

TOWN OF FENWICK ISLAND, DELAWARE
FINANCIAL STATEMENTS
YEAR ENDED JULY 31, 2022

TOWN OF FENWICK ISLAND, DELAWARE

TABLE OF CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITORS' REPORT	1 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 - 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
Notes to the financial statements	19 - 34
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary comparison schedule – general fund	35
Delaware Public Employees' Retirement System	
Schedule of the Town's proportionate share of the net pension liability (asset)	36
Schedule of the Town's contributions	37

TOWN OF FENWICK ISLAND, DELAWARE

TABLE OF CONTENTS (Continued)

	<u>Page(s)</u>
SUPPLEMENTARY INFORMATION	
Independent auditors' report on supplementary information	38
Combining balance sheet – other governmental funds	39
Combining statement of revenues, expenditures and changes in fund balance – other governmental funds	40
Schedule of revenues – budget and actual – general fund	41
Schedule of expenditures – budget and actual – general fund by department	42 - 45
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>	46 - 47
Schedule of findings and responses	48

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

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Honorable Mayor and Council Members
Town of Fenwick Island, Delaware

Opinions

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, 2022, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund, of the Town of Fenwick Island, Delaware, as of July 31, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town of Fenwick Island, Delaware's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Fenwick Island, Delaware's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information on pages 4 through 12 and pages 35 through 37 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2023, 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 11, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

JULY 31, 2022

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, 2022. 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 \$5,951,488 (net position) as compared to \$5,469,232 in the prior year. Unrestricted net position has a balance of \$1,500,949, 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 \$3,504,706, an increase of \$406,084 in comparison with the prior year.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was \$706,354, an increase of \$471,162. This is largely due to the transfer of funds from 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, 2022

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, 2022

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 seven (7) 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 Balance for the General Fund, 1½% Realty Transfer Tax and Municipal Street Aid Funds, all of which are considered major funds. Data from the other four (4) 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 19 - 34 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 35) and the Town's proportionate share of the net pension liability (asset) and contributions related to the Delaware Public Employees' Retirement System (pages 36 - 37).

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 39 - 40 of this report.

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

JULY 31, 2022

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the government's financial position. A large portion of the Town's net position (44%) reflects its investment 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 services to citizens; consequently, these assets are not available for future spending.

	Governmental Activities July 31, 2022	Governmental Activities July 31, 2021*	Change
Assets			
Current and other assets	\$ 4,555,995	\$ 3,487,687	\$ 1,068,308
Capital assets, net	2,612,908	2,619,865	(6,957)
Total assets	<u>7,168,903</u>	<u>6,107,552</u>	<u>1,061,351</u>
Deferred outflows of resources	<u>147,016</u>	<u>170,089</u>	<u>(23,073)</u>
Liabilities			
Current liabilities	77,032	97,539	(20,507)
Long-term liabilities	307,960	311,091	(3,131)
Total liabilities	<u>384,992</u>	<u>408,630</u>	<u>(23,638)</u>
Deferred inflows of resources	<u>979,439</u>	<u>390,649</u>	<u>588,790</u>
Net position			
Net investment in capital assets	2,609,848	2,615,300	(5,452)
Restricted	1,840,691	1,910,306	(69,615)
Unrestricted	1,500,949	943,626	557,323
Total net position	<u>\$ 5,951,488</u>	<u>\$ 5,469,232</u>	<u>\$ 482,256</u>

*2021 has been restated as referenced in the Prior Period Adjustment Footnote

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

JULY 31, 2022

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, 2022, along with comparable data. Government-wide activities increased the Town of Fenwick Island's net position by \$482,256.

	Governmental Activities July 31, 2022	Governmental Activities July 31, 2021 *	Change
Revenues			
Program revenues			
Charges for services	\$ 1,013,169	\$ 864,296	\$ 148,873
Capital grants and contributions	163,683	48,911	114,772
Operating grants and contributions	189,389	184,812	4,577
General revenues			
Taxes - property/rental	1,213,107	1,094,584	118,523
Realty transfer tax	345,840	1,092,063	(746,223)
Fines and forfeitures	1,100	570	530
Unrestricted investment earnings	28,449	20,853	7,596
Miscellaneous	99,549	162,831	(63,282)
Loss on sale of equipment		(1,332)	1,332
Total revenues	<u>3,054,286</u>	<u>3,467,588</u>	<u>(413,302)</u>
Expenses			
Administrative	345,318	404,779	(59,461)
Police department	866,672	881,801	(15,129)
Beach patrol	353,913	375,645	(21,732)
Beach committee	9,530	2,450	7,080
Public works (includes MSA expenses)	417,527	333,957	83,570
General government	579,070	573,432	5,638
Total expenses	<u>2,572,030</u>	<u>2,572,064</u>	<u>(34)</u>
Change in net position	482,256	895,524	(413,268)
Net position, beginning of year	<u>5,469,232</u>	<u>4,573,708</u>	<u>895,524</u>
Net position, end of year	<u><u>\$ 5,951,488</u></u>	<u><u>\$ 5,469,232</u></u>	<u><u>\$ 482,256</u></u>

*2021 has been restated as referenced in the Prior Period Adjustment Footnote

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

JULY 31, 2022

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 \$3,504,706. Of this total amount, \$706,354 constitutes unassigned fund balance.

General fund budgetary highlights

Revenues for the general fund operations were greater than budgeted revenue by \$667,453. The favorable revenue variance is primarily due to an increase in building permit fees, gross rental tax receipts, and grants. Departmental expenditures were less than budgeted expenditures by \$1,570,411. This favorable variance in expenditures is primarily due to capital outlay being under budget.

The following schedule presents a comparative summary of General Fund revenues for the fiscal years ended July 31, 2022 and 2021, along with the percentage of that revenue to total revenues:

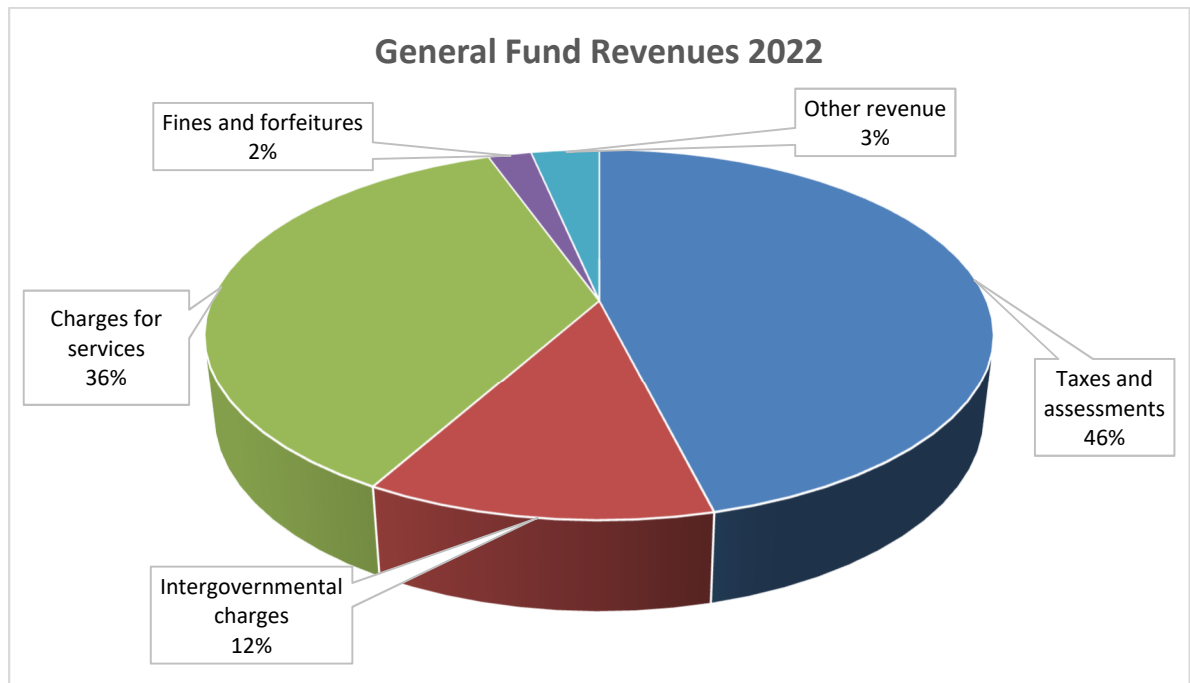
Revenues	July 31, 2022 Totals	Percentage of Total	July 31, 2021 Totals	Percentage of Total
Taxes and assessments	\$ 1,213,107	46%	\$ 1,094,585	47%
Intergovernmental grants	316,618	12%	197,033	8%
Charges for services	958,580	36%	815,230	35%
Fines and forfeitures	55,489	2%	47,636	2%
Other revenue	87,851	3%	165,918	7%
	<u>\$ 2,631,645</u>	<u>100%</u>	<u>\$ 2,320,402</u>	<u>100%</u>

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

JULY 31, 2022

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 \$1,213,107, or 46%, of all General Fund revenues. The increase in revenues from 2021 of \$311,243 was due primarily to the increase in charges for services and intergovernmental grants.

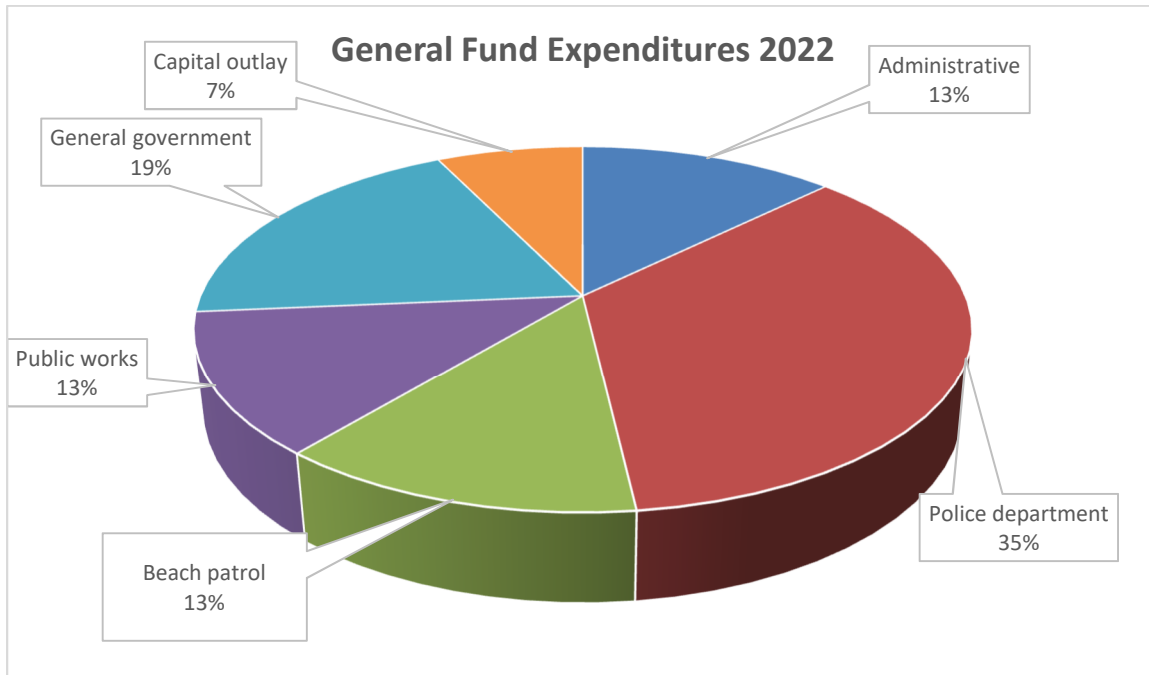
The following schedule represents a comparative summary of General Fund expenditures for the fiscal years ended July 31, 2022 and 2021, along with the percentage of that expenditure to total expenditures:

Expenditures	July 31, 2022 Totals	Percentage of Total	July 31, 2021 Totals	Percentage of Total
Administrative	\$ 333,166	13%	\$ 396,187	16%
Police department	928,741	35%	812,925	33%
Beach patrol	337,825	13%	360,515	15%
Public works	328,603	13%	268,924	11%
General government	501,295	19%	478,163	19%
Capital outlay	190,436	7%	154,849	6%
	<u>\$ 2,620,066</u>	<u>100%</u>	<u>\$ 2,471,563</u>	<u>100%</u>

TOWN OF FENWICK ISLAND, DELAWARE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JULY 31, 2022

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS (Continued)

General fund budgetary highlights (continued)



DEBT ADMINISTRATION

The Town implemented the new GASB standard to reflect operating leases on the financial statements in this fiscal year. Current and long-term lease payable are now reflected on the financial statements. 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.

CAPITAL ASSETS

The Town of Fenwick Island's investment in capital assets for its governmental activities as of July 31, 2022 amounts to \$2,612,908 (net of accumulated depreciation).

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

JULY 31, 2022

CAPITAL ASSETS (Continued)

This year’s major capital asset additions included:

- Mobi mats for \$14,644.
- Zoom TV and sound system for \$9,219.
- 2021 Police Interceptor SUV for \$48,003.
- Street assessment for \$14,338.
- Sidewalk project for \$15,742.
- Bay dredging for \$84,566.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

In June 2022, the Town received the second and final installment of \$119,187 from the Department of Housing and Community Development under the American Rescue Plan Act of 2021 Coronavirus Local Fiscal Recovery Funds (CLFRF). The Town received a total of \$239,311. To date, the Town has used a portion of the funds received for stormwater backflow preventer valves, installation of an air purification system, updating conference room meeting equipment, deep cleaning sanitization and premium pay. The Town continues to review opportunities for additional projects to optimize the use of the remaining funds.

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, 2022

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 2,025,605
Taxes receivable	65,650
Accounts receivable - other	30,517
Prepaid expenses	55,810
Restricted cash and cash equivalents	1,840,691
Total current assets	4,018,273
Noncurrent assets	
Capital assets, net of depreciation	2,612,908
Net pension asset	537,722
Total noncurrent assets	3,150,630
Total assets	7,168,903
DEFERRED OUTFLOWS OF RESOURCES	
Deferred financing outflows - retirement	147,016
LIABILITIES	
Current liabilities	
Accounts payable	41,726
Accrued wages and payroll taxes	18,067
Accrued compensated absences	15,672
Leases payable	1,567
Noncurrent liabilities	
Accrued compensated absences, less current portion	306,467
Lease payable, less current portion	1,493
Total liabilities	384,992
DEFERRED INFLOWS OF RESOURCES	
Deferred grants	438,105
Deferred financing inflows - retirement	541,334
Total deferred inflows of resources	979,439
NET POSITION	
Net investment in capital assets	2,609,848
Restricted	1,840,691
Unrestricted	1,500,949
Total net position	\$ 5,951,488

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

TOWN OF FENWICK ISLAND, DELAWARE

STATEMENT OF ACTIVITIES

YEAR ENDED JULY 31, 2022

					Net Revenue (Expense) and Change in Net Position

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

TOWN OF FENWICK ISLAND, DELAWARE

**BALANCE SHEETS
GOVERNMENTAL FUNDS**

JULY 31, 2022

	General Fund	1 1/2% Realty Transfer Tax	Municipal Street Aid	Other Governmental Funds (non-major)	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,085,239	\$	\$	\$ 940,367	\$ 2,025,606
Taxes receivable	310	65,340			65,650
Accounts receivable - other	30,517				30,517
Prepaid expenses	55,810				55,810
Restricted cash	27,231	1,683,440	130,020		1,840,691
Total assets	<u>\$ 1,199,107</u>	<u>\$ 1,748,780</u>	<u>\$ 130,020</u>	<u>\$ 940,367</u>	<u>\$ 4,018,274</u>
LIABILITIES					
Accounts payable	\$ 37,868	\$	\$	\$ 3,856	\$ 41,724
Accrued wages and payroll taxes	18,067				18,067
Accrued compensated absences	15,672				15,672
Total liabilities	<u>71,607</u>			<u>3,856</u>	<u>75,463</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred grants	<u>338,105</u>			<u>100,000</u>	<u>438,105</u>
FUND BALANCES					
Nonspendable	55,810				55,810
Restricted	27,231	1,748,780	130,020		1,906,031
Committed				422,234	422,234
Assigned				414,277	414,277
Unassigned	<u>706,354</u>				<u>706,354</u>
Total fund balances	<u>789,395</u>	<u>1,748,780</u>	<u>130,020</u>	<u>836,511</u>	<u>3,504,706</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 1,199,107</u>	<u>\$ 1,748,780</u>	<u>\$ 130,020</u>	<u>\$ 940,367</u>	<u>\$ 4,018,274</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, 2022

Total fund balances, governmental funds	\$ 3,504,706
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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.	2,612,908
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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	147,016
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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.

Accrued compensated absences	(306,470)
Deferred financing inflows - retirement	(541,334)
Leases payable	(3,060)
Net pension asset	<u>537,722</u>

Net position, governmental activities	<u><u>\$ 5,951,488</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, 2022

	General Fund	1 1/2% Realty Transfer Tax	Municipal Street Aid	Other Governmental Funds (non-major)	Total Governmental Funds
REVENUES					
Taxes	\$ 1,213,107	\$ 345,840	\$	\$	\$ 1,558,947
Intergovernmental	316,618		36,453		353,071
Charges for services	958,580			1,290	959,870
Fines and forfeitures	55,489				55,489
Miscellaneous	87,851	13,585	945	24,529	126,910
Total revenues	<u>2,631,645</u>	<u>359,425</u>	<u>37,398</u>	<u>25,819</u>	<u>3,054,287</u>
EXPENDITURES					
Current					
General government	501,295	3,459			504,754
Administrative	333,166				333,166
Police department	928,741				928,741
Beach patrol	337,825				337,825
Beach committee				9,530	9,530
Public works	328,603	4,250	9,793	1,105	343,751
Capital outlay	190,436				190,436
Total expenditures	<u>2,620,066</u>	<u>7,709</u>	<u>9,793</u>	<u>10,635</u>	<u>2,648,203</u>
Revenues over expenditures	11,579	351,716	27,605	15,184	406,084
OTHER FINANCING SOURCES					
Transfers in (out)	<u>447,284</u>	<u>(463,334)</u>	<u>9,792</u>	<u>6,258</u>	
Net change in fund balances	458,863	(111,618)	37,397	21,442	406,084
FUND BALANCES, BEGINNING OF YEAR	<u>330,532</u>	<u>1,860,398</u>	<u>92,623</u>	<u>815,069</u>	<u>3,098,622</u>
FUND BALANCES, END OF YEAR	<u>\$ 789,395</u>	<u>\$ 1,748,780</u>	<u>\$ 130,020</u>	<u>\$ 836,511</u>	<u>\$ 3,504,706</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, 2022

Net change in fund balances, governmental funds	\$ 406,084
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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	\$ 190,436	
Depreciation expense	<u>(197,393)</u>	(6,957)

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	(59,611)
Change in deferred financing outflows - retirement	(23,073)

Governmental funds report repayment of debt principal as an expenditure.
On the other hand, principal payments on debt are not expenditures in the
Statement of Activities, but rather constitute long-term liabilities in the
Statement of Net Position.

Principal payments on lease payable	1,506
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The governmental fund 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 net pension asset	606,520
Change in deferred financing inflows - retirement	<u>(442,213)</u>

Change in net position, governmental activities	<u>\$ 482,256</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, 2022

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 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.

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.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2022

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 special reserves (for Dredging and Sidewalks), 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.

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.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2022

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of accounting and measurement focus

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.

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.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2022

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.

Pensions

For purposes of measuring the net pension asset, 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.

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 inventory 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.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2022

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund balances (continued)

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.

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:

Asset Class	Estimated Useful Lives
Buildings and improvements	5 - 40 years
Equipment	3 - 20 years
Vehicles	5 years
Infrastructure	30 years
Leased equipment (Right-to-use)	Life of lease

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2022

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. There are no interfund loans. All other interfund transactions are treated as transfers. Transfers between funds are netted as part of the reconciliation to the government-wide financial statements.

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.

Adoption of GASB Statement No. 87, *Leases*

Effective August 1, 2021, the Town adopted the new lease accounting guidance in GASB Statement No. 87, *Leases*. The new guidance requires recognition of certain lease assets and liabilities that were previously classified as operating leases.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2022

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, 2022, the carrying amount of the Town's deposits was \$3,866,296 and the bank balance was \$3,903,841.

As of July 31, 2022, \$3,403,091 of the Town's bank balances were covered by the Federal Deposit Insurance Corporation (FDIC).

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Town's investments. The Town has limited exposure to interest rate risk due to no long-term debt or 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	\$ 2,025,605
Cash and cash equivalents - restricted	<u>1,840,691</u>
Total cash and cash equivalents	<u>\$ 3,866,296</u>

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, 2022, based on assessments, was \$.1740 per \$100 of assessed valuation. The total assessed value of all taxable real property and improvements at August 1, 2021 was \$406,912,595. The Town does not have an allowance for delinquent taxes because all taxes are considered collectible.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2022

CAPITAL ASSETS

Capital asset activity for the year ended July 31, 2022 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	155,786	114,645		270,431
Total capital assets not being depreciated	<u>590,622</u>	<u>114,645</u>		<u>705,267</u>
<i>Capital assets being depreciated</i>				
Land improvements	1,817,833			1,817,833
Buildings	1,041,002			1,041,002
Equipment	722,407	27,788	(91,184)	659,011
Vehicles	446,826	48,003		494,829
Street signs and fixtures	79,289		(16,847)	62,442
Leased equipment	7,541			7,541
Total capital assets being depreciated	<u>4,114,898</u>	<u>75,791</u>	<u>(108,031)</u>	<u>4,082,658</u>
Less accumulated depreciation for:				
Land improvements	803,521	88,900		892,421
Buildings	303,725	28,831		332,556
Equipment	647,786	27,645	(91,184)	584,247
Vehicles	263,966	46,353		310,319
Street signs and fixtures	63,515	4,156	(16,847)	50,824
Leased equipment	3,142	1,508		4,650
Total accumulated depreciation	<u>2,085,655</u>	<u>197,393</u>	<u>108,031</u>	<u>2,175,017</u>
Total capital assets being depreciated, net	<u>2,029,243</u>	<u>(121,602)</u>		<u>1,907,641</u>
Governmental activity capital assets, net	<u>\$ 2,619,865</u>	<u>\$ (6,957)</u>	<u>\$</u>	<u>\$ 2,612,908</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 76,791
Administrative	5,986
Police department	52,985
Beach patrol	16,089
Public works	45,542
Total governmental activities	<u>\$ 197,393</u>

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2022

LONG-TERM DEBT

Changes in long-term obligations for the year July 31, 2022 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Operating leases	\$ 4,566	\$	\$ 1,506	\$ 3,060

Operating leases

The Town is leasing two copiers under operating leases with a balance of \$3,060 expiring 2024. The asset and liability are recorded at the present value of the future lease payments of \$2,891. The assets are amortized over the life of the lease. Amortization of the assets under operating leases is included in depreciation expense.

Principal and interest requirements to amortize lease obligations as of July 31, 2022 are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 1,567	\$ 94
2024	1,493	30
	<u>\$ 3,060</u>	<u>\$ 124</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.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2022

RETIREMENT AND PENSION PLANS (Continued)

General information about the pension plans (continued)

The following is a brief description of the plan in effect as of June 30, 2021. For a more complete description, please refer to the DPERS 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.

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, 2022, the Town received \$46,506.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2022

RETIREMENT AND PENSION PLANS (Continued)

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

At July 31, 2022, the Town reported an asset of \$537,722 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2021, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of June 30, 2020. Update procedures were used to roll forward the total pension asset to June 30, 2021. The Town's proportion of the net pension asset was based on the percentage of actual employee contributions. At June 30, 2021, the Town's proportion for the Plan was .3908%.

For the year ended July 31, 2022, the Town recognized pension revenue of \$76,993. At July 31, 2022, 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	\$ 18,478	\$ 39,161
Changes in proportion	7,818	24,314
Difference between expected and actual experience	50,879	20,950
Net difference between projected and actual earnings on pension plan investments		456,909
Contributions subsequent to measurement date	69,841	
	<u>\$ 147,016</u>	<u>\$ 541,334</u>

The Town's contribution of \$69,841 subsequent to the measurement date, reported as deferred outflows of resources, will be recognized as a reduction of the net pension asset in the year ending July 31, 2023. The collective deferred outflows of resources and deferred inflows of resources are being amortized as follows:

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2022

RETIREMENT AND PENSION PLANS (Continued)

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

	Measurement Period Ended	Amortization Period
	June 30	Police
Difference between expected and actual experience	2015	11 years
	2016	10 years
	2017	10 years
	2018	10 years
	2020	9 years
	2021	10 years
Net difference between projected and actual earnings on investments	2017	5 years
	2018	5 years
	2019	5 years
	2020	5 years
	2021	5 years
Change in proportion	2014	11 years
	2015	11 years
	2016	10 years
	2017	10 years
	2018	10 years
	2019	10 years
	2020	10 years
	2021	9 years
Change in assumptions	2016	10 years
	2017	10 years
	2021	10 years

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2022

RETIREMENT AND PENSION PLANS (Continued)

Pension assets, 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,	
2023	\$ (118,899)
2024	(117,647)
2025	(117,884)
2026	(107,524)
2027	2,224
Thereafter	(4,429)
	<u>\$ (464,159)</u>

Actuarial assumptions. The collective total pension asset for the June 30, 2021 measurement date was determined by an actuarial valuation as of June 30, 2020, and update procedures were used to roll forward the total pension asset to June 30, 2021. 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 assets 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 2020. 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, 2022

RETIREMENT AND PENSION PLANS (Continued)

Pension assets, 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, 2021 are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	32.3%	5.7%
International equity	18.1%	5.7%
Fixed income	20.6%	2.0%
Alternative investments	24.2%	7.8%
Cash and equivalents	4.8%	0.0%
Total	100%	

Discount rate: The discount rate for the plan used to measure the total pension asset 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 asset.

TOWN OF FENWICK ISLAND, DELAWARE

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2022

RETIREMENT AND PENSION PLANS (Continued)

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

Sensitivity of the net pension asset 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%)	\$ (248,264)
Current discount rate (7.0%)	\$ (537,722)
1% Increase (8.0%)	\$ (773,972)

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, 2022

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.

NEW PRONOUNCEMENTS

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, will be effective for the Town beginning with the year ending July 31, 2023. This statement changes the reporting and accounting of component units.

GASB Statement No. 101, *Compensated Absences*, will be effective for the Town beginning with the year ending July 31, 2025. This statement updates the recognition and measurement guidance for compensated absences.

PRIOR PERIOD ADJUSTMENT

During the year ended July 31, 2022, there were retrospective changes made to the accounting for operating leases and capital assets for the governmental funds for the year ended July 31, 2021 due to the implementation of GASB Statement No. 87, *Leases*. These changes resulted in a change to the governmental funds beginning net position on the government-wide financial statements as described below:

	Governmental funds net position
Original balance at July 31, 2021	\$ 5,469,398
Adjustment to capital assets	4,399
Adjustment to lease payable	(4,565)
Balance at July 31, 2021, as restated	<u>\$ 5,469,232</u>

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF FENWICK ISLAND, DELAWARE

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

YEAR ENDED JULY 31, 2022

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Favorable
				(Unfavorable)
REVENUES				
Taxes	\$ 1,129,250	\$ 1,129,250	\$ 1,213,107	\$ 83,857
Intergovernmental	103,937	103,937	316,618	212,681
Charges for services	615,793	615,793	958,580	342,787
Fines and forfeitures	39,350	39,350	55,489	16,139
Miscellaneous	68,862	68,862	87,851	18,989
Total revenues	<u>1,957,192</u>	<u>1,957,192</u>	<u>2,631,645</u>	<u>674,453</u>
EXPENDITURES				
Current				
General government	456,410	456,410	501,295	(44,885)
Administrative	389,191	389,191	333,166	56,025
Police department	826,414	826,414	928,741	(102,327)
Beach patrol	407,860	407,860	337,825	70,035
Public works	255,317	255,317	328,603	(73,286)
Capital outlay	<u>1,855,285</u>	<u>1,855,285</u>	<u>190,436</u>	<u>1,664,849</u>
Total expenditures	<u>4,190,477</u>	<u>4,190,477</u>	<u>2,620,066</u>	<u>1,570,411</u>
Revenues over (under) expenditures	(2,233,285)	(2,233,285)	11,579	2,244,864
OTHER FINANCING SOURCES				
Transfers in	<u>2,233,285</u>	<u>2,233,285</u>	<u>447,284</u>	<u>(1,786,001)</u>
Net change in fund balances	<u>\$</u>	<u>\$</u>	<u>\$ 458,863</u>	<u>\$ 458,863</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)**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<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)	0.3908%	0.4477%	0.4547%	0.4182%	0.4406%	0.4518%	0.4334%
Town's proportionate share of the net pension liability (asset) \$	(537,722)	\$ 68,798	\$ 130,613	\$ 96,319	\$ 44,421	\$ 71,820	\$ (22,839)
Town's covered-employee payroll	\$ 594,317	\$ 508,026	\$ 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	-90.48%	13.54%	25.37%	19.07%	10.25%	17.37%	-5.78%
Plan fiduciary net position as a percentage of the total pension liability (asset)	128.2%	96.7%	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)**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>County & Municipal Police and Firefighters' Pension Plan</u>							
Contractually required contribution	\$ 69,841	\$ 69,935	\$ 75,627	\$ 74,279	\$ 70,387	\$ 49,852	\$ 43,628
Contributions in relation to the contractually required contribution	<u>(69,841)</u>	<u>(69,935)</u>	<u>(75,627)</u>	<u>(74,279)</u>	<u>(70,387)</u>	<u>(49,852)</u>	<u>(43,628)</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Town's covered-employee payroll	\$ 594,317	\$ 508,026	\$ 514,922	\$ 505,052	\$ 433,418	\$ 413,573	\$ 394,845
Contributions as a percentage of covered-employee payroll	12%	14%	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



INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

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DELAWARE SOCIETY OF
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ALLINIAL GLOBAL

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, 2022 appears on pages one through three. 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.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
January 11, 2023

TOWN OF FENWICK ISLAND, DELAWARE

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS**

JULY 31, 2022

	Special Reserves	Parks and Recreation	Dedicated Streets	Beach Committee	Total Other Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 481,739	\$ 11,506	\$ 422,234	\$ 24,888	\$ 940,367
LIABILITIES					
Accounts payable	\$	\$ 678	\$	\$ 3,178	\$ 3,856
DEFERRED INFLOWS OF RESOURCES					
Deferred grants	100,000				100,000
FUND BALANCES					
Committed	\$	\$	\$ 422,234	\$	\$ 422,234
Assigned	381,739	10,828		21,710	414,277
Total fund balances	381,739	10,828	422,234	21,710	836,511
Total liabilities, deferred inflows, and fund balances	\$ 481,739	\$ 11,506	\$ 422,234	\$ 24,888	\$ 940,367

TOWN OF FENWICK ISLAND, DELAWARE

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

YEAR ENDED JULY 31, 2022

	Special Reserves	Parks and Recreation	Dedicated Streets	Beach Committee	Total Other Governmental Funds
REVENUES					
Charges for services	\$	\$ 1,290	\$	\$	\$ 1,290
Miscellaneous	3,399	6	2,976	18,148	24,529
Total revenues	<u>3,399</u>	<u>1,296</u>	<u>2,976</u>	<u>18,148</u>	<u>25,819</u>
EXPENDITURES					
Beach committee				9,530	9,530
Parks and recreation		1,105			1,105
Total expenditures		<u>1,105</u>		<u>9,530</u>	<u>10,635</u>
Revenues over expenditures	3,399	191	2,976	8,618	15,184
OTHER FINANCING SOURCES					
Transfers in (out)	<u>(45,443)</u>	<u>(337)</u>	<u>52,773</u>	<u>(735)</u>	<u>6,258</u>
Net change in fund balances	(42,044)	(146)	55,749	7,883	21,442
FUND BALANCES, BEGINNING OF YEAR	<u>423,783</u>	<u>10,974</u>	<u>366,485</u>	<u>13,827</u>	<u>815,069</u>
FUND BALANCES, END OF YEAR	<u><u>\$ 381,739</u></u>	<u><u>\$ 10,828</u></u>	<u><u>\$ 422,234</u></u>	<u><u>\$ 21,710</u></u>	<u><u>\$ 836,511</u></u>

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

YEAR ENDED JULY 31, 2022

	Final Budget (Unaudited)	Actual	Variance Favorable (Unfavorable)
Taxes			
Property taxes	\$ 724,250	\$ 725,595	\$ 1,345
Gross rental taxes	405,000	487,512	82,512
Total taxes	<u>1,129,250</u>	<u>1,213,107</u>	<u>83,857</u>
Intergovernmental			
Capital improvement grants		127,229	127,229
Lifeguard grants	67,000	67,000	
Police grants		75,883	75,883
Pension income	36,937	46,506	9,569
Total intergovernmental	<u>103,937</u>	<u>316,618</u>	<u>212,681</u>
Charges for services			
Trash collection fees	186,500	188,212	1,712
Ambulance fees	45,050	45,580	530
Franchise fees	36,836	40,365	3,529
License fees	102,407	105,831	3,424
Building permit fees	245,000	578,592	333,592
Total charges for services	<u>615,793</u>	<u>958,580</u>	<u>342,787</u>
Fines and forfeitures			
Traffic and parking fines	39,000	54,389	15,389
Other	350	1,100	750
Total fines and forfeitures	<u>39,350</u>	<u>55,489</u>	<u>16,139</u>
Miscellaneous			
Parking and bonfire permits	37,000	41,299	4,299
Beach concession services	15,712	16,500	788
Lifeguard chair advertising	5,000	4,400	(600)
Junior lifeguard program	6,500	3,515	(2,985)
Interest income	1,800	7,540	5,740
Special events donations		1,785	1,785
Other revenues	2,850	12,812	9,962
Total miscellaneous	<u>68,862</u>	<u>87,851</u>	<u>18,989</u>
Total revenues	<u>\$ 1,957,192</u>	<u>\$ 2,631,645</u>	<u>\$ 674,453</u>

TOWN OF FENWICK ISLAND, DELAWARE

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

YEAR ENDED JULY 31, 2022

	Final Budget (Unaudited)	Actual Amounts	Variance Favorable (Unfavorable)
General government			
Appraisal	\$ 12,000	\$ 6,000	\$ 6,000
Auditing	13,250	13,250	
BBVFC ambulance service	45,580	45,580	
Building maintenance	7,800	4,362	3,438
Codification and code re-write	5,195	8,242	(3,047)
Community projects	4,850	4,219	631
Contract services	5,000	6,019	(1,019)
Copiers	3,800	6,007	(2,207)
Dues	6,920	7,433	(513)
Employee relations	3,500	4,617	(1,117)
Government liaison	1,500	2,049	(549)
Insurance	85,870	93,981	(8,111)
Legal	28,000	74,978	(46,978)
Median landscape maintenance	3,400	2,200	1,200
Miscellaneous		1,659	(1,659)
Municipal street	3,000		3,000
Municipal street lighting	15,000	14,938	62
Parking permits	5,100	6,339	(1,239)
Pension	2,600	2,575	25
Postage	5,705	6,667	(962)
Printing and advertising	5,100	5,245	(145)
Recycling and trash	41,000	38,717	2,283
Sewer	1,000	953	47
Solid waste collection	115,000	110,005	4,995
Telephone	9,740	13,769	(4,029)
Utilities	9,000	4,517	4,483
Website	17,500	16,974	526
Total general government	<u>456,410</u>	<u>501,295</u>	<u>(44,885)</u>

TOWN OF FENWICK ISLAND, DELAWARE

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

YEAR ENDED JULY 31, 2022

	Final Budget (Unaudited)	Actual Amounts	Variance Favorable (Unfavorable)
Administrative			
Dental insurance	1,183	1,180	3
Financial services	4,000	3,634	366
Health insurance	33,484	35,098	(1,614)
Life insurance	2,403	1,655	748
Office IT maintenance	1,000	1,382	(382)
Office supplies	6,550	9,227	(2,677)
Payroll taxes	22,354	18,700	3,654
Pension	27,367	20,816	6,551
Personnel supplies	400	180	220
Printing and advertising	1,800	1,792	8
Professional development	3,500	1,728	1,772
Salaries	276,672	234,124	42,548
Telephone	1,200	1,268	(68)
Travel reimbursement	5,200	732	4,468
Vehicle fuel and maintenance	350	164	186
Vision care	516	390	126
Workmans compensation	1,212	1,096	116
Total administrative	<u>389,191</u>	<u>333,166</u>	<u>56,025</u>
Police department			
Building maintenance	10,150	8,975	1,175
Communication equipment	1,700	3,427	(1,727)
Community outreach	300	223	77
Dental insurance	1,650	1,645	5
Health insurance	83,042	83,641	(599)
Life insurance	4,033	4,300	(267)
Mobile computer access	5,050	3,616	1,434
Office IT maintenance	8,200	8,088	112
Office supplies	850	858	(8)
Payroll taxes	42,446	47,981	(5,535)
Pension	71,097	71,608	(511)
Police supplies	3,800	28,564	(24,764)

TOWN OF FENWICK ISLAND, DELAWARE

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

YEAR ENDED JULY 31, 2022

	Final Budget (Unaudited)	Actual Amounts	Variance Favorable (Unfavorable)
Police department (continued)			
Printing and advertising	600		600
Professional development	8,035	3,939	4,096
Salaries	527,671	594,317	(66,646)
Uniforms	6,500	4,920	1,580
Vehicle fuel and maintenance	25,200	37,889	(12,689)
Vision care	791	791	
Workmans compensation	25,299	23,959	1,340
Total police department	<u>826,414</u>	<u>928,741</u>	<u>(102,327)</u>
Beach patrol			
Awards and competitions	7,000	3,764	3,236
Beach vehicle fuel	500	752	(252)
Beach vehicle maintenance	1,000	740	260
Chair and sign maintenance	2,300	718	1,582
Communication equipment	440	551	(111)
Employee relations	1,300	921	379
Junior guard program	2,000	2,028	(28)
Lifeguard payroll taxes - Fenwick	28,883	19,411	9,472
Lifeguard payroll taxes - State	2,346	6,710	(4,364)
Lifeguard salaries - Fenwick	238,948	192,280	46,668
Lifeguard salaries - State	92,924	82,191	10,733
Lifeguard USLA certification	1,250	1,085	165
Lifeguard workmans compensation	14,669	13,371	1,298
Professional development	1,000	855	145
Supplies and equipment - Fenwick	5,600	5,318	282
Telephone	900	485	415
Uniforms	6,500	6,438	62
Utilities	300	207	93
Total beach patrol	<u>407,860</u>	<u>337,825</u>	<u>70,035</u>

TOWN OF FENWICK ISLAND, DELAWARE

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

YEAR ENDED JULY 31, 2022

	Final Budget (Unaudited)	Actual Amounts	Variance Favorable (Unfavorable)
Public works			
Building maintenance	1,500	671	829
Contract services	1,300	1,826	(526)
Dental insurance	1,486	1,482	4
Health insurance	46,544	46,879	(335)
Life insurance	1,428	1,428	
Payroll taxes	12,189	12,643	(454)
Pension	14,619	10,259	4,360
Printing and advertising		88	(88)
Safety equipment	600	203	397
Salaries	147,693	149,575	(1,882)
Shop equipment	3,000	3,097	(97)
Shop supplies	7,000	18,065	(11,065)
Street maintenance	750	57,046	(56,296)
Telephone		556	(556)
Uniforms	2,000	1,916	84
Utilities	5,615	6,323	(708)
Vehicle fuel and maintenance	2,500	9,986	(7,486)
Vision care	365	365	
Workmans compensation	6,528	6,160	368
Yard waste	200	35	165
Total public works	<u>255,317</u>	<u>328,603</u>	<u>(73,286)</u>
Capital outlay	<u>1,855,285</u>	<u>190,436</u>	<u>1,664,849</u>
Total expenditures	<u>\$ 4,190,477</u>	<u>\$ 2,620,066</u>	<u>\$ 1,570,411</u>

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 *GOVERNMENT AUDITING
 STANDARDS***

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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, 2022, 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 11, 2023.

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 2022-001, 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 11, 2023

TOWN OF FENWICK ISLAND, DELAWARE

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JULY 31, 2022

SIGNIFICANT DEFICIENCY

2022-001 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.