

TOWN OF FENWICK ISLAND, DELAWARE
FINANCIAL STATEMENTS
YEAR ENDED JULY 31, 2018

TOWN OF FENWICK ISLAND, DELAWARE

TABLE OF CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 12
BASIC FINANCIAL STATEMENTS	
Government-wide financial statements	
Statement of net position	13
Statement of activities	14
Fund financial statements	
Governmental fund	
Balance sheets	15
Reconciliation of the governmental funds balance sheets to the statement of net position	16
Statements of revenues, expenditures and changes in fund balance	17
Reconciliation of the statements of revenues, expenditures and changes in fund balance of governmental funds to the statement of activities	18
Fiduciary fund	
Statement of fiduciary net position	19
Statement of revenues, expenses, and changes in net position	20
NOTES TO THE FINANCIAL STATEMENTS	21 - 36

TOWN OF FENWICK ISLAND, DELAWARE

TABLE OF CONTENTS (Continued)

	<u>Page(s)</u>
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary comparison schedule – general fund	37
Delaware Public Employees’ Retirement System	
Schedule of the Town’s proportionate share of the net pension liability (asset)	38
Schedule of the Town’s contributions	39
SUPPLEMENTARY INFORMATION	
Independent auditors’ report on supplementary information	40
Combining balance sheet – other governmental funds	41
Combining statement of revenues, expenditures and changes in fund balance – other governmental funds	42
Schedule of revenues – budget and actual – general fund	43
Schedule of expenditures – budget and actual – general fund by department	44 - 47
GOVERNMENT AUDITING STANDARDS REPORT	
Independent auditors’ report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	48 - 49
Schedule of findings and responses	50



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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Council
Town of Fenwick Island, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Fenwick Island, Delaware, as of and for the year ended July 31, 2018, and the related notes to the financial statements, which collectively comprise the Town of Fenwick Island, Delaware's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Fenwick Island, Delaware, as of July 31, 2018, 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.

Change in Accounting Principle

As discussed in the Implementation of New Accounting Principle note to the financial statements, in 2018 the Town adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information on pages 3 through 12 and pages 37 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2019, on our consideration of the Town of Fenwick Island, 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 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 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 Fenwick Island, Delaware's internal control over financial reporting and compliance.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
January 25, 2019

TOWN OF FENWICK ISLAND, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS

JULY 31, 2018

As management of the Town of Fenwick Island, 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 ended July 31, 2018. This discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Town's financial activity, (c) identify changes in the Town's financial position, (d) identify any material deviations from the financial plan, and (e) identify individual fund issues or concerns.

Since the Management's Discussion and Analysis is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the Town's financial statements (beginning on page 13).

FINANCIAL HIGHLIGHTS

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$4,361,734 (net position) as compared to \$4,423,079 in the prior year. Unrestricted net position has a balance of \$444,030, which may be used to meet the Town's ongoing obligations to citizens and creditors in accordance with the Town's fund designation and fiscal policies.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$2,017,003, an increase of \$92,853 in comparison with the prior year. \$409,409 of the total amount, is unassigned and available for use within the Town's designation and policies.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was \$409,409 an increase of \$75,902.

OVERVIEW OF THE FINANCIAL STATEMENTS

This 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 four components: (1) government-wide financial statements, (2) fund financial statements, (3) notes to the financial statements, and (4) required supplementary information, which includes this management's discussion and analysis. In addition to the basic financial statements, this report also contains other supplementary information as listed in the Table of Contents.

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.

TOWN OF FENWICK ISLAND, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS

JULY 31, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (Conintued)

Government-wide financial statements (continued)

The Statement of Net Position presents information on all of the Town's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference being 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 Town'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 result in cash flows in future fiscal periods. For example, uncollected property taxes are reported as assets, despite the fact that the Town has not received the actual cash from those levies, and earned but unused compensated absences are reported as liabilities, despite the fact that the Town has not yet paid the actual cash for those absences.

The governmental activities of the Town include general government, administrative, police department, beach patrol and public works.

The government-wide financial statements can be found on pages 13 - 14 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental fund

Governmental funds are 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 current sources and uses 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.

TOWN OF FENWICK ISLAND, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS

JULY 31, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Funds financial statements (continued)

Because the focus of governmental funds 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 effect of the government's near term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between the governmental funds and governmental activities.

The Town maintains six (6) governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, 1½% Realty Transfer Tax and Municipal Street Aid Funds, all of which are considered major funds. Data from the other three (3) funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental fund financial statements can be found on pages 15 - 18 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 - 36 of this report.

Required supplementary information

Other required supplementary information, in addition to this discussion and analysis, are the budgetary comparison schedule of the general fund budget to actual (page 37) and the Town's proportionate share of the net pension liabilities and contributions related to the Delaware Public Employees' Retirement System (pages 38 - 39).

Other information

The combining statements referred to earlier in connection with non-major governmental funds are presented following the required supplementary information. The combining and individual statements and schedules can be found on pages 41 - 47 of this report.

TOWN OF FENWICK ISLAND, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS

JULY 31, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the government's financial position. In the case of the Town of Fenwick Island, the net position as of July 31, 2018 was \$4,408,369.

A large portion of the Town's net position (57%) reflects its investments in capital assets (e.g. land, building, equipment, improvements, construction in progress and infrastructure, less any debt used to acquire those assets that is still outstanding). The Town uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending.

	Governmental Activities July 31, 2018	Governmental Activities (as restated) July 31, 2017	Change
Assets			
Current and other assets	\$ 2,140,214	\$ 2,028,090	\$ 112,124
Capital assets, net	2,520,307	2,615,058	(94,751)
Total assets	<u>4,660,521</u>	<u>4,643,148</u>	<u>17,373</u>
Deferred outflows of resources	<u>141,588</u>	<u>86,681</u>	<u>54,907</u>
Liabilities			
Current liabilities	88,413	103,941	(15,528)
Long-term liabilities	276,284	172,195	104,089
Total liabilities	<u>364,697</u>	<u>276,136</u>	<u>88,561</u>
Deferred inflows of resources	<u>75,678</u>	<u>30,614</u>	<u>45,064</u>
Net position			
Net investment in capital assets	2,520,307	2,615,058	(94,751)
Restricted	1,397,397	1,336,739	60,658
Unrestricted	444,030	471,282	(27,252)
Total net position	<u>\$ 4,361,734</u>	<u>\$ 4,423,079</u>	<u>\$ (61,345)</u>

*The July 31, 2017 balances have been restated to reflect any changes due to prior period adjustments as described in the notes to the financial statements on page 36.

The balance of net position, net of restricted balances is \$444,030, which may be used to meet the government's ongoing obligation to citizens and creditors. As of July 31, 2018, the Town is able to report positive balances in governmental activities net position balances.

TOWN OF FENWICK ISLAND, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS

JULY 31, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Analysis of the Town's operations

The following table provides a summary of the Town's operations for the year ended July 31, 2018, along with comparable data. Government-wide activities decreased the Town of Fenwick Island's net position by \$61,345.

	Governmental Activities	Governmental Activities (as restated)	
	<u>July 31, 2018</u>	<u>July 31, 2017</u>	<u>Change</u>
Revenues			
Program revenues			
Charges for services	\$ 649,965	\$ 672,513	\$ (22,548)
Capital grants and contributions	61,608	46,971	14,637
Operating grants and contributions	165,903	135,205	30,698
General revenues			
Taxes - property/rental	1,044,716	1,033,375	11,341
Realty transfer tax	290,034	280,633	9,401
Fines and forfeitures	484	2,964	(2,480)
Unrestricted investment earnings	13,024	11,857	1,167
Miscellaneous	87,769	71,233	16,536
Total revenues	<u>2,313,503</u>	<u>2,254,751</u>	<u>58,752</u>
Expenses			
Administrative	382,830	320,660	62,170
Police department	795,006	733,905	61,101
Beach patrol	326,418	293,012	33,406
Public works (includes MSA expenses)	391,503	364,661	26,842
General government	479,091	484,625	(5,534)
Total expenses	<u>2,374,848</u>	<u>2,196,863</u>	<u>177,985</u>
Change in net position	(61,345)	57,888	(119,233)
Net position - August 1st	<u>4,423,079</u>	<u>4,365,191</u>	<u>57,888</u>
Net position - July 31st	<u><u>\$ 4,361,734</u></u>	<u><u>\$ 4,423,079</u></u>	<u><u>\$ (61,345)</u></u>

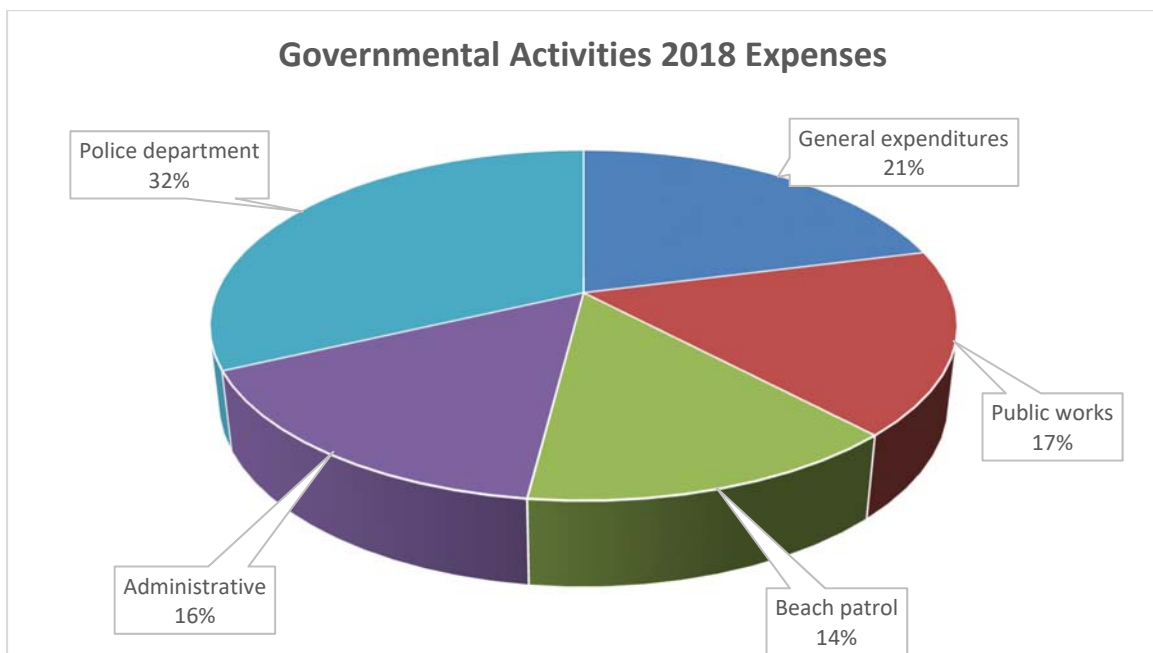
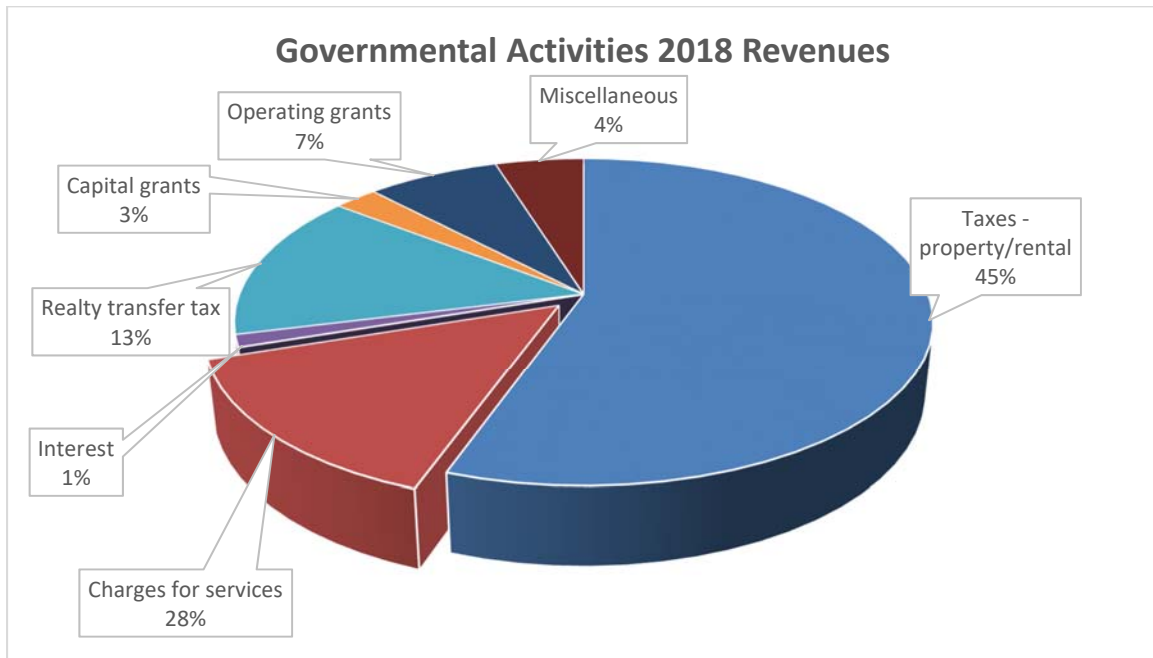
The July 31, 2017 balances have been restated as described in the notes to the financial statements on page 36.

TOWN OF FENWICK ISLAND, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS

JULY 31, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Analysis of the Town's operations (continued)



TOWN OF FENWICK ISLAND, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS

JULY 31, 2018

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

Governmental funds

The focus of the Town of Fenwick Island's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the Town of Fenwick Island's governmental funds reported combined ending fund balances of \$2,017,003. Of this total amount, \$409,409 constitutes unassigned fund balance.

General fund budgetary highlights

Revenues for the general fund operations were below budgeted revenue by \$35,838. This unfavorable variance is primarily due to budgeting for realty transfer taxes revenue in the general fund as well as an increase in taxes and intergovernmental revenues. Departmental expenditures were higher than budgeted expenditures by \$13,715. This unfavorable variance is primarily due to the higher than expected costs for restricted purpose expenses.

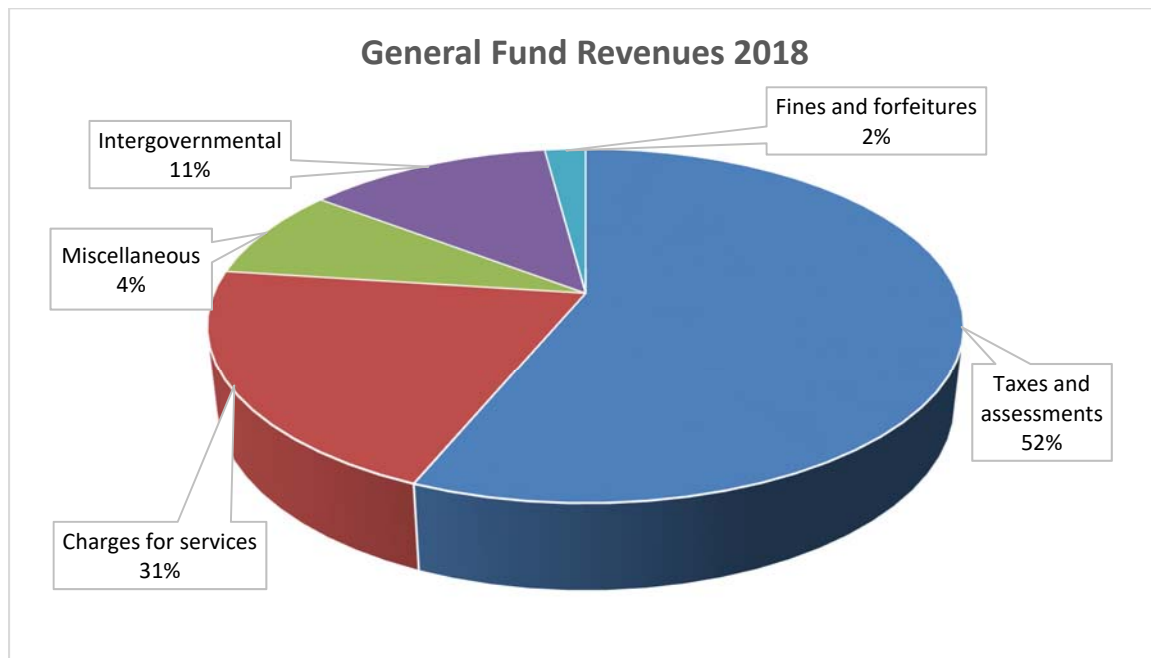
The following schedule presents a comparative summary of General Fund revenues and for the fiscal years ended July 31, 2018 and 2017, along with the percentage of that revenue to total revenues:

Revenues	July 31, 2018 Totals	Percentage of Total	July 31, 2017 Totals	Percentage of Total
Taxes and assessments	\$ 1,038,674	52%	\$ 1,033,375	54%
Intergovernmental grants	227,236	11%	152,946	8%
Charges for services	613,689	31%	603,559	32%
Fines and forfeitures	36,560	2%	44,032	2%
Other revenue	88,705	4%	73,659	4%
	<u>\$ 2,004,864</u>	<u>100%</u>	<u>\$ 1,907,571</u>	<u>100%</u>

TOWN OF FENWICK ISLAND, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JULY 31, 2018

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS (Continued)

General fund budgetary highlights (continued)



Current and prior year's taxes continue to represent the largest revenue source, with \$1,038,674 or 52% of all General Fund revenues. The increase in revenues from 2017 of \$97,293 was due primarily to the increase in building permits and real estate tax revenue.

The following schedule represents a comparative summary of General Fund expenditures for the fiscal years ended July 31, 2018 and 2017, along with the percentage of that expenditure to total expenditures:

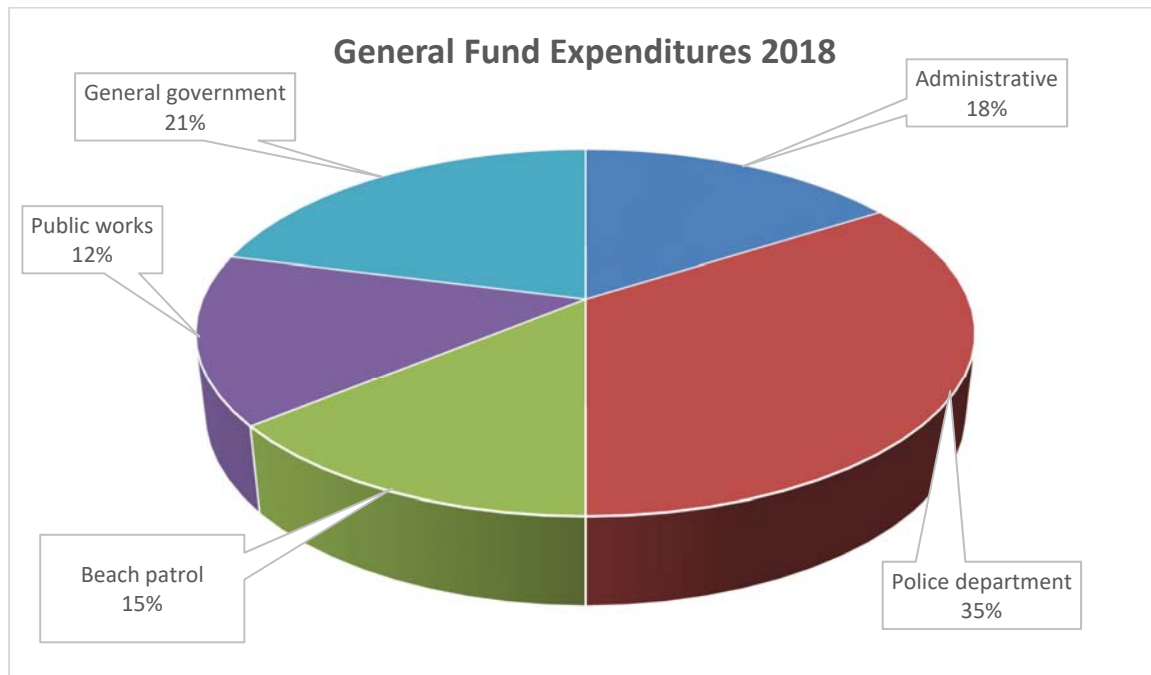
Expenditures	July 31, 2018 Totals	Percentage of Total	July 31, 2017 Totals	Percentage of Total
Administrative	\$ 362,582	18%	\$ 315,459	16%
Police department	709,658	35%	694,549	34%
Beach patrol	316,744	15%	286,938	14%
Public works	236,896	12%	307,714	15%
General government	423,871	21%	428,126	21%
Capital outlay	4,666	0%	-	0%
	<u>\$ 2,054,417</u>	<u>100%</u>	<u>\$ 2,032,786</u>	<u>100%</u>

TOWN OF FENWICK ISLAND, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS

JULY 31, 2018

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS (Continued)

General fund budgetary highlights (continued)



The Town's actual expenditures were above budgeted expectations by \$13,715. This unfavorable variance was due to higher than expected restricted purpose ALA costs.

TOWN OF FENWICK ISLAND, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS

JULY 31, 2018

CAPITAL ASSETS

The Town of Fenwick Island's investment in capital assets for its governmental activities as of July 31, 2018 amounts to \$2,520,307 (net of accumulated depreciation). This investment in capital assets includes the following:

	Governmental Activities July 31, 2018	Governmental Activities July 31, 2017	Change
Buildings	\$ 987,289	\$ 987,289	\$ -
Vehicles	348,008	332,870	15,138
Office equipment	108,788	84,810	23,978
Police equipment	201,361	201,361	-
Street signs and fixtures	59,397	62,487	(3,090)
Machinery and equipment	278,648	257,910	20,738
Beach and lifeguard equipment	156,801	131,550	25,251
Recreation equipment	41,156	41,156	-
Land improvements	2,050,632	2,050,632	-
Accumulated depreciation	(1,711,773)	(1,535,008)	(176,765)
	<u>\$ 2,520,307</u>	<u>\$ 2,615,057</u>	<u>\$ (94,750)</u>

This year's major capital asset additions included:

- Edmunds Software for \$21,256
- Mobi Mats for \$24,737
- Polaris Side by Side for \$13,988
- Parking Kiosk for \$10,900

DEBT ADMINISTRATION

The Town does not hold any long-term notes or bonds payable. The Town's noncurrent liabilities consist of accrued compensated absences and the net pension liability. Information about the Town's net pension liability can be found starting on page 29 of this report.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens with general overview of the Town's finances. If you have questions about this report or need any additional information, contact the Town Hall, Attn: Town Manager, at 800 Coastal Highway, Fenwick Island, Delaware 19944, or call (302)-539-3011.

BASIC FINANCIAL STATEMENTS

TOWN OF FENWICK ISLAND, DELAWARE

STATEMENT OF NET POSITION

JULY 31, 2018

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 669,817
Taxes receivable	24,011
Accounts receivable - other	16,062
Inventories	8,038
Prepaid expenses	24,889
Restricted cash	1,397,397
Total current assets	2,140,214
Noncurrent assets	
Capital assets, net of depreciation	2,520,307
Total assets	4,660,521
DEFERRED OUTFLOWS OF RESOURCES	
Deferred financing outflows - retirement	141,588
LIABILITIES	
Current liabilities	
Accounts payable	14,776
Accrued wages and payroll taxes	60,701
Accrued compensated absences	12,936
Total current liabilities	88,413
Noncurrent liabilities	
Accrued compensated absences, less current portion	231,863
Net pension liability	44,421
Total noncurrent liabilities	276,284
Total liabilities	364,697
DEFERRED INFLOWS OF RESOURCES	
Deferred grants	28,753
Deferred financing inflows - retirement	46,925
Total deferred inflows of resources	75,678
NET POSITION	
Net investment in capital assets	2,520,307
Restricted	1,397,397
Unrestricted	444,030
Total net position	\$ 4,361,734

The accompanying notes are an integral part of these financial statements.

TOWN OF FENWICK ISLAND, DELAWARE

STATEMENT OF ACTIVITIES

YEAR ENDED JULY 31, 2018

		Program Revenues			Net Revenue (Expense) and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
FUNCTIONS/PROGRAMS	Expenses				
GOVERNMENTAL ACTIVITIES					
General government	\$ 479,091	\$ 613,689	\$	\$	\$ 134,598
Administrative	382,830				(382,830)
Police department	795,006	36,276	105,903		(652,827)
Beach patrol	326,418		60,000		(266,418)
Public works	391,503			61,608	(329,895)
Total governmental activities	<u>2,374,848</u>	<u>649,965</u>	<u>165,903</u>	<u>61,608</u>	<u>(1,497,372)</u>
GENERAL REVENUES					
Taxes					
Property taxes					724,471
Transfer taxes					290,034
Gross rental tax					320,245
Fine and forfeitures					484
Unrestricted investment earnings					13,024
Miscellaneous					87,769
Total general revenues					<u>1,436,027</u>
Change in net position					(61,345)
NET POSITION, BEGINNING OF YEAR, AS RESTATED					<u>4,423,079</u>
NET POSITION, END OF YEAR					<u><u>\$ 4,361,734</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF FENWICK ISLAND, DELAWARE

**BALANCE SHEETS
GOVERNMENTAL FUNDS**

JULY 31, 2018

	<u>General Fund</u>	<u>1 1/2% Realty Transfer Tax</u>	<u>Municipal Street Aid</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 510,516	\$	\$	\$ 159,301	\$ 669,817
Taxes receivable	6,042	17,969			24,011
Accounts receivable - other	16,062				16,062
Inventory			8,038		8,038
Prepaid expenses	24,889				24,889
Restricted cash	36,298	1,354,475	6,624		1,397,397
Total assets	<u>\$ 593,807</u>	<u>\$ 1,372,444</u>	<u>\$ 14,662</u>	<u>\$ 159,301</u>	<u>\$ 2,140,214</u>
LIABILITIES					
Accounts payable	\$ 14,780	\$	\$	\$	\$ 14,780
Accrued wages and payroll taxes	60,701				60,701
Accrued compensated absences	12,936				12,936
Total liabilities	<u>88,417</u>				<u>88,417</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred taxes and grants	<u>34,794</u>				<u>34,794</u>
FUND BALANCES					
Nonspendable	24,889		8,038		32,927
Restricted	36,298	17,969			54,267
Committed				110,046	110,046
Assigned				49,255	49,255
Unassigned	409,409	1,354,475	6,624		1,770,508
Total fund balances	<u>470,596</u>	<u>1,372,444</u>	<u>14,662</u>	<u>159,301</u>	<u>2,017,003</u>
Total liabilities and fund balances	<u>\$ 593,807</u>	<u>\$ 1,372,444</u>	<u>\$ 14,662</u>	<u>\$ 159,301</u>	<u>\$ 2,140,214</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF FENWICK ISLAND, DELAWARE

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEETS
TO THE STATEMENT OF NET POSITION**

JULY 31, 2018

Total fund balances, governmental funds	\$ 2,017,003
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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 are therefore not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.	2,520,307
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Some expenditures reported in the governmental funds require the use of current financial resources and these are not reported as expenses in the Statement of Activities.

Deferred financing outflows - retirement	141,588
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Certain revenues that do not provide current financial resources are reported as deferred inflows in the fund financial statements, but are reported as revenue in the governmental activities of the Statement of Net Position.

Deferred taxes	6,045
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Long-term liabilities are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position.

Compensated absences	(231,863)
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Deferred financing inflows - retirement	(46,925)
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Net pension liability	(44,421)
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Net position, governmental activities	<u><u>\$ 4,361,734</u></u>
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The accompanying notes are an integral part of these financial statements.

TOWN OF FENWICK ISLAND, DELAWARE

**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS**

YEAR ENDED JULY 31, 2018

	General Fund	1 1/2% Realty Transfer Tax	Municipal Street Aid	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 1,038,674	\$ 290,034	\$	\$	\$ 1,328,708
Intergovernmental	227,236				227,236
Charges for services	613,689			3,125	616,814
Fines and forfeitures	36,560				36,560
Miscellaneous	88,865	7,747	100	1,429	98,141
Total revenues	<u>2,005,024</u>	<u>297,781</u>	<u>100</u>	<u>4,554</u>	<u>2,307,459</u>
EXPENDITURES					
Current					
General government	423,871	2,080			425,951
Administrative	362,582				362,582
Police department	709,658				709,658
Beach patrol	316,744				316,744
Public works	236,896	35,511	36,591	5,567	314,565
Capital outlay	4,666	80,440			85,106
Total expenditures	<u>2,054,417</u>	<u>118,031</u>	<u>36,591</u>	<u>5,567</u>	<u>2,214,606</u>
Revenues over (under) expenditures	(49,393)	179,750	(36,491)	(1,013)	92,853
OTHER FINANCING SOURCES					
Transfers in (out)	<u>94,888</u>	<u>(153,844)</u>	<u>21,625</u>	<u>37,331</u>	
Net change in fund balances	45,495	25,906	(14,866)	36,318	92,853
FUND BALANCES, BEGINNING OF YEAR, AS RESTATED	<u>425,101</u>	<u>1,346,538</u>	<u>29,528</u>	<u>122,983</u>	<u>1,924,150</u>
FUND BALANCES, END OF YEAR	<u>\$ 470,596</u>	<u>\$ 1,372,444</u>	<u>\$ 14,662</u>	<u>\$ 159,301</u>	<u>\$ 2,017,003</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF FENWICK ISLAND, DELAWARE

**RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JULY 31, 2018

Net change in fund balances, governmental funds	\$ 92,853
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Amounts reported for governmental activities in the Statement of Activities
are different because:

The 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.

Capital outlay expense	\$ 85,106	
Depreciation expense	<u>(179,855)</u>	(94,749)

Some expenses reported in the Statement of Activities do not require the use
of current financial resources and these are not reported as expenditures in the
governmental funds.

Change in long-term compensated absences		(81,634)
Change in deferred financing outflows - retirement		5,055
Change in net pension liability		27,399

The governmental funds does not present revenues that are not available to pay
current obligations. In contrast, such revenues are reported in the Statement
of Activities when earned.

Change in deferred taxes		6,042
Change in deferred financing inflows - retirement		<u>(16,311)</u>

Change in net position, governmental activities	<u>\$ (61,345)</u>
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The accompanying notes are an integral part of these financial statements.

TOWN OF FENWICK ISLAND, DELAWARE
STATEMENT OF FIDUCIARY NET POSITION
JULY 31, 2018

	Beach Committee Fund
ASSETS	
Cash and cash equivalents	\$ 9,938
NET POSITION	
Unrestricted	\$ 9,938

The accompanying notes are an integral part of these financial statements.

TOWN OF FENWICK ISLAND, DELAWARE

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FIDUCIARY FUND**

YEAR ENDED JULY 31, 2018

	Beach Committee Fund
OPERATING REVENUES	
Donations	\$ 1,727
Event income	10,391
Total operating revenues	<u>12,118</u>
OPERATING EXPENSES	
Supplies	8,552
Employee relations	3,282
Total operating expenses	<u>11,834</u>
Operating income	<u>284</u>
OTHER FINANCING SOURCES	
Transfers out	<u>(160)</u>
Change in net position	124
NET POSITION, BEGINNING OF YEAR, AS RESTATED	<u>9,814</u>
NET POSITION, END OF YEAR	<u><u>\$ 9,938</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Fenwick Island, Delaware (the “Town”) was incorporated in 1953 and adopted its first charter July 8, 1953, under the provisions of House Bill No. 274, with House Amendment No. 1 (An Act to Incorporate the Town of Fenwick Island, Delaware). The Town operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety, culture and recreation, planning and zoning, general administrative, and public works which includes street maintenance.

The accompanying financial statements of the Town have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance for their business-type activities and enterprise funds, subject to the same limitation. The most significant of the Town’s accounting policies are described below.

Reporting entity

The accompanying financial statements include the various departments and offices that are legally controlled by or dependent on the Town Council (primary government). The Town’s major operations include general government, administrative, police department, beach patrol, and public works. The Town’s financial reporting entity is required to consist of all organizations for which the Town is financially accountable or for which there is a significant relationship. The Town has no component units in its reporting entity.

Basic financial statements – government-wide financial statements

The government-wide financial statements (the statement of net position and the statement of changes in net position) report information on all of the activities of the Town. The effect of interfund activity, within the governmental activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Town has no business-type activities.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic financial statements – government-wide financial statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items are not included among program revenues and are reported instead as general revenues.

Basic financial statements – fund financial statements

The fund financial statements provide information about the Town's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis in fund financial statements is on the major funds in either fund category. Major individual funds are reported as separate columns in the fund financial statements.

Governmental funds: funds of governmental functions that are typically financed. The measurement focus of governmental funds is the current financial resources. The Town has presented the following governmental funds:

The General Fund – This fund is used to account for all financial transactions not accounted for in another fund. Revenues are derived principally from property taxes, municipal user taxes, and other intergovernmental revenues. This fund accounts for the general administrative services of the Town not recorded elsewhere, including the activities of the various departments, public safety, street maintenance, administrative, and mayor and council.

The Municipal Street Aid Fund – This fund is used to account for financial transactions pertaining to specific resources. Revenues are derived from State of Delaware Transportation Trust Fund grant monies. Expenditures of these monies are allowable for improvements to water and sewer systems, street improvements, public safety and public works.

The 1½ % Realty Transfer Tax Fund – This fund is used to account for financial transactions pertaining to specific resources. Revenues are derived from collections of the Town's assessed realty transfer tax fee of 1½ %. Expenditures of these monies are allowable for capital and operating costs of public safety services, economic development programs, public works services, capital projects and improvements, infrastructure projects and improvements and debt reduction.

Other Governmental Funds – This includes non-major governmental funds such as beach replenishment, parks and recreation, and dedicated streets funds.

The activities reported in these funds are reported as governmental activities in the government-wide financial statements.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic financial statements – fund financial statements (continued)

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 has one fiduciary fund.

Basis of accounting

Measurement focus refers to what is being measured, basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. “Measurable” means the amount of the transaction that can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Town considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

Since the governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide statements, a reconciliation is provided in the fund financial statement.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred inflows of resources

The Town reports increases in net assets that relate to future periods as deferred inflows of resources in a separate section of its government-wide Statement of Net Position. The Town has three types of items that qualify for reporting in this category: deferred financings inflows related to retirement, deferred revenues for property taxes which are not recognized until available (collected not later than 60 days after the end of the Town's fiscal year), and deferred grants, which are not recognized until a future event occurs.

Deferred outflows of resources

The Town reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its government-wide Statement of Net Position. The Town has only one type of item that qualifies for reporting in this category: deferred financing outflows of resources related to retirement.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Delaware Public Employees' Retirement System (DPERS), and additions to/deductions from DPERS's fiduciary net position have been determined on the same basis as they are reported by DPERS.

Net position

Net position represents the difference between assets and liabilities. 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 acquisitions, construction, or improvement of those assets.

Restricted net position consists of net position that is restricted due to limitations imposed on its use either through the enabling legislation adopted by the Town or through external restrictions imposed by grantors, creditors, or laws or regulations of other governments.

Unrestricted net position consists of all other remaining net position.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund balances

In the governmental fund financial statements, fund balances are classified as follows:

Non-spendable: Amounts that cannot be spent because they are either not in a spendable form (such as fixed assets and prepaid amounts) or are legally or contractually required to be maintained intact.

Restricted: Amounts that can be spent only for a specific purpose because of the Town Charter, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed: Amounts that can be spent only for specific purposes determined by a formal action of the Town Council ordinance or resolution.

Assigned: Amounts that are designated by the Mayor and Council for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval by the Town Council.

Unassigned: All amounts not included in other spendable classifications.

Cash and cash equivalents

The Town has defined cash and cash equivalents to include cash on hand, demand deposits and all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased. In addition, all certificates of deposits are considered highly liquid investments, regardless of maturity date.

Prepaid items

Prepaid balances are for payments made by the Town in the current year to provide services occurring in the subsequent fiscal year. The amount for prepaid items has been designated to signify that a portion of the fund balance is not available for other subsequent expenditures.

Inventory

Inventory consists of supplies used in street repair and drainage projects. These materials are recorded at cost determined by the first-in, first-out method, as an asset of the Municipal Street Aid Fund, with an equal offsetting amount recorded as a fund balance.

Implementation of new accounting principle

During 2018, the Town implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Adoption of this statement requires the Town to provide additional information in the financial statements related to cost sharing pension plans.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at their acquisition value. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Infrastructure consists of streets and drainage projects. The Town has elected to not capitalize infrastructure acquired prior to May 1, 2004.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and improvements	5 - 40 years
Equipment	3 - 20 years
Vehicles	5 years
Infrastructure	30 years

Property taxes

Taxes are levied on August 1 of each year and are due by October 31st. The Town bills and collects its own property taxes.

Compensated absences

Full-time permanent employees of the Town accrue vacation leave based on their tenure, to a maximum of 40 days and may accrue up to 960 hours of sick time, as specified in the employee handbook. Upon termination or retirement, employees in good standing are entitled to their leave accruals to the maximums specified in the employee handbook.

Compensated absences for governmental funds are a reconciling item between the fund and government-wide presentation.

Interfund activity

Interfund activity is reported as either loans or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. All other interfund transactions are treated as transfers. Transfers between funds are netted as part of the reconciliation to the government-wide financial statements.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary activity

The Town charter established the fiscal year as the twelve-month period beginning August 1st. The Town Council adopts a budget annually. The budget can be revised as deemed necessary by the Council. A single fixed budget covers the general fund and is employed during the year as a management control device. The budgetary amounts are comprised of the normal operating budget and supplemental budget allocations, if applicable.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from these estimates.

CASH AND CASH EQUIVALENTS

All deposits are carried at cost. Transactions are made directly with the banks; services of brokers or securities dealers are not used. At July 31, 2018, the carrying amount of the Town's deposits was \$2,067,214 and the bank balance was \$2,121,359.

As of July 31, 2018, \$1,621,359 of the Town's bank balances was exposed to custodial risk. The \$1,621,359 was not covered by FDIC, but were collateralized with securities held by the pledging financial institution's trust department, but not in the Town's name.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Town's investments.

Custodial credit risk is the 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.

Reconciliation of cash and cash equivalents to the government-wide Statement of Net Position:

Cash and cash equivalents	\$ 669,817
Cash and cash equivalents - restricted	1,397,397
Total cash and cash equivalents	<u>\$ 2,067,214</u>

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2018

ACCOUNTS RECEIVABLE - PROPERTY TAXES

The Town's property tax year runs from August 1 to July 31. Property taxes are recorded and attached as an enforceable lien on property on August 1, the date levied.

Property taxes are recognized as revenue in the budget year (beginning August 1 after the levy date) for which they are levied. The Town bills and collects its own taxes. The property tax rate for the year ended July 31, 2018, based on assessments, was \$1.92 per \$100 of assessed valuation. The total assessed value of all taxable real property and improvements at August 1, 2017 was \$36,444,471. The Town does not have an allowance for delinquent taxes because all taxes are considered collectible.

CAPITAL ASSETS

Capital asset activity for the year ended July 31, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Buildings	\$ 987,290	\$	\$	\$ 987,290
Vehicles	332,870	15,138		348,008
Office equipment	84,810	23,977		108,787
Police equipment	201,361			201,361
Street signs and fixtures	62,487		(3,090)	59,397
Machinery and equipment	262,633	16,015		278,648
Beach and lifeguard equipment	126,825	29,976		156,801
Recreation equipment	41,156			41,156
Land and improvements	2,050,632			2,050,632
Total	4,150,064	85,106	(3,090)	4,232,080
Less: accumulated depreciation	(1,535,008)	(179,855)	3,090	(1,711,773)
Net capital assets	<u>\$ 2,615,056</u>	<u>\$ (94,749)</u>	<u>\$</u>	<u>\$ 2,520,307</u>

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2018

RETIREMENT AND PENSION PLANS

General information about the pension plans

Plan descriptions: The Town participates in the Delaware Public Employees' Retirement System (DPERS): County & Municipal Police/Firefighters' Pension Plan.

The plan is a cost sharing multiple-employer defined-benefit pension plan established in the Delaware Code. 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 for the payment of benefits to the members of the plan in accordance with the terms of the plan.

The following is a brief description of the plan in effect as of June 30, 2017. For a more complete description, please refer to the DPERS CAFR. Separately issued financial statements for DPERS are available from the pension office at: McArdle Building, Suite 1, 860 Silver Lake Blvd, Dover, DE 19904.

Benefits provided. The DPERS provide retirement, disability and death benefits. Eligibility and benefits vary depending on which plan the employee is enrolled in.

The Plan covers police officers and firefighters employed by a county or municipality of the state that have joined the Plan. Service benefits are based on 2.5% of 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. Employees in the plan may retire after age 62 with 5 years of service; age plus credited service (but not less than 10 years) equals 75; or 20 years of credited service. Benefits are vested after five years of credited service.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2018

RETIREMENT AND PENSION PLANS (Continued)

General information about the pension plans (continued)

Total disability benefits for duty officers are based on 75% of final average compensation plus 10% for each dependent but not to exceed 25% for all dependents. Partial disability benefits for duty officers are calculated the same as service benefits, subject to minimum of 50% of final average compensation. Disability benefits for non-duty officers are calculated the same as service benefits, total disability subject to a minimum of 50% of final average monthly compensation plus 5% of each dependent not to exceed 20% for all dependents with partial disability benefits subject to a minimum of 30% of final average monthly compensation.

For survivor benefits, if the employee is receiving a pension, then eligible survivor receives 50% of pension; if the 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.

Contributions: Active members of the Plan are required to contribute to the Plan at the rate of 7% of their covered salary. Employer contributions are determined by the Board of Pension Trustees. Contributions to the Plan from the Town for the past three years were as follows:

<u>Fiscal Year Ending July 31,</u>	<u>Annual Pension Cost</u>	<u>Percentage Funded</u>
2016	\$ 43,628	100%
2017	\$ 49,852	100%
2018	\$ 70,387	100%

In order to provide pension funding for sworn police officers, the State of Delaware collects a special tax equal to 1/4% of certain gross insurance premiums that are collected in the State. These collections are distributed to police agencies in the State based on the average number of paid, full-time sworn officers as of the end of each calendar year. During the year ended July 31, 2018, the Town received \$29,216.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2018

RETIREMENT AND PENSION PLANS (Continued)

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

At July 31, 2018, the Town reported a liability of \$44,421 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. Update procedures were used to roll forward the total pension liability to June 30, 2017. The Town's proportion of the net pension liability was based on the percentage of actual employee contributions. At June 30, 2017, the Town's proportion for the Plan was .4406%.

For the year ended July 31, 2018, the Town recognized pension expense of \$50,544. At July 31, 2018, the Town reported deferred outflows of resources or deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 37,503	\$ 16,368
Changes in proportion	427	3,467
Difference between expected and actual experience	10,630	27,090
Net difference between projected and actual earnings on pension plan investments	22,641	
Contributions subsequent to measurement date	70,387	
	<u>\$ 141,588</u>	<u>\$ 46,925</u>

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2018

RETIREMENT AND PENSION PLANS (Continued)

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued)

The Town's contribution of \$70,387 subsequent to the measurement date, reported as deferred outflows of resources, will be recognized as a reduction of the net pension liability in the year ended July 31, 2019. The collective deferred outflows of resources and deferred inflows of resources are being amortized as follows:

	Measurement Period Ended	<u>Amortization Period</u>
	June 30	Police
	2015	11 years
Difference between expected and actual experience	2016	11 years
	2017	10 years
	2014	5 years
Net difference between projected and actual earnings on investments	2015	5 years
	2016	5 years
	2017	5 years
	2014	11 years
Change in proportion	2015	11 years
	2016	10 years
	2017	10 years
	2016	10 years
Change of assumptions	2017	10 years

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2018

RETIREMENT AND PENSION PLANS (Continued)

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in a net change in pension expense as follows:

Year Ending July 31,	
2019	\$ 1,195
2020	19,555
2021	11,461
2022	(9,758)
2023	(43)
Thereafter	1,866
	<u>\$ 24,276</u>

Actuarial assumptions. The collective total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016, and update procedures were used to roll forward the total pension liability to June 30, 2017. These actuarial valuations used the following actuarial assumptions:

Investment rate of return	7.0%
Projected salary increases	2.5% + merit
Inflation	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. The assumptions used were based on the results of an actuarial experience study conducted in 2016. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates the larger the impact on future financial statements.

Mortality rates were based on the Sex distinct RP – 2014 Combined Mortality Table projected to 2015 using scale AA for Males or Females, as appropriate, for mortality improvement.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2018

RETIREMENT AND PENSION PLANS (Continued)

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued)

Discount rate: The discount rate for the plan 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 of Pension Trustees, actuarially determined. Based on those assumptions, the pension plan's 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 investment was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate: The following presents the collective net pension liability (asset) of the plan, calculated using the discount rate of 7.0%, as well as what the plan's net pension liability (asset) would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

1% Decrease (6.0%)	\$ 280,883
Current discount rate (7.0%)	\$ 44,421
1% Increase (8.0%)	\$ (148,117)

Pension Plan Fiduciary Net Position: Detailed information about the Pension Plan's fiduciary net position is available in the separately issued DPERS financial reports.

DEFERRED COMPENSATION PLANS

The Town's administrative staff are members of the Town's deferred compensation plan. The Town contributes 5% of the municipal employee's annual salary. The Town also matches employee contributions up to an additional 5% of the employee's annual salary, for a total maximum cost to the Town of up to 10% for each municipal employee.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2018

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; injuries to employees; and natural disasters. The Town's risk financing techniques include the purchase of commercial insurance.

The Town is fully insured for workers' compensation through commercial insurance, and council members are bonded to limit the loss to the Town in the event of council members or employees committing acts of embezzlement or theft. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage for each of the past three fiscal years.

LEASE AGREEMENTS

The Town entered into an operating lease for a vehicle which expires in June 2019. Future minimum lease payments under this non-cancelable operating lease are \$3,795 during the year ending July 31, 2019.

The total rental expense under this operating lease for the fiscal year ended July 31, 2018 was \$4,140.

COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The Town does not anticipate losses as a result of these transactions.

In the normal course of operations, the Town receives 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.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2018

PRIOR PERIOD ADJUSTMENTS

Net position in the government-wide and fiduciary statements and the fund balance in the fund statements as of July 31, 2017 have been restated to correct an overstatement of liabilities in the General Fund and in the Beach Committee Fund. In addition, due to the implementation of GASB Statement No. 68, a prior period adjustment was needed to record the net pension liability and deferred inflows and outflows of resources on the government-wide statements. Adjustments to net position/fund balance as of July 31, 2017 are as follows:

	Government- wide statements	Fund financial statements	Fiduciary statements
	Governmental Activities	General Fund	Beach Committee Fund
Net position, beginning of year, as originally reported	\$ 4,339,240	\$ 375,360	\$ 7,622
Adjustments for liabilities	49,741	49,741	2,192
Implementation of GASB 68	34,098		
Net position, beginning of year, as restated	<u>\$ 4,423,079</u>	<u>\$ 425,101</u>	<u>\$ 9,814</u>

SUBSEQUENT EVENTS

Events and transactions subsequent to year end have been evaluated for potential recognition in the financial statements or disclosure in the notes to the financial statements. All events and transactions have been evaluated through January 25, 2019, which is the date the financial statements were available to be issued.

NEW PRONOUNCEMENTS

GASB Statement No. 87, *Leases*, will be effective for the Town beginning with the year ending July 31, 2021. This statements requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This statement will also change the way leases are disclosed in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF FENWICK ISLAND, DELAWARE

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

YEAR ENDED JULY 31, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Favorable (Unfavorable)
REVENUES				
Taxes	\$ 1,004,585	\$ 1,004,585	\$ 1,038,674	\$ 34,089
Intergovernmental	177,149	177,149	227,236	50,087
Charges for services	611,662	611,662	613,689	2,027
Fine and forfeitures	37,000	37,000	36,560	(440)
Realty transfer taxes	135,129	135,129		(135,129)
Miscellaneous	75,177	75,177	88,865	13,688
Total revenues	<u>2,040,702</u>	<u>2,040,702</u>	<u>2,005,024</u>	<u>(35,678)</u>
EXPENDITURES				
Current				
General government	392,134	392,134	423,871	(31,737)
Administrative	413,925	413,925	362,582	51,343
Police department	692,593	692,593	709,658	(17,065)
Beach patrol	306,937	306,937	316,744	(9,807)
Public works	235,113	235,113	236,896	(1,783)
Capital outlay			4,666	(4,666)
Total expenditures	<u>2,040,702</u>	<u>2,040,702</u>	<u>2,054,417</u>	<u>(13,715)</u>
Revenues under expenditures			(49,393)	(49,393)
OTHER FINANCING SOURCES				
Transfers in			94,888	94,888
Net change in fund balances	<u>\$</u>	<u>\$</u>	<u>\$ 45,495</u>	<u>\$ 45,495</u>

TOWN OF FENWICK ISLAND, DELAWARE

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE TOWN'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY (ASSET)**

**DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(UNAUDITED)**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>County & Municipal Police and Firefighters' Pension Plan</u>			
Town's proportion of the net pension liability (asset)	0.4406%	0.4518%	0.4334%
Town's proportionate share of the net pension liability (asset)	\$ 44,421	\$ 71,820	\$ (22,839)
Town's covered-employee payroll	\$ 433,418	\$ 413,573	\$ 394,845
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	10.25%	17.37%	-5.78%
Plan fiduciary net position as a percentage of the total pension liability (asset)	97.0%	94.7%	102.0%

TOWN OF FENWICK ISLAND, DELAWARE

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE TOWN'S CONTRIBUTIONS

**DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(UNAUDITED)**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>County & Municipal Police and Firefighters' Pension Plan</u>			
Contractually required contribution	\$ 70,387	\$ 49,852	\$ 43,628
Contributions in relation to the contractually required contribution	<u>(70,387)</u>	<u>(49,852)</u>	<u>(43,628)</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>
Town's covered-employee payroll	\$ 433,418	\$ 413,573	\$ 394,845
Contributions as a percentage of covered-employee payroll	16%	12%	11%

SUPPLEMENTARY INFORMATION



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JOHN M. STERN, JR., CPA

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Mayor and Council
Town of Fenwick Island, Delaware

Report on Supplementary Information

PKScpa.com

Salisbury

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Our report on our audit of the financial statements that collectively comprise the Town of Fenwick Island, Delaware's basic financial statements as of July 31, 2018 appears on pages one and two. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Fenwick Island, Delaware's basic financial statements. The supplementary information presented on pages 41 through 47 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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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, except for the portion marked "unaudited," 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. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
January 25, 2019

TOWN OF FENWICK ISLAND, DELAWARE

**COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS**

JULY 31, 2018

	<u>Beach Replenishment</u>	<u>Parks and Recreation</u>	<u>Dedicated Streets</u>	<u>Total Other Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 37,612	\$ 11,643	\$ 110,046	\$ 159,301
FUND BALANCES				
Committed			110,046	110,046
Assigned	37,612	11,643		49,255
Total fund balances	\$ 37,612	\$ 11,643	\$ 110,046	\$ 159,301

TOWN OF FENWICK ISLAND, DELAWARE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
OTHER GOVERNMENTAL FUNDS**

YEAR ENDED JULY 31, 2018

	Beach Replenishment	Parks and Recreation	Dedicated Streets	Total Other Governmental Funds
REVENUES				
Charges for services	\$	\$ 3,125	\$	\$ 3,125
Miscellaneous	225	11	1,193	1,429
Total revenues	<u>225</u>	<u>3,136</u>	<u>1,193</u>	<u>4,554</u>
EXPENDITURES				
Current				
Public works		5,011	556	5,567
Total expenditures		<u>5,011</u>	<u>556</u>	<u>5,567</u>
Revenues over (under) expenditures	225	(1,875)	637	(1,013)
OTHER FINANCING SOURCES				
Transfers in		2,774	34,557	37,331
Net change in fund balances	225	899	35,194	36,318
FUND BALANCES, BEGINNING OF YEAR	<u>37,387</u>	<u>10,744</u>	<u>74,852</u>	<u>122,983</u>
FUND BALANCES, END OF YEAR	<u><u>\$ 37,612</u></u>	<u><u>\$ 11,643</u></u>	<u><u>\$ 110,046</u></u>	<u><u>\$ 159,301</u></u>

TOWN OF FENWICK ISLAND, DELAWARE
SCHEDULE OF REVENUES - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JULY 31, 2018

	Final Budget (Unaudited)	Actual	Variance Favorable (Unfavorable)
Taxes			
Property taxes	\$ 704,585	\$ 718,429	\$ 13,844
Gross rental taxes	300,000	320,245	20,245
Total taxes	<u>1,004,585</u>	<u>1,038,674</u>	<u>34,089</u>
Intergovernmental			
Municipal street aid grant	32,000	31,508	(492)
Lifeguard grants	60,000	60,000	
Police grants	60,149	100,012	39,863
Pension income	25,000	29,216	4,216
Surface water matching planning grant		6,500	6,500
Total intergovernmental	<u>177,149</u>	<u>227,236</u>	<u>50,087</u>
Charges for services			
Trash collection fees	182,382	184,557	2,175
Ambulance fees	45,580	45,369	(211)
Franchise fees	34,000	36,878	2,878
Licenses fees	99,700	100,703	1,003
Building permit fees	250,000	246,182	(3,818)
Total charges for services	<u>611,662</u>	<u>613,689</u>	<u>2,027</u>
Fines and forfeitures			
Traffic and parking fines	32,000	36,076	4,076
Penalties	4,500	225	(4,275)
Other	500	259	(241)
Total fines and forfeitures	<u>37,000</u>	<u>36,560</u>	<u>(440)</u>
Realty transfer taxes	<u>135,129</u>		<u>(135,129)</u>
Miscellaneous			
Parking and bonfire permits	32,500	32,242	(258)
Beach concession services	15,712	15,712	
FI sponsorship program	12,800	10,700	(2,100)
Junior lifeguard program	6,865	5,955	(910)
Interest income	2,500	4,394	1,894
Other revenues	4,800	19,862	15,062
Total miscellaneous	<u>75,177</u>	<u>88,865</u>	<u>13,688</u>
Total revenues	<u>\$ 2,040,702</u>	<u>\$ 2,005,024</u>	<u>\$ (35,678)</u>

TOWN OF FENWICK ISLAND, DELAWARE

**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND BY DEPARTMENT**

YEAR ENDED JULY 31, 2018

	Final Budget (Unaudited)	Actual Amounts	Variance Favorable (Unfavorable)
General government			
Appraisal	\$ 4,250	\$ 4,300	\$ (50)
Auditing	9,000	9,016	(16)
BBVFC ambulance service	45,474	45,580	(106)
Building maintenance	4,000	7,995	(3,995)
Cell phones	1,620		1,620
Codification	4,195	3,024	1,171
Community projects	14,200	17,223	(3,023)
Contract services	4,200	3,804	396
Copiers	1,576	2,460	(884)
CRS food program	800		800
Dues	2,549	2,774	(225)
Emergency management	500		500
Employee relations	3,200	4,169	(969)
Government liaison	1,200	879	321
Insurance	88,478	89,619	(1,141)
Legal	15,000	16,801	(1,801)
Median landscape maintenance	7,762	625	7,137
Parking permits	3,000	2,016	984
Pension	3,300	3,075	225
Postage	5,664	4,214	1,450
Printing and advertising	2,000	3,320	(1,320)
Recycling and trash	35,244	44,210	(8,966)
Restricted purpose	17,500	5,242	12,258
Service grants		35,005	(35,005)
Sewer	1,200	691	509
Solid waste collection	101,475	102,720	(1,245)
Telephone	4,320	5,168	(848)
Utilities	7,000	6,635	365
Website	3,427	3,306	121
Total general government	<u>392,134</u>	<u>423,871</u>	<u>(31,737)</u>

TOWN OF FENWICK ISLAND, DELAWARE

**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND BY DEPARTMENT
(Continued)**

YEAR ENDED JULY 31, 2018

	Final Budget (Unaudited)	Actual Amounts	Variance Favorable (Unfavorable)
Administrative			
Dental insurance	2,027	1,132	895
Financial services	19,108	18,940	168
Health insurance	67,267	62,058	5,209
Life insurance	1,260	1,130	130
Miscellaneous		182	(182)
Office IT maintenance	4,500	5,869	(1,369)
Office supplies	3,000	3,954	(954)
Payroll taxes	21,865	17,492	4,373
Pension	17,859	12,506	5,353
Personnel supplies	400	441	(41)
Printing and advertising	3,050	2,280	770
Professional development	3,500	3,546	(46)
Salaries	252,993	220,635	32,358
Telephone	980	1,103	(123)
Travel reimbursement	5,200	5,151	49
Vehicle acquisition	4,140	4,140	
Vehicle fuel and maintenance	5,014	507	4,507
Vision care	681	644	37
Workmans compensation	1,081	872	209
Total administrative	<u>413,925</u>	<u>362,582</u>	<u>51,343</u>
Police department			
Building maintenance	11,150	9,766	1,384
Communication equipment	1,000	850	150
Dental insurance	2,380	1,961	419
Health insurance	118,066	103,239	14,827
Life insurance	1,829	2,012	(183)
Mobile computer access	4,025	3,274	751
Miscellaneous		168	(168)
Office IT maintenance	600	1,019	(419)
Office supplies		2,751	(2,751)
Payroll taxes	34,218	32,773	1,445
Pension	40,180	46,326	(6,146)
Police supplies	2,000	7,374	(5,374)

TOWN OF FENWICK ISLAND, DELAWARE

**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND BY DEPARTMENT
(Continued)**

YEAR ENDED JULY 31, 2018

	Final Budget (Unaudited)	Actual Amounts	Variance Favorable (Unfavorable)
Police department (continued)			
Printing and advertising	600		600
Professional development	4,000	2,000	2,000
Salaries	408,463	433,418	(24,955)
Uniforms	4,000	3,146	854
Vehicle fuel and maintenance	22,850	23,319	(469)
Vision care	805	791	14
Workmans compensation	36,427	35,471	956
Total police department	<u>692,593</u>	<u>709,658</u>	<u>(17,065)</u>
Beach patrol			
Awards and competitions	500	369	131
Beach vehicle fuel	491	595	(104)
Beach vehicle maintenance	400	3,285	(2,885)
Chair and sign maintenance	4,440	3,637	803
Communication equipment		422	(422)
Employee relations	1,100	1,211	(111)
Junior guard program	2,000	1,305	695
Lifeguard payroll taxes - Fenwick	22,837	18,206	4,631
Lifeguard payroll taxes - State		4,761	(4,761)
Lifeguard salaries - Fenwick	241,520	155,628	85,892
Lifeguard salaries - State		93,785	(93,785)
Lifeguard USLA certification	1,200	1,250	(50)
Lifeguard workmans compensation	19,847	20,208	(361)
Professional development	1,000	578	422
Supplies and equipment - Fenwick	4,500	4,080	420
Supplies and equipment - State		38	(38)
Telephone	1,102	805	297
Uniforms	6,000	6,581	(581)
Total beach patrol	<u>306,937</u>	<u>316,744</u>	<u>(9,807)</u>

TOWN OF FENWICK ISLAND, DELAWARE

**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND BY DEPARTMENT
(Continued)**

YEAR ENDED JULY 31, 2018

	Final Budget (Unaudited)	Actual Amounts	Variance Favorable (Unfavorable)
Public works			
Building maintenance	1,000	72	928
CDL testing	750	721	29
Contract services	115	139	(24)
Dental insurance	441	942	(501)
Health insurance	50,851	44,705	6,146
Life insurance	749	688	61
Miscellaneous		76	(76)
Payroll taxes	12,239	9,309	2,930
Pension	8,707	7,446	1,261
Printing and advertising		777	(777)
Professional development		50	(50)
Safety equipment	600	974	(374)
Salaries	125,201	122,457	2,744
Shop equipment	3,800	4,042	(242)
Shop supplies	4,000	4,127	(127)
Street maintenance		10,116	(10,116)
Telephone	982	1,007	(25)
Uniforms	1,500	890	610
Utilities	5,615	6,825	(1,210)
Vehicle fuel and maintenance	7,320	11,126	(3,806)
Vision care	454	250	204
Workmans compensation	10,289	10,065	224
Yard waste	500	92	408
Total public works	<u>235,113</u>	<u>236,896</u>	<u>(1,783)</u>
Capital outlay		4,666	(4,666)
Total expenditures	<u>\$ 2,040,702</u>	<u>\$ 2,054,417</u>	<u>\$ (13,715)</u>

GOVERNMENT AUDITING STANDARDS REPORT



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ALLINIAL GLOBAL

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*

Mayor and Council Members
Town of Fenwick Island, Delaware

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Fenwick Island, Delaware, as of and for the year ended July 31, 2018, and the related notes to the financial statements, which collectively comprise the Town of Fenwick Island, Delaware's basic financial statements, and have issued our report thereon dated January 25, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Fenwick Island, Delaware's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Fenwick Island, Delaware's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Fenwick Island, Delaware's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be a significant deficiency.

Internal Control over Financial Reporting (Continued)

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. We did not identify any deficiencies that we consider to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2018-001 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Fenwick Island, Delaware's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Fenwick Island, Delaware's response to findings

The Town of Fenwick Island, Delaware's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Town of Fenwick Island, Delaware's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
January 25, 2019

TOWN OF FENWICK ISLAND, DELAWARE
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JULY 31, 2018

SIGNIFICANT DEFICIENCY

2018-001 Criteria – Controls should be in place to detect, prevent, or correct misstatements in the Town's drafted financial statements.

Condition – Management relies on the auditor to prepare the financial statements in accordance with generally accepted accounting principles (GAAP). The financial statements are reviewed and approved by management prior to their issuance. In addition, management relies on the auditor to perform certain tasks such as the posting of approved adjusting entries to the trial balance.

Cause – Due to timing and software constraints, Management relies on the auditor to prepare the financial statements in accordance with generally accepted accounting principles. Management does not have sufficient knowledge of required generally accepted accounting principles to prepare the financial statements and determine whether the disclosures are complete.

Effect – There is a danger that intentional fraud or unintentional errors could occur and not be detected.

Recommendation – Management should seek additional education in relation to generally accepted accounting principles in order to prepare the financial statements and determine whether disclosures are complete.

Views of responsible officials and planned corrective actions – Management acknowledges the condition and is willing to accept the risks associated with it.