

TOWN OF FENWICK ISLAND, DELAWARE

FINANCIAL STATEMENTS

YEAR ENDED JULY 31, 2020

TOWN OF FENWICK ISLAND, DELAWARE

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TOWN OF FENWICK ISLAND, DELAWARE

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INDEPENDENT AUDITORS' REPORT



PKS & Company, P.A.

**Certified Public Accountants
& Advisors to Business**

INDEPENDENT AUDITORS' REPORT

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ALLIANCE GLOBAL

Honorable Mayor and Council Members
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, 2020, 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, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information on pages 3 through 12 and pages 35 through 37 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 22, 2021 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.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
January 22, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

JULY 31, 2020

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, 2020. 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 \$4,573,708 (net position) as compared to \$4,357,584 in the prior year. Unrestricted net position has a balance of \$649,003, 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 \$2,119,601, an increase of \$147,644 in comparison with the prior year.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was \$24,312 a decrease of \$395,086. This is largely due the transfer of funds to other governmental funds for Town capital projects.

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, 2020

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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, beach committee, 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 are 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, 2020

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, 2020, along with comparable data. Government-wide activities increased the Town of Fenwick Island's net position by \$216,124.

	Governmental Activities July 31, 2020	Governmental Activities July 31, 2019	Change
Revenues			
Program revenues			
Charges for services	\$ 657,974	\$ 804,682	\$ (146,708)
Capital grants and contributions	174,600	87,635	86,965
Operating grants and contributions	140,850	195,545	(54,695)
General revenues			
Taxes - property/rental	1,048,082	1,054,323	(6,241)
Realty transfer tax	482,370	163,838	318,532
Fines and forfeitures	353	475	(122)
Unrestricted investment earnings	37,010	23,153	13,857
Miscellaneous	74,051	91,305	(17,254)
Gain on sale of equipment	2,050	39,419	(37,369)
Total revenues	<u>2,617,340</u>	<u>2,460,375</u>	<u>156,965</u>
Expenses			
Administrative	362,218	413,204	(50,986)
Police department	841,945	870,733	(28,788)
Beach patrol	366,314	335,397	30,917
Beach committee	4,131	2,267	1,864
Public works (includes MSA expenses)	435,975	281,372	154,603
General government	390,633	565,668	(175,035)
Total expenses	<u>2,401,216</u>	<u>2,468,641</u>	<u>(67,425)</u>
Change in net position	216,124	(8,266)	224,390
Net position, beginning of year	<u>4,357,584</u>	<u>4,365,850</u>	<u>(8,266)</u>
Net position, end of year	<u>\$ 4,573,708</u>	<u>\$ 4,357,584</u>	<u>\$ 216,124</u>

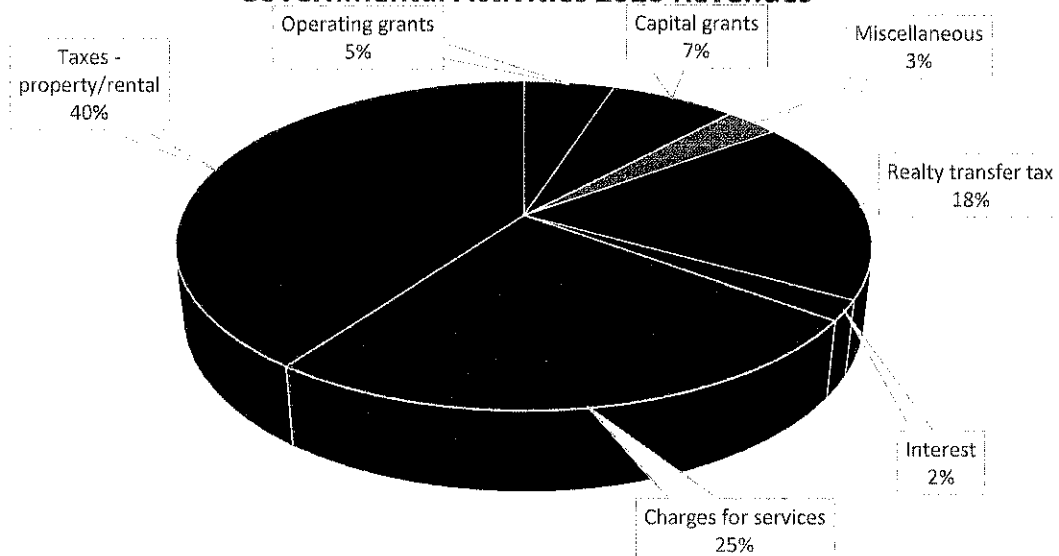
TOWN OF FENWICK ISLAND, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS

JULY 31, 2020

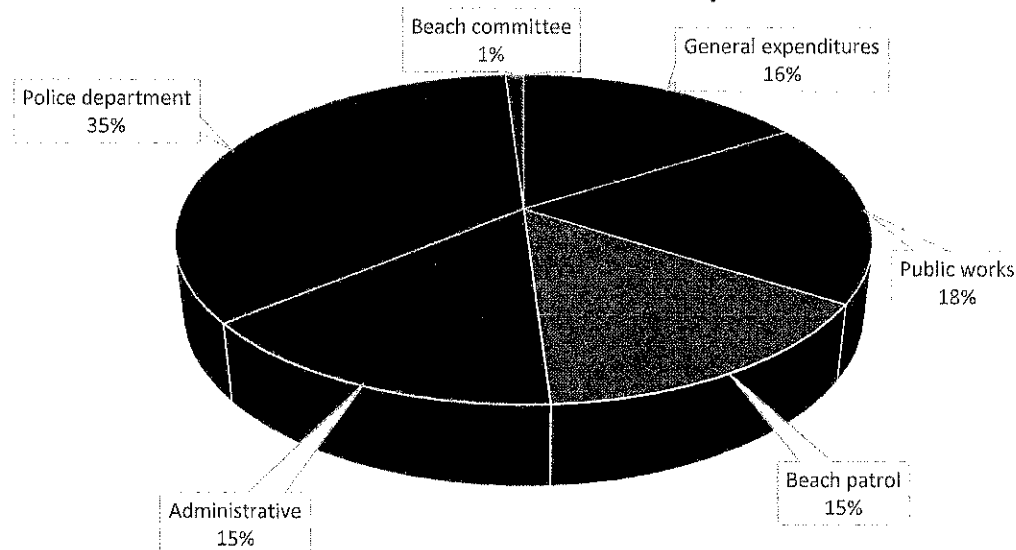
GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Analysis of the Town's operations (continued)

Governmental Activities 2020 Revenues



Governmental Activities 2020 Expenses



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

JULY 31, 2020

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, unassigned 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 \$2,119,601. Of this total amount, \$24,312 constitutes unassigned fund balance.

General fund budgetary highlights

Revenues for the general fund operations were below budgeted revenue by \$76,620. This unfavorable variance is primarily due to a decrease in building permit fee revenues. Departmental expenditures were higher than budgeted expenditures by \$294,619. This unfavorable variance is primarily due to the unbudgeted costs of capital outlay.

The general fund budget included amounts for realty transfer taxes; however, during the year ended fiscal year July 31, 2020, realty transfer tax revenue was reported in a separate governmental fund. The total unfavorable variance with this budget line item removed was \$108,552.

The following schedule presents a comparative summary of General Fund revenues for the fiscal years ended July 31, 2020 and 2019, along with the percentage of that revenue to total revenues:

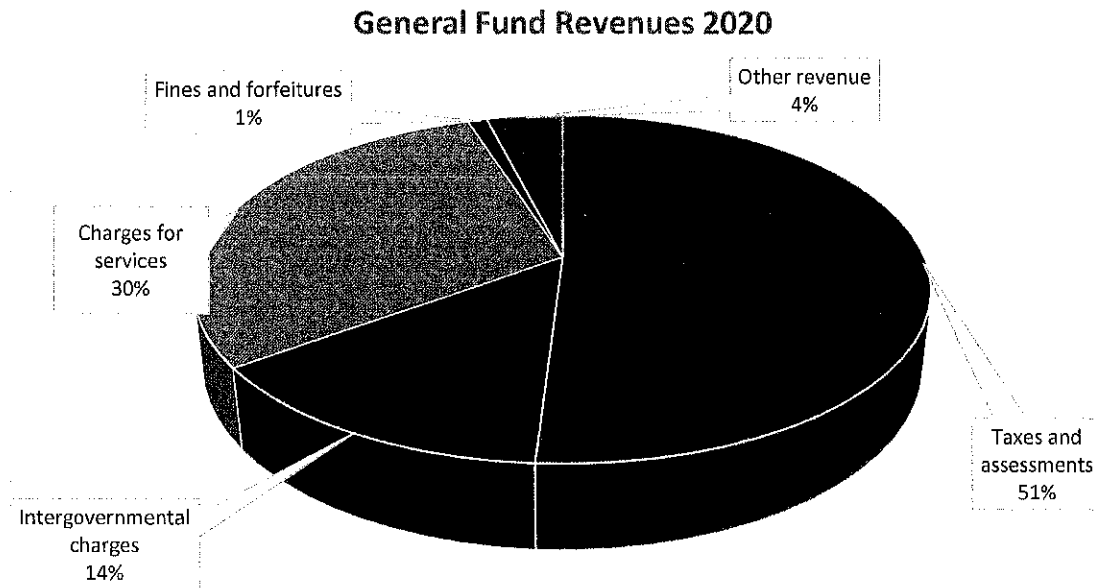
Revenues	July 31, 2020 Totals	Percentage of Total	July 31, 2019 Totals	Percentage of Total
Taxes and assessments	\$ 1,048,081	51%	\$ 1,060,365	47%
Intergovernmental grants	278,363	14%	239,810	11%
Charges for services	621,128	30%	765,896	34%
Fines and forfeitures	37,200	1%	39,261	2%
Other revenue	77,924	4%	142,129	6%
	<u>\$ 2,062,696</u>	<u>100%</u>	<u>\$ 2,247,461</u>	<u>100%</u>

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

JULY 31, 2020

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 \$1,048,081, or 51%, of all General Fund revenues. The decrease in revenues from 2019 of \$184,765 was due primarily to the decrease in charges for services and other revenues.

The following schedule represents a comparative summary of General Fund expenditures for the fiscal years ended July 31, 2020 and 2019, along with the percentage of that expenditure to total expenditures:

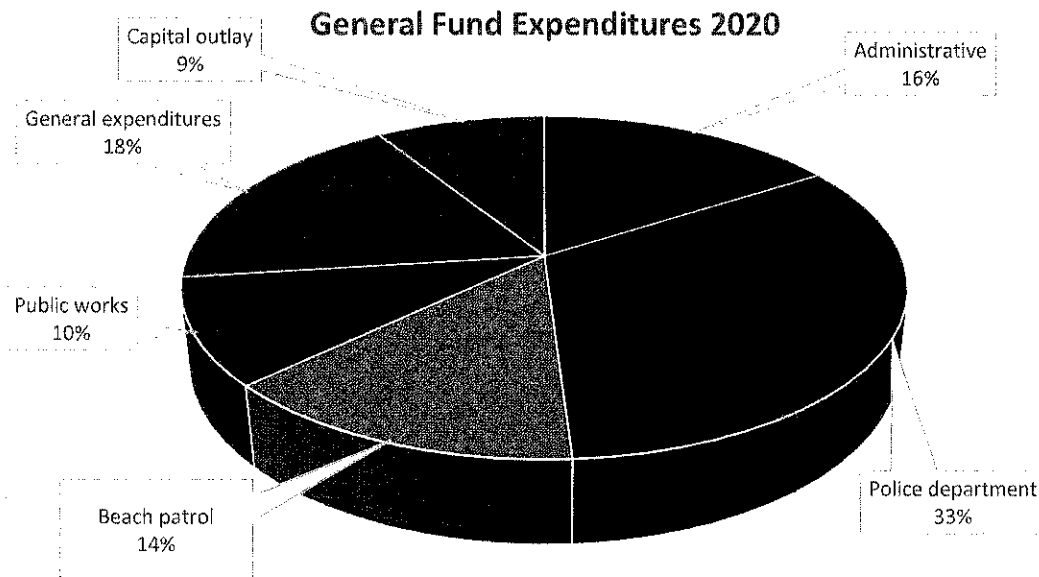
Expenditures	July 31, 2020 Totals	Percentage of Total	July 31, 2019 Totals	Percentage of Total
Administrative	\$ 378,503	16%	\$ 395,164	16%
Police department	801,976	33%	793,940	32%
Beach patrol	351,600	14%	320,684	13%
Public works	244,909	10%	181,553	7%
General government	429,158	18%	507,177	21%
Capital outlay	227,789	9%	274,242	11%
	<u>\$ 2,433,935</u>	<u>100%</u>	<u>\$ 2,472,760</u>	<u>100%</u>

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

JULY 31, 2020

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS (Continued)

General fund budgetary highlights (continued)



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 27 of this report.

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

JULY 31, 2020

CAPITAL ASSETS

The Town of Fenwick Island's investment in capital assets for its governmental activities as of July 31, 2020 amounts to \$2,672,386 (net of accumulated depreciation). This investment in capital assets includes the following:

	Governmental Activities July 31, 2020	Governmental Activities July 31, 2019	Change
Buildings	\$ 1,014,115	\$ 1,014,115	\$
Vehicles	422,789	319,751	103,038
Office equipment	113,990	105,010	8,980
Police equipment	196,100	196,100	
Street signs and fixtures	79,288	58,788	20,500
Machinery and equipment	209,007	199,007	10,000
Beach and lifeguard equipment	156,801	156,801	
Recreation equipment	40,147	40,147	
Construction in progress	98,095	188,886	(90,791)
Land and improvements	2,252,670	2,070,273	182,397
Accumulated depreciation	(1,910,616)	(1,719,610)	(191,006)
	<u>\$ 2,672,386</u>	<u>\$ 2,629,268</u>	<u>\$ 43,118</u>

This year's major capital asset additions included:

- Town Hall sound system for \$6,335.
- Fireproof filing cabinet for \$2,645.
- Solar powered PED warning systems for \$20,500.
- Bobcat track loader for \$30,000.
- Ford F-250 for \$36,745.
- Dodge Durango for \$36,294.
- Micro-surfacing for \$11,005.
- Bulkhead for \$8,999.
- Bay dredging for \$24,309.
- Sidewalk project for \$57,291.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens with a 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, 2020

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 937,517
Taxes receivable	99,711
Accounts receivable - other	27,773
Prepaid expenses	60,393
Restricted cash	1,252,319
Total current assets	2,377,713
Noncurrent assets	
Capital assets, net of depreciation	2,672,386
Total assets	5,050,099
DEFERRED OUTFLOWS OF RESOURCES	
Deferred financing outflows - retirement	190,936
LIABILITIES	
Current liabilities	
Accounts payable	55,370
Accrued wages and payroll taxes	5,769
Accrued compensated absences	13,280
Total current liabilities	74,419
Noncurrent liabilities	
Accrued compensated absences, less current portion	222,950
Net pension liability	130,613
Total noncurrent liabilities	353,563
Total liabilities	427,982
DEFERRED INFLOWS OF RESOURCES	
Deferred grants	183,693
Deferred financing inflows - retirement	55,652
Total deferred inflows of resources	239,345
NET POSITION	
Net investment in capital assets	2,672,386
Restricted	1,252,319
Unrestricted	649,003
Total net position	\$ 4,573,708

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

TOWN OF FENWICK ISLAND, DELAWARE

STATEMENT OF ACTIVITIES

YEAR ENDED JULY 31, 2020

FUNCTIONS/PROGRAMS	Program Revenues			Net Revenue (Expense) and Change in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
General government	\$ 390,633	\$ 621,128	\$	\$ 338,008
Administrative	362,218			(362,218)
Police department	841,945	36,846	73,850	(701,249)
Beach patrol	366,314		67,000	(299,314)
Beach committee	4,131			(4,131)
Public works	435,975			(398,888)
Total governmental activities	<u>2,401,216</u>	<u>657,974</u>	<u>140,850</u>	<u>(1,427,792)</u>

GENERAL REVENUES

Taxes	
Property taxes	704,868
Transfer taxes	482,370
Gross rental tax	343,214
Fines and forfeitures	353
Unrestricted investment earnings	37,010
Miscellaneous	74,051
Gain on sale of equipment	2,050
Total general revenues	<u>1,643,916</u>
Change in net position	<u>216,124</u>
NET POSITION, BEGINNING OF YEAR	<u>4,357,584</u>
NET POSITION, END OF YEAR	<u><u>\$ 4,573,708</u></u>

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

TOWN OF FENWICK ISLAND, DELAWARE

**BALANCE SHEETS
GOVERNMENTAL FUNDS**

JULY 31, 2020

	General Fund	1 1/2% Realty Transfer Tax	Municipal Street Aid	Other Governmental Funds (non-major)	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 254,628	\$	\$	\$ 682,889	\$ 937,517
Taxes receivable	23	99,688			99,711
Accounts receivable - other	27,773				27,773
Prepaid expenses	60,393				60,393
Restricted cash	34,599	1,147,399	70,321		1,252,319
Total assets	<u>\$ 377,416</u>	<u>\$ 1,247,087</u>	<u>\$ 70,321</u>	<u>\$ 682,889</u>	<u>\$ 2,377,713</u>
LIABILITIES					
Accounts payable	\$ 55,370	\$	\$	\$	\$ 55,370
Accrued wages and payroll taxes	5,769				5,769
Accrued compensated absences	13,280				13,280
Total liabilities	<u>74,419</u>				<u>74,419</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred grants	183,693				183,693
FUND BALANCES					
Nonspendable	60,393				60,393
Restricted	34,599	1,247,087	70,321	198,372	1,352,007
Committed				484,517	198,372
Assigned					484,517
Unassigned	24,312				24,312
Total fund balances	<u>119,304</u>	<u>1,247,087</u>	<u>70,321</u>	<u>682,889</u>	<u>2,119,601</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 377,416</u>	<u>\$ 1,247,087</u>	<u>\$ 70,321</u>	<u>\$ 682,889</u>	<u>\$ 2,377,713</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, 2020

Total fund balances, governmental funds \$ 2,119,601

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. 2,672,386

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 190,936

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 (222,950)

Deferred financing inflows - retirement (55,652)

Net pension liability (130,613)

Net position, governmental activities \$ 4,573,708

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, 2020

	General Fund	1 1/2% Realty Transfer Tax	Municipal Street Aid	Other Governmental Funds (non-major)	Total Governmental Funds
REVENUES					
Taxes	\$ 1,048,081	\$ 482,370	\$	\$	\$ 1,530,451
Intergovernmental	278,363		37,087		315,450
Charges for services	621,128			1,058	622,186
Fines and forfeitures	37,200				37,200
Miscellaneous	77,924	21,763	1,238	11,126	112,051
Total revenues	<u>2,062,696</u>	<u>504,133</u>	<u>38,325</u>	<u>12,184</u>	<u>2,617,338</u>
EXPENDITURES					
Current					
General government	429,158	4,824			433,982
Administrative	378,503	4,040			382,543
Police department	801,976				801,976
Beach patrol	351,600				351,600
Beach committee				4,130	4,130
Public works	244,909	13,379	1,447	1,604	261,339
Capital outlay	227,789	6,335			234,124
Total expenditures	<u>2,433,935</u>	<u>28,578</u>	<u>1,447</u>	<u>5,734</u>	<u>2,469,694</u>
Revenues over (under) expenditures	(371,239)	475,555	36,878	6,450	147,644
OTHER FINANCING SOURCES					
Transfers in (out)	17,412	(482,000)	(12,745)	477,333	
Net change in fund balances	(353,827)	(6,445)	24,133	483,783	147,644
FUND BALANCES, BEGINNING OF YEAR	<u>473,131</u>	<u>1,253,532</u>	<u>46,188</u>	<u>199,106</u>	<u>1,971,957</u>
FUND BALANCES, END OF YEAR	<u>\$ 119,304</u>	<u>\$ 1,247,087</u>	<u>\$ 70,321</u>	<u>\$ 682,889</u>	<u>\$ 2,119,601</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, 2020

Net change in fund balances, governmental funds	\$ 147,644
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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	\$ 234,124	
Depreciation expense	<u>(191,006)</u>	43,118

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		46,341
Change in deferred financing outflows - retirement		985
Change in net pension liability		(34,294)

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 financing inflows - retirement		<u>12,330</u>
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Change in net position, governmental activities	<u>\$ 216,124</u>
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The accompanying notes are an integral part of these financial statements.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2020

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, beach committee, 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 activities) 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, 2020

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, proprietary, and fiduciary – 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 through taxes and intergovernmental revenues. The measurement focus of governmental funds is the current financial resources. The Town has presented the following governmental funds:

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.

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.

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, beach committee, 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, 2020

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 does not have any fiduciary funds.

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, 2020

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 financing 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 deferred outflows of resources and liabilities and deferred inflows of resources. Government-wide net position is divided into three components.

Net investment in capital assets - consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for 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, 2020

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.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2020

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 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 statements.

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, 2020

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, 2020, the carrying amount of the Town's deposits was \$2,189,836 and the bank balance was \$2,248,602.

As of July 31, 2020, \$1,748,602 of the Town's bank balances was exposed to custodial risk. The \$1,748,602 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	\$ 937,517
Cash and cash equivalents - restricted	1,252,319
Total cash and cash equivalents	<u>\$ 2,189,836</u>

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2020

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, 2020, based on assessments, was \$.1740 per \$100 of assessed valuation. The total assessed value of all taxable real property and improvements at August 1, 2019 was \$398,374,236. 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, 2020 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
<i>Capital assets not being depreciated</i>				
Land	\$ 434,836	\$	\$	\$ 434,836
Construction in progress	188,886	101,605	(192,396)	98,095
Total capital assets not being depreciated	623,722	101,605	(192,396)	532,931
<i>Capital assets being depreciated</i>				
Land improvements	1,635,437	182,396		1,817,833
Buildings	1,014,115			1,014,115
Equipment	697,065	18,979		716,044
Vehicles	319,751	103,039		422,790
Street signs and fixtures	58,788	20,501		79,289
Total capital assets being depreciated	3,725,156	324,915		4,050,071
Less accumulated depreciation for:				
Land improvements	621,413	81,582		702,995
Buildings	245,943	28,708		274,651
Equipment	595,550	33,866		629,416
Vehicles	199,511	45,221		244,732
Street signs and fixtures	57,193	1,629		58,822
Total accumulated depreciation	1,719,610	191,006		1,910,616
Total capital assets being depreciated, net	2,005,546	133,909		2,139,455
Governmental activity capital assets, net	\$ 2,629,268	\$ 235,514	\$ (192,396)	\$ 2,672,386

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2020

CAPITAL ASSETS

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 59,474
Administrative	6,269
Police department	44,772
Beach patrol	14,714
Public works	65,777
Total governmental activities	<u>\$ 191,006</u>

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, 2019. 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 provides retirement, disability and death benefits. Eligibility and benefits vary depending on which plan the employee is enrolled in.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2020

RETIREMENT AND PENSION PLANS (Continued)

General information about the pension plans (continued)

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.

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.

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, 2020, the Town received \$39,500.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2020

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, 2020, the Town reported a liability of \$130,613 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018. Update procedures were used to roll forward the total pension liability to June 30, 2019. The Town's proportion of the net pension liability was based on the percentage of actual employee contributions. At June 30, 2019, the Town's proportion for the Plan was .4547%.

For the year ended July 31, 2020, the Town recognized pension expense of \$86,577. At July 31, 2020, 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	\$ 30,103	\$ 12,669
Changes in proportion	4,093	17,440
Difference between expected and actual experience	79,857	25,543
Net difference between projected and actual earnings on pension plan investments	1,256	
Contributions subsequent to measurement date	75,627	
	<u>\$ 190,936</u>	<u>\$ 55,652</u>

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2020

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 \$75,627 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 ending July 31, 2021. 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
Difference between expected and actual experience	2015	11 years
	2016	11 years
	2017	10 years
	2018	10 years
Net difference between projected and actual earnings on investments	2014	5 years
	2015	5 years
	2016	5 years
	2017	5 years
	2018	5 years
	2019	5 years
Change in proportion	2014	11 years
	2015	11 years
	2016	10 years
	2017	10 years
	2018	10 years
	2019	10 years
Change of assumptions	2016	10 years
	2017	10 years

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2020

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,		
2021	\$	15,393
2022		(3,178)
2023		4,230
2024		4,230
2025		4,855
Thereafter		34,127
	\$	<u>59,657</u>

Actuarial assumptions. The collective total pension liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of June 30, 2018, and update procedures were used to roll forward the total pension liability to June 30, 2019. 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 2018. 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 RP – 2014 tables with gender adjustments for healthy annuitants and disabled retirees and an adjusted version on MP-2015 mortality improvement scale on a fully generational basis.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2020

RETIREMENT AND PENSION PLANS (Continued)

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

Investments. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by an asset allocation percentage, which is based on the nature and mix of current and expected plan investments, and by adding expected inflation.

Best estimates of geometric real rates of return for each major class included in the Plan's current and expected asset allocation as of June 30, 2019 are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	29.5%	5.7%
International equity	13.5%	5.7%
Fixed income	27.1%	2.0%
Alternative investments	22.4%	7.8%
Cash and equivalents	7.5%	0.0%
Total	100%	

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.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2020

RETIREMENT AND PENSION PLANS (Continued)

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

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%)	\$ 429,023
Current discount rate (7.0%)	\$ 130,613
1% Increase (8.0%)	\$ (112,816)

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.

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.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2020

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.

IMPACT OF COVID-19

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a public health emergency. There have been mandates from federal, state, and local authorities requiring forced closures of schools, businesses, and other facilities. As a result of those mandates, the Town closed Town Hall to the general public and practiced social distancing.

Although most state and local governments have begun to ease restrictions, it is possible that a resurgence in COVID-19 cases could prompt a return to tighter restrictions. Therefore, significant uncertainty remains regarding the financial impact on the Town's financial condition and future results of operations.

NEW PRONOUNCEMENTS

GASB Statement No. 87, *Leases*, will be effective for the Town beginning with the year ending July 31, 2022. This statement 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, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Favorable</u>
				<u>(Unfavorable)</u>
REVENUES				
Taxes	\$ 1,044,000	\$ 1,044,000	\$ 1,048,081	\$ 4,081
Intergovernmental	136,055	136,055	278,363	142,308
Charges for services	593,479	593,479	621,128	27,649
Fines and forfeitures	37,060	37,060	37,200	140
Realty transfer taxes	245,275	245,275		(245,275)
Miscellaneous	83,447	83,447	77,924	(5,523)
Total revenues	<u>2,139,316</u>	<u>2,139,316</u>	<u>2,062,696</u>	<u>(76,620)</u>
EXPENDITURES				
Current				
General government	408,566	408,566	429,158	(20,592)
Administrative	379,005	379,005	378,503	502
Police department	769,087	769,087	801,976	(32,889)
Beach patrol	325,354	325,354	351,600	(26,246)
Public works	257,304	257,304	244,909	12,395
Capital outlay			227,789	(227,789)
Total expenditures	<u>2,139,316</u>	<u>2,139,316</u>	<u>2,433,935</u>	<u>(294,619)</u>
Revenues under expenditures			(371,239)	(371,239)
OTHER FINANCING SOURCES				
Transfers in			17,412	17,412
Net change in fund balances	<u>\$</u>	<u>\$</u>	<u>\$ (353,827)</u>	<u>\$ (353,827)</u>
ADJUSTMENTS:				
Revenues reported in a separate fund:				
Realty transfer taxes	(245,275)	(245,275)		245,275
Adjusted budget vairance	<u>\$ (245,275)</u>	<u>\$ (245,275)</u>	<u>\$ (353,827)</u>	<u>\$ (108,552)</u>

TOWN OF FENWICK ISLAND, DELAWARE

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

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

	2020	2019	2018	2017	2016
<u>County & Municipal Police and Firefighters' Pension Plan</u>					
Town's proportion of the net pension liability (asset)	0.4547%	0.4182%	0.4406%	0.4518%	0.4334%
Town's proportionate share of the net pension liability (asset)	\$ 130,613	\$ 96,319	\$ 44,421	\$ 71,820	\$ (22,839)
Town's covered-employee payroll	\$ 514,922	\$ 505,052	\$ 433,418	\$ 413,573	\$ 394,845
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	25.37%	19.07%	10.25%	17.37%	-5.78%
Plan fiduciary net position as a percentage of the total pension liability (asset)	93.3%	94.1%	97.0%	94.7%	102.0%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information is available to present a ten-year trend.

TOWN OF FENWICK ISLAND, DELAWARE

SCHEDULE OF THE TOWN'S CONTRIBUTIONS

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

	2020	2019	2018	2017	2016
<u>County & Municipal Police and Firefighters' Pension Plan</u>					
Contractually required contribution	\$ 75,627	\$ 74,279	\$ 70,387	\$ 49,852	\$ 43,628
	<u>(75,627)</u>	<u>(74,279)</u>	<u>(70,387)</u>	<u>(49,852)</u>	<u>(43,628)</u>
Contributions in relation to the contractually required contribution					
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Town's covered-employee payroll	\$ 514,922	\$ 505,052	\$ 433,418	\$ 413,573	\$ 394,845
Contributions as a percentage of covered-employee payroll	15%	15%	16%	12%	11%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information is available to present a ten-year trend.

SUPPLEMENTARY INFORMATION



PKS & Company, P.A.

**Certified Public Accountants
& Advisors to Business**

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

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SUSAN P. KEEN, CPA

MICHAEL C. KLEGER, CPA

JAMES D. MAYBURY, CPA

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ASHLEY M. STERN, CPA

JOHN M. STERN, JR., CPA

Honorable Mayor and Council Members
Town of Fenwick Island, Delaware

Report on Supplementary Information

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, 2020 appears on pages 1 and 2. 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 39 through 45 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information, 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.

MEMBERS OF:

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PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
January 22, 2021

TOWN OF FENWICK ISLAND, DELAWARE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS**

YEAR ENDED JULY 31, 2020

	Beach Replenishment	Parks and Recreation	Dedicated Streets	Beach Committee	Total Other Governmental Funds
REVENUES					
Charges for services	\$	\$ 1,058	\$	\$	\$ 1,058
Miscellaneous	4,256	11	3,031	3,828	11,126
Total revenues	<u>4,256</u>	<u>1,069</u>	<u>3,031</u>	<u>3,828</u>	<u>12,184</u>
EXPENDITURES					
Beach committee				4,130	4,130
Parks and recreation		1,604			1,604
Total expenditures	<u></u>	<u>1,604</u>	<u></u>	<u>4,130</u>	<u>5,734</u>
Revenues over (under) expenditures	4,256	(535)	3,031	(302)	6,450
OTHER FINANCING SOURCES					
Transfers in	<u>415,285</u>	<u>27</u>	<u>61,947</u>	<u>74</u>	<u>477,333</u>
Net change in fund balances	419,541	(508)	64,978	(228)	483,783
FUND BALANCES, BEGINNING OF YEAR	<u>38,047</u>	<u>11,170</u>	<u>133,394</u>	<u>16,495</u>	<u>199,106</u>
FUND BALANCES, END OF YEAR	<u>\$ 457,588</u>	<u>\$ 10,662</u>	<u>\$ 198,372</u>	<u>\$ 16,267</u>	<u>\$ 682,889</u>

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

YEAR ENDED JULY 31, 2020

	Final Budget (Unaudited)	Actual	Variance Favorable (Unfavorable)
Taxes			
Property taxes	\$ 737,000	\$ 704,867	\$ (32,133)
Gross rental taxes	307,000	343,214	36,214
Total taxes	<u>1,044,000</u>	<u>1,048,081</u>	<u>4,081</u>
Intergovernmental			
Capital improvement grant		107,513	107,513
Lifeguard grants	67,000	67,000	
Police grants	44,055	64,349	20,294
Pension income	25,000	39,501	14,501
Total intergovernmental	<u>136,055</u>	<u>278,363</u>	<u>142,308</u>
Charges for services			
Trash collection fees	186,686	186,417	(269)
Ambulance fees	49,343	45,365	(3,978)
Franchise fees	34,000	34,877	877
Licenses fees	106,450	101,760	(4,690)
Building permit fees	217,000	252,709	35,709
Total charges for services	<u>593,479</u>	<u>621,128</u>	<u>27,649</u>
Fines and forfeitures			
Traffic and parking fines	37,060	36,846	(214)
Other		354	354
Total fines and forfeitures	<u>37,060</u>	<u>37,200</u>	<u>140</u>
Realty transfer taxes	<u>245,275</u>		<u>(245,275)</u>
Miscellaneous			
Sale of equipment		2,050	2,050
Parking and bonfire permits	34,000	37,270	3,270
Beach concession services	15,712	9,462	(6,250)
Lifeguard chair advertising	9,300	5,599	(3,701)
Junior lifeguard program	6,865		(6,865)
Interest income	7,500	6,709	(791)
Other revenues	10,070	16,834	6,764
Total miscellaneous	<u>83,447</u>	<u>77,924</u>	<u>(5,523)</u>
Total revenues	<u>\$ 2,139,316</u>	<u>\$ 2,062,696</u>	<u>\$ (76,620)</u>

TOWN OF FENWICK ISLAND, DELAWARE
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND BY DEPARTMENT

YEAR ENDED JULY 31, 2020

	Final Budget (Unaudited)	Actual Amounts	Variance Favorable (Unfavorable)
General government			
Appraisal	\$	\$ 10,000	\$ (10,000)
Auditing	11,500	11,500	
BBVFC ambulance service	45,474	45,580	(106)
Building maintenance	7,800	8,522	(722)
Codification	4,195	1,195	3,000
Community projects	3,700	3,865	(165)
Contract services	5,000	1,830	3,170
Copiers	3,400	3,867	(467)
Dues	2,820	6,392	(3,572)
Employee relations	3,500	3,421	79
Government liaison	1,500	735	765
Insurance	73,302	78,746	(5,444)
Legal	30,000	32,452	(2,452)
Median landscape maintenance	5,000	954	4,046
Miscellaneous	300	393	(93)
Municipal street		1,954	(1,954)
Municipal street lighting	17,500	14,387	3,113
Parking permits	3,600	4,253	(653)
Pension	3,300	2,575	725
Postage	5,600	2,550	3,050
Printing and advertising	4,100	4,200	(100)
Professional fees		14,326	(14,326)
Recycling and trash	38,000	31,130	6,870
Sewer	1,000	705	295
Solid waste collection	112,000	110,076	1,924
Telephone	4,500	7,546	(3,046)
Utilities	7,220	8,162	(942)
Website	14,255	17,842	(3,587)
Total general government	<u>408,566</u>	<u>429,158</u>	<u>(20,592)</u>

TOWN OF FENWICK ISLAND, DELAWARE

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

(Continued)

YEAR ENDED JULY 31, 2020

	<u>Final Budget (Unaudited)</u>	<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
Administrative			
Dental insurance	1,383	1,405	(22)
Financial services	3,400	3,910	(510)
Health insurance	51,099	39,325	11,774
Life insurance	1,998	2,022	(24)
Miscellaneous		10,982	(10,982)
Office IT maintenance	2,500	3,017	(517)
Office supplies	8,895	3,487	5,408
Payroll taxes	20,080	20,602	(522)
Pension	24,748	25,607	(859)
Personnel supplies	400	560	(160)
Printing and advertising	1,000	949	51
Professional development	3,500	2,931	569
Salaries	248,679	254,382	(5,703)
Telephone	1,000	990	10
Travel reimbursement	5,200	4,720	480
Vehicle acquisition	2,190	1,363	827
Vehicle fuel and maintenance	750	489	261
Vision care	606	558	48
Workmans compensation	1,577	1,204	373
Total administrative	<u>379,005</u>	<u>378,503</u>	<u>502</u>
Police department			
Building maintenance	10,150	9,922	228
Communication equipment	1,000	609	391
Community outreach	300		300
Dental insurance	1,932	1,799	133
Health insurance	80,039	81,739	(1,700)
Life insurance	3,542	3,229	313
Mobile computer access	4,025	3,192	833
Office IT maintenance	6,900	8,632	(1,732)
Office supplies	600	944	(344)
Payroll taxes	38,893	41,065	(2,172)
Pension	72,096	70,610	1,486
Police supplies	2,000	5,329	(3,329)

TOWN OF FENWICK ISLAND, DELAWARE

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

YEAR ENDED JULY 31, 2020

	Final Budget (Unaudited)	Actual Amounts	Variance Favorable (Unfavorable)
Police department (continued)			
Printing and advertising	600		600
Professional development	4,000	2,835	1,165
Salaries	480,805	514,922	(34,117)
Uniforms	4,000	3,102	898
Vehicle fuel and maintenance	22,850	25,822	(2,972)
Vision care	889	687	202
Workmans compensation	34,466	27,538	6,928
Total police department	<u>769,087</u>	<u>801,976</u>	<u>(32,889)</u>
Beach patrol			
Awards and competitions	7,000	2,905	4,095
Beach vehicle fuel	500	642	(142)
Beach vehicle maintenance	500	226	274
Chair and sign maintenance	2,300	1,719	581
Communication equipment		360	(360)
Employee relations	2,400	200	2,200
Junior guard program	2,000	172	1,828
Lifeguard payroll taxes - Fenwick	16,149	19,592	(3,443)
Lifeguard payroll taxes - State	7,445	7,602	(157)
Lifeguard salaries - Fenwick	158,782	202,618	(43,836)
Lifeguard salaries - State	97,318	87,151	10,167
Lifeguard USLA certification	1,200	1,378	(178)
Lifeguard workmans compensation	16,860	13,435	3,425
Professional development	1,000	1,260	(260)
Supplies and equipment - Fenwick	4,500	4,091	409
Telephone	900	749	151
Uniforms	6,500	7,258	(758)
Utilities		242	(242)
Total beach patrol	<u>325,354</u>	<u>351,600</u>	<u>(26,246)</u>

TOWN OF FENWICK ISLAND, DELAWARE

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

(Continued)

YEAR ENDED JULY 31, 2020

	Final Budget (Unaudited)	Actual Amounts	Variance Favorable (Unfavorable)
Public works			
Building maintenance	1,000	664	336
CDL testing	750		750
Contract services	1,050	6,446	(5,396)
Dental insurance	1,216	1,023	193
Health insurance	46,544	45,106	1,438
Life insurance	1,193	1,190	3
Payroll taxes	11,771	11,777	(6)
Pension	13,891	9,984	3,907
Safety equipment	750	215	535
Salaries	143,511	138,624	4,887
Shop equipment	3,800	2,634	1,166
Shop supplies	5,000	5,543	(543)
Street maintenance	500	1,218	(718)
Telephone	1,000	1,490	(490)
Uniforms	1,500	1,086	414
Utilities	5,615	4,137	1,478
Vehicle fuel and maintenance	7,900	5,894	2,006
Vision care	365	334	31
Workmans compensation	9,448	7,502	1,946
Yard waste	500	42	458
Total public works	<u>257,304</u>	<u>244,909</u>	<u>12,395</u>
Capital outlay		<u>227,789</u>	<u>(227,789)</u>
Total expenditures	<u>\$ 2,139,316</u>	<u>\$ 2,433,935</u>	<u>\$ (294,619)</u>

GOVERNMENT AUDITING STANDARDS REPORT



PKS & Company, P.A.

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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*

Honorable 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, 2020, 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 22, 2021.

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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section 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. Given the limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2020-001, that we consider 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.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
January 22, 2021

TOWN OF FENWICK ISLAND, DELAWARE
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JULY 31, 2020

SIGNIFICANT DEFICIENCY

2020-001 Criteria – Controls should be in place to detect, prevent, or correct misstatements in the Town's drafted financial statements.

Condition and context – 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 or potential effect – There is a danger that intentional fraud or unintentional errors could occur and not be detected.

Recommendation – While this condition is not unusual for a Town with limited staffing, it is important that the Town is aware of this condition for financial statement purposes. Management and the Mayor and Council should be aware of the financial accounting and reporting of the Town and changes in accounting and reporting requirements.

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