

Resolution to Consolidate Infrastructure Funds

At the April 24, 2020 Town Council Meeting, Commissioners voted to reorganize the Town's set aside accounts. Certain accounts were eliminated, and the balances of those accounts were transferred to other accounts. The Town's infrastructure account was one of the recipient accounts for balances of accounts that were eliminated. Section 93-2 of the Town Code requires that 20 percent of building permit revenues each month be transferred to this account. As part of the reorganization, the Commissioners also voted to contribute 3 percent of transfer tax revenues and 5 percent of parking permit revenues each month to the infrastructure account.

In the Town financial reports, the infrastructure account is categorized under Government Accounting Standards rules as a Committed fund balance because the funds are committed for a specific purpose through formal action – resolution or ordinance. The recently completed audit for the 2021 fiscal year noted that the changes adopted by the Town Council in April 2020 were not by formal action and thus the funds intended for the infrastructure account had to be reported separately as an Assigned infrastructure fund balance. The attached pages (Attachment 1) from the audit report show the two infrastructure fund balances and provide some additional explanation of the standards for categorizing government funds.

Consistent with the intent of the Council's April 2020 action, and to ease reporting and consolidate resources for high priority infrastructure projects, the attached draft resolution (Attachment 2) would permit joining the two infrastructure balances into a combined Committed infrastructure account.

Attachment 1

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>86,500</u>	<u>-</u>	<u>86,500</u>
Total assets	<u><u>\$ 4,322,147</u></u>	<u><u>\$ 5,760,599</u></u>	<u><u>\$ 10,082,746</u></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>48,846</u>	<u>-</u>	<u>48,846</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>2,328,908</u>	<u>-</u>	<u>2,328,908</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><u>\$ 4,322,147</u></u>	<u><u>\$ 5,760,599</u></u>	<u><u>\$ 10,082,746</u></u>

See Notes to Financial Statements.

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**

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		<u>643,978</u>
	\$	<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.

Attachment 2

Resolution No. _____

WHEREAS Section 93-2 of the Town of Dewey Beach Code requires that 20 percent of the revenues from building permits be transferred monthly to the infrastructure and maintenance escrow account (infrastructure account); and

WHEREAS the infrastructure account is a Committed fund balance as such fund balances are defined by the Government Accounting Standards Board; and

WHEREAS the Town Commissioners voted on April 24, 2020 to transfer to the infrastructure account certain funds previously set aside for other purposes and to transfer to the infrastructure account each month 3 percent of transfer taxes and 5 percent of parking permit revenues; and

WHEREAS the 2021 Town audit found that that the April 24, 2020 action taken by the Commissioners did not meet the standard for including the funds transferred into the Committed fund balance infrastructure account and instead were reported as an Assigned fund balance infrastructure account as defined by the Government Accounting Standards Board; and

WHEREAS the Town Commissioners wish to combine the two infrastructure accounts for ease of reporting and consolidation of resources for high priority infrastructure needs.

NOW THEREFORE BE IT RESOLVED by the Mayor and Council of the Town of Dewey Beach that effective October 1, 2021 the Assigned infrastructure fund balance shall be eliminated and funds from that Assigned balance shall be transferred to the Committed Infrastructure account.

BE IT FURTHER RESOLVED that consistent with the Town Commissioners' April 24, 2020 action, 3 percent of transfer tax revenues and 5 percent of parking permit revenues shall be transferred monthly to the Committed infrastructure account, effective October 1, 2021.

ADOPTED by the Commissioners of the Town of Dewey Beach on September 10, 2021.

Dale Cooke, Mayor

Bill Zolper, Town Manager