

Town of Dewey Beach, Delaware

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

March 31, 2022

PRELIMINARY DRAFT -
SUBJECT TO CHANGE

Town of Dewey Beach, Delaware

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Independent Auditor's Report

To the Audit Committee
Town of Dewey Beach, Delaware

Report on the Financial Statements

Opinions

We have audited 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, 2022, and the related notes to the financial statements, which collectively comprise Town of Dewey Beach, Delaware's basic financial statements as listed in the index.

In our opinion, the accompanying financial statements 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 March 31, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town of Dewey Beach, Delaware and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The Town of Dewey Beach, Delaware's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Dewey Beach, Delaware's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered

material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Town of Dewey Beach, Delaware's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Dewey Beach, Delaware's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 to 11 and the required supplementary information on pages 36 to 39, as listed in the index, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary 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 Balance Sheets – General Fund – Four Year Comparative Amounts, Statement of Revenues, Expenditures and Changes in Fund Balances – General Fund – Four Year Comparative Amounts, Balance Sheets – Beach Replenishment Fund – Four Year Comparative Amounts, and Statement of Revenues,

Expenditures and Changes in Fund Balances – Beach Replenishment Fund – Four Year Comparative Amounts are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The 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 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
REPORT DATE

PRELIMINARY DRAFT
SUBJECT TO CHANGE

Management's Discussion and Analysis

PRELIMINARY DRAFT -
SUBJECT TO CHANGE

Town of Dewey Beach, Delaware

Management's Discussion and Analysis March 31, 2022

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, 2022. 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, 2022, governmental activity assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$13,813,715 (net position). Of this amount, \$5,964,765, or 43.2%, was unrestricted and may be used for ongoing obligations to citizens and creditors.
- The Town's fund balances increased by \$2,013,562 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, 2022

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 \$13,813,715 as of March 31, 2022.

Town of Dewey Beach, Delaware
Management's Discussion and Analysis
March 31, 2022

The following is a summary of the government-wide Statement of Net Position as of March 31, 2022 and 2021:

Statement of Net Position

	Governmental Activities	
	2022	2021
Assets		
Current and other assets	\$ 13,171,251	\$ 10,112,637
Capital assets	2,028,146	1,861,088
Total assets	15,199,397	11,973,725
Deferred outflows - pension	204,312	152,990
Liabilities		
Long-term liabilities	269,556	280,114
Other liabilities	604,832	262,836
Total liabilities	874,388	542,950
Deferred inflows - pension	715,606	91,718
Net position		
Net investment in capital assets	2,028,146	1,861,088
Restricted	5,820,804	5,763,531
Unrestricted	5,964,765	3,867,428
Total net position	\$ 13,813,715	\$ 11,492,047

A portion of the Town's net position (\$2,028,146) 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 \$11,785,569 in net position, \$5,820,804 is restricted for specific use. The unrestricted funds of \$5,964,765 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, 2022**

The following schedule shows the breakdown of changes in net position for governmental activities for the years ended March 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Revenues		
Program revenues		
Charges for services	\$ 2,839,222	\$ 1,814,689
Operating grants and contributions	321,248	188,214
General revenues		
Beach replenishment	201,416	204,990
Realty transfer	1,861,911	1,687,847
Accommodations	775,191	483,033
Hotel	207,811	-
Franchise fees	61,602	60,855
Concession fees	70,000	70,000
Investment income	277,759	72,080
Net unrealized gain (loss) on investments	(378,210)	818,832
Dewey Beach Enterprises	37,500	37,500
Other	86,894	33,060
Total revenues	<u>6,362,344</u>	<u>5,471,100</u>
Expenses		
General and administrative	1,550,591	1,426,374
Public safety	1,646,906	1,633,576
Streets	305,382	241,123
Beach safety	446,433	448,924
Beach replenishment	91,364	89,547
Interest on long-term debt	-	1,105
Total expenses	<u>4,040,676</u>	<u>3,840,649</u>
Change in net position	2,321,668	1,630,451
Net position, beginning of year	<u>11,492,047</u>	<u>9,861,596</u>
Net position, end of year	<u>\$ 13,813,715</u>	<u>\$ 11,492,047</u>

Governmental activities net position increased by \$2,321,668 during the fiscal year 2022. This represents a 20.2% increase in net position for the year.

Financial Analysis of the Town's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Town of Dewey Beach, Delaware

Management's Discussion and Analysis March 31, 2022

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 2022, the Town's governmental funds reported a combined ending fund balance of \$11,833,363, an increase in \$2,013,562 compared to the year ended March 31, 2021. Of this amount, \$591,852 constitutes unassigned fund balance.

General Fund Budgetary Highlights

Budget to Actual

Revenues

General fund revenues exceeded the budget by \$2,440,164 and related mostly to the following:

- Transfer tax income exceeded the budget by approximately \$1,127,000
- Accommodations and hotel taxes exceeded the budget by approximately a combined \$398,000
- Building permit income exceeded the budget by approximately \$413,000
- Parking income exceeded the budget by approximately \$215,000

Budget to Actual

Expenditures

General fund expenditures exceeded the budget by \$704,485 and related mostly to the following:

- Capital outlay was over budget by approximately \$400,000.
- Expenditures for street signs / lights were over budget by approximately \$47,000
- Expenditures for insurance were over budget by approximately \$35,000.
- Expenditures for salaries and wages were over budget by approximately \$30,000.

Capital Assets

The Town's investment in capital assets, net of accumulated depreciation, for its governmental activities at March 31, 2022, amounts to \$2,028,146. 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 and vehicles for the public safety function was purchased for approximately \$141,000.
- Improvement costs related to drain pipes and streets were purchased for approximately \$242,000.

Town of Dewey Beach, Delaware
Management's Discussion and Analysis
March 31, 2022

Capital Assets Net of Accumulated Depreciation

	Governmental Activities	
	2022	2021
Land	\$ 1,161,677	\$ 1,161,677
Buildings and improvements	953,120	918,405
Machinery and equipment	1,623,467	1,491,073
Streets and parks	1,667,697	1,435,260
Accumulated depreciation	(3,377,815)	(3,145,327)
Total	\$ 2,028,146	\$ 1,861,088

Long-Term Debt

	Governmental Activities	
	2022	2021
Compensated absences	\$ 269,556	\$ 212,834
Total long-term debt	\$ 269,556	\$ 212,834

Additional information on the Town's long-term debt obligations can be found on Note 5 of this report.

Economic Factors and Next Year's Budget

The actual change in fund balance for the general fund was an increase of \$1,966,946, which was a favorable variance from the budget of \$1,735,679. A general fund budgetary comparison schedule is included in this report, as listed in the index.

For fiscal year 2023, the Town has budgeted total operating revenues of \$4,464,000 and total operating expenditures of \$3,945,677.

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

PRELIMINARY DRAFT -
SUBJECT TO CHANGE

Financial Statements

Town of Dewey Beach, Delaware

**Statement of Net Position
March 31, 2022**

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 6,304,411
Investments	5,958,242
Receivables	
Taxes	80,072
Other	2,360
Prepaid expenses	93,110
Net pension asset	733,056
Capital assets, net	
Non-depreciable	1,161,677
Depreciable	<u>866,469</u>
Total assets	<u>15,199,397</u>
Deferred outflows of resources - pension related	<u>204,312</u>
Liabilities	
Accounts payable	117,445
Accrued wages and payroll taxes	33,115
Unearned revenue	454,272
Long-term liabilities, due in more than one year	
Compensated absences	<u>269,556</u>
Total liabilities	<u>874,388</u>
Deferred inflows of resources - pension related	<u>715,606</u>
Net position	
Net investment in capital assets	2,028,146
Restricted for:	
Beach replenishment	5,807,106
Review fund	13,698
Unrestricted	<u>5,964,765</u>
Total net position	<u><u>\$ 13,813,715</u></u>

See Notes to Financial Statements.

Town of Dewey Beach, Delaware

Statement of Activities
Year Ended March 31, 2022

Functions/Programs	Expenses	Program revenues			Net (expense) revenue and changes in net position
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities
Governmental activities					
General and administrative	\$ 1,550,591	\$ 2,356,785	\$ 107,976	\$ -	\$ 914,170
Public safety	1,646,906	339,857	166,473	-	(1,140,576)
Streets	305,382	142,580	25,270	-	(137,532)
Beach safety	446,433	-	21,529	-	(424,904)
Beach replenishment	91,364	-	-	-	(91,364)
Total governmental activities	<u>\$ 4,040,676</u>	<u>\$ 2,839,222</u>	<u>\$ 321,248</u>	<u>\$ -</u>	<u>(880,206)</u>
General revenues					
Taxes and assessments					
Beach replenishment					201,416
Realty transfer					1,861,911
Accommodations					775,191
Hotel					207,811
Franchise fees					61,602
Concession fees					70,000
Investment income					277,759
Net unrealized gain on investments					(378,210)
Dewey Beach Enterprises					37,500
Other revenues					86,894
Total general revenues					<u>3,201,874</u>
Change in net position					2,321,668
Net position, beginning of year					<u>11,492,047</u>
Net position, end of year					<u>\$ 13,813,715</u>

See Notes to Financial Statements.

Town of Dewey Beach, Delaware

**Balance Sheet
Governmental Funds
March 31, 2022**

	Major Fund		Total Governmental Funds
	General Fund	Beach Replenishment Fund	
Assets			
Cash and cash equivalents	\$ 5,655,659	\$ 648,752	\$ 6,304,411
Investments	809,005	5,149,237	5,958,242
Receivables			
Taxes	72,695	7,377	80,072
Other	2,360	-	2,360
Interfund receivables	-	1,740	1,740
Prepaid expenses	93,110	-	93,110
	<u>\$ 6,632,829</u>	<u>\$ 5,807,106</u>	<u>\$ 12,439,935</u>
Liabilities and fund balances			
Liabilities			
Accounts payable	\$ 117,445	\$ -	\$ 117,445
Interfund payables	1,740	-	1,740
Accrued wages and payroll taxes	33,115	-	33,115
Unearned revenue	454,272	-	454,272
	<u>606,572</u>	<u>-</u>	<u>606,572</u>
Fund balances			
Nonspendable	93,110	-	93,110
Restricted	13,698	5,807,106	5,820,804
Committed for streets and infrastructure	688,538	-	688,538
Committed for rainy day fund	1,972,839	-	1,972,839
Assigned for broadband infrastructure	20,531	-	20,531
Assigned for comprehensive plan	20,000	-	20,000
Assigned for legal and litigation	7,273	-	7,273
Assigned for public safety	138,753	-	138,753
Assigned for beach safety	38,183	-	38,183
Assigned for capital improvements	2,441,480	-	2,441,480
Unassigned	591,852	-	591,852
	<u>6,026,257</u>	<u>5,807,106</u>	<u>11,833,363</u>
	<u>\$ 6,632,829</u>	<u>\$ 5,807,106</u>	<u>\$ 12,439,935</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, 2022**

Total fund balances - Governmental Funds		\$ 11,833,363
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.

2,028,146

Deferred outflows of resources related to pensions, as further described in Note 7, are not reported at the fund level.

204,312

Deferred inflows of resources related to pensions, as further described in Note 7, are not reported at the fund level.

(715,606)

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:

Net pension asset

\$ 733,056

Compensated absences

(269,556)

Total long-term liabilities

463,500

Net position of governmental activities in the Statement of Net Position

\$ 13,813,715

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, 2022**

	Major Fund		Total Governmental Funds
	General Fund	Beach Replenishment Fund	
Revenues			
Taxes and assessments	\$ 2,976,515	\$ 201,416	\$ 3,177,931
Licenses, permits, and fees	2,499,365	-	2,499,365
Fines	339,857	-	339,857
Intergovernmental	160,862	-	160,862
Donations and other revenues			
Public safety	138,857	-	138,857
Beach safety	21,529	-	21,529
Investment income	11,458	266,301	277,759
Net unrealized loss on investments	(48,473)	(329,737)	(378,210)
Other	154,394	-	154,394
Total revenues	6,254,364	137,980	6,392,344
Expenditures			
General and administrative	1,391,999	-	1,391,999
Public safety	1,811,679	-	1,811,679
Streets	246,106	-	246,106
Beach safety	438,088	-	438,088
Beach replenishment	-	91,364	91,364
Capital outlay	399,546	-	399,546
Total expenditures	4,287,418	91,364	4,378,782
Net changes in fund balances	1,966,946	46,616	2,013,562
Fund balances, beginning of year	4,059,311	5,760,490	9,819,801
Fund balances, end of year	\$ 6,026,257	\$ 5,807,106	\$ 11,833,363

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, 2022**

Total net change in fund balances - Governmental Funds	\$	2,013,562
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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		399,546
Depreciation expense		(232,488)

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.		(30,000)
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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 7)		51,322
Change in deferred inflows of resources - pension (see Note 7)		(623,888)
Change in net pension assets and liabilities		800,336
Change in compensated absences		(56,722)
		(56,722)

Change in net position of Governmental Activities	\$	2,321,668
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See Notes to Financial Statements.

Town of Dewey Beach, Delaware

Notes to Financial Statements March 31, 2022

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, 2022

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, 2022

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 7 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, 2022

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, 2022 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, 2022**

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>
State of Delaware - 5G pole relocation	\$ 375,000
Police grants	44,361
Municipal street aid grant	<u>34,911</u>
Total unearned revenues	<u>\$ 454,272</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, 2022**

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, 2022**

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, 2022, \$5,841,946 of the Town's bank balances of \$6,341,946 was exposed to custodial risk as follows:

Uninsured and uncollateralized	\$	454,944
Uninsured and collateral held by the pledging bank		5,387,002
	\$	5,841,946

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, 2022, the Town held foreign stocks with a total market value of \$99,917.

The Town's investment policy is as follows:

Allocation of Assets

<u>Short-Term (0 - 3 years)</u>	<u>Range</u>	<u>Target</u>
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, 2022**

The Town has the following cash and investments at March 31, 2022. 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.

	Cash and cash equivalents	Investments held at fair value	Total
Cash and cash equivalents	\$ 5,599,468	\$ -	\$ 5,599,468
Investments			
Cash and cash equivalents	704,943	-	704,943
Fixed income fund	-	4,350,888	4,350,888
Equities			
Common stocks	-	975,570	975,570
Foreign stocks	-	99,917	99,917
Equity funds	-	531,867	531,867
Total investments	<u>704,943</u>	<u>5,958,242</u>	<u>6,663,185</u>
Total	<u>\$ 6,304,411</u>	<u>\$ 5,958,242</u>	<u>\$ 12,262,653</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.

	Level 1	Level 2	Level 3	Total
Fixed income fund	\$ 4,350,888	\$ -	\$ -	\$ 4,350,888
Equities				
Common stocks	975,570	-	-	975,570
Foreign stocks	99,917	-	-	99,917
Equity funds	531,867	-	-	531,867
Total investments	<u>\$ 5,958,242</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,958,242</u>

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2022**

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.

	Total	Less insured amounts	Amount subject to custodial credit risk
Common stocks	\$ 975,570	\$ 500,000	\$ 475,570
Foreign stocks	99,917	-	99,917
Equity funds	531,867	-	531,867
Fixed income fund	4,350,888	-	4,350,888
	<u>\$ 5,958,242</u>	<u>\$ 500,000</u>	<u>\$ 5,458,242</u>

Note 4 - Capital assets

The following is a summary of changes in capital assets for the year ended March 31, 2022:

	Balance March 31, 2021	Additions and transfers	Deletions and transfers	Balance March 31, 2022
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	918,405	34,715	-	953,120
Machinery and equipment	1,491,073	132,394	-	1,623,467
Infrastructure	1,435,260	232,437	-	1,667,697
Total depreciable capital assets	<u>3,844,738</u>	<u>399,546</u>	<u>-</u>	<u>4,244,284</u>
Less accumulated depreciation for				
Buildings and improvements	(728,430)	(45,288)	-	(773,718)
Machinery and equipment	(1,174,285)	(103,680)	-	(1,277,965)
Infrastructure	(1,242,612)	(83,520)	-	(1,326,132)
Total accumulated depreciation	<u>(3,145,327)</u>	<u>(232,488)</u>	<u>-</u>	<u>(3,377,815)</u>
Total capital assets being depreciated	<u>699,411</u>	<u>167,058</u>	<u>-</u>	<u>866,469</u>
Total capital assets	<u>\$ 1,861,088</u>	<u>\$ 167,058</u>	<u>\$ -</u>	<u>\$ 2,028,146</u>

Depreciation expense was charged to governmental functions as follows:

General and administrative	\$ 101,870
Public safety	62,997
Streets	59,276
Beach safety	8,345
	<u>232,488</u>
	<u>\$ 232,488</u>

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2022**

Note 5 - Long-term debt obligations

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

	Balance March 31, 2021	Increase	Decrease	Balance March 31, 2022	Due within one year
Other long-term liabilities					
Compensated absences	212,834	56,722	-	269,556	-
Net pension liability	67,280	-	800,336	(733,056) *	-
	<u>\$ 280,114</u>	<u>\$ 56,722</u>	<u>\$ 800,336</u>	<u>\$ (463,500)</u>	<u>\$ -</u>

*The net pension balance for the pension plan is reported as an asset but included in the schedule above. The balance at March 31, 2021 was a liability balance. The total governmental activity long-term liabilities are \$269,556.

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

Note 6 - 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, 2026.

Note 7 - 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

Town of Dewey Beach, Delaware

Notes to Financial Statements March 31, 2022

The following is a brief description of the Plan in effect as of June 30, 2021. 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.

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

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2022**

employer's contribution to the Plan's total employer contributions during the measurement period July 1, 2020 through June 30, 2021. Employer contributions to the Plan are recognized when due pursuant to legal requirements. Employer contributions are determined by the Board. Employer contributions were 16.59% of earnings for fiscal year 2021.

Net pension liability

The components of the Town's proportionate share of the net pension asset at June 30, 2021 were as follows:

Employers' total pension liability	\$ 2,600,577
Plan net position	<u>(3,333,633)</u>
Employers' net pension asset	<u>\$ (733,056)</u>
Employer's proportionate percentage of the collective NPL	0.5327%

Actuarial assumptions

The total pension liability at the June 30, 2021 measurement date was determined by an actuarial valuation as of June 30, 2010, with update procedures used to roll forward the total pension liability to June 30, 2021. These actuarial valuations used the following actuarial assumptions:

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

(1) Inflation is included at 2.5%

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

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

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

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2022**

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%	32.3%
International equity	5.7%	18.1%
Fixed income	2.0%	20.6%
Alternative investments	7.8%	24.2%
Cash and equivalents	0.0%	4.8%

Discount rate

The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at rates determined by the Board, actuarially determined. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability

Sensitivity of the net pension liability (asset) to changes in the discount rate

The following presents the Town's proportionate share of the net pension liability (asset), calculated using the discount rate 7.0%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

<u>Plan</u>	<u>1% Decrease (6.0%)</u>	<u>Discount rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
Pension asset	\$ (278,121)	\$ (733,056)	\$ (867,054)

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2022**

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

For the year ended March 31, 2022, the Town recognized pension expense of (\$103,867). At March 31, 2022, 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	\$ 25,190	\$ 53,386
Changes in proportion	11,194	10,774
Differences between expected and actual experience	69,362	28,560
Net difference between projected and actual earnings on pension plan investments	-	622,886
Town's contributions subsequent to the measurement date	98,566	-
Total	\$ 204,312	\$ 715,606

The \$98,566 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, 2023.

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

Year ending March 31,		
2023	\$	(159,692)
2024		(148,692)
2025		(156,692)
2026		(144,692)
2027		5,308
Thereafter		(5,400)
Total	\$	(609,860)

Note 8 - 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 7, 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, 2022 was \$3,310, equal to the required contributions each year.

Note 9 - 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.

Town of Dewey Beach, Delaware

Notes to Financial Statements March 31, 2022

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 10 - 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.

Note 11 - Fund balances

Fund balances for the Town's governmental funds consisted of the following as of March 31, 2022:

Nonspendable fund balances

Nonspendable fund balances as of March 31, 2022 are comprised of prepaid expenses of \$93,110 in the General Fund.

Restricted fund balances

Restricted fund balances total \$5,820,804 as of March 31, 2022. The General Fund restricted fund balance at March 31, 2022 is \$13,698, which is held in a review fund escrow. The Beach Replenishment Fund restricted fund balance is \$5,807,106 which is restricted for beach replenishment projects.

Committed fund balances

Committed fund balances total \$2,661,377 as of March 31, 2022, which pertains to street and infrastructure and a rainy-day fund.

Town code requires 20% of revenues derived from building permits each month shall be transferred to the streets and infrastructure account. Additionally, the Town passed a resolution requiring 5% of daily and seasonal parking revenues and 3% of transfer tax to be transferred to the streets and infrastructure. As of March 31, 2022, fund balance of \$688,538 is committed for streets and infrastructure.

During the year ended March 31, 2022, the Town established a rainy-day fund which is to be funded at 50% of the expenses in the most recently adopted general fund budget. The fund is intended to protect the Town financially from the effects of catastrophic events such as hurricanes or other events or conditions that significantly impair the Town's ability to collect revenues or causes significant unanticipated revenues. If the Town desired to utilize rainy-day funds the Town Manager would be required to propose a plan to spend the funds to the Town Commissioners for

Town of Dewey Beach, Delaware

**Notes to Financial Statements
March 31, 2022**

approval. As of March 31, 2022 the rainy day fund is \$1,972,839 based in the adopted FY 2023 budget.

Assigned fund balances

The General Fund has \$2,666,220 in assigned fund balances as of March 31, 2022. This is comprised of the following:

Broadband infrastructure reserve	\$	20,531
Comprehensive plan reserve		20,000
Legal and litigation reserve		7,273
Public safety reserve		138,753
Beach safety reserve		38,183
Capital improvements reserve		2,441,480
		<hr/>
	\$	<u>2,666,220</u>

PRELIMINARY DRAFT
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Required Supplementary Information

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Town of Dewey Beach, Delaware

Required Supplementary Information

**Budgetary Comparison Schedule - General Fund
Year Ended March 31, 2022**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Taxes and assessments	\$ 1,449,000	\$ 1,449,000	\$ 2,976,515	\$ 1,527,515
Licenses, permits, and fees	1,883,000	1,883,000	2,499,365	616,365
Fines	344,900	344,900	339,857	(5,043)
Intergovernmental	23,000	23,000	160,862	137,862
Donations and other revenues				
Public safety	70,800	70,800	138,857	68,057
Beach safety	-	-	21,529	21,529
Investment income	2,000	2,000	(37,015)	(39,015)
Other	41,500	41,500	154,394	112,894
Total revenues	3,814,200	3,814,200	6,254,364	2,440,164
Expenditures				
General and administrative	1,344,154	1,344,154	1,391,999	(47,845)
Public safety	1,644,489	1,644,489	1,811,679	(167,190)
Streets	153,168	153,168	246,106	(92,938)
Beach safety	441,122	441,122	438,088	3,034
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
Capital outlay	-	-	399,546	(399,546)
Total expenditures	3,582,933	3,582,933	4,287,418	(704,485) (1)
Net changes in fund balances	\$ 231,267	\$ 231,267	\$ 1,966,946	\$ 1,735,679

(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, 2022**

	2022	2021	2020	2019	2018	2017	2016
Town's proportionate share (%) of collective net pension liability (asset)	0.5327%	0.4378%	0.4980%	0.5193%	0.5168%	0.6018%	0.5484%
Town's proportionate share (\$) of collective net pension liability (asset)	\$ (733,056)	\$ 67,280	\$ 143,041	\$ 119,588	\$ 52,097	\$ 95,661	\$ (28,902)
Town's covered payroll (\$)	\$ 481,209	\$ 560,434	\$ 497,679	\$ 449,798	\$ 427,982	\$ 425,430	\$ 418,302
Town's proportionate share (%) of collective net pension liability (asset) as a percentage of its covered payroll	-152.34%	12.00%	28.74%	26.59%	12.17%	22.49%	-6.91%
Plan's fiduciary net position (%) of the total pension liability (asset)	128.19%	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.

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Town of Dewey Beach, Delaware

Required Supplementary Information

**Schedule of Contributions - Pension Plan
Year Ended March 31, 2022**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 85,706	\$ 67,219	\$ 73,431	\$ 49,247	\$ 58,497	\$ 60,724	\$ 55,209
Contributions in relation to the contractually required contribution	<u>85,706</u>	<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>	<u>\$ -</u>
Town's covered payroll	\$ 481,209	\$ 560,434	\$ 497,679	\$ 449,798	\$ 427,982	\$ 425,430	\$ 418,302
Contributions as a percentage of covered payroll	17.81%	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.

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Town of Dewey Beach, Delaware

Required Supplementary Information

Actuarial Assumptions - Pension Plan
Year Ended March 31, 2022

<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.

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Other Supplementary Information

Town of Dewey Beach, Delaware

Other Supplementary Information

**Balance Sheets
General Fund
Four Year Comparative Amounts for
March 31, 2022, 2021, 2020, and 2019**

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Assets				
Cash and cash equivalents	\$ 3,324,672	\$ 3,329,267	\$ 4,012,479	\$ 5,655,659
Investments	-	-	-	809,005
Receivables				
Taxes	-	-	223,059	72,695
Other	13,685	29,576	-	-
Interfund receivables	-	7,772	109	-
Prepaid expenses	90,628	64,142	86,500	93,110
Total assets	<u>\$ 3,428,985</u>	<u>\$ 3,430,757</u>	<u>\$ 4,322,147</u>	<u>\$ 6,630,469</u>
Liabilities, deferred inflows of resources and fund balances				
Liabilities				
Accounts payable	\$ 37,313	\$ 47,686	\$ 172,467	\$ 117,445
Interfund payables	-	-	-	1,740
Accrued wages and payroll taxes	56,566	57,499	41,523	33,115
Unearned revenue	61,460	43,937	48,845	454,272
Total liabilities	<u>155,339</u>	<u>149,122</u>	<u>262,835</u>	<u>606,572</u>
Fund balances				
Nonspendable	90,628	64,142	86,500	93,110
Restricted	22,917	6,609	3,041	13,698
Committed for streets	369,192	371,306	303,963	688,538
Assigned for streets and infrastructure	-	-	344,910	1,972,839
Assigned for broadband infrastructure	-	-	40,000	20,531
Assigned for comprehensive plan	68,125	109,969	20,000	20,000
Assigned for legal and litigation	269,401	36,240	36,304	7,273
Assigned for technology	5,643	-	-	-
Assigned for public safety	26,975	1,005	212,592	138,753
Assigned for beach safety	35,719	33,351	39,115	38,183
Assigned for capital improvements	-	-	643,978	2,441,480
Unassigned	2,385,046	2,659,013	2,328,908	591,852
Total fund balances	<u>3,273,646</u>	<u>3,281,635</u>	<u>4,059,311</u>	<u>6,026,257</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,428,985</u>	<u>\$ 3,430,757</u>	<u>\$ 4,322,146</u>	<u>\$ 6,632,829</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, 2022, 2021, 2020, and 2019**

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Revenues				
Taxes and assessments	\$ 1,420,145	\$ 1,194,563	\$ 2,301,735	\$ 2,976,515
Licenses, permits, and fees	1,957,909	1,569,538	1,628,238	2,499,365
Fines	334,724	317,327	186,451	339,857
Intergovernmental	60,082	65,961	91,523	160,862
Donations and other revenues				
Public safety	119,907	83,674	88,998	138,857
Beach safety	9,188	8,022	7,693	21,529
Investment income	18,109	48,300	3,490	(37,015)
Net unrealized gain (loss) on investments	1,076	(981)	-	-
Other	153,525	309,082	232,860	154,394
Total revenues	<u>4,074,665</u>	<u>3,595,486</u>	<u>4,540,988</u>	<u>6,254,364</u>
Expenditures				
General and administrative	1,375,117	1,465,611	1,254,247	1,391,999
Public safety	1,442,926	1,423,032	1,579,958	1,811,679
Streets	169,290	180,399	190,336	246,106
Beach safety	380,004	408,515	442,329	438,088
Debt service				
Principal	49,432	49,985	76,304	-
Interest	2,815	2,262	1,105	-
Capital outlay	126,143	57,693	219,033	399,546
Total expenditures	<u>3,545,727</u>	<u>3,587,497</u>	<u>3,763,312</u>	<u>4,287,418</u>
Net changes in fund balances	528,938	7,989	777,676	1,966,946
Fund balances, beginning of year	<u>2,744,708</u>	<u>3,273,646</u>	<u>3,281,635</u>	<u>4,059,311</u>
Fund balances, end of year	<u>\$ 3,273,646</u>	<u>\$ 3,281,635</u>	<u>\$ 4,059,311</u>	<u>\$ 6,026,257</u>

Town of Dewey Beach, Delaware

Other Supplementary Information

Balance Sheets
Beach Replenishment Fund
Four Year Comparative Amounts for
March 31, 2022, 2021, 2020, and 2019

	2019	2020	2021	2022
Assets				
Cash and cash equivalents	\$ 908,153	\$ 562,500	\$ 633,569	\$ 648,752
Investments	3,755,689	4,187,241	5,119,390	5,149,237
Receivables				
Taxes	15,656	15,656	7,640	7,377
Interfund receivables	-	-	-	1,740
Total assets	\$ 4,679,498	\$ 4,765,397	\$ 5,760,599	\$ 5,807,106
Liabilities, deferred inflows of resources and fund balances				
Liabilities				
Interfund payables	\$ -	\$ 7,772	\$ 109	\$ -
Total liabilities	-	7,772	109	-
Fund balances				
Restricted	4,679,498	4,757,625	5,760,490	5,807,106
Total fund balances	4,679,498	4,757,625	5,760,490	5,807,106
Total liabilities, deferred inflows of resources and fund balances	\$ 4,679,498	\$ 4,757,625	\$ 5,760,599	\$ 5,807,106

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, 2022, 2021, 2020, and 2019

	2019	2020	2021	2022
Revenues				
Taxes and assessments	\$ 207,499	\$ 188,195	\$ 204,990	\$ 201,416
Investment income	123,318	112,053	68,590	266,301
Net unrealized gain (loss) on investments	11,867	(135,167)	818,832	(329,737)
Total revenues	<u>342,684</u>	<u>165,081</u>	<u>1,092,412</u>	<u>137,980</u>
Expenditures				
Beach replenishment	<u>80,551</u>	<u>86,954</u>	<u>89,547</u>	<u>91,364</u>
Total expenditures	<u>80,551</u>	<u>86,954</u>	<u>89,547</u>	<u>91,364</u>
Net changes in fund balances	262,133	78,127	1,002,865	46,616
Fund balances, beginning of year	<u>4,417,365</u>	<u>4,679,498</u>	<u>4,757,625</u>	<u>5,760,490</u>
Fund balances, end of year	<u>\$ 4,679,498</u>	<u>\$ 4,757,625</u>	<u>\$ 5,760,490</u>	<u>\$ 5,807,106</u>

PRELIMINARY DRAFT
 SUBJECT TO CHANGE

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, 2022, and the related notes to the financial statements, which collectively comprise the Town of Dewey Beach, Delaware's basic financial statements, and have issued our report thereon dated (REPORT DATE).

Report on 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on 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*.

Purpose of this Report

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

Baltimore, Maryland
REPORT DATE

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