the approved fiscal year 2022 budgeted expenditures.

Required Supplementary Information

Town of Dewey Beach, Delaware

Required Supplementary Information

**Budgetary Comparison Schedule - General Fund
Year Ended March 31, 2021**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Taxes and assessments	\$ 1,208,000	\$ 1,208,000	\$ 2,301,735	\$ 1,093,735
Licenses, permits, and fees	1,900,000	1,900,000	1,628,238	(271,762)
Fines	347,450	347,450	186,451	(160,999)
Intergovernmental	25,000	25,000	91,523	66,523
Donations and other revenues				
Public safety	77,800	77,800	88,998	11,198
Beach safety	10,000	10,000	7,693	(2,307)
Investment income	10,000	10,000	3,490	(6,510)
Other	125,800	125,800	232,860	107,060
Total revenues	3,704,050	3,704,050	4,540,988	836,938
Expenditures				
General and administrative	1,296,899	1,296,899	1,254,247	42,652
Public safety	1,633,179	1,633,179	1,579,958	53,221
Streets	188,366	188,366	190,336	(1,970)
Beach safety	432,364	432,364	442,329	(9,965)
Debt service				
Principal	-	-	76,304	(76,304)
Interest	-	-	1,105	(1,105)
Capital outlay	-	-	219,033	(219,033)
Total expenditures	3,550,808	3,550,808	3,763,312	(212,504) (1)
Net changes in fund balances	\$ 153,242	\$ 153,242	\$ 777,676	\$ 624,434

(1) Total expenditures were in excess of the budget appropriations. The excess expenditures were covered by available fund balance in the fund.

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, 2021**

	2021	2020	2019	2018	2017	2016
Town's proportionate share (%) of collective net pension liability	0.4378%	0.4980%	0.5193%	0.5168%	0.6018%	0.5484%
Town's proportionate share (\$) of collective net pension liability	\$ 67,280	\$ 143,041	\$ 119,588	\$ 52,097	\$ 95,661	\$ (28,902)
Town's covered payroll (\$)	\$ 560,434	\$ 497,679	\$ 449,798	\$ 427,982	\$ 425,430	\$ 418,302
Town's proportionate share (%) of collective net pension liability as a percentage of its covered payroll	12.00%	28.74%	26.59%	12.17%	22.49%	-6.91%
Plan's fiduciary net position (%) of the total pension liability	96.67%	93.25%	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, 2021**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 67,219	\$ 73,431	\$ 49,247	\$ 58,497	\$ 60,724	\$ 55,209
Contributions in relation to the contractually required contribution	<u>67,219</u>	<u>73,431</u>	<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>	<u>\$ -</u>	<u>\$ -</u>
Town's covered payroll	\$ 560,434	\$ 497,679	\$ 449,798	\$ 427,982	\$ 425,430	\$ 418,302
Contributions as a percentage of covered payroll	11.99%	14.75%	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.

Town of Dewey Beach, Delaware
Required Supplementary Information
Actuarial Assumptions - Pension Plan
Year Ended March 31, 2021

	<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.

Other Supplementary Information

Town of Dewey Beach, Delaware

Other Supplementary Information

**Balance Sheets
General Fund
Four Year Comparative Amounts for
March 31, 2021, 2020, 2019, and 2018**

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Assets				
Cash and cash equivalents	\$ 2,729,190	\$ 3,324,672	\$ 3,329,267	\$ 4,012,479
Investments	-	-	-	-
Receivables				
Taxes	-	-	-	223,059
Other	57,060	13,685	29,576	-
Interfund receivables	-	-	7,772	109
Prepaid expenses	114,915	90,628	64,142	86,500
	<u>114,915</u>	<u>90,628</u>	<u>64,142</u>	<u>86,500</u>
Total assets	<u>\$ 2,901,165</u>	<u>\$ 3,428,985</u>	<u>\$ 3,430,757</u>	<u>\$ 4,322,147</u>
Liabilities, deferred inflows of resources and fund balances				
Liabilities				
Accounts payable	\$ 50,717	\$ 37,313	\$ 47,686	\$ 172,467
Interfund payables	105	-	-	-
Accrued wages and payroll taxes	56,956	56,566	57,499	41,523
Unearned revenue	48,679	61,460	43,937	48,846
	<u>48,679</u>	<u>61,460</u>	<u>43,937</u>	<u>48,846</u>
Total liabilities	<u>156,457</u>	<u>155,339</u>	<u>149,122</u>	<u>262,836</u>
Fund balances				
Nonspendable	114,915	90,628	64,142	86,500
Restricted	26,905	22,917	6,609	3,041
Committed for streets	293,938	369,192	371,306	303,963
Assigned for streets and infrastructure	-	-	-	344,910
Assigned for broadband infrastructure	-	-	-	40,000
Assigned for comprehensive plan	70,535	68,125	109,969	20,000
Assigned for legal and litigation	268,295	269,401	36,240	36,304
Assigned for technology	5,624	5,643	-	-
Assigned for public safety	32,753	26,975	1,005	212,592
Assigned for beach safety	31,018	35,719	33,351	39,115
Assigned for capital improvements	-	-	-	643,978
Unassigned	1,900,725	2,385,046	2,659,013	2,328,908
	<u>1,900,725</u>	<u>2,385,046</u>	<u>2,659,013</u>	<u>2,328,908</u>
Total fund balances	<u>2,744,708</u>	<u>3,273,646</u>	<u>3,281,635</u>	<u>4,059,311</u>
	<u>\$ 2,901,165</u>	<u>\$ 3,428,985</u>	<u>\$ 3,430,757</u>	<u>\$ 4,322,147</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,901,165</u>	<u>\$ 3,428,985</u>	<u>\$ 3,430,757</u>	<u>\$ 4,322,147</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, 2021, 2020, 2019, and 2018**

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Revenues				
Taxes and assessments	\$ 1,356,432	\$ 1,420,145	\$ 1,194,563	\$ 2,301,735
Licenses, permits, and fees	1,978,407	1,957,909	1,569,538	1,628,238
Fines	377,088	334,724	317,327	186,451
Intergovernmental	35,686	60,082	65,961	91,523
Donations and other revenues				
Public safety	26,925	119,907	83,674	88,998
Beach safety	5,537	9,188	8,022	7,693
Investment income	5,809	18,109	48,300	3,490
Net unrealized gain (loss) on investments	360	1,076	(981)	-
Other	414,958	153,525	309,082	232,860
	<u>4,201,202</u>	<u>4,074,665</u>	<u>3,595,486</u>	<u>4,540,988</u>
Total revenues				
Expenditures				
General and administrative	1,662,071	1,375,117	1,465,611	1,254,247
Public safety	1,254,389	1,442,926	1,423,032	1,579,958
Streets	240,302	169,290	180,399	190,336
Beach safety	370,026	380,004	408,515	442,329
Debt service				
Principal	48,051	49,432	49,985	76,304
Interest	4,196	2,815	2,262	1,105
Capital outlay	142,483	126,143	57,693	219,033
	<u>3,721,518</u>	<u>3,545,727</u>	<u>3,587,497</u>	<u>3,763,312</u>
Total expenditures				
Net changes in fund balances	479,684	528,938	7,989	777,676
Fund balances, beginning of year	<u>2,265,024</u>	<u>2,744,708</u>	<u>3,273,646</u>	<u>3,281,635</u>
Fund balances, end of year	<u>\$ 2,744,708</u>	<u>\$ 3,273,646</u>	<u>\$ 3,281,635</u>	<u>\$ 4,059,311</u>

Town of Dewey Beach, Delaware

Other Supplementary Information

**Balance Sheets
Beach Replenishment Fund
Four Year Comparative Amounts for
March 31, 2021, 2020, 2019, and 2018**

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Assets				
Cash and cash equivalents	\$ 707,083	\$ 908,153	\$ 562,500	\$ 633,569
Investments	3,700,648	3,755,689	4,187,241	5,119,390
Receivables				
Taxes	33,356	15,656	15,656	7,640
Interfund receivables	105	-	-	-
Total assets	<u>\$ 4,441,192</u>	<u>\$ 4,679,498</u>	<u>\$ 4,765,397</u>	<u>\$ 5,760,599</u>
Liabilities, deferred inflows of resources and fund balances				
Liabilities				
Interfund payables	\$ -	\$ -	\$ 7,772	\$ 109
Total liabilities	<u>-</u>	<u>-</u>	<u>7,772</u>	<u>109</u>
Deferred inflows of resources				
Unavailable revenue - beach replenishment tax	23,827	-	-	-
Total deferred inflows of resources	<u>23,827</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances				
Restricted	4,417,365	4,679,498	4,757,625	5,760,490
Total fund balances	<u>4,417,365</u>	<u>4,679,498</u>	<u>4,757,625</u>	<u>5,760,490</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,441,192</u>	<u>\$ 4,679,498</u>	<u>\$ 4,765,397</u>	<u>\$ 5,760,599</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, 2021, 2020, 2019, and 2018**

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Revenues				
Taxes and assessments	\$ 203,968	\$ 207,499	\$ 188,195	\$ 204,990
Investment income	3,930	123,318	112,053	68,590
Net unrealized gain (loss) on investments	197,981	11,867	(135,167)	818,832
Other	8	-	-	-
Total revenues	<u>405,887</u>	<u>342,684</u>	<u>165,081</u>	<u>1,092,412</u>
Expenditures				
Beach replenishment	<u>91,076</u>	<u>80,551</u>	<u>86,954</u>	<u>89,547</u>
Total expenditures	<u>91,076</u>	<u>80,551</u>	<u>86,954</u>	<u>89,547</u>
Net changes in fund balances	314,811	262,133	78,127	1,002,865
Fund balances, beginning of year	<u>4,102,554</u>	<u>4,417,365</u>	<u>4,679,498</u>	<u>4,757,625</u>
Fund balances, end of year	<u>\$ 4,417,365</u>	<u>\$ 4,679,498</u>	<u>\$ 4,757,625</u>	<u>\$ 5,760,490</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 Audit Committee
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, 2021, 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 August 13, 2021.

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") as a basis for designing 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 2021-001 and 2021-002 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 financial statements. 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.

CohnReznick LLP

Baltimore, Maryland
August 13, 2021

Town of Dewey Beach, Delaware

**Schedule of Findings and Questioned Costs
Year Ended March 31, 2021**

2021-001 Segregation and Delineation of Duties

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.

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.

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 a repeat 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:

The process was hindered during fiscal year 2021 due to short staffing brought on by COVID-19 and being without a Town Manager from September 2020 through March 2021. In March of 2021, the Town interviewed and offered employment to a candidate for the position of Financial Director. Employment was accepted. However, a week prior to starting the individual informed the Town that they would not be taking the position. As season was about to start the Town continued the association with Luff & Associates as external accounting source. In October of this year, management is looking to begin the process of hiring an additional employee for the finance department. This employee will work with current staff to divide the duties so that one person is doing the day-to-day activities while the other provides checks and balances. There will also be an outside accounting firm that will verify all activity on a quarterly basis. Staff is currently working on the accounting manual that will formalize the policies and procedures surrounding the financial activities of the Town.

Town of Dewey Beach, Delaware

**Schedule of Findings and Questioned Costs
Year Ended March 31, 2021**

2021-002 Revenue Recognition

Condition: The accounting records required a material adjustment 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. This material adjustment consisted of a correction to the General Fund in the amount of \$207,740 related to the under recording of the March transfer tax revenue amount.

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 produced a year-end trial balance that was materially misstated.

Recommendation: We recommend the Town hire a Finance Director or a 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:

This issue was an oversight that was brought on this year due to the processing of Transfer Taxes being switched from Fulton Bank to Sussex County. When they were being processed at Fulton Bank, the Town was informed of the deposits on a regular basis within the same month. Once the activity switched, not by the choice of the Town, the deposits occur once a month in the month following the transactions. The Town was remiss in accounting for the March funds as a receivable as this was the first time this needed to be done at year end. The procedure for posting the Transfer Tax deposits will be adjusted to add the receivable at the end of the year. This will not be done monthly as the amount will not be known monthly by the time the financial statements for the month are due to be posted. Management does agree that at year end it does make for a material difference.



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